Additional information

In this section you will find more financial and operational statistics. We also provide information for shareholders on subjects such as dividends and location. We have also included a glossary of terms we use in this report.

Additional information

Alternative performance measures

Introduction

We assess the performance of the group using a variety of alternative performance measures. We principally discuss the group's results on an 'adjusted' basis. The rationale for using adjusted measures is explained below. Results on an adjusted basis are presented before specific items. Certain comparatives have been revised, see note 1 to the consolidated financial statements.

We also explain financial performance using measures that are not defined under IFRS and are therefore termed 'non-GAAP' measures. The non-GAAP measures we use are: the trend in underlying revenue excluding transit adjusted for the acquisition of EE, and in underlying operating costs excluding transit adjusted for the acquisition of EE, as well as in EBITDA, adjusted EBITDA and underlying EBITDA adjusted for the acquisition of EE; normalised free cash flow; and net debt. A reconciliation from these non-GAAP measures to the nearest measure prepared in accordance with IFRS is presented below. The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

Specific items

The group's income statement and segmental analysis separately identify trading results before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance, as specific items are identified by virtue of their size, nature or incidence. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the *Operating Committee* and assists in providing a meaningful analysis of the trading results of the group. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, regulatory settlements, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as specific items.

Specific items are disclosed in note 8 to the consolidated financial statements.

Trends in underlying revenue and underlying operating costs excluding transit adjusted for the acquisition of EE

Underlying revenue and underlying operating costs excluding transit adjusted for the acquisition of EE are measures which seek to reflect the underlying performance of the group that will contribute to long-term sustainable profitable growth. As such they exclude the impact of acquisitions or disposals, foreign exchange movements and specific items. We exclude transit from the trends as transit traffic is low-margin and is affected by reductions in mobile termination rates. Given the significance of the EE acquisition to the group, in 2016/17 we are calculating underlying revenue excluding transit adjusted for the acquisition of EE and underlying operating costs excluding transit adjusted for the acquisition of EE, as though EE had been part of the group from 1 April 2015. This is different from how we usually adjust for acquisitions.

A reconciliation from the increase in reported revenue and in reported operating costs, the most directly comparable IFRS measures, to the movement in underlying revenue and increase in underlying operating costs excluding transit adjusted for the acquisition of EE, are set out below.

Year ended 31 March	2017 %	2016[a] %
Increase in reported revenue	**26.6**	**5.8**
Specific items	1.0	–
Increase in adjusted revenue	**27.6**	**5.8**
Adjusted for the acquisition of EE[b]	(25.9)	n/a
Increase in adjusted revenue adjusted for the acquisition of EE	**1.7**	**5.8**
Transit revenue	0.1	0.8
Acquisitions and disposals	0.1	(5.6)
Foreign exchange movements	(2.1)	0.9
(Decrease) increase in underlying revenue excluding transit adjusted for the acquisition of EE	**(0.2)**	**1.9**

Year ended 31 March	2017 %	2016[a] %
Increase in reported operating costs	**35.7**	**5.7**
Depreciation and amortisation	**0.5**	0.4
Increase in reported operating costs[c]	**36.2**	**6.1**
Specific items	(3.9)	0.5
Increase in adjusted operating costs[c]	**32.3**	**6.6**
Adjusted for the acquisition of EE[b]	(28.7)	n/a
Increase in adjusted operating costs adjusted for the acquisition of EE[c]	**3.6**	**6.6**
Transit costs	0.2	1.0
Acquisitions and disposals	0.1	(6.4)
Foreign exchange movements	(2.7)	1.4
Increase in underlying operating costs[c] excluding transit adjusted for the acquisition of EE	**1.2**	**2.6**

[a] 2015/16 calculation excludes specific items, foreign exchange movements and the effect of acquisitions and disposals.
[b] Includes EE's historical financial information as though it had been part of the group from 1 April 2015.
[c] Before depreciation and amortisation.

EBITDA

In addition to measuring financial performance of the group and lines of business based on operating profit, we also measure performance based on EBITDA, adjusted EBITDA and underlying EBITDA adjusted for the acquisition of EE. EBITDA is defined as the group profit or loss before depreciation, amortisation, net finance expense and taxation. Adjusted EBITDA is defined as EBITDA before specific items. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies, particularly in the telecommunications sector.

We consider EBITDA, adjusted EBITDA and underlying EBITDA adjusted for the acquisition of EE to be useful measures of our operating performance because they approximate the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA and adjusted EBITDA are not direct measures of our liquidity, which is shown by our cash flow statement, and need to be considered in the context of our financial commitments.

Trends in underlying EBITDA adjusted for the acquisition of EE is a measure which seeks to reflect the underlying performance of the group that will contribute to long-term sustainable profitable growth. As such they exclude the impact of acquisitions or disposals, foreign exchange movements and specific items.

Given the significance of the EE acquisition to the group in 2016/17 we are calculating underlying EBITDA adjusted for the acquisition of EE, as though EE had been part of the group from 1 April 2015. This is different from how we usually adjust for acquisitions.

A reconciliation from group operating profit, the most directly comparable IFRS measure, to group EBITDA and adjusted group EBITDA and a reconciliation of the trends in EBITDA adjusted for the acquisition of EE is provided below. A reconciliation between operating profit and adjusted EBITDA for our lines of business is set out in note 4 to the consolidated financial statements.

Year ended 31 March	**2017 £m**	2016 £m	2015 £m
Operating profit	**3,167**	**3,613**	**3,402**
Depreciation and amortisation	3,572	2,631	2,538
EBITDA	**6,739**	**6,244**	**5,940**
Specific items[a]	906	215	253
Adjusted EBITDA	**7,645**	**6,459**	**6,193**

Year ended 31 March	**2017 %**	2016[b] %
Increase in EBITDA	**7.9**	**5.1**
Specific items	10.5	(0.8)
Increase in adjusted EBITDA	**18.4**	**4.3**
Adjusted for the acquisition of EE[c]	(20.7)	n/a
(Decrease) increase in adjusted EBITDA adjusted for the acquisition of EE	**(2.3)**	**4.3**
Acquisitions and disposals	–	(4.2)
Foreign exchange movements	(0.6)	0.0
(Decrease) increase in underlying EBITDA adjusted for the acquisition of EE	**(2.9)**	**0.1**

[a] Excludes amortisation specifics of £62m (2015/16: £nil, 2014/15: £nil). Specific items are set out in note 8 to the consolidated financial statements.
[b] 2015/16 calculation excludes specific items, foreign exchange movements and the effect of acquisitions and disposals.
[c] Includes EE's historical financial information as though it had been part of the group from 1 April 2015.

Earnings per share

We also measure financial performance based on adjusted earnings per share, which excludes specific items. Basic and adjusted earnings per share, and the per share impact of specific items, are as follows:

	2017		2016		2015	
Year ended 31 March	Pence per share	£m	Pence per share	£m	Pence per share	£m
Basic earnings per share/profit[a]	**19.2**	**1,908**	**28.5**	**2,466**	**25.5**	**2,057**
Specific items[b]	9.7	961	3.3	278	5.1	406
Adjusted basic earnings per share/profit	**28.9**	**2,869**	**31.8**	**2,744**	**30.6**	**2,463**

[a] The stated profit is the component of total profit which is attributable to equity shareholders excluding non-controlling interests.
[b] Specific items are set out in note 8 to the consolidated financial statements.

We disclose reported earnings per share, both basic and diluted, in note 10 to the consolidated financial statements.

Alternative performance measures continued

Free cash flow

Normalised free cash flow is one of the group's key performance indicators by which our financial performance is measured. Normalised free cash flow is defined as the net increase in cash and cash equivalents less: cash flows from financing activities (except net interest paid), the acquisition or disposal of group undertakings and the net sale of short-term investments and excluding: the cash impact of specific items, purchases of telecommunications licences, and the cash tax benefit of pension deficit payments. For non-tax related items the adjustments are made on a pre-tax basis.

Normalised free cash flow is primarily a liquidity measure. However, we also believe it is an important indicator of our overall operational performance as it reflects the cash we generate from operations after capital expenditure and financing costs, both of which are significant ongoing cash outflows associated with investing in our infrastructure and financing our operations. In addition, normalised free cash flow excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends, share buybacks, acquisitions and disposals, and repayment and raising of debt. Normalised free cash flow is not a measure of the funds that are available for distribution to shareholders.

A reconciliation from net cash inflow from operating activities, the most directly comparable IFRS measure, to free cash flow and normalised free cash flow, is set out below.

Year ended 31 March	**2017 £m**	2016 £m	2015 £m
Net cash inflow from operating activities	**6,174**	**5,151**	**4,788**
Add back pension deficit payments	274	880	876
Included in cash flows from investing activities			
Net capital expenditure	(3,119)	(2,431)	(2,310)
Interest received	7	10	10
Net (purchases) sales of non-current asset investments and dividends received from associates and joint ventures	(20)	17	8
Included in cash flows from financing activities			
Interest paid	(629)	(558)	(590)
Free cash flow	**2,687**	**3,069**	**2,782**
Net cash outflow from specific items	205	232	154
Cash tax benefit of pension deficit payments	(110)	(203)	(106)
Normalised free cash flow	**2,782**	**3,098**	**2,830**

Net debt

Net debt consists of loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. Loans and other borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this measure, current asset investments and cash and cash equivalents are measured at the lower of cost and net realisable value.

Our net debt calculation starts from the expected future undiscounted cash flows that should arise when our financial instruments mature. We adjust these cash flows to reflect hedged risks that are re-measured under fair value hedges, as well as for the impact of the effective interest method. Currency-denominated balances within net debt are translated to Sterling at swap rates where hedged.

Net debt is a measure of the group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess both the group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. A reconciliation from loans and other borrowings, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures to net debt, is set out below.

At 31 March	**2017 £m**	2016 £m	2015 £m
Loans and other borrowings[a]	12,713	14,761	10,176
Cash and cash equivalents	(528)	(996)	(848)
Current investments	(1,520)	(2,918)	(3,523)
	10,665	**10,847**	**5,805**
Adjustments:			
To retranslate currency denominated balances at swapped rates where hedged[b]	(1,419)	(652)	(357)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method[c]	(314)	(357)	(335)
Net debt	**8,932**	**9,838**	**5,113**

[a] Includes overdrafts of £17m at 31 March 2017 (31 March 2016: £537m, 31 March 2015: £441m).
[b] The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency.
[c] Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at the balance sheet date.

