Detailed analysis of our statutory accounts, independently audited and providing in-depth disclosure on the financial performance and position of the group.

Financial statements

Contents

Independent auditors' report to the members of BT Group plc

1. Our opinion is unmodified

We have audited the financial statements of BT Group plc ("the Company") for the year ended 31 March 2020 which comprise the group income statement, group statement of comprehensive income, group balance sheet, group statement of changes in equity, group cash flow statement, company balance sheet, company statement of changes in equity, and the related notes, including the accounting policies in note 1.

In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Additional opinion in relation to IFRSs as issued by the IASB
As explained in the note to the Group financial statements, the Group, in addition to complying with its legal obligation to apply IFRSs as adopted by the EU, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 11 July 2018. The period of total uninterrupted engagement is for the 2 financial years ended 31 March 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of certain unquoted investments in the BT Pension Scheme (BTPS)

Risk vs 2019: ^

Refer to page 78 (Audit & Risk Committee Report), page 162 (note 20 accounting policy Retirement benefit plans) and pages 161 to 172 (disclosures note 20 Retirement benefit plans).

The risk
Subjective estimate
The BTPS has unquoted plan assets in private equity, UK and overseas property, mature infrastructure, longevity insurance contracts and non-core credit assets. Significant judgment is required in determining the value of a portion of these unquoted investments which are valued based on inputs that are not directly observable.

In addition, for certain private equity and non-core credit assets the latest asset valuations preceded the negative impact of the Covid-19 pandemic on financial markets, and as such significant judgment is required to evaluate the market indices used by management to estimate adjustments to those asset valuations.

The key unobservable inputs used to determine the fair value of these plan assets includes estimated rental yields for UK and overseas property, discount rates for mature infrastructure, discount rate and projected future mortality for the longevity insurance contract and estimated net asset values for private equity and non-core credit assets.

The effect of these matters is a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 20) disclose the sensitivities of key assumptions for the valuation of unquoted plan assets estimated by the Group.

Our response – our procedures included:
Assessing valuers' credentials: Evaluated the scope, competency and objectivity of the Group's external experts who assisted in determining the key unobservable inputs and market indices listed above.

Longevity insurance contract
Comparing valuations: Challenging, with the support of our own actuarial specialists, the fair value of the longevity insurance contract by comparing it to an independently developed range of fair values using assumptions, such as the discount rate and projected future mortality, based on external data.

Property/infrastructure
Benchmarking assumptions: Challenging, with the support of our own valuation specialists, the key unobservable inputs, such as estimated rental value and market value, used in determining the fair value of a sample of UK and overseas property assets, and discount rate used in determining the mature infrastructure assets, by comparing them to discount rates for comparable assets.

Comparing valuations: Developed an independent expectation for a sample of the fair value of UK and overseas property based on changes in valuation for the relevant geography and asset type obtained from external market data and the historical valuation for each property.

Private equity and non-core credit assets
Benchmarking assumptions: Challenging, with the support of our own valuation specialists, the appropriateness of certain market indices used in determining the fair value of private equity and non-core credit assets that were initially valued by management's experts before the year end, based on the industry and location of the underlying investments.
External confirmations: Compared the estimated net asset values for private equity and non-core credit asset to confirmation obtained directly from third parties.
Test of details: Compared the Group's fund managers' historical estimated net asset values to the latest audited financial statements of those funds to assess the Group's ability to accurately estimate the fair value of private equity and non-core credit assets.

Our results
We consider the valuation of the BTPS unquoted plan assets to be acceptable (2019: acceptable).

Valuation of defined benefit obligation of the BT Pension Scheme (BTPS)

BTPS obligation: £53.0 billion (2019: £58.9 billion)
Risk vs 2019: –

Refer to page 78 (Audit & Risk Committee Report), page 162 (note 20 accounting policy Retirement benefits) and pages 161 to 172 (disclosures note 20 Retirement benefit plans).

The risk
Subjective estimate:
Small changes in certain key actuarial assumptions used to determine the BTPS defined benefit obligation, including the life expectancy of the members, price inflation and discount rates, can have a significant impact on the BTPS defined benefit obligation.

The effect of these matters is a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 20) disclose the sensitivity of key assumptions for the obligation estimated by the Group.

Our response – our procedures included:
Benchmarking assumptions: Challenging, with the support of our own actuarial specialists, the life expectancy of the members, price inflation and discount rates used to determine the defined benefit obligation against independently developed assumptions using external market data.

Assessing actuaries' credentials: Evaluated the scope, competency and objectivity of the Group's experts who assisted in determining the actuarial assumptions used to determine the defined benefit obligation.
Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the obligation to these assumptions.

Our results
We found the resulting estimate of the BTPS defined benefit obligation to be acceptable (2019: acceptable).

Accuracy of revenue due to the complexity of the billing systems

Risk vs 2019: –

Refer to pages 137 to 140 (financial disclosures note 5 Revenue).

The risk
Processing error:
BT non-long-term contract revenue consists of a large number of similar low value transactions. The group operates a number of distinct billing systems and the IT landscape underpinning revenue and linking the billing systems together is complex.

There are multiple products sold at multiple rates with varying pricing structures in place. Products represent a combination of service based products, such as fixed line telephony, as well as goods, such as the provision of mobile handsets. There are monthly tariff based charges.

The revenue recognition of non-long term contract revenue is not subject to significant judgement. However, due to the large number of transactions and complexity of the billing systems, these are considered to be the areas that have the greatest effect on our audit.

Our response
Our procedures included:
Process understanding: We obtained an understanding of the revenue processes by observing transactions from customer initiation to cash received for certain revenue streams.
Test of details: Comparing a sample of revenue transactions, including credit notes, to supporting evidence eg customer bills, orders, price lists and cash received (all where applicable).

Our results:
We considered revenue relating to non-long-term contract revenue to be acceptable (2019: acceptable).

Independent auditors' report to the members of BT Group plc continued

Adequacy of regulatory provisions

Regulatory provision £79 million (2019: £182 million)
Risk vs 2019: v

Refer to page 78 (Audit & Risk Committee Report), pages 160 and 161 (financial disclosures note 19 Provisions)

The risk

Subjective estimate

The amounts involved are potentially significant, and the application of accounting standards to estimate the amount, if any, to be provided as a liability is inherently subjective. The key assumptions and judgements relate to the interpretation of the applicable Ofcom regulations, historical and pending claims, and the estimation of the likelihood and cost of settlement. As a result of the provision reducing in the current year following settlement of historic matters, the related risk has decreased.

The effect of these matters is that, as part of our risk assessment, we determined that the regulatory provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Our response

Our procedures included:

Our regulatory expertise: Challenging, with the support of our own regulatory specialists, the Group's estimate of the future economic outflow. Inspecting the Group's correspondence with, and external information from, Ofcom relating to regulatory matters and inspecting a sample of underlying claims.

Historical comparison: Compared the Group's historical regulatory provisions to actual settlements to assess the Group's ability to accurately estimate cost of settlement.

Sensitivity analysis: Performed sensitivity analyses on the estimation of the likelihood and cost of resolution used by the group to estimate regulatory provisions.

Assessing transparency: Assessing whether the Group's disclosures detailing significant regulatory matters adequately disclose the potential liabilities of the Group.

Our results

We consider the provisions recognised to be acceptable (2019: acceptable).

Recoverability of parent company's investment in subsidiaries and loans to group undertakings

Investment in subsidiary £11,024 million (2019: £10,952 million)

Refer to page 195 (accounting policy Investments) and page 195 (financial disclosures note 2 Investments)

Loans to group undertakings £4,234 million (2019: £5,657 million)

Refer to page195 (accounting policy Impairment of financial assets)

The risk

Low risk, high value:

The carrying amount of the parent company's investment in subsidiary and the amount of the loans to group undertakings represent 72% and 28% respectively (2019: 66% and 34% respectively), of the company's total assets as at 31 March 2020.

Their recoverability is not considered a significant risk or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, these are considered to be the areas that had the greatest effect on our overall parent company audit.

Our response

Our procedures included:

Test of detail: Comparing the carrying amount of the parent company's investment and loans to group undertakings, with the relevant subsidiary balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.

Our results

We found the carrying amounts of the investment in subsidiaries and debt due from group entities to be acceptable (2019: acceptable).

We continue to perform procedures over the adequacy of litigation provisions, long-term customer contracts in Global and Enterprise and useful economic lives assigned to internally generated intangible assets. However, as there have not been significant changes in the judgements taken in the current year with regard to each of these areas, we have not assessed these as one of the most significant risks in our current year audit and, therefore, they are not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £115 million (2019: £115 million), determined with reference to a benchmark of Group profit before tax from continuing operations, of which it represents 4.9% (2019: 4.3%).

Materiality for the parent company financial statements as a whole was set at £75 million (2019: £110 million), determined with reference to a benchmark of total assets, of which it represents 0.5% (2019: 0.7%), and chosen to be lower than materiality for the group financial statements as a whole.

We agreed to report to the Audit & Risk Committee any corrected or uncorrected identified misstatements exceeding £5.5 million (2019: £5.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scope of our audit

Of the Group's seven (2019: seven) reporting components (one being the parent company), all (2019: all) were subjected to full scope audits. Work on the Group's entire property, plant and equipment balance was performed by the component auditor of the Technology component on behalf of the Group and component teams.

The components within the scope of our work accounted for the following percentages:

	Group revenue	Group profit before tax	Group total assets
Audits for group reporting purposes	98%	97%	100%
2019	99%	97%	100%

The group team instructed component auditors as to the significant areas to be covered, including the relevant risks identified above and the information to be reported back. In the case of the Technology component, the Group team provided instructions of the audit of account balance to be performed over the property, plant and equipment balance on behalf of the Group and component teams.

The Group team approved the component materialities, which ranged from £40 million to £110 million (2019: £40 million to £110 million), having regard to the mix of size and risk profile of the Group across the components.

The work on all components, excluding the audit of the parent company, was performed by component auditors. The parent company was audited by the Group team. All of the component audit teams were based in the UK. The Group engagement team met frequently in person with the component audit teams as part of the audit planning and completion phases to explain our audit instructions and discuss the component auditors' plans as well as performing more detailed file reviews upon completion of the component auditors' engagements. Telephone conference meetings were also held with these component auditors.

At these meetings with component auditors, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:
- The impact of a highly severe Covid-19 on the Group's customers;
- The impact of a disorderly Brexit;
- The impact of a complete ban on certain high-risk vendors.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as significant service interruptions, a large scale cyber breach or adverse changes to telecoms regulation.

Based on this work, we are required to report to you if:
- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 110 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

Independent auditors' report to the members of BT Group plc continued

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:
- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:
- the directors' confirmation within Viability statement on page 64 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:
- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 110, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, regulations affecting telecommunications providers, and certain aspects of company legislation recognising the financial and regulated nature of the group's activities (reflecting compliance with Ofcom regulation). Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. Further details in respect of regulations over products subject to charge controls and other regulated pricing regimes is set out in the key audit matter disclosures in section 2 of this report.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Antony Cates (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
6 May 2020

Group income statement
Year ended 31 March 2020

	Notes	Before specific items ('Adjusted') £m	Specific items[a] £m	Total (Reported) £m
Revenue	4, 5	22,824	81	22,905
Operating costs	6	(19,213)	(409)	(19,622)
Operating profit (loss)	4	**3,611**	**(328)**	**3,283**
Finance expense	27	(796)	(145)	(941)
Finance income		39	5	44
Net finance expense		**(757)**	**(140)**	**(897)**
Share of post tax profit (loss) of associates and joint ventures		6	(39)	(33)
Profit (loss) before taxation		**2,860**	**(507)**	**2,353**
Taxation	10	(536)	(83)	(619)
Profit (loss) for the year		**2,324**	**(590)**	**1,734**
Earnings per share	11			
Basic		23.5p	(6.0)p	17.5p
Diluted		23.3p	(5.9)p	17.4p

Year ended 31 March 2019

	Notes	Before specific items ('Adjusted') £m	Specific items[a] £m	Total (Reported) £m
Revenue	4, 5	23,459	(31)	23,428
Operating costs	6	(19,613)	(394)	(20,007)
Operating profit (loss)	4	**3,846**	**(425)**	**3,421**
Finance expense	27	(651)	(139)	(790)
Finance income		34	–	34
Net finance expense		**(617)**	**(139)**	**(756)**
Share of post tax profit (loss) of associates and joint ventures		1	–	1
Profit (loss) before taxation		**3,230**	**(564)**	**2,666**
Taxation	10	(619)	112	(507)
Profit (loss) for the year		**2,611**	**(452)**	**2,159**
Earnings per share	11			
Basic		26.3p	(4.5)p	21.8p
Diluted		26.1p	(4.5)p	21.6p

[a] For a definition of specific items, see page 204. An analysis of specific items is provided in note 9.

Group income statement

Year ended 31 March 2018

	Notes	Before specific items ('Adjusted') £m	Specific items[a] £m	Total (Reported) £m
Revenue	4, 5	**23,746**	**(23)**	**23,723**
Operating costs	6	(19,755)	(587)	(20,342)
Operating profit (loss)	4	**3,991**	**(610)**	**3,381**
Finance expense	27	(558)	(218)	(776)
Finance income		12	–	12
Net finance expense		**(546)**	**(218)**	**(764)**
Share of post tax profit (loss) of associates and joint ventures		(1)	–	(1)
Profit (loss) before taxation		**3,444**	**(828)**	**2,616**
Taxation	10	(671)	87	(584)
Profit (loss) for the year		**2,773**	**(741)**	**2,032**
Earnings per share	11			
Basic		27.9p	(7.4)p	20.5p
Diluted		27.8p	(7.4)p	20.4p

[a] For a definition of specific items, see page 204. An analysis of specific items is provided in note 9.