Selected financial data
Summary group income statement

Year ended 31 March	2017 £m	2016[a] £m	2015[a] £m	2014[b] £m	2013[b] £m
Revenue					
Adjusted	24,082	18,879	17,840	18,287	18,339
Specific items	(20)	133	128	–	(236)
	24,062	**19,012**	**17,968**	**18,287**	**18,103**
Operating costs					
Adjusted	(19,947)	(15,051)	(14,185)	(14,866)	(15,039)
Specific items	(948)	(348)	(381)	(276)	(116)
	(20,895)	**(15,399)**	**(14,566)**	**(15,142)**	**(15,155)**
Operating profit					
Adjusted	4,135	3,828	3,655	3,421	3,300
Specific items	(968)	(215)	(253)	(276)	(352)
	3,167	**3,613**	**3,402**	**3,145**	**2,948**
Net finance expense					
Adjusted	(594)	(483)	(560)	(591)	(653)
Specific items	(210)	(229)	(299)	(235)	(119)
	(804)	**(712)**	**(859)**	**(826)**	**(772)**
Share of post tax (loss) profit of associates and joint ventures					
Adjusted	(9)	6	(1)	(3)	9
Profit (loss) on disposal of interest in associates and joint ventures – specific items	**–**	**–**	**25**	**(4)**	**130**
Profit before taxation					
Adjusted	3,532	3,351	3,094	2,827	2,656
Specific items	(1,178)	(444)	(527)	(515)	(341)
	2,354	**2,907**	**2,567**	**2,312**	**2,315**
Taxation expense					
Adjusted	(663)	(607)	(631)	(613)	(597)
Specific items	217	166	121	319	230
	(446)	**(441)**	**(510)**	**(294)**	**(367)**
Profit for the year					
Adjusted	2,869	2,744	2,463	2,214	2,059
Specific items	(961)	(278)	(406)	(196)	(111)
	1,908	**2,466**	**2,057**	**2,018**	**1,948**
Basic earnings per share					
Adjusted	28.9p	31.8p	30.6p	28.2p	26.3p
Specific items	(9.7)p	(3.3)p	(5.1)p	(2.5)p	(1.5)p
	19.2p	**28.5p**	**25.5p**	**25.7p**	**24.8p**
Average number of shares used in basic earnings per share (millions)	9,938	8,619	8,056	7,857	7,832
Average number of shares used in diluted earnings per share (millions)	9,994	8,714	8,191	8,231	8,203
Diluted earnings per share	19.1p	28.2p	25.1p	24.5p	23.7p
Dividends per share[c]	15.4p	14.0p	12.4p	10.9p	9.5p
Dividends per share, US cents[c,d]	19.3c	20.1c	18.4c	18.2c	14.4c

[a] Revised, see note 1.
[b] As previously reported.
[c] Dividends per share represents the dividend paid and proposed in respect of the relevant financial year. Under IFRS, interim dividends are recognised as a deduction from shareholders' equity when they are paid, final dividends when they are approved.
[d] Based on actual dividends paid and/or year end exchange rate on proposed dividends.

Selected financial data continued
Summary group balance sheet

At 31 March	2017 £m	2016[a] £m	2015[a] £m	2014[b] £m	2013[b] £m
Intangible assets	15,029	15,450	3,170	3,087	3,258
Property, plant and equipment	16,498	15,971	13,498	13,840	14,153
Other non-current assets	3,970	2,997	3,040	2,265	2,794
Total non-current assets	**35,497**	**34,418**	**19,708**	**19,192**	**20,205**
Current assets less current liabilities	(4,050)	(3,103)	(356)	(1,981)	(2,930)
Total assets less current liabilities	**31,447**	**31,315**	**19,352**	**17,211**	**17,275**
Non-current loans and other borrowings	(10,081)	(11,025)	(7,862)	(7,941)	(8,277)
Retirement benefit obligations	(9,088)	(6,382)	(7,583)	(7,022)	(5,856)
Other non-current liabilities	(3,943)	(3,796)	(3,226)	(2,840)	(3,404)
Total assets less liabilities	**8,335**	**10,112**	**681**	**(592)**	**(262)**
Ordinary shares	499	499	419	408	408
Share premium account	1,051	1,051	1,051	62	62
Own shares	(96)	(115)	(165)	(829)	(832)
Merger reserve	6,647	8,422	998	998	998
Other reserves	884	685	502	449	792
Retained loss	(650)	(430)	(2,124)	(1,680)	(1,690)
Total equity (deficit)	**8,335**	**10,112**	**681**	**(592)**	**(262)**

[a] Revised, see note 1.
[b] As previously reported.

Financial and operational statistics
Financial statistics

Year ended 31 March	2017 £m	2016[a] £m	2015[b] £m	2014[c] £m	2013[c] £m
(Decrease) increase in underlying revenue excluding transit[d,e]	**(0.2)%**	**1.9%**	**(0.4)%**	**0.5%**	**(3.1)%**
Adjusted EBITDA[d,e]	**7,645**	**6,459**	**6,193**	**6,116**	**6,143**
Cash flow[d]					
– Free cash flow	2,687	3,069	2,782	2,171	2,292
– Normalised free cash flow	2,782	3,098	2,830	2,450	2,300
Net debt at 31 March[d]	**8,932**	**9,838**	**5,113**	**7,028**	**7,797**
Operating costs excluding depreciation and amortisation[e]	**16,437**	**12,420**	**11,647**	**12,171**	**12,196**
Expenditure on research and development					
Research and development operating expense	61	73	87	170	279
Capitalised software development costs	457	399	421	365	265
Total expenditure on research and development	**518**	**472**	**508**	**535**	**544**
Capital expenditure					
Additions to property, plant and equipment comprised:					
Land and buildings	42	31	31	44	42
Network infrastructure					
Transmission equipment	1,592	1,531	1,463	1,126	1,170
Exchange equipment	126	41	33	24	32
Other network equipment	917	652	455	657	660
Other					
Computers and office equipment	119	48	85	112	80
Motor vehicles and other	22	19	75	8	24
Total additions to property, plant and equipment	2,818	2,322	2,142	1,971	2,008
(Increase) decrease in engineering stores	(13)	(3)	6	(5)	(9)
	2,805	2,319	2,148	1,966	1,999
Software additions	621	412	561	506	454
Total capital expenditure before government grants	**3,426**	**2,731**	**2,709**	**2,472**	**2,453**
Government grants	28	(109)	(392)	(126)	(15)
Total capital expenditure net of government grants	**3,454**	**2,622**	**2,317**	**2,346**	**2,438**
(Decrease) increase in net payables and receivables	(309)	(184)	93	10	43
Cash outflow from capital expenditure before purchases of telecommunications licences	**3,145**	**2,438**	**2,410**	**2,356**	**2,481**
Purchases of telecommunications licences	–	–	–	–	202
Cash outflow from total capital expenditure	**3,145**	**2,438**	**2,410**	**2,356**	**2,683**

[a] Revised, see note 1.
[b] Other than the decrease in underlying revenue excluding transit adjusted for the acquisition of EE 2014/15 has been revised.
[c] As previously reported.
[d] Defined on pages 252 to 254.
[e] Before specific items.

Financial and operational statistics continued
Financial ratios

Year ended 31 March	2017	2016[a]	2015[a]	2014[b]	2013[b]
Return on capital employed – %[c]	11.2	12.7	23.3	21.1	20.6
Adjusted[d] – %	14.6	13.5	24.9	22.9	22.1
Interest cover – times[e]	3.9	5.1	4.0	3.8	3.8
Adjusted[d] – times	7.0	7.9	6.5	5.8	5.1
Net debt to adjusted EBITDA[d] – times	1.2	1.5	0.8	1.1	1.3
Capital expenditure as a percentage of revenue[d] – %	14.3	13.9	13.0	12.8	13.3

[a] Revised, see note 1.
[b] As previously reported.
[c] The ratio is based on profit before taxation and net finance expense to capital employed. Capital employed is represented by total assets less current liabilities (excluding corporation tax, current borrowings, derivative financial liabilities and finance lease creditors) less deferred and current tax assets, retirement benefit asset, cash and cash equivalents, derivative financial assets and investments.
[d] Before specific items.
[e] The number of times net finance expense is covered by operating profit.

Operational statistics[a]

All values in thousands unless otherwise stated.

Year ended 31 March	**2017**	2016	2015	2014	2013
Consumer					
Average revenue per user (ARPU)[b] (£)	39.9	37.1	34.6	32.6	30.4
Business and Public Sector					
Order intake (£m)	3,369	3,163	3,781	2,098	2,202
Global Services					
Order intake (£m)	4,604	5,124	5,000	6,963	6,348
Wholesale and Ventures					
Order intake (£m)	1,956	1,421	1,887	1,910	2,031
Ethernet circuits	43.8	38.5	31.7	–	–
Openreach					
Physical lines					
Internal	12,567	12,915	12,274	12,700	13,217
External	3,541	3,563	4,509	4,580	5,125
Fully unbundled	9,047	8,921	8,586	7,846	6,702
Total physical lines	**25,245**	**25,398**	**25,370**	**25,126**	**25,044**
BT Group					
TV customers	**1,747**	**1,561**	**1,142**	**1,002**	**810**
Broadband lines					
Total retail	9,276	9,041	7,713	7,281	6,704
Wholesale and Ventures (external)	886	906	1,831	1,872	2,066
Openreach	10,162	9,947	9,544	9,302	8,859
Total broadband lines	**20,324**	**19,894**	**19,088**	**18,455**	**17,629**
Broadband market share					
Total retail share of net asset additions[c]	55%	65%	51%	69%	51%
Total retail share of installed base	46%	45%	40%	39%	38%
Lines sold through BT lines of business[d]					
Consumer/EE	10,313	10,411	9,633	9,908	10,207
Business/corporate	2,937	3,228	3,481	3,784	4,165
Total exchange lines	**13,250**	**13,639**	**13,114**	**13,692**	**14,372**
Mobile base	**30,036**	**30,445**	**n/a**	**n/a**	**n/a**
Mobile churn (%)					
Total	2.1	n/a	n/a	n/a	n/a
Postpaid	1.1	n/a	n/a	n/a	n/a
Mobile ARPU (£)					
Postpaid	26.3	26.0	n/a	n/a	n/a
Prepaid	4.4	4.0	n/a	n/a	n/a
Total	19.8	18.3	n/a	n/a	n/a

[a] We have re-presented certain prior year information to be on a consistent basis. These are aligned with our operational performance measures that we publish on a quarterly basis.
[b] Consumer revenue per-month, less mobile POLOs, less BT Sport revenue from: satellite customers paying for the channels, our wholesale deals and from commercial premises. This is divided by the average number of primary lines.
[c] DSL and fibre excluding cable.
[d] Lines sold through BT lines of business include analogue lines and digital channels sold through Global Services, Business and Public Sector, Consumer, EE and Wholesale and Ventures.

Information for shareholders

Cautionary statement regarding forward-looking statements

This Annual Report contains certain forward-looking statements which are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements include, without limitation, those concerning: current and future years' outlook; revenue and revenue trends; EBITDA; free cash flow; capital expenditure; shareholder returns including progressive dividends and share buyback; net debt; credit ratings; our group-wide restructuring programme, cost transformation plans and restructuring costs; investment in and roll out of our fibre network, and its reach, innovations, increased speeds and speed availability; our broadband-based service and strategy; our investment in TV, enhancing our TV service and BT Sport; the recovery plan, operating charge, regular cash contributions and interest expense for our defined benefit pension schemes; effective tax rate; growth opportunities in networked IT services, the pay-TV services market, broadband, and mobility and future voice; growth of, and opportunities available in, the communications industry and BT's positioning to take advantage of those opportunities; anticipated financial and other benefits to be realised from the EE acquisition; expectations regarding competition, market shares, prices and growth; expectations regarding the convergence of technologies; plans for the launch of new products and services; network performance and quality; the impact of regulatory initiatives, decisions and outcomes on operations, including the regulation of the UK fixed wholesale and retail businesses and the impact of Ofcom's Wholesale Local Access Market Review; BT's possible or assumed future results of operations and/or those of its associates and joint ventures; investment plans; adequacy of capital; financing plans and refinancing requirements; demand for and access to broadband and the promotion of broadband by third-party service providers; improvements to the control environment; and those statements preceded by, followed by, or that include the words 'aims', 'believes', 'expects', 'anticipates', 'intends', 'will', 'should' 'plans', 'strategy', 'future', 'likely', 'seeks', 'projects', 'estimates' or similar expressions.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT whether as a result of the uncertainties arising from the UK's exit from the EU or otherwise; future regulatory and legal actions, decisions, outcomes of appeal and conditions or requirements in BT's operating areas, including the outcome of Ofcom's strategic review of digital communications in the UK, as well as competition from others; the outcome of Ofcom's Wholesale Local Access Market Review; responses to Openreach consultations and the results of any future spectrum auctions; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; the anticipated benefits and advantages of new technologies, products and services not being realised; developments in the convergence of technologies; external threats to cyber security, data or resilience; political and geo-political risks; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs or impact on customer service; the timing of entry and profitability of BT in certain markets; significant changes in market shares for BT or its principal products and services; fluctuations in foreign currency exchange rates or interest rates; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the anticipated savings from our restructuring programmes not being delivered; the aims of the group-wide restructuring programme not being achieved; the anticipated benefits and synergies of the EE integration not being delivered; the improvements to the control environment proposed following the investigations into BT's Italian business not being implemented successfully or effectively; and general financial market conditions affecting BT's performance and ability to raise finance. Certain of these factors are discussed in more detail elsewhere in this Annual Report including, without limitation, in **Our risks** on pages 44 to 55. BT undertakes no obligation to update any forward-looking statements whether written or oral that may be made from time to time, whether as a result of new information, future events or otherwise.

Stock exchange listings

The principal listing of BT Group's ordinary shares is on the London Stock Exchange. Trading on the London Stock Exchange is under the symbol 'BT.A'. American Depositary Shares (ADSs), have been issued by JPMorgan Chase & Co, as Depositary for the American Depositary Receipts (ADRs) evidencing the ADSs, and are listed on the New York Stock Exchange. Trading on the New York Stock Exchange is under the symbol 'BT'.

In December 2015 BT changed the ratio of its NYSE-listed American Depositary Receipt (ADR) programme from the previous ratio of one ADR per ten ordinary shares to one ADR per five ordinary shares. These changes to the ADR ratio have brought the ADR price broadly in line with the market average. To implement the change, ADR holders on the record at the close of business on 30 November 2015 received two ADRs for every one ADR held. There was no change to the underlying ordinary shares.

Share and ADS prices

	Pence per ordinary share		US$ per ADS	
	High pence	Low pence	High US$	Low US$
Financial years ended 31 March				
2013	281.00	200.70	42.76	31.02
2014	418.10	265.70	69.75	40.70
2015	470.55	356.20	70.18	57.99
2016[a]	499.80	404.00	37.49	31.18
2017[a]	454.90	302.10	33.46	19.29
Financial year ended 31 March 2016[a]				
1 April – 30 June 2015	470.00	438.80	36.92	32.82
1 July – 30 September 2015	479.15	404.00	37.35	31.30
1 October – 31 December 2015	499.80	417.20	37.49	31.91
1 January – 31 March 2016	496.00	432.95	35.87	31.18
Financial year ended 31 March 2017[a]				
1 April – 30 June 2016	454.90	375.85	33.46	25.21
1 July – 30 September 2016	414.35	375.30	27.66	24.93
1 October – 31 December 2016	389.20	346.70	24.89	22.05
1 January – 31 March 2017	396.85	302.10	24.57	19.29
Months[a]				
November 2016	373.40	350.30	23.52	22.05
December 2016	371.40	346.70	23.35	22.34
January 2017	396.85	302.10	24.57	19.33
February 2017	332.90	304.70	20.82	19.29
March 2017	342.45	317.00	20.88	19.88
April 2017	316.00	304.75	20.25	19.42
8 May 2017	306.60	–	20.14	–

[a] The ADS prices stated for 2015/16 and 2016/17 reflect the change in ADR ratio.

The prices are the highest and lowest closing middle market prices for BT ordinary shares, as derived from the Daily Official List of the London Stock Exchange and the highest and lowest closing sales prices of ADSs, as reported on the New York Stock Exchange.

Fluctuations in the exchange rate between Sterling and the US Dollar affect the US Dollar equivalent of the Sterling price of the company's ordinary shares on the London Stock Exchange and, as a result, are likely to affect the market price of the ADSs on the New York Stock Exchange.

Background

BT Group plc is a public limited company registered in England and Wales and listed on the London and New York Stock Exchanges. It was incorporated in England and Wales on 30 March 2001 as Newgate Telecommunications Limited with the registered number 4190816. Its registered office address is 81 Newgate Street, London EC1A 7AJ. The company changed its name to BT Group plc on 11 September 2001. Following the demerger of mmO2 from BT in November 2001, the continuing activities of BT were transferred to BT Group plc.

British Telecommunications plc is a wholly-owned subsidiary of BT Group plc and encompasses virtually all the businesses and assets of the group. The successor to the statutory corporation British Telecommunications, it was incorporated in England and Wales as a public limited company, wholly owned by the Government, as a result of the Telecommunications Act 1984. Between November 1984 and July 1993, the Government sold all of its shareholding in British Telecommunications plc in three public offerings.

Analysis of shareholdings at 31 March 2017

	Ordinary shares of 5p each			
Range	Number of holdings	Percentage of total %	Number of shares held millions	Percentage of total %
1 – 399	310,908	39.31	65	0.66
400 – 799	208,657	26.40	116	1.16
800 – 1,599	151,917	19.22	170	1.71
1,600 – 9,999	113,725	14.39	349	3.50
10,000 – 99,999	4,309	0.55	80	0.81
100,000 – 999,999	621	0.08	229	2.30
1,000,000 – 4,999,999	310	0.04	734	7.37
5,000,000 and above[a,b,c,d]	204	0.03	8,224	82.50
Total[e]	**790,651**	**100.00**	**9,967**	**100.00**

[a] 14.3m shares were held in trust by Ilford Trustees (Jersey) Limited for allocation to employees under the employee share plans.
[b] Under the BT Group Employee Share Investment Plan, 55.7m shares were held in trust on behalf of 42,854 participants who were beneficially entitled to the shares. 381.3m shares were held in the corporate nominee BT Group EasyShare on behalf of 92,115 beneficial owners.
[c] 154.1m shares were represented by ADSs. An analysis by size of holding is not available for these.
[d] 7.6m shares were held as treasury shares.
[e] 7.45% of the shares were in 781,899 individual holdings, of which 50,855 were joint holdings, and 92.55% of the shares were in 8,752 institutional holdings.

As far as the company is aware, the company is not directly or indirectly owned or controlled by another corporation or by the UK Government or any other foreign government or by any other natural or legal person severally or jointly. There are no arrangements known to the company, the operation of which may at a subsequent date result in a change in control of the company.

The company's major shareholders do not have different voting rights to those of other shareholders.

At 8 May 2017, there were 9,968,127,681 ordinary shares outstanding, including 7,635,015 shares held as treasury shares. At the same date, approximately 30.8m ADSs (equivalent to 153.9m ordinary shares, or approximately 1.54% of the total number of ordinary shares outstanding on that date) were outstanding and were held by 1,477 record holders of ADRs.

At 31 March 2017, there were 3,465 shareholders with a US address on the register of shareholders who in total hold 0.02% of the ordinary shares of the company.

Dividends

A final dividend in respect of the year ended 31 March 2016 was paid on 5 September 2016 to shareholders on the register on 12 August 2016, and an interim dividend in respect of the year ended 31 March 2017 was paid on 6 February 2017 to shareholders on the register on 30 December 2016. The final proposed dividend in respect of the year ended 31 March 2017, if approved by shareholders, will be paid on 4 September 2017 to shareholders on the register on 11 August 2017.

The dividends paid or payable on BT shares and ADSs for the last five financial years are shown in the following table. The dividends on the ordinary shares exclude the associated tax credit. The amounts shown are not those that were actually paid to holders of ADSs. For the tax treatment of dividends paid, see **Taxation of dividends** on page 272. Dividends have been translated from Sterling into US Dollars using exchange rates prevailing on the date the ordinary dividends were paid.

			Per ordinary share			Per ADS			Per ADS
Financial years ended 31 March	Interim pence	Final pence	Total pence	Interim £	Final £	Total £	Interim US$	Final US$	Total US$
2013	3.00	6.50	9.50	0.300	0.650	0.950	0.451	0.994	1.445
2014	3.40	7.50	10.90	0.340	0.750	1.090	0.534	1.187	1.721
2015	3.90	8.50	12.40	0.390	0.850	1.240	0.573	1.285	1.858
2016	4.40	9.60	14.00	0.220[a]	0.480[a]	0.700[a]	0.296[a]	0.623	0.919
2017	4.85	10.55	15.40	0.2425	0.5275	0.770	0.281	–[b]	–[b]

[a] The reduction in the dividend payment is to reflect the ratio change to BT ADRs.
[b] Qualifying holders of ADSs on record as of 11 August 2017 are entitled to receive the final dividend which will be paid to ADS holders on 12 September 2017, subject to approval at the AGM. The US Dollar amount of the final dividend of 52.75 pence per ADS to be paid to holders of ADSs will be based on the exchange rate in effect on 4 September 2017, the date of payment to holders of ordinary shares.

As dividends paid by the company are in Sterling, exchange rate fluctuations will affect the US Dollar amounts received by holders of ADSs on conversion by the Depositary of such cash dividends.

Dividend mandate

Any shareholder wishing dividends to be paid directly into a bank or building society account should contact the Shareholder Helpline (see page 275), or go to the Shareholder information page of our website.

Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS).

Share buyback

Calendar month[a]	Total number of shares purchased	Average price paid per share (pence – net of dealing costs)	Total number of shares purchased as part of publicly announced plans or programmes	Maximum number of shares yet to be purchased under the AGM authority[b]
April 2016	nil	n/a	nil	811,964,400
May	39,710,091	442	39,710,091	772,254,309
June	nil	n/a	nil	772,254,309
July	1,130,000	413	1,130,000	994,870,000
August	6,140,405	408	6,140,405	988,729,595
September	nil	n/a	nil	988,729,595
October	nil	n/a	nil	988,729,595
November	nil	n/a	nil	988,729,595
December	nil	n/a	nil	988,729,595
January 2017	nil	n/a	nil	988,729,595
February	nil	n/a	nil	988,729,595
March	nil	n/a	nil	988,729,595
	46,980,496	**437**	**46,980,496**	**988,729,595**

[a] Purchases made from 1 April 2015 to 15 July 2015 were made in accordance with a resolution passed at the AGM held on 16 July 2014. Own share purchases by BT from 16 July 2015 to 31 March 2016 were made in accordance with a resolution passed at the AGM on 15 July 2015.
[b] Authority was given to purchase up to 792m shares on 16 July 2014 and 837m shares on 15 July 2015. These authorities expire at the close of the following AGM.

A total of 34m own shares were purchased during 2016/17. Of these, 34m shares were purchased for a total consideration of £150m (under the authority given at the 2015 AGM), and 12.9m shares were purchased by the BT Group Employee Share Ownership Trust for a consideration of £55m. Please see note 21 to the consolidated financial statements for further details.

Information for shareholders continued

Dividend investment plan

Under the Dividend investment plan, cash from participants' dividends is used to buy further BT shares in the market. Shareholders could elect to receive additional shares in lieu of a cash dividend for the following dividends:

	Date paid	Price per share pence
2011/12 interim	6 February 2012	216.39
2011/12 final	3 September 2012	223.15
2012/13 interim	4 February 2013	265.01
2012/13 final	2 September 2013	339.38
2013/14 interim	3 February 2014	385.76
2013/14 final	8 September 2014	387.00
2014/15 interim	9 February 2015	436.92
2014/15 final	7 September 2015	428.17
2015/16 interim	8 February 2016	469.41
2015/16 final	5 September 2016	394.44
2016/17 interim	6 February 2017	309.41

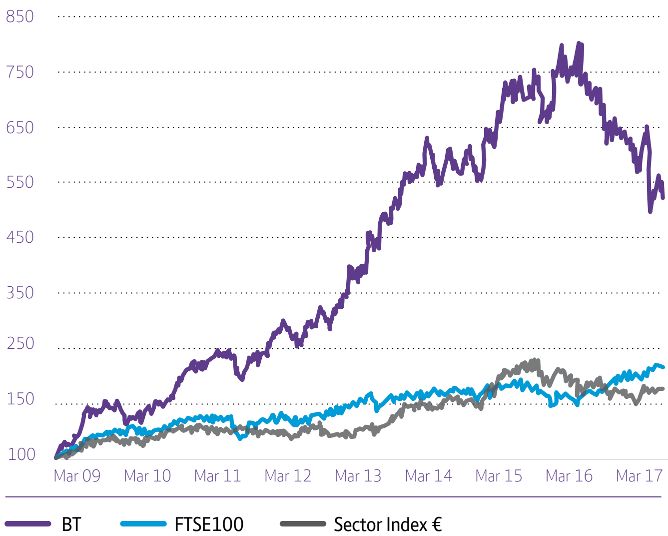
Global Invest Direct

Details of the direct purchase plan run by the ADR Depositary, JPMorgan Chase & Co, Global Invest Direct, including reinvestment of dividends, are available from JPMorgan Chase & Co on +1 800 428 4237 (toll free within the US), or on written request to the ADR Depositary.