Group statement of comprehensive income

Year ended 31 March

	Notes	**2020 £m**	2019 £m	2018 £m
Profit for the year		**1,734**	**2,159**	**2,032**
Other comprehensive income (loss)				
Items that will not be reclassified to the income statement				
Remeasurements of the net pension obligation	20	4,853	(2,102)	1,684
Tax on pension remeasurements	10	(808)	384	(263)
Items that have been or may be reclassified to the income statement				
Exchange differences on translation of foreign operations	29	40	64	(188)
Fair value movements on available-for-sale assets	29	–	–	11
Fair value movements on assets at fair value through other comprehensive income	29	(5)	3	–
Movements in relation to cash flow hedges:				
– net fair value gains (losses)	29	854	176	(368)
– recognised in income and expense	29	(382)	(18)	277
Tax on components of other comprehensive income that have been or may be reclassified	10, 29	(84)	(41)	1
Other comprehensive income (loss) for the year, net of tax		**4,468**	**(1,534)**	**1,154**
Total comprehensive income (loss) for the year		**6,202**	**625**	**3,186**

Group balance sheet
At 31 March

	Notes	2020 £m	2019 £m	2018 £m
Non-current assets				
Intangible assets	13	13,889	14,385	14,447
Property, plant and equipment	14	18,474	17,835	17,000
Right-of-use assets[a]	15	5,391	–	–
Derivative financial instruments	28	2,229	1,481	1,312
Investments	24	20	54	53
Associates and joint ventures		12	47	38
Trade and other receivables	17	481	445	317
Contract assets	5	279	249	–
Deferred tax assets	10	300	1,347	1,326
		41,075	**35,843**	**34,493**
Current assets				
Programme rights	16	310	310	272
Inventories		300	369	239
Trade and other receivables	17	2,704	3,222	4,014
Contract assets	5	1,442	1,353	–
Assets classified as held for sale	23	268	89	–
Current tax receivable		67	110	77
Derivative financial instruments	28	260	111	197
Investments	24	5,092	3,214	3,022
Cash and cash equivalents	25	1,549	1,666	528
		11,992	**10,444**	**8,349**
Current liabilities				
Loans and other borrowings	26	2,842	2,100	2,281
Derivative financial instruments	28	46	48	50
Trade and other payables	18	5,794	5,790	7,168
Contract liabilities	5	972	1,225	–
Lease liabilities[a]	15	812	–	–
Liabilities classified as held for sale	23	211	–	–
Current tax liabilities		21	15	83
Provisions	19	288	424	603
		10,986	**9,602**	**10,185**
Total assets less current liabilities		**42,081**	**36,685**	**32,657**
Non-current liabilities				
Loans and other borrowings	26	16,492	14,776	11,994
Derivative financial instruments	28	966	892	787
Contract liabilities	5	179	200	–
Lease liabilities[a]	15	5,748	–	–
Retirement benefit obligations	20	1,140	7,182	6,847
Other payables	18	754	1,479	1,326
Deferred tax liabilities	10	1,608	1,407	1,340
Provisions	19	431	582	452
		27,318	**26,518**	**22,746**
Equity				
Share capital		499	499	499
Share premium		1,051	1,051	1,051
Own shares	21	(237)	(167)	(186)
Merger reserve		2,572	4,147	6,647
Other reserves	29	1,119	718	534
Retained earnings		9,759	3,919	1,366
Total equity		**14,763**	**10,167**	**9,911**
		42,081	**36,685**	**32,657**

[a] Right-of-use assets and lease liabilities arise following adoption of IFRS 16 on 1 April 2019. See note 1 to the consolidated financial statements.

The consolidated financial statements on pages 124 to 203 were approved by the Board of Directors on 6 May 2020 and were signed on its behalf by:

Jan du Plessis
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

Group statement of changes in equity

	Notes	Share capital[a] £m	Share premium[b] £m	Own shares[c] £m	Merger reserve[d] £m	Other reserves[e] £m	Retained (loss) earnings £m	Total equity (deficit) £m
At 1 April 2017		**499**	**1,051**	**(96)**	**6,647**	**884**	**(650)**	**8,335**
Profit for the year		–	–	–	–	–	2,032	2,032
Other comprehensive income (loss) – before tax		–	–	–	–	(545)	1,684	1,139
Tax on other comprehensive income (loss)	10	–	–	–	–	1	(263)	(262)
Transferred to the income statement		–	–	–	–	277	–	277
Total comprehensive income (loss) for the year		–	–	–	–	(267)	3,453	3,186
Dividends to shareholders	12	–	–	–	–	–	(1,524)	(1,524)
Share-based payments	22	–	–	–	–	–	84	84
Tax on share-based payments	10	–	–	–	–	–	(2)	(2)
Net buyback of own shares	21	–	–	(90)	–	–	(78)	(168)
Transfers to realised profit		–	–	–	–	(83)	83	–
At 31 March 2018		**499**	**1,051**	**(186)**	**6,647**	**534**	**1,366**	**9,911**
IFRS 15 & 9 opening balance adjustment[f]		–	–	–	–	–	1,308	1,308
Tax on IFRS 15 & 9 opening balance adjustment[f]		–	–	–	–	–	(248)	(248)
At 1 April 2018		**499**	**1,051**	**(186)**	**6,647**	**534**	**2,426**	**10,971**
Profit for the year		–	–	–	–	–	2,159	2,159
Other comprehensive income (loss) – before tax		–	–	–	–	243	(2,102)	(1,859)
Tax on other comprehensive income (loss)	10	–	–	–	–	(41)	384	343
Transferred to the income statement		–	–	–	–	(18)	–	(18)
Total comprehensive income (loss) for the year		–	–	–	–	184	441	625
Dividends to shareholders	12	–	–	–	–	–	(1,503)	(1,503)
Unclaimed Dividend over 10 years		–	–	–	–	–	14	14
Share-based payments	22	–	–	–	–	–	67	67
Tax on share-based payments	10	–	–	–	–	–	–	–
Net buyback of own shares	21	–	–	19	–	–	(23)	(4)
Transfer to realised profit		–	–	–	(2,500)	–	2,500	–
Other movements		–	–	–	–	–	(3)	(3)
At 31 March 2019		**499**	**1,051**	**(167)**	**4,147**	**718**	**3,919**	**10,167**
IFRS 16 opening balance adjustment[f]		–	–	–	–	–	(87)	(87)
Tax on IFRS 16 opening balance adjustment[f]		–	–	–	–	–	16	16
At 1 April 2019		**499**	**1,051**	**(167)**	**4,147**	**718**	**3,848**	**10,096**
Profit for the year		–	–	–	–	–	1,734	1,734
Other comprehensive income (loss) – before tax		–	–	–	–	889	4,853	5,742
Tax on other comprehensive income (loss)	10	–	–	–	–	(84)	(808)	(892)
Transferred to the income statement		–	–	–	–	(382)	–	(382)
Total comprehensive income (loss) for the year		–	–	–	–	423	5,779	6,202
Dividends to shareholders	12	–	–	–	–	–	(1,521)	(1,521)
Unclaimed Dividend over 10 years		–	–	–	–	–	2	2
Share-based payments	22	–	–	–	–	–	72	72
Tax on share-based payments	10	–	–	–	–	–	–	–
Net buyback of own shares	21	–	–	(70)	–	–	(14)	(84)
Transfer to realised profit		–	–	–	(1,575)	(22)	1,597	–
Other movements		–	–	–	–	–	(4)	(4)
At 31 March 2020		**499**	**1,051**	**(237)**	**2,572**	**1,119**	**9,759**	**14,763**

[a] The allotted, called up, and fully paid ordinary share capital of BT Group plc at 31 March 2020 was £499m comprising 9,968,127,681 ordinary shares of 5p each (2019: £499m comprising 9,968,127,681 ordinary shares of 5p each).
[b] The share premium account, comprising the premium on allotment of shares, is not available for distribution.
[c] For further analysis of own shares, see note 21.
[d] The merger reserve balance at 1 April 2017 includes £998m related to the group reorganisation that occurred in November 2001 and represented the difference between the nominal value of shares in the new parent company, BT Group plc, and the aggregate of the share capital, share premium account and capital redemption reserve of the prior parent company, British Telecommunications plc. In addition, on 29 January 2016, the company issued 1,594,900,429 ordinary shares of 5p at 470.7p per share. These shares were used as part consideration for the acquisition of EE. As a result of this transaction the merger reserve was credited with £7,424m net of £3m issue costs. Following settlement of intercompany loans by qualifying consideration of £1,575m and (2018/19: £2,500m), equivalent balances were transferred from merger reserve to realised profit.
[e] For further analysis of other reserves, see note 29.
[f] Opening retained earnings adjusted following adoption of IFRS 15 & 9 on 1 April 2018 and IFRS 16 on 1 April 2019. See note 1 to the consolidated financial statements for further detail on the impact of adopting IFRS 16.

Group cash flow statement
Year ended 31 March

	Notes	2020 £m	2019 £m	2018 £m
Cash flow from operating activities				
Profit before taxation		2,353	2,666	2,616
Share of post tax (profit) loss of associates and joint ventures		33	(1)	1
Net finance expense		897	756	764
Operating profit		3,283	3,421	3,381
Other non-cash charges[a]		209	(112)	33
Loss (profit) on disposal of businesses		36	5	(1)
Profit on disposal of property, plant and equipment		(115)	–	–
Depreciation and amortisation		4,274	3,546	3,514
Decrease (increase) in inventories		69	(138)	(14)
Decrease (increase) in programme rights		33	49	(34)
Decrease (increase) in trade and other receivables[b]		163	(58)	(156)
Decrease (increase) in contract assets		(119)	15	–
Increase (decrease) in trade and other payables		144	57	(345)
Decrease in contract liabilities		(236)	(72)	–
Decrease in other liabilities[c]		(1,182)	(1,934)	(775)
Decrease in provisions		(78)	(92)	(203)
Cash generated from operations		**6,481**	**4,687**	**5,400**
Income taxes paid		(210)	(431)	(473)
Net cash inflow from operating activities		**6,271**	**4,256**	**4,927**
Cash flow from investing activities				
Interest received		30	23	7
Dividends received from associates and joint ventures		1	–	–
Acquisition of subsidiaries[d]		–	–	(16)
Proceeds on disposal of subsidiaries[d], associates and joint ventures		60	23	2
Acquisition of associates and joint ventures		(8)	(9)	(9)
Proceeds on disposal of current financial assets[e]		12,000	12,887	11,134
Purchases of current financial assets[e]		(13,877)	(13,088)	(12,629)
Proceeds on disposal of non-current asset investments[f]		33	1	19
Proceeds on disposal of property, plant and equipment		216	41	21
Purchases of property, plant and equipment and software		(4,105)	(3,678)	(3,362)
Net cash outflow from investing activities		**(5,650)**	**(3,800)**	**(4,833)**
Cash flow from financing activities				
Equity dividends paid		(1,520)	(1,504)	(1,523)
Interest paid[g]		(736)	(531)	(555)
Repayment of borrowings[h]		(1,111)	(1,423)	(1,401)
Proceeds from bank loans and bonds		2,843	3,972	3,760
Payment of lease liabilities[g]		(651)	–	–
Cash flows from derivatives related to net debt		452	124	(188)
Proceeds from issue of own shares		2	5	53
Repurchase of ordinary share capital		(86)	(9)	(221)
Net cash inflow (outflow) from financing activities		**(807)**	**634**	**(75)**
Net increase (decrease) in cash and cash equivalents		**(186)**	**1,090**	**19**
Opening cash and cash equivalents[i]		1,594	499	511
Net increase (decrease) in cash and cash equivalents		(186)	1,090	19
Effect of exchange rate changes		1	5	(31)
Closing cash and cash equivalents[i]	25	**1,409**	**1,594**	**499**

a Other non-cash charges include £58m goodwill impairment charge on assets associated with our domestic operations in France and selected domestic operations and infrastructure in 16 countries in Latin America that were classified as held for sale during the period. See note 23.
b Includes a prepayment of £nil (2018/19: £nil, 2017/18: £325m) in respect of the acquisition of Spectrum.
c Includes pension deficit payments of £1,274m (2018/19: £2,024m, 2017/18: £872m).
d Acquisitions and disposals of subsidiaries are shown net of cash acquired or disposed of.
e Primarily consists of investment in and redemption of amounts held in liquidity funds.
f Relates to sale of a fair value through equity investment in 2019/20 and 2018/19, and assets held for sale classified within trade and other receivables in 2017/18.
g Payment of lease liabilities relates to the principal element of lease liabilities recognised following adoption of IFRS 16 on 1 April 2019. Interest on lease liabilities is included within 'Interest paid'. See note 1 to the consolidated financial statements.
h Repayment of borrowings includes the impact of hedging and repayment of finance lease liabilities in 2018/19 and 2017/18.
i Net of bank overdrafts of £183m (2018/19: £72m, 2017/18: £29m).

Notes to the consolidated financial statements

1. Basis of preparation

Preparation of the financial statements

These consolidated financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards (IFRS), Article 4 of the IAS Regulation and International Accounting Standards (IAS) and IFRS and related interpretations, as adopted by the European Union. The consolidated financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board (the IASB) and interpretations as issued by the IFRS Interpretations Committee. The consolidated financial statements are prepared on a going concern basis.

These financial statements consolidate BT Group plc, the parent company, and its subsidiaries (together the 'group', 'us', 'we' or 'our').

The consolidated financial statements are prepared on the historical cost basis, except for certain financial and equity instruments that have been measured at fair value. The consolidated financial statements are presented in sterling, the functional currency of BT Group plc.

New and amended accounting standards effective during the year

We adopted IFRS 16 'Leases' for the first time on 1 April 2019. The standard has had a significant impact on the financial statements.

Background

IFRS 16 replaces IAS 17 'Leases' and related interpretations. The standard requires lessees to recognise right-of-use assets and lease liabilities for all leases meeting the lease definition set out by the standard unless certain exemptions are available. Accounting for lessors is largely unchanged.

We have recognised arrangements previously disclosed as operating lease commitments at 31 March 2019 on the balance sheet. The key driver is our portfolio of leased land and buildings, the majority of which were previously recognised off balance sheet following a sale and operating leaseback transaction in 2001. Cell and switch site leases represent another material element, due to the long lease terms associated with these arrangements. We have also recognised lease liabilities in respect of certain arrangements that were previously accounted for as service contracts because they did not meet the IAS 17 lease definition. These relate predominantly to dark fibre and data centre capacity.