Total shareholder return

Total Shareholder Return (TSR) is the measure of the returns that a company has generated for its shareholders, reflecting both movement in the share price and dividends, which are assumed to be reinvested. We compare this against indexes for the UK market (FTSE100) and the European telecommunications sector (FTSEurofirst 300 Telco Index). BT's TSR for 2016/17 was negative 25.1%, compared with the market which was positive 23.3% and the sector which was negative 3.1%. Over the last five financial years BT's TSR was positive 65.1%, compared with the market's TSR of positive 53.0% and the sector's TSR of positive 54.1%.

BT's TSR performance vs the FTSE100 and the Sector over the last 8 years
31 March 2009=100



Source: Datastream.
NB: Sector index is shown in Euro terms.
The performance in Sterling is 17% worse than the TSR performance in the graph shown above.

Results announcements

Expected announcements of results:

Results for the 2017/18 financial year	Date[a]
1st quarter	28 July 2017
2nd quarter and half year	November 2017
3rd quarter and nine months	February 2018
4th quarter and full year	May 2018
Annual Report 2017 published	May 2018

[a] Dates may be subject to change.

ShareGift

Small parcels of shares, which may be uneconomic to sell on their own, can be donated to ShareGift – the share donation charity (Registered Charity number 1052686). ShareGift transfers these holdings into their name, aggregates them, and uses the proceeds to support a wide range of UK registered charities based on donor suggestion. They can also accept larger donations of shares.

If you would like further details about ShareGift, please visit **www.sharegift.org**, email **help@sharegift.org** or telephone them on 020 7930 3737.

Exchange rates

BT publishes its consolidated financial statements expressed in Sterling. The following tables provide certain information concerning the exchange rates between Sterling and US Dollars based on the noon buying rate in New York City for cable transfers in Sterling as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate).

Year ended 31 March	**2017**	2016	2015	2014	2013
Period end	1.25	1.44	1.49	1.67	1.52
Average[a]	1.31	1.50	1.61	1.60	1.58
High	1.47	1.59	1.72	1.68	1.63
Low	1.21	1.39	1.47	1.48	1.49

[a] The average of the Noon Buying Rates in effect on the last day of each month during the relevant period.

	Month				
	April 2017	March 2017	February 2017	January 2017	December 2016
High	1.29	1.25	1.26	1.26	1.27
Low	1.23	1.21	1.24	1.21	1.22

On 8 May 2017, the latest practicable date for this Annual Report, the Noon Buying Rate was US$1.294 to £1.00.

Articles of Association (Articles)

The following is a summary of the principal provisions of BT's Articles, a copy of which has been filed with the Registrar of Companies. A 'holder of shares' and a 'shareholder' is, in either case, the person entered on the company's register of members as the holder of the relevant shares. Shareholders can choose whether their shares are to be evidenced by share certificates (ie in certificated form) or held in electronic (ie uncertificated) form in CREST (the electronic settlement system in the UK).

BT adopted new Articles of Association with effect from July 2015, to provide additional flexibility for BT when trying to trace shareholders and to amend the provisions in line with the UK Corporate Governance code by providing for automatic retirement of all the directors at each AGM.

(a) Voting rights

Subject to the restrictions described below, on a show of hands, every shareholder present in person or by proxy at any general meeting has one vote and, on a poll, every shareholder present in person or by proxy has one vote for each share which they hold.

Voting at any meeting of shareholders is by a show of hands unless a poll is demanded by the chairman of the meeting or by at least five shareholders at the meeting who are entitled to vote (or their proxies), or by one or more shareholders at the meeting who are entitled to vote (or their proxies) and who have, between them, at least 10% of the total votes of all shareholders who have the right to vote at the meeting.

No person is, unless the Board decides otherwise, entitled to attend or vote at any general meeting or to exercise any other right conferred by being a shareholder if they or any person appearing to be interested in those shares has been sent a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and they or any interested person has failed to supply to the company the information requested within 14 days after delivery of that notice.

These restrictions end seven days after the earlier of the date the shareholder complies with the request satisfactorily or the company receives notice that there has been an approved transfer of the shares.

(b) Variation of rights

Whenever the share capital of the company is split into different classes of shares, the special rights attached to any of those classes can be varied or withdrawn either:

(i) with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class; or
(ii) with the consent in writing of the holders of at least 75% in nominal value of the issued shares of that class.

At any separate meeting, the necessary quorum is two persons holding or representing by proxy not less than one-third in nominal amount of the issued shares of the class in question (but at any adjourned meeting, any person holding shares of the class or his proxy is a quorum).

The company can issue new shares and attach any rights and restrictions to them, as long as this is not restricted by special rights previously given to holders of any existing shares. Subject to this, the rights of new shares can take priority over the rights of existing shares, or existing shares can take priority over them, or the new shares and the existing shares can rank equally.

(c) Changes in capital

The company may by ordinary resolution:

(i) divide all or any of its share capital into shares with a smaller nominal value; and
(ii) consolidate and divide all or part of its share capital into shares of a larger nominal value.

The company may also:

(i) buy back its own shares; and
(ii) by special resolution reduce its share capital, any capital redemption reserve and any share premium account.

(d) Dividends

The company's shareholders can declare dividends by passing an ordinary resolution provided that no dividend can exceed the amount recommended by the directors. Dividends must be paid out of profits available for distribution. If the Board considers that the profits of the company justify such payments, they can pay interim dividends on any class of shares of the amounts and on the dates and for the periods they decide. Fixed dividends will be paid on any class of shares on the dates stated for the payments of those dividends.

The directors can offer ordinary shareholders the right to choose to receive new ordinary shares, which are credited as fully paid, instead of some or all of their cash dividend. Before they can do this, the company's shareholders must have passed an ordinary resolution authorising the directors to make this offer.

Any dividend which has not been claimed for ten years after it was declared or became due for payment will be forfeited and will belong to the company.

(e) Distribution of assets on winding up

If the company is wound up (whether the liquidation is voluntary, under supervision of the court or by the court) the liquidator can, with the authority of a special resolution passed by the shareholders, divide among the shareholders all or any part of the assets of the company. This applies whether the assets consist of property of one kind or different kinds. For this purpose, the liquidator can place whatever value the liquidator considers fair on any property and decide how the division is carried out between shareholders or different groups of shareholders. The liquidator can also, with the same authority, transfer any assets to trustees upon any trusts for the benefit of shareholders which the liquidator decides. The liquidation of the company can then be finalised and the company dissolved. No past or present shareholder can be compelled to accept any shares or other property under the Articles which could give that shareholder a liability.

(f) Transfer of shares

Certificated shares of the company may be transferred in writing either by an instrument of transfer in the usual standard form or in another form approved by the Board. The transfer form must be signed or made effective by or on behalf of the person making the transfer. The person making the transfer will be treated as continuing to be the holder of the shares transferred until the name of the person to whom the shares are being transferred is entered in the register of members of the company.

The Board may refuse to register any transfer of any share held in certificated form:

(i) which is in favour of more than four joint holders; or
(ii) unless the transfer form to be registered is properly stamped to show payment of any applicable stamp duty and delivered to the company's registered office or any other place the Board

decide. The transfer must have with it: the share certificate for the shares to be transferred; any other evidence which the Board ask for to prove that the person wanting to make the transfer is entitled to do this; and if the transfer form is executed by another person on behalf of the person making the transfer, evidence of the authority of that person to do so.

Transfers of uncertificated shares must be carried out using a relevant system (as defined in the Uncertificated Securities Regulations 2001 (the Regulations)). The Board can refuse to register a transfer of an uncertificated share in the circumstances stated in the Regulations.

If the Board decide not to register a transfer of a share, the Board must notify the person to whom that share was to be transferred giving reasons for its decision. This must be done as soon as possible and no later than two months after the company receives the transfer or instruction from the operator of the relevant system.

(g) Untraced shareholders

The company may sell any shares if the shares have been in issue for at least ten years, during that period at least three dividends have become payable on them and have not been cashed and BT has not heard from the shareholder or any person entitled to the dividends by transmission. BT must take all reasonable steps in the circumstances, to trace shareholders. This can include engaging an asset reunification company or other tracing agent to search for shareholders who have not kept their details up-to date, or taking any other steps the company considers appropriate. Shareholders whose shares are sold following this process will not be able to claim the proceeds of the sale. BT will be able to use the proceeds in any way the Board from time to time thinks fit.

(h) General meetings of shareholders

Every year the company must hold an annual general meeting. The Board can call a general meeting at any time and, under general law, must call one on a shareholders' requisition. At least 21 clear days' written notice must be given for every annual general meeting. For every other general meeting, at least 14 clear days' written notice must be given. The Board can specify in the notice of meeting a time by which a person must be entered on the register of shareholders in order to have the right to attend or vote at the meeting. The time specified must not be more than 48 hours before the time fixed for the meeting.

(i) Limitations on rights of non-resident or foreign shareholders

The only limitation imposed by the Articles on the rights of non-resident or foreign shareholders is that a shareholder whose registered address is outside the UK and who wishes to receive notices of meetings of shareholders or documents from BT must give the company an address within the UK to which they may be sent.

(j) Directors

Directors' remuneration

Excluding remuneration referred to below, each director will be paid such fee for his services as the Board decide, not exceeding £65,000 a year and increasing by the percentage increase of the retail prices index (as defined by section 833(2) Income and Corporation Taxes Act 1988) for any 12-month period beginning 1 April 1999 or an anniversary of that date. The company may by ordinary resolution decide on a higher sum. This resolution can increase the fee paid to all or any directors either permanently or for a particular period. The directors may be paid their expenses properly incurred in connection with the business of the company.

The Board can award extra fees to a director who: holds an executive position; acts as chairman or deputy chairman; serves on a Board committee at the request of the Board; or performs any other services which the Board consider extend beyond the ordinary duties of a director.

The directors may grant pensions or other benefits to, among others, any director or former director or persons connected with them. However, BT can only provide these benefits to any director or former director who has not been an employee or held any other office or executive position in the company or any of its subsidiary undertakings, or to relations or dependants of, or people connected to, those directors or former directors, if the shareholders approve this by passing an ordinary resolution.

Directors' votes

A director need not be a shareholder, but a director who is not a shareholder can still attend and speak at shareholders' meetings.

Unless the Articles say otherwise, a director cannot vote on a resolution about a contract in which the director has an interest (this will also apply to interests of a person connected with the director).