Transition

We chose to adopt IFRS 16 on a modified retrospective basis. On transition, we recognised lease liabilities by discounting remaining payments payable under lease arrangements using an appropriate incremental borrowing rate. We recognised right-of-use assets equivalent to the corresponding lease liabilities, adjusted for pre-existing prepaid lease payments, accrued lease expenses, and related onerous lease and decommissioning provisions.

We have recognised the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 1 April 2019, i.e. the date of initial application. Prior year comparatives have not been restated for the effect of IFRS 16 and continue to be reported under IAS 17.

Practical expedients and exemptions

We have elected to make use of the following practical expedients and exemptions available under IFRS 16:

- Where appropriate, onerous lease provisions in existence at the date of initial adoption have been derecognised and applied against the corresponding right-of-use assets as a proxy for impairment.
- Initial direct costs have been excluded when measuring right-of-use assets recognised on initial adoption.
- Hindsight has been used in assessing the lease term on initial adoption.
- Low-value leases and short-term leases are excluded from the IFRS 16 accounting model, i.e. they are accounted for as operating expenditure.
- Leases of intangible assets such as software continue to be accounted for under IAS 38 'Intangible Assets'.
- Where practicable, and by class of underlying asset, arrangements containing both lease components and non-lease components are accounted for as though they comprise a single lease component.

Financial Impact

BT as lessee

In the prior year Annual Report we estimated that lease liabilities totalling £5.6bn – £6.6bn would be recognised on adoption of IFRS 16. Actual liabilities recognised on transition were £6.1bn (£6.3bn including pre-existing finance leases), which were measured by discounting remaining lease payments using the group's incremental borrowing rate. The weighted-average rate applied was 2.2%.

The corresponding right-of-use assets recognised were £5.2bn. The difference to lease liabilities predominantly relates to accruals for rent inflation associated with operating leases which were previously classified as trade and other payables, but which have been reclassified to the corresponding right-of-use assets on transition to IFRS 16.

The reconciliation of operating lease commitments disclosed at 31 March 2019 to lease liabilities recognised at 1 April 2019 is as follows:

	£m
Operating lease commitments disclosed as at 31 March 2019[a]	**6,619**
Arrangements not considered to be a lease under IAS 17 & IFRIC 4	74
Adjustments as a result of different treatment of extension & termination options	437
Short-term & low value leases recognised as an expense on a straight-line basis	(8)
Effect of discounting under the group's incremental borrowing rate	(901)
Other[b]	(158)
Additional lease liabilities recognised as a result of IFRS 16	**6,063**
Existing finance leases	206
Total lease liabilities recognised as at 1 April 2019	**6,269**

[a] BT Group plc Annual Report 2019, note 30 (page 171).
[b] Other primarily represents leases between BT Group plc and MBNL, of which BT's share is eliminated for consolidation purposes, but which had been shown gross in operating lease commitments disclosed as at 31 March 2019.

Notes to the consolidated financial statements continued

1. Basis of preparation continued

Application of IFRS 16 to lessee accounting resulted in an immaterial adjustment to retained earnings at 1 April 2019. This adjustment related to the impairment of right-of-use assets that were impaired on transition, and the release of onerous lease provisions previously recognised in respect of these arrangements.

We have presented right-of-use assets and the current and non-current elements of lease liabilities on the face of the consolidated balance sheet. Additionally, to support the additional lessee accounting disclosure requirements introduced by IFRS 16 we have added a dedicated note (note 15) which explains movements in the right-of-use assets during the year, along with other relevant disclosures, accounting policies and judgements.

The cash flow statement has been revised to present the element of cash lease payments attributable to lease interest expense and the element attributable to repayment of lease liabilities within cash flows from financing activities.

BT as lessor

Lessor accounting is substantially unchanged under IFRS 16 and adoption of the standard has not had a material impact on the accounting for arrangements previously identified as leases.

The revised lease definition introduced by IFRS 16 has however required us to evaluate whether there are any arrangements that are now in scope of the standard and should therefore be accounted for as leases. The areas requiring the greatest judgement concern arrangements to provide external communications providers (CPs) with use of the group's fixed-line telecommunications infrastructure. We have concluded that arrangements that provide CPs with the exclusive use of the underlying infrastructure generally contain leases. This primarily includes "last mile" connections used by Openreach to provide CPs with connectivity to their customers' premises, along with other fibre products such as Ethernet. It also includes wholesale fixed network access arrangements sold by Enterprise.

The accounting for ongoing rentals is unchanged under IFRS 16, however upfront connections fees are now deferred over the lease term rather than the contractual period.

For Openreach's last mile arrangements, the lease term is longer than the current contractual deferral period as it also covers the duration that we are 'reasonably certain' that CPs will retain the use of the line beyond the initial contractual period. Based on evaluation of historic connection churn rates we have assessed this period as being 6 months for all last mile arrangements except for FTTP, which is 12 months. Additional deferred income has been recognised in respect of active arrangements at the transition date, and a corresponding adjustment has been made to retained earnings. This has not had a material impact on the balance sheet or income statement.

The introduction of IFRS 16 has not had a material impact on the deferral of connection fees in regard to Openreach's other fibre products and Enterprise's wholesale fixed network access arrangements.

We continue to present income from these arrangements within revenue in the income statement as they relate to the group's core business activities. We have included additional disclosures in the revenue note (note 5) clarifying our accounting policy for operating lease income and the proportion of our revenue generated from arrangements that meet the definition of operating leases.

Products sold to end users by our consumer and enterprise units which make use of fixed-line telecommunications infrastructure are not considered to contain leases because the customer does not control the use of the underlying infrastructure.

Opening balance adjustments

The transition method we have chosen in adopting IFRS 16 means we do not restate comparative information for the impact of the standard. We have instead adjusted the 1 April 2019 balance sheet to reflect the impact on opening retained earnings.

Set out below is the impact on the balance sheet of the transition to IFRS 16.

	At 31 March 2019 £m	IFRS 16 opening balance adjustment £m	At 1 April 2019 £m
Non-current assets			
Right-of-use assets	–	5,155	5,155
Intangible assets[a]	14,385	(70)	14,315
Property, plant and equipment[a]	17,835	(34)	17,801
Deferred tax assets[b]	1,347	2	1,349
Other non-current assets	2,276	–	2,276
	35,843	**5,053**	**40,896**
Current assets			
Trade and other receivables[c]	3,222	(50)	3,172
Other current assets	7,222	–	7,222
	10,444	**(50)**	**10,394**
Current liabilities			
Lease liabilities	–	725	725
Loans and other borrowings[a]	2,100	(16)	2,084
Trade and other payables[d]	5,790	91	5,881
Contract liabilities[d]	1,225	(34)	1,191
Provisions[f]	424	(17)	407
Other current liabilities	63	–	63
	9,602	**749**	**10,351**
Total assets less current liabilities	**36,685**	**4,254**	**40,939**
Non-current liabilities			
Lease liabilities	–	5,544	5,544
Loans and other borrowings[a]	14,776	(190)	14,586
Contract liabilities[d]	200	(12)	188
Other payables[d,e]	1,479	(825)	654
Provisions[f]	582	(192)	390
Other non-current liabilities	9,481	–	9,481
	26,518	**4,325**	**30,843**
Equity			
Retained earnings[g]	3,919	(71)	3,848
All other reserves and equity	6,248	–	6,248
Total equity	**10,167**	**(71)**	**10,096**
	36,685	**4,254**	**40,939**

a Finance lease assets and liabilities reclassified to right-of-use asset and lease liabilities respectively.
b Deferred tax recognised on retained earnings adjustment for deferral of connection fees associated with 'last mile' arrangements.
c Trade and other receivables adjusted to reclassify lease prepayments to the corresponding right-of-use assets.
d Contract liabilities recognised in respect of 'last mile' arrangements reclassified to trade and other payables.
e Other payables adjusted to reclassify accruals for rent inflation associated with operating leases to the corresponding right-of-use assets.
f Onerous lease provisions reclassified to the corresponding right-of-use assets or released to retained earnings.
g Retained earnings adjusted to recognise deferred income in respect of connection fees received for 'last mile' arrangements, and to reflect impairment of right-of-use assets and release of corresponding onerous lease provisions.

1. Basis of preparation continued

Other standards

The following amended standards and interpretations were also effective during the year, however, they have not had a significant impact on our consolidated financial statements.

- IFRIC 23 Uncertainty over Income Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards.

New and amended accounting standards that have been issued but are not yet effective

The following new or amended standards and interpretations are applicable in future periods but are not expected to have a significant impact on the consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

Presentation of specific items

Our income statement and segmental analysis separately identify trading results before specific items ('adjusted'). The directors believe that presentation of our results in this way is relevant to an understanding of our 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 *Executive Committee* and assists in providing a meaningful analysis of our trading results. 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.

Specific items may not be comparable to similarly titled measures used by other companies. 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. We have also included the impacts of Covid-19 on various balance sheet items as at 31 March 2020 as specific. The impact of Covid-19 on underlying trading is recognised in our underlying (adjusted) results and not as a specific item.

Specific items for the current and prior years are disclosed in note 9.

Adjustments to prior year disclosures due to internal reorganisations

We have restated prior year comparatives presented in the segment information and revenue notes (notes 4 and 5) for the following organisational changes.

From 1 April 2019 we changed the allocation of group overhead costs and transferred the Emergency Services Network contract from Consumer to Enterprise. This has had the following impact on 2019 and 2018 comparatives:

- Segment revenue increased by £104m and £64m in Enterprise in the years ended 31 March 2019 and 2018 respectively, with corresponding decreases in Consumer. All revenue related to the equipment and other services classification.
- Adjusted EBITDA increased by £321m in Openreach and £23m in Other and decreased by £203m in Consumer, £80m in Enterprise and £61m in Global in the year ended 31 March 2019; and increased by £318m in Openreach and decreased by £171m in Consumer, £82m in Enterprise, £60m in Global and £5m in Other in the year ended 31 March 2018.
- Depreciation and amortisation decreased by £70m in Openreach and increased by £6m in Consumer, £56m in Enterprise and £8m in Global in the year ended 31 March 2019; and decreased by £71m in Openreach and increased by £21m in Consumer, £41m in Enterprise, £8m in Global and £1m in Other in the year ended 31 March 2018.
- Operating profit increased by £391m in Openreach and £23m in Other and decreased by £209m in Consumer, £136m in Enterprise and £69m in Global in the year ended 31 March 2019; and increased by £389m in Openreach and decreased by £192m in Consumer, £123m in Enterprise, £68m in Global and £6m in Other in the year ended 31 March 2018.
- Intangible assets decreased by £4m and £12m in Consumer in the years ended 31 March 2019 and 31 March 2018 respectively; with corresponding increases in Enterprise.
- Property, plant and equipment decreased by £46m and £93m in Consumer in the years ended 31 March 2019 and 31 March 2018 respectively; with corresponding increases in Enterprise.

On 1 October 2018 we transferred our Northern Ireland Networks business from Enterprise to Openreach, and at the same time we reclassified certain internal revenues generated by our Ventures businesses as segmental revenue rather than an internal recovery of cost. This had the following impact on 2018 comparatives:

- Segment revenue, Adjusted EBITDA and Operating profit in Openreach increased by £155m, £95m, and £54m and segment revenue, Adjusted EBITDA and Operating profit in Enterprise decreased by £117m, £95m and £54m respectively.
- Segment revenue and internal revenue increased by £224m in Enterprise as a result of reclassification of internal revenues generated by our Ventures businesses as segmental revenue rather than as internal recovery of cost.
- Internal revenue increased by £38m in Openreach.
- Property, plant and equipment in Enterprise decreased by £41m; with a corresponding increase in Openreach.

Notes to the consolidated financial statements continued

2. Critical accounting estimates and key judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying our accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. Management has discussed its critical accounting estimates and associated disclosures with the *Audit and Risk Committee*. The areas involving a higher degree of judgement or complexity are described in the applicable notes to the financial statements. Critical accounting estimates and key judgements can be identified throughout the notes by the following symbol .

We have the following critical accounting estimates (E) and key judgements (J):

- Current and deferred income tax, see note 10 (E, J).
- Goodwill impairment, see note 13 (E, J).
- Government grants relating to Building Digital UK (BDUK) contracts, see note 14 (J).
- Reasonable certainty and determination of lease terms, see note 15 (J).
- Provisions and contingent liabilities, see note 19 (E, J).
- Pension obligations, see note 20 (E, J).

Judgements made in assessing the impact of Covid-19 on the financial statements

We have exercised judgement in evaluating the impact of Covid-19 on the financial statements. A number of areas have been recognised as being potentially affected. These are identified throughout the notes by the following symbol .

- The impact on our contract loss provisions, see notes 5, 19 & 31.
- Impairment of contract assets, see note 5.
- One-off charges arising from Covid-19 meeting the criteria for classification as specific items, see note 9.
- Impact on future cash flows included within our value in use calculations used in impairment assessments, see note 13.
- Impact on reasonable certainty used in determining the lease term, see note 15.
- Retirement benefit plans, see note 20.
- Programme rights assets and commitments affected by postponement or cancellation of events, see notes 16 & 31.
- Assumptions within our expected credit losses on trade receivables, see note 17.
- Impact on hedge effectiveness for any cash flow hedges if cash flows are no longer 'highly probable', see note 28.
- Contingent liabilities, see note 31.

3. Significant accounting policies that apply to the overall financial statements

The significant accounting policies applied in the preparation of our consolidated financial statements are set out below. Other significant accounting policies applicable to a particular area are disclosed in the most relevant note. We have applied all policies consistently to all the years presented, unless otherwise stated.

Basis of consolidation

The group financial statements consolidate the financial statements of BT Group plc and its subsidiaries, and include its share of the results of associates and joint ventures using the equity method of accounting. The group recognises its direct rights to (and its share of) jointly held assets, liabilities, revenues and expenses of joint operations under the appropriate headings in the consolidated financial statements.

All business combinations are accounted for using the acquisition method regardless of whether equity instruments or other assets are acquired. No material acquisitions were made in the year.

A subsidiary is an entity that is controlled by another entity, known as the parent or investor. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Non-controlling interests in the net assets of consolidated subsidiaries, which consist of the amounts of those interests at the date of the original business combination and non-controlling share of changes in equity since the date of the combination, are not material to the group's financial statements.

The results of subsidiaries acquired or disposed of during the year are consolidated from and up to the date of change of control. Where necessary, accounting policies of subsidiaries have been aligned with the policies adopted by the group. All intra-group transactions including any gains or losses, balances, income or expenses are eliminated in full on consolidation.

When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The profit or loss on disposal is recognised as a specific item.

Inventories

Network maintenance equipment and equipment to be sold to customers are stated at the lower of cost or net realisable value, taking into account expected revenue from the sale of packages comprising a mobile handset and a subscription. Cost corresponds to purchase or production cost determined by either the first in first out (FIFO) or average cost method.

Government grants

Government grants are recognised when there is reasonable assurance that the conditions associated with the grants have been complied with and the grants will be received.

Grants for the purchase or production of property, plant and equipment are deducted from the cost of the related assets and reduce future depreciation expense accordingly. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Estimates and judgements applied in accounting for government grants received in respect of the BDUK programme and other rural superfast broadband contracts are described in note 14.

3. Significant accounting policies that apply to the overall financial statements continued

Once a government grant is recognised, any related deferred income is treated in accordance with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions and the translation of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are recognised in the income statement line which most appropriately reflects the nature of the item or transaction.

On consolidation, assets and liabilities of foreign undertakings are translated into sterling at year end exchange rates. The results of foreign undertakings are translated into sterling at average rates of exchange for the year (unless this average is not a reasonable approximation of the cumulative effects of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Foreign exchange differences arising on the retranslation of foreign undertakings are recognised directly in a separate component of equity, the translation reserve.

In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference associated with the undertaking in the translation reserve is charged or credited to the gain or loss on disposal recognised in the income statement.

Research and development

Research expenditure is recognised in the income statement in the period in which it is incurred. Development expenditure, including the cost of internally developed software, is recognised in the income statement in the period in which it is incurred unless it is probable that economic benefits will flow to the group from the asset being developed, the cost of the asset can be reliably measured and technical feasibility can be demonstrated, in which case it is capitalised as an intangible asset on the balance sheet.

Capitalisation ceases when the asset being developed is ready for use. Research and development costs include direct and indirect labour, materials and directly attributable overheads.

Termination benefits

Termination benefits (leaver costs) are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. We recognise termination benefits when they are demonstrably committed to the affected employees leaving the group.

4. Segment information

Significant accounting policies that apply to segment information

Operating and reportable segments

Our operating segments are reported based on financial information provided to the *Executive Committee*, which is the key management committee and represents the 'chief operating decision maker'.

Our organisational structure reflects the different customer groups to which we provide communications products and services via our customer-facing units: Consumer, Enterprise, Global and Openreach. The customer-facing units are supported by an internal service unit, Technology, and corporate units including procurement and property management.

The customer-facing units are our reportable segments and generate substantially all of our revenue. Technology and the group's corporate units are not reportable segments as they did not meet the quantitative thresholds as set out in IFRS 8 'Operating Segments' for any of the years presented.

We aggregate the remaining operations and include within the 'Other' category to reconcile to the consolidated results of the group. The 'Other' category includes unallocated Technology costs and our corporate units.

Allocation of certain items to segments

Provisions for the settlement of significant legal, commercial and regulatory disputes, which are negotiated at a group level, are initially recorded in the 'Other' segment. On resolution of the dispute, the full impact is recognised in the results of the relevant customer-facing unit and offset in the group results through the utilisation of the provision previously charged to the 'Other' segment. Settlements which are particularly significant or cover more than one financial year may fall within the definition of specific items as detailed in note 9.

The costs incurred by Technology and corporate units are recharged to the customer-facing units to reflect the services it provides to them. Depreciation and amortisation incurred by Technology in relation to the networks and systems it manages and operates on behalf of the customer-facing units is allocated to the customer-facing units based on their respective utilisation. Capital expenditure incurred by Technology for specific projects undertaken on behalf of the customer-facing units is allocated based on the value of the directly attributable expenditure incurred. Where projects are not directly attributable to a particular customer-facing unit, capital expenditure is allocated between them based on the proportion of estimated future economic benefits.

Notes to the consolidated financial statements continued

4. Segment information continued

Specific items are detailed in note 9 and are not allocated to the reportable segments as this reflects how they are reported to the *Executive Committee*. Finance expense and income are not allocated to the reportable segments, as the central treasury function manages this activity, together with the overall net debt position of the group.

Measuring segment performance
Performance of each reportable segment is measured based on adjusted EBITDA. EBITDA is defined as the group profit or loss before interest, taxation, depreciation and amortisation. Adjusted EBITDA is defined as EBITDA before specific items, net non-interest related finance expense, and share of profits or losses of associates and joint ventures. Adjusted EBITDA is considered to be a useful measure of the operating performance of the customer-facing units because it approximates the underlying operating cash flow by eliminating depreciation and amortisation and also provides a meaningful analysis of trading performance by excluding specific items, which are disclosed separately by virtue of their size, nature or incidence.

Revenue recognition
Our revenue recognition policy is set out in the following note.

Internal revenue and costs
Most of our internal trading relates to Openreach and arises on rentals, and any associated connection or migration charges, of the UK access lines and other network products to the customer-facing units, including the use of BT Ireland's network. This occurs both directly, and also indirectly, through Technology which is included within the 'Other' segment. Enterprise internal revenue arises from Consumer for mobile Ethernet access and Technology for transmission planning services. Internal revenue arising in Consumer relates primarily to employee broadband and wi-fi services. Intra-group revenue generated from the sale of regulated products and services is based on market price. Intra-group revenue from the sale of other products and services is agreed between the relevant customer-facing units and therefore the profitability of customer-facing units may be impacted by transfer pricing levels.

Geographic segmentation
The UK is our country of domicile and we generate the majority of our revenue from external customers in the UK. The geographic analysis of revenue is based on the country of origin in which the customer is invoiced. The geographic analysis of non-current assets, which exclude derivative financial instruments, investments and deferred tax assets, is based on the location of the assets.

Segment revenue and profit
As explained in note 1, from 1 April 2019 we changed the allocation of group overhead costs and transferred the Emergency Services Network contract from Consumer to Enterprise. The prior year comparatives presented in this note have been restated to reflect these changes.

Year ended 31 March 2020 (IFRS 15 & 16)	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Segment revenue	10,388	6,093	4,361	5,112	1	25,955
Internal revenue	(102)	(276)	–	(2,753)	–	(3,131)
Revenue from external customers[a]	**10,286**	**5,817**	**4,361**	**2,359**	**1**	**22,824**
Adjusted EBITDA[b]	**2,426**	**1,965**	**634**	**2,858**	**24**	**7,907**
Depreciation and amortisation[a]	(1,278)	(719)	(479)	(1,712)	(108)	(4,296)
Operating profit (loss)[a]	**1,148**	**1,246**	**155**	**1,146**	**(84)**	**3,611**
Specific items (note 9)						(328)
Operating profit						**3,283**
Net finance expense[c]						(897)
Share of post tax profit (loss) of associates and joint ventures						(33)
Profit before tax						**2,353**

a Before specific items.
b Adjusted EBITDA, defined as EBITDA before specific items, net non-interest related finance expense, and share of profits or losses of associates and joint ventures.
c Net finance expense includes specific item expense of £140m (2018/19: £139m, 2017/18: £218m). See note 9.
d 2018 and 2019 comparatives have been restated to reflect the change in allocation of group overhead costs and transfer of the Emergency Services Network contract from Consumer to Enterprise on 1 April 2019; and 2018 comparatives have also been restated for the transfer of our Northern Ireland Networks business from Enterprise to Openreach and reclassification of internal revenue generated by our Ventures business from 1 October 2018. See note 1.

4. Segment information continued

Year ended 31 March 2019 (restated[d]) (IFRS 15 & IAS 17)	Consumer[d] £m	Enterprise[d] £m	Global[d] £m	Openreach[d] £m	Other[d] £m	Total £m
Segment revenue	10,591	6,396	4,735	5,075	3	26,800
Internal revenue	(107)	(359)	–	(2,875)	–	(3,341)
Revenue from external customers[a]	**10,484**	**6,037**	**4,735**	**2,200**	**3**	**23,459**
Adjusted EBITDA[b]	**2,331**	**1,910**	**444**	**2,744**	**(37)**	**7,392**
Depreciation and amortisation[a]	(1,030)	(690)	(378)	(1,398)	(50)	(3,546)
Operating profit (loss)[a]	**1,301**	**1,220**	**66**	**1,346**	**(87)**	**3,846**
Specific items (note 9)						(425)
Operating profit						**3,421**
Net finance expense[c]						(756)
Share of post tax profit (loss) of associates and joint ventures						1
Profit before tax						**2,666**

Year ended 31 March 2018 (restated[d]) (IAS 18 & IAS 17)	Consumer[d] £m	Enterprise[d] £m	Global[d] £m	Openreach[d] £m	Other[d] £m	Total £m
Segment revenue	10,296	6,711	5,013	5,278	8	27,306
Internal revenue	(103)	(441)	–	(3,016)	–	(3,560)
Revenue from external customers[a]	**10,193**	**6,270**	**5,013**	**2,262**	**8**	**23,746**
Adjusted EBITDA[b]	**2,205**	**1,995**	**374**	**2,933**	**(2)**	**7,505**
Depreciation and amortisation[a]	(1,013)	(676)	(432)	(1,330)	(63)	(3,514)
Operating profit (loss)[a]	**1,192**	**1,319**	**(58)**	**1,603**	**(65)**	**3,991**
Specific items (note 9)						(610)
Operating profit						**3,381**
Net finance expense[c]						(764)
Share of post tax profit (loss) of associates and joint ventures						(1)
Profit before tax						**2,616**

a Before specific items.
b Adjusted EBITDA, defined as EBITDA before specific items, net non-interest related finance expense, and share of profits or losses of associates and joint ventures.
c Net finance expense includes specific item expense of £140m (2018/19: £139m, 2017/18: £218m). See note 9.
d 2018 and 2019 comparatives have been restated to reflect the change in allocation of group overhead costs and transfer of the Emergency Services Network contract from Consumer to Enterprise on 1 April 2019; and 2018 comparatives have also been restated for the transfer of our Northern Ireland Networks business from Enterprise to Openreach and reclassification of internal revenue generated by our Ventures business from 1 October 2018. See note 1.

Internal revenue and costs

	Internal cost recorded by					
Year ended 31 March 2020	**Consumer £m**	**Enterprise £m**	**Global £m**	**Openreach £m**	**Other £m**	**Total £m**
Internal revenue recorded by						
Consumer	–	63	21	–	18	102
Enterprise	64	–	54	86	72	276
Global	–	–	–	–	–	–
Openreach	846	379	97	–	1,431	2,753
Total	**910**	**442**	**172**	**86**	**1,521**	**3,131**

	Internal cost recorded by					
Year ended 31 March 2019	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Internal revenue recorded by						
Consumer	–	69	20	–	18	107
Enterprise	63	–	51	177	68	359
Global	–	–	–	–	–	–
Openreach	920	401	112	–	1,442	2,875
Total	**983**	**470**	**183**	**177**	**1,528**	**3,341**

Notes to the consolidated financial statements continued

4. Segment information continued

	Internal cost recorded by					
Year ended 31 March 2018 (restated[a])	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Internal revenue recorded by						
Consumer	–	65	20	–	18	103
Enterprise[a]	130	–	51	173	87	441
Global	–	–	–	–	–	–
Openreach[a]	896	480	125	–	1,515	3,016
Total	**1,026**	**545**	**196**	**173**	**1,620**	**3,560**

a 2018 comparatives have been restated to reflect the transfer of our Northern Ireland Networks business from Enterprise to Openreach and reclassification of internal revenue generated by our Ventures business from 1 October 2018. See note 1.

Capital expenditure

Year ended 31 March 2020	**Consumer £m**	**Enterprise £m**	**Global £m**	**Openreach £m**	**Other £m**	**Total £m**
Intangible assets[a]	291	218	123	103	55	790
Property, plant and equipment[b]	657	283	100	2,005	125	3,170
Capital expenditure	**948**	**501**	**223**	**2,108**	**180**	**3,960**

Year ended 31 March 2019 (restated[c])	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Intangible assets[a,c]	272	184	93	82	49	680
Property, plant and equipment[b,c]	672	367	152	1,999	93	3,283
Capital expenditure	**944**	**551**	**245**	**2,081**	**142**	**3,963**
Acquisition of spectrum[a]	–	–	–	–	304	304
Capital expenditure including spectrum	**944**	**551**	**245**	**2,081**	**446**	**4,267**

Year ended 31 March 2018 (restated[c])	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Intangible assets[a,c]	224	192	92	70	64	642
Property, plant and equipment[b,c]	590	405	186	1,629	70	2,880
Capital expenditure	**814**	**597**	**278**	**1,699**	**134**	**3,522**

a Additions to intangible assets as presented in note 13.
b Additions to property, plant and equipment as presented in note 14, inclusive of movement on engineering stores.
c 2018 and 2019 comparatives have been restated to reflect the transfer of the Emergency Services Network contract from Consumer to Enterprise on 1 April 2019; and 2018 comparatives have also been restated for the transfer of our Northern Ireland Networks business from Enterprise to Openreach from 1 October 2018. See note 1.

Geographic segmentation

Revenue from external customers

Year ended 31 March	**2020 £m**	2019 £m	2018 £m
UK	19,401	19,683	19,687
Europe, Middle East and Africa, excluding the UK	1,904	2,280	2,489
Americas	924	936	996
Asia Pacific	595	560	574
Revenue[a]	**22,824**	**23,459**	**23,746**

a Before specific items.

Non-current assets

At 31 March	**2020 £m**	2019 (restated[b]) £m	2018 £m
UK	35,597	30,295	28,835
Europe, Middle East and Africa, excluding the UK	2,347	2,218	2,527
Americas	384	338	331
Asia Pacific	198	110	109
Non-current assets[a]	**38,526**	**32,961**	**31,802**

a Comprising the following balances presented in the group balance sheet: intangible assets; property, plant and equipment; right-of-use assets; investments in associates and joint ventures; trade and other receivables and contract assets.
b 2019 comparatives restated to include contract assets totalling £249m.