If the legislation allows, a director can vote and be counted in the quorum on a resolution concerning a contract:

(i) in which the director has an interest of which the director is not aware; or which cannot reasonably be regarded as likely to give rise to a conflict of interest;
(ii) in which the director has an interest only because the director is a holder of shares, debentures or other securities of BT, or by reason of any other interest in or through BT;
(iii) which involves: the giving of any security, guarantee or indemnity to the director or any other person for money lent or obligations incurred by the director or by any other person at the request of or for the benefit of BT or the benefit of any of its subsidiary undertakings; or a debt or other obligation which is owed by BT or any of its subsidiary undertakings to that other person if the director has taken responsibility for all or any part of that debt or obligation by giving a guarantee, security or indemnity;
(iv) where BT or any of its subsidiary undertakings is offering any shares, debentures or other securities for subscription or purchase to which the director is or may be entitled to participate as a holder of BT securities; or where the director will be involved in the underwriting or sub-underwriting;
(v) relating to any other company in which the director has an interest, directly or indirectly (including holding a position in that company) or is a shareholder, creditor, employee or otherwise involved in that company – these rights do not apply if the director owns 1% or more of that company or of the voting rights in that company;
(vi) relating to an arrangement for the benefit of BT employees or former BT employees or any of BT's subsidiary undertakings which only gives the directors the same benefits that are generally given to the employees or former employees to whom the arrangement relates;
(vii) relating to BT buying or renewing insurance for any liability for the benefit of directors or for the benefit of persons who include directors;
(viii) relating to the giving of indemnities in favour of directors;
(ix) relating to the funding of expenditure by any director or directors: on defending criminal, civil or regulatory proceedings or actions against the director or the directors; in connection with an application to the court for relief; or on defending the director or the directors in any regulatory investigations; or which enables any director or directors to avoid incurring expenditure as described in this paragraph; and
(x) in which the director's interest, or the interest of directors generally, has been authorised by an ordinary resolution.

Subject to the relevant legislation, the shareholders can, by passing an ordinary resolution, ratify any particular contract carried out in breach of those provisions.

Directors' appointment and retirement

Under BT's Articles there must be at least two directors, who manage the business of the company. The shareholders can vary this minimum and/or decide a maximum by ordinary resolution. The Board and the shareholders (by ordinary resolution) may appoint a person who is willing to be elected as a director, either to fill a vacancy or as an additional director.

At every annual general meeting, all directors must automatically retire. A retiring director is eligible for re-election.

In addition to any power of removal under the 2006 Act, the shareholders can pass an ordinary resolution to remove a director, even though his or her time in office has not ended. They can elect a person to replace that director subject to the Articles, by passing an ordinary resolution. A person so appointed is subject to retirement by rotation when the director replaced would have been due to retire.

Directors' borrowing powers

To the extent that the legislation and the Articles allow, the Board can exercise all the powers of the company to borrow money, to mortgage or charge its business, property and assets (present and future) and to issue debentures and other securities, and give security either outright or as collateral security for any debt, liability or obligation of the company or another person. The Board must limit the borrowings of the company and exercise all the company's voting and other rights or powers of control exercisable by the company in relation to its subsidiary undertakings so as to ensure that the aggregate amount of all borrowings by the group outstanding, net of amounts borrowed intragroup among other things, at any time does not exceed £35bn. These borrowing powers may only be varied by amending the Articles.

(k) Sinking fund, liability to further calls and change of control

BT's shares are not subject to any sinking fund provision under the Articles or as a matter of the laws of England and Wales. No shareholder is currently liable to make additional contributions of capital in respect of BT's ordinary shares in the future. There are no provisions in the Articles or of corporate legislation in England and Wales that would delay, defer or prevent a change of control.

(l) Disclosure of interests in shares

Under the Financial Services and Markets Act 2000 and the UK Disclosure and Transparency Rules there is a statutory obligation on a person who acquires or ceases to have a notifiable interest in the relevant share capital of a public company like BT to notify the company of that fact. The disclosure threshold is 3%. These Rules also deal with the disclosure by persons of interests in shares or debentures of companies in which they are directors and certain associated companies. Under section 793 of the 2006 Act (referred to in (a) above), BT may ascertain the persons who are or have within the last three years been interested in its shares and the nature of those interests. The UK City Code on Takeovers and Mergers also imposes strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company on all parties to a takeover and also on their respective associates during the course of an offer period.

Material contracts

The contracts summarised below (not being entered into in the ordinary course of business) have been entered into in the two years preceding the date of this document by BT or another member of the group and are, or may be, material to the group or have been entered into by BT or another member of the group and contain a provision under which a member of the group has an obligation or entitlement which is, or may be, material to BT or such other member of the group.

Definitions

The definitions apply to the following section titled: **Acquisition of EE – summary of the principal terms.**

Acquisition: the acquisition by BT of EE

Articles: the articles of association of BT in force from time to time

Board: the Directors of the Company from time to time

BT Pension Scheme: BT's main defined benefit pension scheme

Buy-Back Resolution: the resolution to approve the buy-back of Ordinary Shares from Deutsche Telekom and/or Orange pursuant to the CP Contracts

CP Contracts: the DT CP Contract and Orange CP Contract

Company: BT Group plc

Completion: completion of the Acquisition pursuant to the terms of the Share Purchase Agreement which occurred on 29 January 2016

Consideration Shares: the Ordinary Shares to be issued by the Company to the Sellers pursuant to the Share Purchase Agreement

Directors or Board of Directors: the directors of the Company whose names appear in the section in the shareholder circular entitled *Directors, Company Secretary, Registered Office and Advisers*

Financial Investor: a Qualified Institutional Buyer as defined in Rule 144A under the US Securities Act 1933 or a Qualified Investor as described in Section I(1) of Annex II to Directive 2004/39/EC, other than any activist fund, or any company licensed as a telecommunications operator (or its affiliates)

Ordinary Shares: the ordinary shares of nominal value 5 pence each in the capital of the Company, including, if the context requires, the Consideration Shares

Sellers: Deutsche Telekom and Orange

Shareholder: a holder of Ordinary Shares and "Shareholders" shall be construed accordingly

Sponsor: JP Morgan Cazenove

Transaction Documents: the Share Purchase Agreement, the Relationship Agreement, the Standstill and Lock-up Agreement and the CP Contracts

Acquisition of EE – summary of the principal terms

Share Purchase Agreement

On 5 February 2015, the Share Purchase Agreement was entered into between the Company, the Sellers, who held 100% of the issued share capital of EE on a combined basis, Deutsche Telekom AG as guarantor of Deutsche Telekom and Orange SA as guarantor of Orange. Pursuant to the Share Purchase Agreement, the Sellers agreed to sell, and the Company agreed to acquire, the entire issued share capital of EE. The Acquisition completed on 29 January 2016.

1. Seller Warranties, Indemnities and Covenants

1.1 Warranties

The Share Purchase Agreement contains customary warranties given by the Sellers, including in relation to authorisations, valid obligations, filings and consents for the entry of the Sellers into the Transaction Documents, and including in relation to the EE Group, its share capital, accounts and financial condition, material licences and approvals, compliance with laws, condition and sufficiency of its network and assets, tax, material contracts, related party arrangements, litigation, IP and IT systems, employees and benefit arrangements, pension schemes, real estate and ownership and conduct of the MBNL joint venture arrangement.

1.2 Indemnities

The Sellers agreed, amongst other things, to indemnify BT in the event that BT suffers loss as a result of certain regulatory fines being levied against BT or the EE Group, and against losses suffered by BT or the EE Group as a result of certain other investigations and disputes.

The warranties and indemnities given by the Sellers are subject to customary financial and other limitations.

1.3 Covenants

The Share Purchase Agreement contains customary covenants restricting the Sellers from competing with EE's business for a period of three years following Completion (subject to customary exceptions for existing businesses and financial investments) and from soliciting employees of the EE Group for a period of two years following Completion (subject to customary exceptions).

The Share Purchase Agreement also contains a customary tax covenant in respect of liability for taxes due pre and post-Completion.

2. Company Warranties and Indemnity

The Share Purchase Agreement contains warranties given by the Company as to, amongst other things, its capacity and authority to enter into and perform its obligations under the Transaction Documents, compliance by the Company in all material respects with certain laws and regulations, the availability of financing for the cash element of the consideration for the Acquisition, the accuracy of its public filings, and there having been no material adverse change to its financial position since its last accounts date.

BT also agreed that it will indemnify the Sellers in the event that they suffer loss as a result of BT having taken certain actions in respect of the EE defined benefit pension scheme or the BT defined benefit pension scheme (but in relation to the BT Pension Scheme, only where Deutsche Telekom is identified as being connected to BT by virtue of the appointment of a Director to the Board by the Deutsche Telekom Group).

The warranties and indemnity given by BT are subject to customary financial and other limitations.

3. Other undertakings

The Sellers and BT agreed the scope and terms of certain transitional services arrangements required after Completion. The purpose of these transitional services agreements is to document any services that are currently provided by a party (or a member of its group) and that the recipient of those services wishes to continue to receive for a transitional period from Completion. Any services that a service recipient elects to continue to receive from Completion will be provided on the current terms or agreement applicable to the provision and receipt of those services. Unless otherwise agreed, the maximum term of each service is between six and 18 months depending on the type of service.

The Sellers (or the relevant members of their groups), BT, and EE agreed appropriate conditions for the continued use of the Orange or T-Mobile (as applicable) brands by EE. Such agreement included appropriate modifications to the existing brand licences to reflect the change in ownership of EE, and continued use of the brands will be for the purpose of an orderly wind-down and extraction of the Orange and T-Mobile brands from EE's business and subject to the continued payment of royalties.

BT has also undertaken to Deutsche Telekom AG to provide, from Completion, a back-to-back guarantee of Deutsche Telekom AG's guarantee to Hutchison, to a maximum value of £750 million. Deutsche Telekom AG's existing arrangement guarantees EE's obligations in respect of any liability incurred by EE under the MBNL joint operation.

4. Guarantee

Deutsche Telekom AG agreed to guarantee the performance by Deutsche Telekom, and Orange S.A. agreed to guarantee the performance by Orange, of their respective obligations under the Share Purchase Agreement.

Relationship Agreement

1. Relationship Agreement with Deutsche Telekom AG and Deutsche Telekom

At Completion, BT entered into the Relationship Agreement with Deutsche Telekom AG and Deutsche Telekom, which regulates aspects of the ongoing relationship between BT, Deutsche Telekom AG and the Deutsche Telekom Group.

The Relationship Agreement will terminate if (a) the Ordinary Shares are no longer listed on the premium listing segment of the Official List and traded on the London Stock Exchange's main market for listed securities or (b) the Deutsche Telekom Group ceases to be interested in more than 3% of the issued ordinary share capital of BT.

The Relationship Agreement contains, among other things, undertakings from Deutsche Telekom AG that for such period as the Deutsche Telekom Group holds 10% or more of the issued share capital of BT:

(i) transactions and arrangements between BT and the Deutsche Telekom Group will be entered into on an arm's length basis and on normal commercial terms;
(ii) neither it nor any member of the Deutsche Telekom Group will take any action that would have the effect of preventing BT from complying with its obligations under the Listing Rules; and
(iii) neither it nor any member of the Deutsche Telekom Group will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules (the "Independence Provisions").

Deutsche Telekom AG undertakes to procure the compliance of its group members with the Independence Provisions.

2. Standstill Provisions

The Relationship Agreement contains standstill provisions pursuant to which Deutsche Telekom AG undertakes on behalf of itself and the Deutsche Telekom Group for a period of three years from the date of the Relationship Agreement (the "Initial Standstill Period"), subject to certain exceptions, not to:

(i) acquire or offer to acquire any interest in any shares or other securities of BT as a result of which the aggregate interest of the Deutsche Telekom Group and any of its concert parties increases above 12% of Ordinary Shares in issue at any time;
(ii) act in concert with any person with respect to the holding, voting or disposition of any shares or other securities of BT;

(iii) solicit or participate in any solicitation of Shareholders to vote in a particular manner at any meeting of Shareholders; or
(iv) actively or publicly make any proposals for any merger, consolidation or share exchange involving shares or other securities of BT (for the purposes of this Part only, the "Standstill Provisions").