5. Revenue

Significant accounting policies that apply to revenue

Revenue from contracts with customers in scope with IFRS 15

Most revenue recognised by the group is in scope of IFRS 15 and is subject to the following revenue recognition policy.

On inception of the contract we identify a “performance obligation” for each of the distinct goods or services we have promised to provide to the customer. The consideration specified in the contract with the customer is allocated to each performance obligation identified based on their relative standalone selling prices, and is recognised as revenue as they are satisfied.

The table below summarises the performance obligations we have identified for our major service lines and provides information on the timing of when they are satisfied and the related revenue recognition policy. Also detailed in this note is revenue expected to be recognised in future periods for contracts in place at 31 March 2020 that contain unsatisfied performance obligations.

Service line	Performance obligations	Revenue recognition policy
ICT and managed networks	Provision of networked IT services, managed network services, and arrangements to design and build software solutions. Performance obligations are identified for each distinct service or deliverable for which the customer has contracted, and are considered to be satisfied over the time period that we deliver these services or deliverables. Commitments to provide hardware to customers that are distinct from the other promises are considered to be satisfied at the point in time that control passes to the customer.	Revenue for services is recognised over time using a measure of progress that appropriately reflects the pattern by which the performance obligation is satisfied. For time and material contracts, revenue is recognised as the service is received by the customer. Where performance obligations exist for the provision of hardware, revenue is recognised at the point in time that the customer obtains control of the promised asset. For long-term fixed price contracts revenue recognition will typically be based on the achievement of contract milestones and customer acceptance.
Fixed access subscriptions	Provision of broadband, TV and fixed telephony services including local, national and international calls, connections, line rental, and calling features. Performance obligations exist for each ongoing service provided to the customer and are satisfied over the period that the services are provided. Installation services are recognised as distinct performance obligations if their relationship with the other services in the contract is purely functional. These are satisfied when the customer benefits from the service. Connection services are not distinct performance obligations and are therefore combined with the associated service performance obligation.	Fixed subscription charges are recognised as revenue on a straight line basis over the period that the services are provided. Upfront charges for non-distinct connection and installation services are deferred as contract liabilities and are recognised as revenue over the same period. Variable charges such as call charges are recognised when the related services are delivered. Where installation activities are distinct performance obligations, revenue is recognised at the point in time that the installation is completed.
Mobile subscriptions	Provision of mobile postpaid and prepaid services, including voice minutes, SMS, and data services. Performance obligations exist for each ongoing service provided to the customer and are satisfied over the period that the services are provided.	Subscription fees, consisting primarily of monthly charges for access to broadband and other internet access or voice and data services, are recognised as the service is provided. One-off services such as calls outside of plan and excess data usage are recognised when the service is used.
Equipment and other services	Provision of equipment and other services, including mobile phone handsets and hardware such as set top boxes and broadband routers provided as part of customer contracts. Performance obligations are satisfied at the point in time that control passes to the customer. For other services, performance obligations are identified based on the distinct goods and services we have committed to provide.	Revenue from equipment sales is recognised at the point in time that control passes to the customer. Where payment is not received in full at the time of the sale, such as with equipment provided as part of mobile and fixed access subscriptions, contract assets are recognised for the amount due from the customer that will be recovered over the contract period. Revenue to be recognised is calculated by reference to the relative standalone selling price of the equipment. For other services, revenue is recognised when the related performance obligations are satisfied, which could be over time or at a point in time depending on the nature of the service.

We recognise revenue based on the relative standalone selling price of each performance obligation. Determining the standalone selling price often requires judgement and may be derived from regulated prices, list prices, a cost-plus derived price, or the price of similar products when sold on a standalone basis by BT or a competitor. In some cases it may be appropriate to use the contract price when this represents a bespoke price that would be the same for a similar customer in a similar circumstance.

The fixed element of fixed access and mobile subscription arrangements sold by our Consumer business is typically payable in advance, with any variable or one-off charges billed in arrears. Payment is received immediately for direct sales of equipment to customers. Where equipment is provided to customers under mobile and fixed access subscription arrangements, payment for the equipment is received over the course of the contract term. For sales by our enterprise businesses, invoices are issued in line with contractual terms. Payments received in advance are recognised as contract liabilities, amounts billed in arrears are recognised as contract assets.

Notes to the consolidated financial statements continued

5. Revenue continued

We do not have any material obligations in respect of returns, refunds or warranties. Where we act as an agent in a transaction, we recognise commission net of directly attributable costs. Where the actual and estimated costs to completion of the contract exceed the estimated revenue, a loss is recognised immediately.

We exercise judgement in assessing whether the initial set-up, transition and transformation phases of long-term contracts are distinct from the other services to be delivered under the contract and therefore represent distinct performance obligations. This determines whether revenue is recognised in the early stages of the contract, or deferred until delivery of the other services promised in the contract begins.

We recognise immediately the entire estimated loss for a contract when we have evidence that the contract is unprofitable. If these estimates indicate that any contract will be less profitable than previously forecast, contract assets may have to be written down to the extent they are no longer considered to be fully recoverable. We perform ongoing profitability reviews of our contracts in order to determine whether the latest estimates are appropriate. Key factors reviewed include:

- Transaction volumes or other inputs affecting future revenues which can vary depending on customer requirements, plans, market position and other factors such as general economic conditions.
- Our ability to achieve key contract milestones connected with the transition, development, transformation and deployment phases for customer contracts.
- The status of commercial relations with customers and the implications for future revenue and cost projections.
- Our estimates of future staff and third-party costs and the degree to which cost savings and efficiencies are deliverable.
- Whether Covid-19 will have an impact on the assumptions listed above, including our future revenue projections, our ability to complete our contractual work on time, and our assessment of whether our force majeure contract clauses will prevent any contract penalties.

Revenue from lease arrangements in scope of IFRS 16

As set out in note 1, some arrangements to provide external communications providers with exclusive use of fixed-network telecommunications infrastructure previously accounted for as service contracts under IFRS 15 now meet the definition of operating leases under IFRS 16. During the year we changed the terms and conditions of some consumer broadband and TV products which resulted in devices such as routers provided to customers now meeting the definition of operating leases. Associated income continues to be classified as revenue as these arrangements are core business activities.

At inception of a contract, we determine whether the contact is, or contains a lease following the accounting policy set out in note 15. Arrangements meeting the definition of a lease in which we act as lessor are classified as operating or finance leases at lease inception based on an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case then the lease is a finance lease; if not, it is an operating lease.

Income from arrangements classified as operating leases is presented as revenue where it relates to our core operating activities, for example leases of fixed-line telecommunications infrastructure to external communications providers and leases of devices to consumer customers as part of fixed access subscription products. Operating lease income from other arrangements is presented within other operating income (note 6).

We recognise lease payments as income on a straight-line basis over the lease term. Any upfront payments received, such as connection fees, are deferred over the lease term. Determining the lease term is subject to the significant judgements set out in note 15.

Where the contract contains both lease and non-lease components, the transaction price is allocated between the components on the basis of relative stand-alone selling price.

Income from arrangements classified as finance leases is not material to the group.

5. Revenue continued

Disaggregation of revenue

The following table disaggregates revenue by our major service lines and by reportable segment. The 2018 comparatives have not been restated for the adoption of IFRS15 in 2019 and are presented under IAS 18.

Year ended 31 March 2020 (IFRS 15)	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
ICT and managed networks	–	2,207	2,199	–	–	4,406
Fixed access subscriptions	4,443	2,007	352	2,293	–	9,095
Mobile subscriptions	3,807	1,199	84	–	–	5,090
Equipment and other services	2,036	404	1,726	66	1	4,233
Revenue before specific items	**10,286**	**5,817**	**4,361**	**2,359**	**1**	**22,824**
Specific items (note 9)						81
Revenue						**22,905**

Year ended 31 March 2019 (restated) (IFRS 15)	Consumer[a] £m	Enterprise[a] £m	Global £m	Openreach £m	Other £m	Total £m
ICT and managed networks	–	2,236	2,613	–	–	4,849
Fixed access subscriptions	4,564	2,181	362	2,135	–	9,242
Mobile subscriptions	3,866	1,277	130	–	–	5,273
Equipment and other services	2,054	343	1,630	65	3	4,095
Revenue before specific items	**10,484**	**6,037**	**4,735**	**2,200**	**3**	**23,459**
Specific items (note 9)						(31)
Revenue						**23,428**

[a] On 1 April 2019 we transferred the Emergency Services Network contract from Consumer to Enterprise which resulted in a decrease in revenue in Consumer; and a corresponding increase in Enterprise. 2019 comparatives have been restated to reflect this transfer, see note 1.

Year ended 31 March 2018 (IAS 18)	£m
ICT and managed networks	5,530
Broadband and TV	4,655
Mobile	6,451
Calls, lines and connections	5,126
Transit	265
Other products and services	1,719
Revenue before specific items	**23,746**
Specific items (note 9)	(23)
Revenue	**23,723**

Revenue expected to be recognised in future periods for performance obligations that are not complete (or are partially complete) as at 31 March 2020 is £13,750m (31 March 2019: £14,296m). Of this, £8,191m (31 March 2019: £9,425m) relates to ICT and managed services contracts and equipment and other services which will substantially be recognised as revenue within 3 years. Fixed access and mobile subscription services typically have shorter contract periods and so £5,559m (31 March 2019: £4,871m) will substantially be recognised as revenue within two years.

Revenue recognised this year relating to performance obligations that were satisfied, or partially satisfied, in previous years was not material. Revenue related to customers' unexercised rights (for example, unused amounts on prepaid SIM cards) was not material.

Operating lease income

Presented within revenue is £2,297m income from arrangements classified as operating leases under IFRS 16 and which represent core business activities for the group. Income relates predominantly to Openreach's leases of fixed-line telecommunications infrastructure to external communications providers which is classified as fixed access subscription revenue in the table above.

During the year we also recognised £41m operating lease income from non-core business activities which is presented in other operating income (note 6). This income relates primarily to sub-leases of unutilised properties.

Note 15 presents an analysis of payments to be received across the remaining term of operating lease arrangements.

Notes to the consolidated financial statements continued

5. Revenue continued

Contract assets and liabilities

Significant accounting policies that apply to contract assets and liabilities

We recognise contract assets for goods and services for which control has transferred to the customer before consideration is due. These assets mainly relate to mobile handsets provided upfront but paid for over the course of a contract. Contract assets are reclassified as receivables when the right to payment becomes unconditional and we have billed the customer.

Contract liabilities are recognised when we have received advance payment for goods and services that we have not transferred to the customer. These primarily relate to fees received for connection and installation services that are not distinct performance obligations.

Where the initial set-up, transition or transformation phase of a long-term contract is considered to be a distinct performance obligation we recognise a contract asset for any work performed but not billed. Conversely a contract liability is recognised where these activities are not distinct performance obligations and we receive upfront consideration. In this case eligible costs associated with delivering these services are capitalised as fulfilment costs, see note 17.

We provide for expected lifetime losses on contract assets following the policy set out in note 17.

Contract assets and liabilities recognised are as follows:

Year ended 31 March	**2020 £m**	2019 £m
Contract assets		
Current	1,442	1,353
Non-current	279	249
	1,721	**1,602**
Contract liabilities		
Current[a]	972	1,225
Non-current[a]	179	200
	1,151	**1,425**

a Contract liabilities recognised at 31 March 2019 include balances relating to Openreach, the majority of which are now presented as trade and other payables following adoption of IFRS 16 on 1 April 2019, see note 1.

£1,094m of the contract liability recognised at 31 March 2019 was recognised as revenue during the year (2018/19: £1,216m). Impairment losses of £59m were recognised on contract assets during the year (2018/19: £36m).

These impairment losses included £21m of impairments to contract assets recognised at 31 March 2020 reflecting increased expected credit losses above our standard provisioning policies as a result of Covid-19. This increase above our standard contract loss provisioning policies was recorded as a specific item (note 9).

6. Operating costs

Year ended 31 March	Notes	2020 £m	2019 £m	2018 £m
Operating costs by nature				
Staff costs:				
Wages and salaries		4,203	4,264	4,229
Social security costs		426	440	461
Other pension costs	20	626	611	624
Share-based payment expense	22	72	67	84
Total staff costs		**5,327**	**5,382**	**5,398**
Own work capitalised		(903)	(834)	(798)
Net staff costs		**4,424**	**4,548**	**4,600**
Net indirect labour costs[a]		354	267	315
Net labour costs		**4,778**	**4,815**	**4,915**
Product costs and sales commissions[f]		4,440	4,464	4,429
Payments to telecommunications operators		1,749	2,059	2,306
Property and energy costs		1,004	1,325	1,285
Network operating and IT costs		898	1,026	963
TV programme rights charges		870	841	763
Provision and installation[f]		604	624	657
Marketing and sales[f]		303	322	317
Other operating costs[f]		494	831	830
Other operating income		(223)	(240)	(224)
Depreciation of property, plant and equipment:				
Owned assets	14	2,452	2,390	2,381
Right-of-use assets[d,e]	15	671		
Held under finance leases[d]		–	2	10
Amortisation of intangible assets	13	1,173	1,154	1,123
Total operating costs before specific items		**19,213**	**19,613**	**19,755**
Specific items	9	409	394	587
Total operating costs		**19,622**	**20,007**	**20,342**
Operating costs before specific items include the following:				
Leaver costs[b]		15	17	50
Research and development expenditure[c]		662	643	632
Operating lease charges[d]		–	801	732
Foreign currency gains		(12)	(11)	–
Inventories recognised as an expense		2,447	2,388	2,588
Government grants		–	(3)	(3)

[a] Net of capitalised indirect labour costs of £675m (2018/19: £672m, 2017/18: £612m).
[b] Leaver costs are included within wages and salaries, except for leaver costs of £197m (2018/19: £257m, 2017/18: £168m) associated with restructuring costs, which have been recorded as specific items.
[c] Research and development expenditure reported in the income statement includes amortisation of £599m (2018/19: £581m, 2017/18: £573m) in respect of capitalised development costs and operating expenses of £63m (2018/19: £62m, 2017/18: £59m). In addition, the group capitalised software development costs of £476m (2018/19: £472m, 2017/18: £450m).
[d] Depreciation on right-of-use assets recognised following adoption of IFRS 16 on 1 April 2019, see note 1. Depreciation recognised in the current year includes depreciation on assets held under finance lease in previous years, which have been reclassified as right-of-use assets on transition to IFRS 16.
[e] Excludes £22m reversal of impairment on right-of-use assets presented as a specific item which relate to assets impaired on adoption of IFRS16.
[f] Included within 'other operating costs' in 2017/18 were costs relating to product costs and commissions; provision and installation; and marketing and sales. These are presented separately in 2018/19 and 2019/20. The 'other operating costs' comparative for 2017/18 has been re-presented for consistency, consistent with the 2019 Annual Report.

Who are our key management personnel and how are they compensated?

Key management personnel comprise executive and non-executive directors and members of the *Executive Committee.*

Compensation of key management personnel is shown in the table below:

Year ended 31 March	2020 £m	2019 £m	2018 £m
Short-term employee benefits	9.6	13.5	11.8
Post employment benefits[a]	1.0	1.2	1.3
Share-based payments	7.1	5.0	6.2
Termination benefits	–	0.6	2.2
	17.7	**20.3**	**21.5**

[a] Post employment benefits comprise cash pension allowances paid to the chief executive and chief financial officer. The group does not contribute to defined contribution or defined benefit pension schemes on behalf of key management personnel.

Key management personnel are compensated solely in the form of cash and share-based payments. During the current and prior years, key management personnel made no gains from exercise of share options. No cash bonuses were awarded in 2019/20 (2018/19 £3.8m, 2017/18: £3.2m) as these have been deferred and will be issued in shares in 2021.

Notes to the consolidated financial statements continued

7. Employees

Number of employees in the group[a]	2020 Year end 000	2020 Average 000	2019 Year end 000	2019 Average 000	2018 Year end 000	2018 Average 000
UK	82.6	82.8	84.3	83.4	82.2	82.5
Non-UK	22.7	22.6	22.4	23.1	23.6	23.7
Total employees	**105.3**	**105.4**	**106.7**	**106.5**	**105.8**	**106.2**

Number of employees in the group[a]	2020 Year end 000	2020 Average 000	2019 Year end 000	2019 Average 000	2018 Year end 000	2018 Average 000
Consumer	19.6	19.7	19.7	19.0	18.2	18.0
Enterprise[b]	12.2	12.8	13.4	13.8	13.2	13.5
Global	16.3	16.5	16.6	16.8	16.9	17.3
Openreach[b]	35.0	34.1	33.2	31.9	31.2	31.1
Other	22.2	22.3	23.8	25.0	26.3	26.3
Total employees	**105.3**	**105.4**	**106.7**	**106.5**	**105.8**	**106.2**

a These reflect the full-time equivalent of full and part-time employees.
b The 2018 comparative was restated in the prior year to reflect the change in segments and the transfer of Northern Ireland Networks, as described in note 1.

8. Audit, audit related and other non-audit services

The following fees were paid or are payable to the company's auditors, KPMG LLP and other firms in the KPMG network, for the years ended 31 March 2020 and 2019. Figures in the table below for the year ended 31 March 2018 are in respect of fees paid to the company's previous auditors, PricewaterhouseCoopers LLP.

Year ended 31 March	2020 £000	2019 £000	2018 £000
Fees payable to the company's auditors and its associates for:			
Audit services[a]			
The audit of the parent company and the consolidated financial statements	10,546	8,165	5,418
The audit of the company's subsidiaries	6,315	6,061	5,877
	16,861	**14,226**	**11,295**
Audit related assurance services[b]	**2,416**	**2,236**	**1,771**
Other non-audit services			
All other assurance services[c]	228	748	211
All other services[d]	247	210	592
	475	**958**	**803**
Total services	**19,752**	**17,420**	**13,869**

a Services in relation to the audit of the parent company and the consolidated financial statements, including fees for reports under section 404 of the Sarbanes-Oxley Act. This also includes fees payable for the statutory audits of the financial statements of subsidiary companies. This excludes amounts for the audit of BT Group Employee Share Ownership Trust and Ilford Trustees (Jersey) Limited amounting to £20,000 (2018/19: £32,000).
b Services in relation to other statutory filings or engagements that are required by law or regulation to be carried out by an appointed auditor. This includes fees for the review of interim results, the accrued fee for the audit of the group's regulatory financial statements and fees for reporting associated with the group's US debt shelf registration before de-registration from the New York Stock Exchange in November 2019.
c All other assurance services in 2018/19 include fees payable to KPMG LLP for agreed upon procedures performed on the estimated impact of the new IFRS 15 revenue accounting standard, which took effect from 1 April 2018, for the 2017/18 PricewaterhouseCoopers LLP audit.
d Fees payable for all non-audit services not included above, principally comprising other advisory services. This does not include fees for BT's I4 forum membership, which is facilitated by KPMG but not considered to be a service.

The BT Pension Scheme is an associated pension fund as defined in the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011. In the year ended 31 March 2020 KPMG LLP received total fees from the BT Pension Scheme of £0.8m (2018/19: £1.1m, PricewaterhouseCoopers LLP: 2017/18: £2.1m) in respect of the following services:

Year ended 31 March	2020 £000	2019 £000	2018 £000
Audit of financial statements of associates	819	1,005	345
Audit-related assurance services	9	53	–
Taxation compliance services	–	–	153
Taxation advisory services	–	–	1,074
Other non-audit services	2	62	565
Total services	**830**	**1,120**	**2,137**

9. Specific items

Significant accounting policies that apply to specific items

We separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence (termed 'specific items'). Specific items are used to derive the adjusted results as presented in the consolidated income statement presented on page 124. Adjusted results are consistent with the way that financial performance is measured by management and assist in providing an additional analysis of the reporting of the trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. 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, retrospective regulatory matters, 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 items meet the criteria, which are applied consistently from year to year, they are treated as specific items. We have also included the impacts of Covid-19 on various balance sheet items as at 31 March 2020 as specific. The impact of Covid-19 on underlying trading is recognised in our underlying (adjusted) results and not as a specific item.

Year ended 31 March	2020 £m	2019 £m	2018 £m
Revenue			
Retrospective regulatory matters	(81)	31	23
	(81)	**31**	**23**
Operating costs			
Restructuring charges	322	386	287
Divestment-related items	199	5	(1)
Covid-19	95	–	–
Property rationalisation	(131)	36	28
Spectrum annual licence fee refund	(82)	–	–
Retrospective regulatory matters	9	(4)	26
Italian business investigation	2	(55)	22
Provision for claims	(5)	–	–
Pension equalisation costs	–	26	–
EE acquisition warranty claims	–	–	225
	409	**394**	**587**
Operating loss	**328**	**425**	**610**
Net finance expense			
Interest expense on retirement benefit obligation	145	139	218
Interest on spectrum annual license fee refund	(5)	–	–
	140	**139**	**218**
Associates and joint ventures	39	–	–
Net specific items charge before tax	**507**	**564**	**828**
Taxation			
Tax credit on specific items above	(73)	(112)	(87)
Tax charge on re-measurement of deferred tax	156	–	–
	83	**(112)**	**(87)**
Net specific items charge after tax	**590**	**452**	**741**

Notes to the consolidated financial statements continued

9. Specific items continued

Restructuring charges
During the year we incurred charges of £322m (2018/19: £386m, 2017/18: £287m), primarily relating to leaver costs. These costs reflect projects within our group-wide cost transformation programme. Of this £8m (2018/19: £29m; 2017/18: £46m) relates to the completion of our EE integration activities and £22m (2018/9: £23m; 2017/2018: nil) costs to close the BT Pension Scheme and provide transition payments to affected employees.

Divestment-related items
During the year we entered into agreements to sell our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. These divestments are expected to complete in financial year 2020/21. We have classified the assets and liabilities of these operations as held for sale at the lower of their carrying amount and fair value less costs to sell, which has resulted in an impairment charge of £127m relating to the France and Latin America divestments. See note 23.

In addition we have recognised losses on disposal of £36m (2018/19: £5m) relating to the completed divestments of BT Fleet Solutions and Tikit, and £36m of costs relating to ongoing divestment projects.

Covid-19
During the year we recognised one-off charges of £95m relating to the impact of Covid-19 on various balance sheet items as at 31 March 2020. This comprises an £88m increase in our expected credit loss provisions for receivables due from customers and contract assets, and £7m contract loss provisions in respect of revenue contracts that are expected to become loss-making as a result of Covid-19 impacts.

Should we recover the amounts owed, for which we have provided, this recovery would be reversed back through the income statement as a specific item.

Property rationalisation costs
We have recognised a net credit of £(131)m (2018/19: charge £36m, 2017/18: charge £28m) relating to the rationalisation of the group's property portfolio under our Better Workplace Programme including the gain on sale of BT Centre of £115m.

Spectrum annual licence fee refund
In May 2019 we received a payment of £87m from Ofcom, relating to overpaid fees that were charged during the period 2015-2017 under the previous 2015 fees regulation that was quashed by the Court of Appeal in 2017. Ofcom obtained permission to appeal the judgment to the Court of Appeal and in February 2020 the Court of Appeal ruled in our favour. Ofcom have informed us that they are not planning to pursue an appeal to the Supreme Court and we have therefore released our £87m provision and recognised this in the income statement as a specific item including interest on the refund of £5m.

Retrospective regulatory matters
We have recognised a net credit of £(72)m (2018/19: charge £27m, 2017/18: charge £49m) in relation to regulatory matters. This reflects the settlement of various matters. Of this, £(81)m credit is recognised in revenue and £9m charge in operating costs.

Italian business investigation
During the year we recognised £2m costs relating to the historical investigation in our Italian business (2018/19: a credit of £(55)m, 2017/18: a charge of £22m).

Provision for claims
We have recognised a credit of £5m (2018/19: £nil) in relation to release of provisions for claims created through specific items in 2012/13 which have now been fully settled.

Pension equalisation costs
During 2018/19 we recognised a charge of £26m in relation to the high court requirement to equalise pension benefits between men and women due to guaranteed minimum pension (GMP).

EE acquisition warranty claims
In 2017/18 we reached settlements with Deutsche Telekom and Orange in respect of any warranty claims under the 2015 EE acquisition agreement, arising from the issues previously announced regarding our operations in Italy. This represents a full and final settlement of these issues and resulted in a specific item charge of £225m.

Interest expense on retirement benefit obligation
During the year we incurred £145m (2018/19: £139m, 2017/18: £218m) of interest costs in relation to our defined benefit pension obligations. See note 20 for more details.

Associates and joint ventures
Following renegotiation of a contract, an amount of £39m (2018/19: £nil, 2017/18: £nil) owed by an associate has been determined irrecoverable. The resulting impairment has been recognised as a specific item.

Tax on specific items
A net tax charge of £83m (2018/19: credit of £112m, 2017/18: credit of £87m) was recognised in relation to specific items. During the period, legislation was enacted to maintain the UK corporation tax rate at 19% (see note 10). Accordingly the group has re-measured its deferred tax balances which has resulted in a charge of £156m.

10. Taxation

Significant accounting policies that apply to taxation

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the group's subsidiaries, associates and joint ventures operate and generate taxable income. We periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establish provisions where appropriate on the basis of the amounts expected to be paid to tax authorities.

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amount of our assets and liabilities and their tax base. Deferred tax is determined using tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised. Deferred tax balances for which there is a right of offset within the same jurisdiction are presented net on the face of the group balance sheet as permitted by IAS 12, with the exception of deferred tax related to our pension schemes which is disclosed within deferred tax assets.

Critical accounting judgements and key estimates made in accounting for taxation

We seek to pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws are unclear, and it can take many years to agree an outcome with a tax authority or through litigation. We estimate our tax on country-by-country and issue-by-issue bases. Our key uncertainties are whether EE's tax losses will be available to us, whether our intra-group trading model will be accepted by a particular tax authority and whether intra-group payments are subject to withholding taxes. We provide for the predicted outcome where an outflow is probable, but the agreed amount can differ materially from our estimates. Approximately 82% by value of the provisions are under active tax authority examination and are therefore likely to be re-estimated or resolved in the coming 12 months. £191m (2018/19: £252m) is included in current tax liabilities in relation to these uncertainties.

Under a downside case an additional amount of £556m could be required to be paid, of which £474m would relate to EE losses. This amount is not provided as we don't consider this outcome to be probable.

Deciding whether to recognise deferred tax assets is judgemental. We only recognise them when we consider it is probable that they can be recovered. In making this judgement we consider evidence such as historical financial performance, future financial plans and trends, the duration of existing customer contracts and whether our intra-group pricing model has been agreed by the relevant tax authority.

The value of the group's income tax assets and liabilities is disclosed on the group balance sheet on page 126. The value of the group's deferred tax assets and liabilities is disclosed below.