The exceptions to the Standstill Provisions include circumstances:

(i) where the Deutsche Telekom Group acquires an interest in any shares or other securities of BT from the Orange Group provided that such acquisition does not increase the aggregate interest of the Deutsche Telekom Group and its concert parties above 15% of the Ordinary Shares in issue;
(ii) where the Deutsche Telekom Group announces an offer under Rule 2.7 of the City Code on Takeovers and Mergers (the "Code") or takes any action requiring it to make an offer under Rule 9 of the Code, in each case if such offer is recommended by the Directors of BT;
(iii) where any third party makes or announces under Rule 2.7 of the Code an offer to acquire the issued ordinary share capital of BT, whether such offer is recommended by the Directors of BT or not; and
(iv) where BT makes any offering or issue of shares or other securities and the Deutsche Telekom Group takes up its rights to subscribe for or acquire the shares or other securities offered to it by BT.

Under the Relationship Agreement, Deutsche Telekom AG undertakes, among other things, that for a period of two years from the expiry of the Initial Standstill Period, in the event that the Deutsche Telekom Group acquires (other than as a result of a reduction or re-organisation of share capital or re-purchase of shares or other securities of BT) any Shares in excess of 15% of the Ordinary Shares in issue (the "Excess Shares"), it shall procure that the votes attaching to such Excess Shares shall be exercised (subject to the provisions of the Code and applicable law or regulation) in accordance with the recommendation of the Board of Directors of BT on all shareholder resolutions which relate to a transfer of an interest in Ordinary Shares carrying in aggregate 30% or more of the voting rights of BT and on all special resolutions of BT. After expiry of the Initial Standstill Period, the Deutsche Telekom Group will otherwise be free to increase its shareholding in BT.

3. Lock-up Provisions

The Relationship Agreement contains lock-up provisions pursuant to which Deutsche Telekom AG and Deutsche Telekom undertake for a period of 18 months from the date of the Relationship Agreement, subject to certain exceptions, that neither they nor any of their group members will, directly or indirectly, offer, sell, contract to sell, grant or sell options over, purchase any option or contract to sell, transfer, charge, pledge, grant any right or warrant or otherwise transfer, lend or dispose of any shares in BT or any securities convertible into or exercisable or exchangeable for such shares, or announce or otherwise publish an intention to do any of the foregoing (each of the above activities being a "Disposal"). The exceptions include:

(i) where Deutsche Telekom AG or Deutsche Telekom accepts any offer by a third party for the whole of the ordinary share capital of BT, whether by tender offer or scheme of arrangement, or provides an irrevocable undertaking or letter of intent to accept or vote in favour of any such offer;
(ii) any Disposal to any member of the Deutsche Telekom Group, provided that the transferee agrees to be bound by the restrictions of the Relationship Agreement; and
(iii) any sale of shares via any single off-market trade to a Financial Investor of no more than 5% each of the Ordinary Shares in issue of BT (or, on one occasion only, the sale of two stakes of not more than 5% each at the same time to two different Financial Investors), provided that any transferee enters into a lock-up agreement on substantially similar terms to the lock-up provisions of the Relationship Agreement.

4. DT CP Contract

Prior to any Disposal by Deutsche Telekom AG, Deutsche Telekom or any of their group members in accordance with paragraph 3(iii) above, BT has a right of first offer in relation to the relevant shares (subject to the passing of the Buy-Back Resolution), and such right is set out in the DT CP Contract.

Pursuant to the DT CP Contract, prior to an intended Disposal to Financial Investors, the relevant selling entity is obliged to issue a notice to BT specifying the number of Ordinary Shares proposed to be sold or transferred. BT has nine Business Days within which to make an offer for all of the Ordinary Shares detailed in the notice, or else its right to make an offer will lapse. If the offer is not accepted, the selling entity may make the sale or transfer within three months of the delivery of the notice to BT at a price equal to or greater than the price offered by BT. If BT does not make an offer within the allotted time, the selling entity may sell the Ordinary Shares within three months of the delivery of the notice to BT at any price. The DT CP Contract will terminate 18 months from Completion.

The notice from the selling entity may be issued to BT during a close period or prohibited period (as such terms are defined in the Model Code of Chapter 9 of the Listing Rules) of BT. If any such period does not expire prior to the end of the nine Business Day period within which BT may elect to make an offer to buy-back the shares, BT will not be able to exercise its right of first offer.

When exercised in conjunction with BT's right of first offer in relation to Ordinary Shares held by Orange and Orange SA, the maximum amount of Ordinary Shares BT can acquire by exercise of its rights of first offer is approximately 14% of BT's share capital on an enlarged basis post-Acquisition. The price at which Ordinary Shares can be bought back shall be no more than the higher of the closing price of the Ordinary Shares on (i) the date on which BT makes an offer to buy-back the Ordinary Shares and (ii) the last trading day before the buy-back takes place. In addition, BT has separately undertaken to give the Sponsor prior notice of its intention to make an offer for Ordinary Shares under the DT CP Contract, to consult with the Sponsor regarding such offer and not to make such offer unless at the relevant time the Board, having been so advised by the Sponsor, considers such offer to be fair and reasonable as far as Shareholders are concerned. After expiry of the lock-up period described above, the Deutsche Telekom Group will be free to dispose of its shareholding in BT without further restriction.

5. Rights of Deutsche Telekom AG

Under the Relationship Agreement, subject to compliance with any applicable regulatory requirements, Deutsche Telekom AG is able to appoint one Non-Executive Director (the "Deutsche Telekom Representative Director") to the Board for so long as the Deutsche Telekom Group holds 10% or more of the issued share capital of BT (provided that, if the shareholding is reduced below 10% as a result of a non-pre-emptive share issuance by BT, the board appointment right shall continue for as long as the Deutsche Telekom Group holds at least 8% of BT's shares but provided further that such reduced shareholding shall not have occurred as a result of the Deutsche Telekom Group selling Ordinary Shares, and also provided that the Deutsche Telekom Group must top up to 10% within 12 months or the right will lapse). Any such appointment shall be made in consultation with the BT *Nominating & Governance Committee* and the appointee must be approved by the BT Chairman (such approval not to be unreasonably withheld or delayed).

The Relationship Agreement provides for the establishment of a new committee of BT (the "Conflicted Matters Committee") which shall assess whether and to what extent the Board papers and Board meetings of BT are likely to consider or refer to any matter in respect of which the Conflicted Matters Committee believes that either:

(i) BT and the Deutsche Telekom Group are competitors; or
(ii) there is an actual or potential conflict of interest between BT and the Deutsche Telekom Group (a "Conflicted Matter").

The Conflicted Matters Committee shall comprise of at least three members including at all times the Secretary to the Board, the Head of Competition and Regulatory Law and the Director of Governance. The Deutsche Telekom Representative Director shall not be a member of the Conflicted Matters Committee. The Deutsche Telekom Representative Director shall not attend any Board meeting of BT unless a senior compliance officer of Deutsche Telekom AG has received prior confirmation that the Conflicted Matters Committee has considered whether such attendance raises any concerns in relation to a Conflicted Matter. In the event that the Conflicted Matters Committee has a serious or immediate concern in relation to a Conflicted Matter, the Deutsche Telekom Representative Director shall not attend any Board meetings in relation to the Conflicted Matter and shall not receive any information in relation to the Conflicted Matter.

Deutsche Telekom AG is also entitled to receive, subject to compliance by BT with its legal and regulatory obligations, such financial or other information in relation to the BT Group as is necessary or reasonably required by Deutsche Telekom AG in order to comply with its reporting requirements and legal, regulatory or tax obligations.

Standstill and Lock-up Agreement with Orange SA and Orange

1. Standstill and Lock-up Agreement

BT entered into a Standstill and Lock-up Agreement with Orange SA and Orange on Completion, which regulates the ability of the Orange Group to deal in shares and other securities of BT. The Standstill and Lock-up Agreement terminates if (a) the Ordinary Shares are no longer listed on the premium listing segment of the Official List and admitted to trading on the London Stock Exchange's main market for listed securities or (b) the Orange Group ceases to be interested in more than 3% of the issued ordinary share capital of BT.

2. Standstill Provisions

The Standstill and Lock-up Agreement contains standstill provisions pursuant to which Orange SA undertakes on behalf of itself and its group for a period of three years from the date of the Standstill and Lock-up Agreement, subject to certain exceptions, not to:

(i) acquire or offer to acquire any interest in any shares or other securities of BT as a result of which the aggregate interest of the Orange Group and its concert parties increases above 4% of Ordinary Shares in issue at any time;
(ii) act in concert with any person in respect of the holding, voting or disposition of any shares or other securities of BT;
(iii) solicit or participate in any solicitation of Shareholders to vote in a particular manner at any meeting of the Shareholders; or
(iv) actively or publicly make any proposals for any merger, consolidation or share exchange involving shares or other securities of BT (for the purposes of this Part only, the "Standstill Provisions").

The exceptions to the Standstill Provisions include:

(i) where the Orange Group announces an offer under Rule 2.7 of the Code or takes any action requiring it to make an offer under Rule 9 of the Code, in each case if such offer is recommended by the Directors of BT;
(ii) where any third party makes or announces under Rule 2.7 of the Code an offer to acquire the issued ordinary share capital of BT, whether such offer is recommended by the Directors of BT or not; and
(iii) where BT makes any offering or issue of shares or other securities and the Orange Group takes up its rights to subscribe for or acquire the shares or other securities offered to it by BT.

After expiry of the standstill period, the Orange Group will otherwise be free to increase its shareholding in BT.

3. Lock-up Provisions

The Standstill and Lock-up Agreement contains lock-up provisions pursuant to which Orange SA and Orange undertake for a period of 12 months from the date of the Standstill and Lock-up Agreement, subject to certain exceptions, that neither they nor any of their group members will, directly or indirectly, effect any Disposal. The exceptions include:

(i) any Disposal to the Deutsche Telekom Group;
(ii) where Orange SA or Orange accepts any offer by a third party for the whole of the ordinary share capital of BT, whether by tender offer or scheme of arrangement, or provides an irrevocable undertaking or letter of intent to accept or vote in favour of any such offer;
(iii) any Disposal to any member of the Orange Group, provided that the transferee agrees to be bound by the restrictions of the Standstill and Lock-up Agreement;
(iv) any sale of shares via any single off-market trade to a Financial Investor of up to all the shares of BT in which the Orange Group has an interest, provided that the transferee enters into a lock-up agreement on substantially similar terms to the lock-up provisions of the Standstill and Lock-up Agreement; and
(v) if the Orange Group owns 2% or less of the issued ordinary share capital of the Company, any Disposal which is by way of a swap or other agreement to transfer the economic ownership of the shares.

4. Orange CP Contract

Prior to any Disposal by Orange SA, Orange or any of their group members, in accordance with paragraph 3(iv) above, BT has a right of first offer in relation to the relevant shares (subject to the passing of the Buy-Back Resolution), and such right is set out in the Orange CP Contract.

Pursuant to the Orange CP Contract, prior to an intended Disposal to Financial Investors, the relevant selling entity is obliged to issue a notice to BT specifying the number of Ordinary Shares proposed to be sold or transferred. BT has nine Business Days within which to make an offer for all of the shares detailed in the notice, or else its right to make an offer will lapse. If the offer is not accepted, the selling entity may make the sale or transfer within three months of the delivery of the notice to BT at a price equal to or greater than the price offered by BT. If BT does not make an offer within the allotted time, the selling entity may sell the Ordinary Shares within three months of the delivery of the notice to BT at any price. The Orange CP Contract will terminate 12 months from Completion.

The notice from the selling entity may be issued to BT during a close period or prohibited period (as such terms are defined in the Model Code of Chapter 9 of the Listing Rules) of BT. If any such period does not expire prior to the end of the nine Business Day period within which BT may elect to make an offer to buy-back the shares, BT will not be able to exercise its right of first offer.