Analysis of our taxation expense for the year

Year ended 31 March	**2020 £m**	2019 £m	2018 £m
United Kingdom			
Corporation tax at 19% (2018/19: 19%, 2017/18: 19%)	(495)	(434)	(578)
Adjustments in respect of earlier years	41	(9)	37
Non-UK taxation			
Current	(58)	(74)	(66)
Adjustments in respect of earlier years	(1)	15	23
Total current tax expense	**(513)**	**(502)**	**(584)**
Deferred taxation			
Origination and reversal of temporary differences	55	(20)	46
Adjustments in respect of earlier years	–	2	(57)
Impact of change in UK corporation tax rate to 19% (2018/19: 17%, 2017/18: 17%)	(156)	–	–
Remeasurement of temporary differences	(5)	13	11
Total deferred taxation (expense) credit	**(106)**	**(5)**	**–**
Total taxation expense	**(619)**	**(507)**	**(584)**

Notes to the consolidated financial statements continued

10. Taxation continued

Factors affecting our taxation expense for the year

The taxation expense on the profit for the year differs from the amount computed by applying the UK corporation tax rate to the profit before taxation as a result of the following factors:

Year ended 31 March	**2020 £m**	2019 £m	2018 £m
Profit before taxation	**2,353**	**2,666**	**2,616**
Expected taxation expense at UK rate of 19% (2018/19: 19%, 2017/18: 19%)	(447)	(506)	(497)
Effects of:			
(Higher) lower taxes on non-UK profits	(5)	(7)	(8)
Net permanent differences between tax and accounting[a]	(40)	(36)	(100)
Adjustments in respect of earlier years[b]	40	8	3
Prior year non-UK losses used against current year profits	11	21	16
Non-UK losses not recognised[c]	(17)	–	(9)
Other deferred tax assets not recognised	–	–	–
Lower taxes on profit on disposal of business	–	–	–
Re-measurement of deferred tax balances	(161)	13	11
Other non-recurring items	–	–	–
Total taxation expense	**(619)**	**(507)**	**(584)**
Exclude specific items (note 9)	83	(112)	(87)
Total taxation expense before specific items	**(536)**	**(619)**	**(671)**

a Includes income that is not taxable or UK income taxable at a different rate, and expenses for which no tax relief is received. Examples include some types of depreciation and amortisation and the benefit of R&D tax incentives.
b Reflects the differences between initial accounting estimates and tax returns submitted to tax authorities, including the release and establishment of provisions for uncertain tax positions.
c Reflects losses made in countries where it has not been considered appropriate to recognise a deferred tax asset, as future taxable profits are not probable.

Tax components of other comprehensive income

Year ended 31 March	**2020 Tax credit (expense) £m**	2019 Tax credit (expense) £m	2018 Tax credit (expense) £m
Tax on items that will not be reclassified to the income statement			
Pension remeasurements	(808)	384	(263)
Tax on items that have been or may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations	(4)	(4)	(9)
Fair value movements on cash flow hedges	–	–	–
– net fair value gains or losses	(80)	(37)	57
– recognised in income and expense	–	–	(47)
	(892)	**343**	**(262)**
Current tax credit[a]	267	395	203
Deferred tax (expense) credit	(1,159)	(52)	(465)
	(892)	**343**	**(262)**

a Includes £271m (2018/19: £391m, 2017/18: £212m) relating to cash contributions made to reduce retirement benefit obligations.

Tax (expense) credit recognised directly in equity

Year ended 31 March	**2020 £m**	2019 £m	2018 £m
Tax (expense) credit relating to share-based payments	**–**	**–**	**(2)**

10. Taxation continued

Deferred taxation

	Fixed asset temporary differences £m	Retirement benefit obligations[a] £m	Share-based payments £m	Tax losses £m	Other £m	Jurisdictional offset £m	Total £m
At 1 April 2018	1,460	(1,166)	(7)	(183)	(90)	–	14
Expense (credit) recognised in the income statement	(60)	(59)	1	114	(1)	–	(5)
Expense (credit) recognised in other comprehensive income	–	15	–	–	37	–	52
Expense (credit) recognised in equity	–	–	(1)	–	–	–	(1)
Exchange differences	–	–	1	(1)	–	–	–
At 1 April 2019	**1,400**	**(1,210)**	**(6)**	**(70)**	**(54)**	**–**	**60**
Non-current							
Deferred tax asset	(27)	(1,210)	(6)	(70)	(54)	20	(1,347)
Deferred tax liability	1,427	–	–	–	–	(20)	1,407
Tax on IFRS 16 opening balance adjustment	(2)	–	–	–	–	–	(2)
Deferred tax asset	(29)	(1,210)	(6)	(70)	(54)	20	(1,349)
Deferred tax liability	1,427	–	–	–	–	(20)	1,407
At 1 April 2019	**1,398**	**(1,210)**	**(6)**	**(70)**	**(54)**	**–**	**58**
Expense (credit) recognised in the income statement	191	(46)	(1)	2	(40)	–	106
Expense (credit) recognised in other comprehensive income	–	1,079	–	–	80	–	1,159
Exchange difference	1	1	–	2	(1)	–	3
Transfer to held for sale (note 23)	–	–	–	–	(4)	–	(4)
Transfer from current tax	–	–	–	–	(14)	–	(14)
At 31 March 2020	**1,590**	**(176)**	**(7)**	**(66)**	**(33)**	**–**	**1,308**
Non-current							
Deferred tax asset	(17)	(176)	(7)	(66)	(33)	(1)	(300)
Deferred tax liability	1,607	–	–	–		1	1,608
At 31 March 2020	**1,590**	**(176)**	**(7)**	**(66)**	**(33)**	**–**	**1,308**

a Includes a deferred tax asset of £1m (2018/19: £2m, 2017/18: £2m) arising on contributions payable to defined contribution pension plans.

The majority of the deferred tax assets and liabilities noted above are anticipated to be realised after more than 12 months.

What factors affect our future tax charges?

A UK corporation tax rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. As deferred tax assets and liabilities are measured at the rates that are expected to apply in the periods of the reversal, deferred tax balances at 31 March 2020 have been calculated at the rate at which the relevant balance is expected to be recovered or settled. The impact to the income statement is £156m charge, and £110m credit to other comprehensive income.

What are our unrecognised tax losses and other temporary differences?

At 31 March 2020 we had operating losses and other temporary differences carried forward in respect of which no deferred tax assets were recognised amounting to £4.2bn (2018/19: £4.2bn). Our other temporary differences have no expiry date restrictions. The expiry date of operating losses carried forward is dependent upon the tax law of the various territories in which the losses arose. A summary of expiry dates for losses in respect of which restrictions apply is set out below:

At 31 March 2020	£m	Expiry
Restricted losses		
Europe	1	2019-2038
Americas	256	2019-2038
Other	3	2019-2038
Total restricted losses	**260**	
Unrestricted operating losses	3,827	No expiry
Other temporary differences	98	No expiry
Total	**4,185**	

Notes to the consolidated financial statements continued

10. Taxation continued

At 31 March 2020 we had UK capital losses carried forward in respect of which no deferred tax assets were recognised amounting to £16.9bn (2018/19: £16.9bn). These losses have no expiry date, but we consider the future utilisation of significant amounts of these losses to be remote.

At 31 March 2020 the undistributed earnings of non-UK subsidiaries were £2.5bn (2018/19: £2.5bn). No deferred tax liabilities have been recognised in respect of these unremitted earnings because the group is in a position to control the timing of any dividends from subsidiaries and hence any tax consequences that may arise. Under current tax rules, tax of £19.9m (2018/19: £18.2m) would arise if these earnings were to be repatriated to the UK. On 31 January 2020, the United Kingdom withdrew from the European Union and entered into a transition period, during which the United Kingdom will apply all EU laws and rules which formed part of the withdrawal agreement. Depending upon the outcome of negotiations, at the end of the transition period, the UK could cease to benefit from the EU's Parent Subsidiary directive on dividends paid by our EU subsidiaries. In this event, additional tax of up to £23.1m could arise if the undistributed earnings of EU subsidiaries of £878m were to be repatriated to the UK.

11. Earnings per share

How is earnings per share calculated?

Basic earnings per share is calculated by dividing the profit after tax attributable to equity shareholders by the weighted average number of shares in issue after deducting the own shares held by employee share ownership trusts and treasury shares.

In calculating the diluted earnings per share, share options outstanding and other potential shares have been taken into account where the impact of these is dilutive. Options over 36m shares (2018/19: 36m shares, 2017/18: 23m shares) were excluded from the calculation of the total diluted number of shares as the impact of these is antidilutive.

Year ended 31 March	**2020**	2019	2018
Basic weighted average number of shares (millions)	9,885	9,912	9,911
Dilutive shares from share options (millions)	–	6	2
Dilutive shares from executive share awards (millions)	80	57	48
Diluted weighted average number of shares (millions)	**9,965**	**9,975**	**9,961**
Basic earnings per share	17.5p	21.8p	20.5p
Diluted earnings per share	17.4p	21.6p	20.4p

The earnings per share calculations are based on profit after tax attributable to equity shareholders of the parent company which excludes non-controlling interests. Profit after tax was £1,734m (2018/19: £2,159m, 2017/18: £2,032m) and profit after tax attributable to non-controlling interests was £2m (2018/19: £3m, 2017/18: £4m). Profit attributable to non-controlling interests is not presented separately in the financial statements as it is not material.

12. Dividends

What dividends have been paid?

No final dividend is proposed in respect of the year ended 31 March 2020 (2018/19: 10.78p). An interim dividend of 4.62p per share amounting to £457m was paid on 3 February 2020 (2018/19: full year dividend 15.4p amounting to approximately £1,527m, 2017/18: full year dividend 15.4p amounting to approximately £1,524m).

The amount of £1,521m (2018/19: £1,503m, 2017/18: £1,524m) for total dividends paid in the year is disclosed in our statement of changes in equity and analysed below. This value may differ from the amount shown for equity dividends paid in the group cash flow statement, which represents the actual cash paid in relation to dividend cheques that have been presented over the course of the financial year.

	2020		2019		2018	
Year ended 31 March	**pence per share**	**£m**	pence per share	£m	pence per share	£m
Final dividend in respect of the prior year	10.78	1,064	10.55	1,045	10.55	1,044
Interim dividend in respect of the current year	4.62	457	4.62	458	4.85	480
	15.40	**1,521**	**15.17**	**1,503**	**15.40**	**1,524**

13. Intangible assets

Significant accounting policies that apply to intangible assets

We recognise identifiable intangible assets where we control the asset, it is probable that future economic benefits attributable to the asset will flow to the group, and we can reliably measure the cost of the asset. We amortise all intangible assets, other than goodwill, over their useful economic life. The method of amortisation reflects the pattern in which the assets are expected to be consumed. If the pattern cannot be determined reliably, the straight line method is used.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the identifiable net assets (including intangible assets) of the acquired business. Our goodwill impairment policy is set out later in this note.

Acquired intangible assets – customer relationships and brands

Intangible assets such as customer relationships or brands acquired through business combinations are recorded at fair value at the date of acquisition and subsequently carried at amortised cost. Assumptions are used in estimating the fair values of these relationships or brands and include management's estimates of revenue and profits to be generated by them.

Telecommunications licences

Licence fees paid to governments, which permit telecommunications activities to be operated for defined periods, are initially recorded at cost and amortised from the time the network is available for use to the end of the licence period or where our usage can extend beyond the initial licence period, over the period we expect to benefit from the use of the licences, which is typically 20 years. Licences acquired through business combinations are recorded at fair value at the date of acquisition and subsequently carried at amortised cost. The fair value is based on management's assumption of future cash flows using market expectations at acquisition date.

Computer software

Computer software comprises computer software licences purchased from third parties, and also the cost of internally developed software. Computer software licences purchased from third parties are initially recorded at cost. We only capitalise costs directly associated with the production of internally developed software, including direct and indirect labour costs of development, where it is probable that the software will generate future economic benefits, the cost of the asset can be reliably measured and technical feasibility can be demonstrated, in which case it is capitalised as an intangible asset on the balance sheet. Costs which do not meet these criteria and research costs are expensed as incurred.

Our development costs which give rise to internally developed software include upgrading the network architecture or functionality and developing service platforms aimed at offering new services to our customers.

Other

Other intangible assets include website development costs and other licences. Items are capitalised at cost and amortised on a straight line basis over their useful economic life or the term of the contract.

Estimated useful economic lives

The estimated useful economic lives assigned to the principal categories of intangible assets are as follows:

– Computer software	2 to 10 years
– Telecommunications licences	2 to 20 years
– Customer relationships and brands	1 to 15 years

Impairment of intangible assets

Intangible assets with finite useful lives are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, the recoverable amount is assessed by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant cash generating unit and the fair value less costs to dispose.

Goodwill is reviewed for impairment at least annually as described below. Impairment losses are recognised in the income statement, as a specific item. If a cash generating unit is impaired, impairment losses are allocated firstly against goodwill, and secondly on a pro-rata basis against intangible and other assets.

Notes to the consolidated financial statements continued

13. Intangible assets continued

	Goodwill £m	Customer relationships and brands £m	Telecoms licences and other £m	Internally developed software[a] £m	Purchased software £m	Total £m
Cost						
At 1 April 2018	7,945	3,410	2,951	4,822	1,574	20,702
Additions	–	–	304	520	160	984
Disposals and adjustments[b]	(2)	–	(3)	(945)	(141)	(1,091)
Transfers	–	–	4	120	(80)	44
Exchange differences	63	7	(4)	1	(8)	59
At 31 March 2019	**8,006**	**3,417**	**3,252**	**4,518**	**1,505**	**20,698**
Reclassification of assets held under finance leases[c]	–	–	(185)	–	–	(185)
At 1 April 2019	**8,006**	**3,417**	**3,067**	**4,518**	**1,505**	**20,513**
Additions	–	–	–	598	192	790
Disposals and adjustments[b]	(30)	(28)	(34)	(765)	(541)	(1,398)
Transfers	–	–	(2)	14	(3)	9
Exchange differences	52	8	1	2	10	73
Transfer to assets held for sale[d]	(83)	–	–	(13)	(45)	(141)
At 31 March 2020	**7,945**	**3,397**	**3,032**	**4,354**	**1,118**	**19,846**
Accumulated amortisation						
At 1 April 2018	–	1,191	421	3,680	963	6,255
Charge for the year	–	377	142	525	110	1,154
Disposals and adjustments[b]	–	–	(3)	(941)	(147)	(1,091)
Transfers	–	–	3	(43)	43	3
Exchange differences	–	3	(3)	–	(8)	(8)
At 31 March 2019	**–**	**1,571**	**560**	**3,221**	**961**	**6,313**
Reclassification of assets held under finance leases[c]	–	–	(115)	–	–	(115)
At 1 April 2019	**–**	**1,571**	**445**	**3,221**	**961**	**6,198**
Charge for the year	–	373	177	538	85	1,173
Disposals and adjustments[b]	–	(22)	(49)	(786)	(529)	(1,386)
Transfers	–	–	–	(15)	15	–
Exchange differences	–	8	1	1	9	19
Transfer to assets held for sale[d]	–	–	–	(8)	(39)	(47)
At 31 March 2020	**–**	**1,930**	**574**	**2,951**	**502**	**5,957**
Carrying amount						
At 31 March 2020	**7,945**	**1,467**	**2,458**	**1,403**	**616**	**13,889**
At 31 March 2019	8,006	1,846	2,692	1,297	544	14,385

[a] Includes a carrying amount of £538m (2018/19: £668m) in respect of assets in course of construction, which are not yet amortised.
[b] Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £1.1bn (2018/19: £1.0bn).
[c] On adoption of IFRS 16 on 1 April 2019, assets held under finance leases were reclassified as right-of-use assets. See note 1.
[d] Assets transferred to held for sale during 2019/20 relate to our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. On reclassification to held for sale, goodwill associated with the France and Latin America disposals was impaired by £58m, and other intangible assets associated with these disposals were impaired by £1m. See note 23.