When exercised in conjunction with BT's right of first offer in relation to Ordinary Shares held by Deutsche Telekom AG and Deutsche Telekom, the maximum amount of Ordinary Shares BT can acquire by exercise of its rights of first offer is approximately 14% of BT's share capital on an enlarged basis post-Acquisition. The price at which Ordinary Shares can be bought back shall be no more than the higher of the closing price of the Ordinary Shares on (i) the date on which BT makes an offer to buy-back the Ordinary Shares and (ii) the last trading day before the buy-back takes place. After expiry of the lock-up period described above, the Orange Group will be free to dispose of its shareholding in BT without further restriction.

Taxation (US Holders)

This is a summary only of the principal US federal income tax and UK tax consequences of the ownership and disposition of ordinary shares or ADSs by US Holders (as defined below) who hold their ordinary shares or ADSs as capital assets. It does not address all aspects of US federal income taxation and does not address aspects that may be relevant to persons who are subject to special provisions of US federal income tax law, including: US expatriates; insurance companies; tax-exempt organisations; banks; regulated investment companies; financial institutions; securities broker-dealers; traders in securities who elect a mark-to-market method of accounting; persons subject to alternative minimum tax; investors that directly, indirectly or by attribution own 10% or more of the outstanding share capital or voting power of BT; persons holding their ordinary shares or ADSs as part of a straddle, hedging transaction or conversion transaction; persons who acquired their ordinary shares or ADSs pursuant to the exercise of options or otherwise as compensation; or persons whose functional currency is not the US Dollar, amongst others. Those holders may be subject to US federal income tax consequences different from those set forth below.

For the purposes of this summary, a US Holder is a beneficial owner of ordinary shares or ADSs that, for US federal income tax purposes, is: a citizen or individual resident of the United States; a corporation (or other entity taxable as a corporation for US federal income tax purposes) created or organised in or under the laws of the United States or any political subdivision thereof; an estate the income of which is subject to US federal income taxation regardless of its sources, or a trust if a US court can exercise primary supervision over the administration of the trust and one or more US persons are authorised to control all substantial decisions of the trust. If a partnership holds ordinary shares or ADSs, the US tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that holds ordinary shares or ADSs is urged to consult its own tax adviser regarding the specific tax consequences of owning and disposing of the ordinary shares or ADSs.

In particular, this summary is based on (i) current UK tax law and the practice of Her Majesty's Revenue & Customs (HMRC) and US law and US Internal Revenue Service (IRS) practice, including the Internal Revenue Code of 1986, as amended, existing and proposed Treasury regulations, rulings, judicial decisions and administrative practice, all as currently in effect and available, (ii) the United Kingdom-United States Convention relating to estate and gift taxes, and (iii) the United Kingdom-United States Tax Convention that entered into force on 31 March 2003 and the protocol thereto (the Convention), all as in effect on the date of this Annual Report, all of which are subject to change or changes in interpretation, possibly with retroactive effect.

US Holders should consult their own tax advisers as to the applicability of the Convention and the consequences under UK, US federal, state and local, and other laws, of the ownership and disposition of ordinary shares or ADSs.

Taxation of dividends

Under current UK tax law, BT will not be required to withhold tax at source from dividend payments it makes. Unless a US Holder of ordinary shares or ADSs is resident for UK tax purposes in the UK or unless a US Holder of ordinary shares or ADSs carries on a trade, profession or vocation in the UK through a branch or agency, or, in the case of a company, a permanent establishment in the UK, the holder should not be liable for UK tax on dividends received in respect of ordinary shares and/or ADSs.

For US federal income tax purposes, a distribution will be treated as ordinary dividend income. The amount of the distribution includible in gross income of a US Holder will be the US Dollar value of the distribution calculated by reference to the spot rate in effect on the date the distribution is actually or constructively received by a US Holder of ordinary shares, or by the Depositary. In the case of ADSs, a US Holder who converts Sterling into US Dollars on the date of receipt generally should not recognise any exchange gain or loss. A US Holder who does not convert Sterling into US Dollars on the date of receipt generally will have a tax basis in Sterling equal to their US Dollar value on such date. Foreign currency gain or loss, if any, recognised by the US Holder on a subsequent conversion or other disposition of Sterling generally will be US source ordinary income or loss. In addition, in a situation where US holders receive distributions of previously taxed earnings and profits, foreign currency gain or loss will generally be recognised as the same source as the associated income included under Subpart F rules for US federal income tax purposes. Dividends paid by BT to a US Holder will not be eligible for the US dividends received deduction that may otherwise be available to corporate shareholders.

For purposes of calculating the foreign tax credit limitation, dividends paid on the ordinary shares or ADSs will be treated as income from sources outside the US and generally will constitute 'passive income'. US Holders who do not elect to claim a credit with respect to any foreign taxes paid in a given taxable year may instead claim a deduction for foreign taxes paid. A deduction does not reduce US federal income tax on a Dollar for Dollar basis like a tax credit. The deduction, however, is not subject to the limitations applicable to foreign credits.

Following recent changes in UK tax law (effective from 6 April 2016), UK tax credits no longer attach to any dividends paid on the ordinary shares or ADSs, irrespective of the domicile or residence of the shareholder. No question therefore arises as to the entitlement of any US Holder to any UK tax credit.

Certain US Holders (including individuals) are eligible for reduced rates of US federal income tax (currently at a maximum of 20%) in respect of qualified dividend income. There could also be a 3.8% net investment income tax on dividends to individuals and other non-corporate holders with income above a certain amount. For these purposes, qualified dividend income generally includes dividends paid by a non-US corporation if, among other things, the US Holders meet certain minimum holding periods and the non-US corporation satisfies certain requirements, including that either (i) the shares or ADSs with respect to which the dividend has been paid are readily tradable on an established securities market in the US, or (ii) the non-US corporation is eligible for the benefits of a comprehensive US income tax treaty (such as the Convention) which provides for the exchange of information. BT currently believes that dividends paid with respect to its ordinary shares and ADSs should constitute qualified dividend income for US federal income tax purposes. Each individual US Holder of ordinary shares or ADSs is urged to consult his own tax adviser regarding the availability to him of the reduced dividend tax rate in light of his own particular situation and regarding the computations of his foreign tax credit limitation with respect to any qualified dividend income paid by BT to him, as applicable.

Taxation of capital gains

Unless a US Holder of ordinary shares or ADSs is resident for UK tax purposes in the UK or unless a US Holder of ordinary shares or ADSs carries on a trade, profession, or vocation in the UK through a branch, agency, or in the case of a company, a permanent establishment in the UK, and the ordinary shares and/or ADSs have been used, held, or acquired for the purposes of that trade, profession or vocation, the holder should not be liable for UK tax on capital gains on a disposal of ordinary shares and/or ADSs.

A US Holder who is an individual and who has ceased to be resident for tax purposes in the UK on or after 17 March 1998 or who falls to be regarded as resident outside the UK for the purposes of any double tax treaty (Treaty non-resident) on or after 16 March 2005 and continues to not be resident in the UK or continues to be Treaty non-resident for a period of less than five years of assessment and who disposes of his ordinary shares or ADSs during that period may also be liable on his return to the UK to UK tax on capital gains, subject to any available exemption or relief, even though he is not resident in the UK or is Treaty non-resident at the time of disposal.

For US federal income tax purposes, a US Holder generally will recognise capital gain or loss on the sale, exchange or other disposition of ordinary shares or ADSs in an amount equal to the difference between the US Dollar value of the amount realised on the disposition and the US Holder's adjusted tax basis (determined in US Dollars) in the ordinary shares or ADSs. Such gain or loss generally will be US source gain or loss, and will be treated as long-term capital gain or loss if the ordinary shares have been held for more than one year at the time of disposition. Long-term capital gains recognised by an individual US Holder generally are subject to US federal income tax at preferential rates. The deductibility of capital losses is subject to significant limitations. Non-corporate US Holders may also be subject to a 3.8% tax on net investment income in respect of any gains.

A US Holder's tax basis in an ordinary share or ADS will generally be its US Dollar cost. The US Dollar cost of an ordinary share or ADS purchased with foreign currency will generally be the US Dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of ordinary shares or ADSs traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis US Holder (or an accrual basis US Holder that so elects). Such an election by an accrual basis US Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. The amount realised on a sale or other disposition of ordinary shares or ADSs for an amount in foreign currency will be the US Dollar value of this amount on the date of sale or disposition. On the settlement date, the US Holder will recognise US source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US Dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of ordinary shares or ADS traded on an established securities market that are sold by a cash basis US Holder (or an accrual basis US Holder that so elects), the amount realised will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognised at that time.

Passive foreign investment company status

A non-US corporation will be classified as a passive foreign investment company (a PFIC) for US federal income tax purposes for any taxable year if at least 75% of its gross income consists of passive income or at least 50% of the average value of its assets consist of assets that produce, or are held for the production of, passive income. BT currently believes that it did not qualify as a PFIC for the tax year ended 31 March 2017. If BT were to become a PFIC for any tax year, US Holders would suffer adverse tax consequences. These consequences may include having gains realised on the disposition of ordinary shares or ADSs treated as ordinary income rather than capital gains and being subject to punitive interest charges on certain dividends and on the proceeds of the sale or other disposition of the ordinary shares or ADSs. Furthermore, dividends paid by BT would not be 'qualified dividend income' which may be eligible for reduced rates of taxation as described above. US Holders should consult their own tax advisers regarding the potential application of the PFIC rules to BT.

US information reporting and backup withholding

Dividends paid on and proceeds received from the sale, exchange or other disposition of ordinary shares or ADSs may be subject to information reporting to the IRS and backup withholding at a current rate of 28% (which rate may be subject to change). Certain exempt recipients (such as corporations) are not subject to these information reporting requirements. In addition, non-corporate US Holders may be required to report their investment on a Form 8938. Backup withholding will not apply, however, to a US Holder who provides a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt. Persons that are US persons for US federal income tax purposes who are required to establish their exempt status generally must furnish IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Holders that are not US persons for US federal income tax purposes generally will not be subject to US information reporting or backup withholding. However, such holders may be required to provide certification of non-US status in connection with payments received in the US or through certain US-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's US federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information.

UK stamp duty

A transfer of or an agreement to transfer an ordinary share will generally be subject to UK stamp duty or UK stamp duty reserve tax (SDRT) at 0.5% of the amount or value of any consideration provided rounded up (in the case of stamp duty) to the nearest £5. SDRT is generally the liability of the purchaser. It is customarily also the purchaser who pays UK stamp duty. A transfer of an ordinary share to, or to a nominee for, a person whose business is or includes the provision of clearance services or to, or to a nominee or agent of, a person whose business is or includes issuing depositary receipts gives rise to a 1.5% charge to stamp duty or SDRT of either the amount of the consideration provided or the value of the share issued rounded up (in the case of stamp duty) to the nearest £5. No UK stamp duty will be payable on the transfer of an ADS (assuming it is not registered in the UK), provided that the transfer documents are executed and always retained outside the UK.

Transfers of ordinary shares into CREST will generally not be subject to stamp duty or SDRT unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5% of the value of the consideration. Paperless transfers of ordinary shares within CREST are generally liable to SDRT at the rate of 0.5% of the value of the consideration. CREST is obliged to collect SDRT from the purchaser of the shares on relevant transactions settled within the system.

The above statements are intended as a general guide to the current position. Certain categories of person (including recognised market makers, brokers and dealers) may not be liable to stamp duty or SDRT or may, although not liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

UK inheritance and gift taxes in connection with ordinary shares and/or ADSs

The rules and scope of domicile are complex and action should not be taken without advice specific to the individual's circumstances. A lifetime gift or a transfer on death of ordinary shares and/or ADSs by an individual holder, who is US domiciled (for the purposes of the UK/US Estate and Gift Tax Convention) and who is not a UK national (as defined in the Convention) will not generally be subject to UK inheritance tax if the gift is subject to US federal gift or US estate tax unless the tax is not paid (otherwise than as a result of a specific exemption, deduction, exclusion, credit or allowance).

Further note on certain activities

In addition, under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13 (r) to the Securities Exchange Act of 1934, we are required to disclose whether BT or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or certain designated individuals or entities. Disclosure is required even when the activities were conducted outside the US by non-US entities and even when they were conducted in compliance with applicable law.

During 2016/17, certain of the group's non-US subsidiaries or other non-US entities conducted limited activities in, or with persons from, certain countries identified by the US Department of State as State Sponsors of Terrorism or otherwise subject to US sanctions. These activities, which generally relate to the provision of communications services to embassies and diplomatic missions of US-allied governments, other Communication Providers, news organisations, multinational corporations and other customers that require global communications connectivity, are insignificant to the group's financial condition and results of operations.

BT has a contract in place with Telecommunication Infrastructure Company (TIC), to make and receive voice calls from Iran to the UK.

BT entered into a Framework Agreement with Rafsanjan Industrial Complex (RIC) for business consultancy services in May 2010 and provided an initial consultancy engagement under phase 1 of the agreement. In February 2011, phase 2 was agreed with RIC however BT stopped work in December 2011 due to the geopolitical situation. RIC made an advance payment to BT of €384,120 to carry out the phase 2 work. We continue to explore whether the amount can be refunded.

BT's subsidiary, EE (the acquisition of which was completed on 29 January 2016), has in place roaming partner agreements with Mobile Company of Iran (MCI), and Taliya Company (also known as Rafsanjan Industrial Complex). These bilateral agreements allow the transmission of mobile calls. There has been no traffic with Taliya in 2016/17. The amounts received by EE under these contracts were less than £405,000. In addition, EE also exchanges SMS traffic with MCI, Mobile Telecommunications Company of Esfahan and Telecommunication Kish Company. The amounts received by EE under these contracts were less than £6,500.

In addition, during our integration of the EE business, we discovered a roaming agreement between EE and Syriatel Mobile Telecom, an entity designated under UK/EU sanctions. Following an internal investigation, we ceased providing services under the agreement and made a voluntary disclosure to HM Treasury. We are also investigating whether there are additional implications under other sanctions regimes. EE is now fully subject to BT's sanctions compliance policies and procedures.

Limitations affecting security holders

There are no government laws, decrees, regulations, or other UK legislation which have a material effect on the import or export of capital, including the availability of cash and cash equivalents for use by the company except as otherwise described in **Taxation (US Holders).**

There are no limitations under UK law restricting the right of non-residents to hold or to vote shares in the company.

Documents on display
All reports and other information that BT files with the US Securities and Exchange Commission (SEC) may be inspected at the SEC's public reference facilities at Room 1580, 100 F Street NE, Washington, DC 20549, US.

These reports may be accessed via the SEC's website at **www.sec.gov**

Publications
BT produces a series of reports on the company's financial, compliance, and social and environmental performance.

Document	Publication date
Notice of meeting	May
Annual Report & Form 20-F	May
Delivering our purpose report	May
EAB Annual Report	May
Expected quarterly results releases	July, October, January and May
Current Cost Financial Statements	July
The Way We Work, a statement of business practice	July

For printed copies, when available, contact the Shareholder Helpline on Freefone **0808 100 4141** or contact our Registrars in the UK, at the address opposite.

Most of these reports (as well as the EAB Annual Report on BT's compliance with the Undertakings) can be accessed online at **www.bt.com/aboutbt** More detailed disclosures on BT's implementation of social, ethical and environmental policies and procedures are available online through our independently verified sustainability report at **www.bt.com/deliveringourpurpose**

Electronic communication
Shareholders can choose to receive their shareholder documents electronically rather than by post.

Shareholders may elect to receive documents in this way by going to **www.bt.com/signup** and following the online instructions, or by calling the Shareholder Helpline.

Shareholder communication
BT is committed to communicating openly with each of its stakeholder audiences in the manner most appropriate to their requirements.

All investors can visit our website at **www.bt.com/investorcentre** for more information about BT. There are direct links from this page to sites providing information particularly tailored for shareholders, institutional investors, financial analysts, industry analysts and journalists.

Private shareholders
If private shareholders have any enquiries about their shareholding, they should contact our Registrars, Equiniti, at the address below. Equiniti maintain BT Group's share register and the separate BT Group EasyShare register. They also provide a Shareholder Helpline service on Freefone **0808 100 4141**.

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Find out more about the BT Supplier Finance scheme at: **www.selling2bt.bt.com**

You can find out more about the Better Payment Practice Code at: **www.payontime.co.uk**

www.btplc.com/TheWayWeWork

Cross reference to Form 20-F

The information in this document that is referred to in the following table shall be deemed to be filed with the Securities and Exchange Commission for all purposes. None of the websites referred to in this Annual Report 2017, including where a link is provided, nor any of the information contained on such websites is incorporated by reference in the Form 20-F.

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[a] Excluding the information under the heading "Outlook" on page 7.
[b] Excluding the paragraph beginning "For 2017/18" on page 91, the information under the sub-heading "Outlook for 2017/18" on page 92 and the paragraph beginning "Our outlook for normalised free cash flow…" on page 93.
[c] Excluding the last sentence ending in "… in our Outlook on page 92." under the sub-heading "Dividends" on page 96.

Glossary of terms

2G: the second generation of mobile telephony systems. It uses digital transmission to support voice, low-speed data communications and short messaging services.

3G: the third generation of mobile systems. It provides high-speed data transmission and supports multimedia applications like video, audio and internet access as well as conventional voice services.

4G: the fourth generation of mobile systems. It is designed to provide faster data download and upload speeds on mobile networks.

5G: the coming fifth generation wireless broadband technology which will provide better speeds and coverage than the current 4G.

A

ADSL: asymmetric digital subscriber line – a digital technology that allows the use of a standard telephone line to provide high-speed data communications.

ARPU: average revenue per user.

B

BDUK: Broadband Delivery UK – the UK Government body charged with helping to oversee the use of public money for rolling out fibre broadband in harder-to-reach parts of the country.

BTPS: BT Pension Scheme – the defined benefit pension scheme which was closed to new members on 31 March 2001.

BTRSS: BT Retirement Saving Scheme – the scheme set up on 1 April 2009 as a successor to the BT Retirement Plan. It is a contract-based, defined contribution arrangement.

C

CI: continuous improvement – a complementary 'bottom-up' approach, empowering our people to make small but significant changes to improve customer service and employee engagement while reducing the cost of failure.

Cloud of Clouds: Global Services' portfolio strategy which brings together its six core product families and a network of partners to support the delivery of global network and IT infrastructure services.

CP: communications provider – a provider of communications services – telephony, broadband, video on demand and other services.

D

Dark fibre: an 'unlit' fibre-only connection provided with no associated electronics.

DP: distribution point.

DSL: digital subscriber line – a broadband service where existing wires between the local telephone exchange and a customer's telephone sockets are transformed into a high-speed digital line.

E

EAD: Ethernet access direct – a point-to-point access product in the Openreach Ethernet portfolio offering high bandwidth connectivity, linking end-user sites, communications provider networks and BT exchanges.

Ethernet: high-capacity, high-speed digital connections available throughout the UK. They tend to be used by businesses and offices for which a domestic connection is inadequate when large numbers of devices have to be online.

ESN: Emergency Services Network.

F

Flexible Co-mingling: allows CPs to place their equipment in our exchanges.

FTTC: fibre-to-the-cabinet – a variant of GEA which uses fibre to provide high connection speeds from the exchange to a street cabinet near to a customer premises, and a copper line for the final connection to the premises.

FTTP: fibre-to-the-premises – a variant of GEA which uses fibre to provide high connection speeds for the whole route from the exchange to the customer.

G

G.Fast: an innovative technology that uses higher frequencies than FTTC to provide faster broadband speeds over copper.

GEA: generic Ethernet access – Openreach's wholesale fibre broadband product.

I

IoT: internet of things – the interconnection via the internet of computing devices embedded in everyday objects, enabling them to send and receive data.

IP: internet protocol – a packet-based protocol for delivering data – including voice and video – across networks.

IPTV: internet protocol television – the combination of broadcast content with broadband content, delivering both through the television.

IPX: IP exchange – a telecommunications interconnection model for the exchange of IP-based traffic between customers of separate mobile and fixed operators.

L

Ladder pricing: Ladder pricing links the amounts that BT charges mobile operators for mobile calls to 0800, 0845 and 0870 numbers terminating on our network to the retail price charged by mobile operators to their customers.

LLU: local loop unbundling – the process by which CPs can rent the copper lines between BT's exchanges and customer premises from Openreach to provide voice and broadband services using their own equipment.

M

M2M: machine-to-machine – M2M communications refers to connecting electronic devices to one another. This can streamline processes and enable tasks to be automated.

Managed Ethernet Access Service: a product that uses pseudo-wire technology to carry Ethernet traffic between the mobile operators' cell and core sites in a single converged packet network.

MBNL: Mobile Broadband Network Limited is a joint venture arrangement between EE Limited and Hutchison 3G UK Limited with each company owning a 50% share.

MiiS: mobile infill infrastructure solution – lets CPs install their radio equipment in special cabinets linked to antennas on telephone poles and use their spectrum to improve mobile coverage.

MPF: metallic path facility – a circuit comprising a pair of twisted metal wires between an end-user's premises and a main distribution frame.

MPLS: multi-protocol label switching – supports the rapid transmission of data across network routers, enabling modern networks to achieve high quality of service.

MSL: minimum service level – set by Ofcom in relation to the quality of service that Openreach offers.

MVNO: mobile virtual network operator – an arrangement where a retailer sells mobile services under its own brand but uses a mobile network owned by another operator to do so.

N

NFV: network function virtualisation.

O

Ofcom: the independent regulator and competition authority in the UK communications industries, with responsibilities across television, radio, telecommunications and wireless communications services.

P

PCP: primary connection point.

PIA: passive infrastructure access – this occurs when one company accesses ducts owned by another and installs its own fibre optic or other cables.

POLOs: payments to other licensed operators – typically refers to payments by one CP to another CP when terminating voice traffic on their network to carry the call to the customer receiving the call.

PoPs: points of presence – this refers to a location in a city where we have the ability to connect customers to one of our networks.

PPC: partial private circuit – a generic term used to describe a category of private circuits that terminate at a point of connection between two operators' networks.

R

RFT: Right First Time – the internal measure of whether we are keeping our promises to our customers and meeting or exceeding their expectations.

S

SDN: software defined networking – one of the new generation of networking technologies that are giving us a new way to build and manage corporate networks that are fit for the digital age.

SEP: superfast extension programme.

SIP: session initiation protocol – a method for creating, modifying and terminating sessions with one or more participants. These include internet telephone calls, multimedia distribution and multimedia conferences.

SIP Trunk: this replaces the need for traditional analogue, T1-based Public Switched Telephone Network connections with termination instead provided over a company's public or private internet connection through a SIP provider.

SMPF: shared metallic path facility – access to the non-voiceband frequencies of the metallic path facility.

SON: self-organising network.

SVoD: subscription video on demand.

T

TDM: time-division multiplexing.

U

Undertakings: legally-binding commitments BT made to Ofcom, designed to bring greater transparency and certainty to the regulation of the telecommunications industry in the UK. They led to the formation of Openreach.

UHD: ultra high definition.

V

VDSL: very high speed DSL – a high-speed variant of DSL technology. It provides a high headline speed by reducing the length of the access line copper by connecting to fibre at the cabinet.

VoIP: voice over internet protocol – a method of transporting speech over the internet.

VPN: virtual private network – a secure way to create an apparent dedicated network between nodes over a network infrastructure, which is in reality shared with other services.

W

WAN: wide area network – a computer network that exists over a relatively large geographical area that connects two or more smaller networks. This enables computers and users in one location to communicate with computers and users in other locations.

WLR: wholesale line rental – a product supplied by Openreach which is used by other CPs to offer telephony services using their own brand, pricing structure and billing, but using BT's network.