Impairment of goodwill

Significant accounting policies that apply to impairment of goodwill

We perform an annual goodwill impairment review.

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash generating unit (CGU) level. These CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. Our CGUs are deemed to be legacy BT Consumer, legacy EE, Enterprise, and Global.

We allocate goodwill to each of the Cash Generating Units (CGUs) that we expect to benefit from the business combination. Each CGU to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes.

The value in use of each CGU is determined using cash flow projections derived from financial plans approved by the Board covering a five-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. Cash flows beyond the fifth year have been extrapolated using perpetuity growth rates.

13. Intangible assets continued

Critical accounting estimates and key judgements made in reviewing goodwill for impairment

Determining our CGUs
The determination of our CGUs is judgemental. The identification of CGUs involves an assessment of whether the asset or group of assets generate largely independent cash inflows. This involves consideration of how our core assets are operated and whether these generate independent revenue streams. The legacy BT Consumer and EE CGUs remain as two separate CGUs due to their having independent cash flows.

Estimating value in use
Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate for each CGU. Future cash flows used in the value in use calculations are based on our latest Board-approved five-year financial plans which reflect the anticipated impact of Covid-19. Expectations about future growth reflect the expectations of growth in the markets to which the CGU relates. The future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money. The discount rate used in each CGU is adjusted for the risk specific to the asset, including the countries in which cash flow will be generated, for which the future cash flow estimates have not been adjusted.

We tested our goodwill for impairment as at 31 March 2020. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed below.

Cost	Legacy BT Consumer £m	Legacy EE £m	Enterprise £m	Business and Public Sector £m	Wholesale and Ventures £m	Global £m	Total £m
At 1 April 2018	1,183	2,768	–	2,562	942	490	7,945
Transfer	–	–	3,504	(2,562)	(942)	–	–
Exchange differences	–	–	5	–	–	58	63
Acquisitions and disposals	–	–	–	–	–	(2)	(2)
At 31 March 2019	**1,183**	**2,768**	**3,509**	**–**	**–**	**546**	**8,006**
Exchange differences	–	–	4	–	–	48	52
Acquisitions and disposals	–	–	(30)	–	–	–	(30)
Transfer to assets held for sale	–	–	–	–	–	(83)	(83)
At 31 March 2020	**1,183**	**2,768**	**3,483**	**–**	**–**	**511**	**7,945**

In connection with disposals of BT Fleet Ltd and Tikit Ltd, £30m of goodwill in the Enterprise CGU has been eliminated. As discussed in note 23, we have recorded the net assets of certain Global businesses as held for sale. As a result, goodwill impairment charges of £58m in respect of France and Latin America have been recorded, and £25m of goodwill related to Spain has been reclassified. There are no reasonably possible changes to our assumptions that would result in the carrying value exceeding the value in use.

What discount rate have we used?

The pre-tax discount rates applied to the cash flow forecasts are derived from our post-tax weighted average cost of capital. The assumptions used in the calculation of the group's weighted average cost of capital are benchmarked to externally available data. The pre-tax discount rate used in performing the value in use calculation in 2019/20 was 8.0% (2018/19: 8.2%). We've used the same discount rate for all CGUs except Global where we have used 8.6% (2018/19: 8.7%) reflecting higher risk in some of the countries in which Global operates.

What growth rates have we used?

The perpetuity growth rates are determined based on the forecast market growth rates of the regions in which the CGU operates, and they reflect an assessment of the long-term growth prospects of that market. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the expected long-term average growth rates for those markets or sectors. We used a perpetuity growth rate of 2.4% (2018/19: 2.4%) for Global and 2.0% (2018/19: 2.0%) for Enterprise and our legacy BT Consumer and EE CGUs.

Has Covid-19 had a material impact on the impairment assessment?

Covid-19 is not considered to have a significant impact on the assessment of impairment. Its impact on the group is considered to be short-term, and it is not anticipated to have a significant impact on the terminal year which is a key driver of our value in use calculations.

Notes to the consolidated financial statements continued

14. Property, plant and equipment

Significant accounting policies that apply to property, plant and equipment
Our property, plant and equipment is included at historical cost, net of accumulated depreciation, government grants and any impairment charges. Property, plant and equipment acquired through business combinations are initially recorded at fair value and subsequently accounted for on the same basis as our existing assets. We derecognise items of property, plant and equipment on disposal or when no future economic benefits are expected to arise from the continued use of the asset. The difference between the sale proceeds and the net book value at the date of disposal is recognised in operating costs in the income statement.

Included within the cost of network infrastructure and equipment are direct and indirect labour costs, materials and directly attributable overheads.

We depreciate property, plant and equipment on a straight line basis from the time the asset is available for use, to write off the asset's cost over the estimated useful life taking into account any expected residual value. Freehold land is not depreciated.

Estimated useful economic lives
The estimated useful lives assigned to principal categories of assets are as follows:

Land and buildings	
– Freehold buildings	14 to 50 years
– Short-term leasehold improvements	Shorter of 10 years or lease term
– Leasehold land and buildings	Unexpired portion of lease or 40 years, whichever is the shorter
Network infrastructure	
Transmission equipment	
– Duct	40 years
– Cable	3 to 25 years
– Fibre	5 to 20 years
Exchange equipment	2 to 13 years
Other network equipment	2 to 20 years
Other assets	
– Motor vehicles	2 to 9 years
– Computers and office equipment	3 to 7 years

Residual values and useful lives are reassessed annually and, if necessary, changes are recognised prospectively.

Network share assets
Certain assets have been contributed to a network share arrangement by both EE and Hutchison 3G UK Limited, with legal title remaining with the contributor. This is considered to be a reciprocal arrangement. Our share of the assets on acquisition of EE were recognised at fair value within tangible assets, and depreciated in line with policy. Subsequent additions are recorded at cost.

Impairment of property, plant and equipment
We test property, plant and equipment for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, we assess the recoverable amount by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant asset and the fair value less costs to dispose. If it is not possible to determine the recoverable amount for the individual asset then we assess impairment by reference to the relevant cash generating unit as described in note 13.

Key judgements made in accounting for our BDUK contracts
We receive government grants in relation to the Building Digital UK (BDUK) programme and other rural superfast broadband contracts. Where we have achieved certain service levels, or delivered the network more efficiently than anticipated, we have an obligation to either re-invest or repay grant funding. Where this is the case, we assess and defer the income with a corresponding increase in capital expenditure.

Assessing the timing of whether and when we change the estimated take-up assumption is judgemental as it involves considering information which is not always observable. Our consideration on whether and when to change the base case assumption is dependent on our expectation of the long-term take-up trend.

Our assessment of how much grant income to defer includes consideration of the difference between the take-up percentage agreed with the local authority and the likelihood of actual take-up. The value of the government grants deferred is disclosed in note 18.

14. Property, plant and equipment continued

	Land and buildings[a] £m	Network infrastructure £m	Other[b] £m	Assets in course of construction £m	Total £m
Cost					
At 31 March 2018	1,262	50,783	1,914	1,118	55,077
Additions[c]	12	97	119	3,034	3,262
Transfers	13	2,988	18	(3,063)	(44)
Disposals and adjustments (restated)[d]	4	(1,943)	(333)	102	(2,170)
Transfer to assets held for sale[d]	(182)	–	–	–	(182)
Exchange differences	(2)	(32)	4	–	(30)
At 31 March 2019	**1,107**	**51,893**	**1,722**	**1,191**	**55,913**
Reclassification of assets held under finance leases[a]	(81)	–	–	–	(81)
At 1 April 2019	**1,026**	**51,893**	**1,722**	**1,191**	**55,832**
Additions[c]	7	83	69	2,978	3,137
Transfers	25	3,244	17	(3,295)	(9)
Disposals and adjustments[d]	(55)	(1,132)	(130)	42	(1,275)
Transfer to assets held for sale[e]	(69)	(255)	(24)	–	(348)
Exchange differences	11	60	8	–	79
At 31 March 2020	**945**	**53,893**	**1,662**	**916**	**57,416**
Accumulated depreciation					
At 31 March 2018	773	35,790	1,558	–	38,121
Charge for the year	51	2,236	105	–	2,392
Transfers	1	(4)	–	–	(3)
Disposals and adjustments (restated)[d]	(11)	(1,940)	(296)	–	(2,247)
Transfer to assets held for sale[d]	(93)	–	–	–	(93)
Exchange differences	(1)	(30)	4	–	(27)
At 31 March 2019	**720**	**36,052**	**1,371**	**–**	**38,143**
Reclassification of assets held under finance leases[a]	(47)	–	–	–	(47)
At 1 April 2019	**673**	**36,052**	**1,371**	**–**	**38,096**
Charge for the year	49	2,318	85	–	2,452
Transfers	1	–	(1)	–	–
Disposals and adjustments[d]	(68)	(1,128)	(91)	–	(1,287)
Transfer to assets held for sale[e]	(55)	(216)	(22)	–	(293)
Exchange differences	10	54	8	–	72
At 31 March 2020	**610**	**37,080**	**1,350**	**–**	**39,040**
Carrying amount					
At 31 March 2020	**335**	**16,813**	**312**	**916**	**18,376**
Engineering stores	–	–	–	98	98
Total at 31 March 2020	**335**	**16,813**	**312**	**1,014**	**18,474**
At 31 March 2019	387	15,841	351	1,191	17,770
Engineering stores	–	–	–	65	65
Total at 31 March 2019	387	15,841	351	1,256	17,835

[a] The carrying amount of the land and buildings class of asset recognised at 31 March 2019 included £34m in respect of assets held under finance leases. The depreciation expense on those assets in 2018/19 was £2m. On adoption of IFRS 16 on 1 April 2019 these assets were reclassified to right-of-use assets. See note 1

[b] Other mainly comprises motor vehicles, computers and fixtures and fittings.

[c] Net of grant deferral of £98m (2018/19: £63m).

[d] Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £0.7bn (2018/19: £1.9bn). Disposals and adjustments include adjustments resulting from changes in assumptions used in calculating lease-end obligations where the corresponding asset is capitalised. The 2018/19 comparative has been re-presented to split out the reclassification of the carrying amount of BT Centre property to 'transfer to assets held for sale' (£89m) presented within 'disposals and adjustments' in the prior period.

[e] Transfers to assets held for sale during 2019/20 relate to our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. On reclassification to held for sale, assets associated with the France and Latin America disposals were impaired by £18m. See note 23.

Notes to the consolidated financial statements continued

14. Property, plant and equipment continued

Included within the above disclosure are assets used in arrangements which represent core business activities for the group and which meet the definition of operating leases:
- £12,284m of the carrying amount of the network infrastructure asset class represents Openreach's network infrastructure. The majority of the associated assets are used to deliver fixed-line telecommunications services that have been assessed as containing operating leases, to both internal and external Communications Providers.
- Other assets includes devices with a carrying amount of £33m that are made available to retail customers under arrangements that contain operating leases.

At 31 March	**2020 £m**	2019 £m
The carrying amount of land and buildings, including leasehold improvements, comprised:		
Freehold	105	158
Leasehold	230	229
Total land and buildings	**335**	**387**

Network infrastructure
Some of our network assets are jointly controlled by EE Limited with Hutchison 3G UK Limited. These relate to shared 3G network and certain elements of network for 4G rural sites. The net book value of the group's share of assets controlled by its joint operation MBNL is £600m (2018/19: £584m) and is recorded within network infrastructure. Included within this is £112m (2018/19: £125m), being the group's share of assets owned by its joint operation MBNL.

Within network infrastructure are assets with a net book value of £10bn (2018/19: £9bn) which have useful economic lives of more than 18 years.

15. Leases

Significant accounting policies that apply to leases
We adopted IFRS 16 for the first time on 1 April 2019 using the modified retrospective transition option. Comparative information is not restated under this transition option, therefore the disclosures presented in this note concern the 2019/20 period only.

IFRS 16 lease accounting policy applicable to the current year

Identifying whether a lease exists
At inception of a contract, we determine whether the contract is, or contains a lease. A lease exists if the contract conveys the right to control the use of an identified asset, for a period of time, in exchange for consideration. In making this assessment, we consider whether:
- The contract involves the use of an identified asset, either explicitly or implicitly. The asset must be physically distinct or represent substantially all the capacity of a physically distinct asset. Assets that a supplier has a substantive right to substitute are not considered distinct.
- The lessee (either the group, or the group's customers) has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The lessee has the right to direct the use of the asset, in other words, has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

Where practicable, and by class of underlying asset, we have elected to account for leases containing a lease component and one or more non-lease components as a single lease component. Where this election has been taken, it has been applied to the entire asset.

Lessee accounting
We recognise a lease liability and right-of-use asset at the commencement of a lease.

Lease liabilities are initially measured at the present value of lease payments that are due over the lease term, discounted using the group's incremental borrowing rate. This is the rate that we would have to pay for a loan of a similar term, and with similar security, to obtain an asset of similar value. Lease payments include:
- fixed payments
- variable lease payments that depend on an index or rate
- amounts expected to be paid under residual value guarantees
- the exercise price of any purchase options that we are reasonably certain to exercise
- payments due over optional renewal periods where we are reasonably certain to renew
- penalties for early termination of the lease where we are reasonably certain to terminate early

Lease liabilities are subsequently measured at amortised cost using the effective interest method. It is remeasured if there is a change in future lease payments or the amount we expect to be payable under a residual value guarantee, or if we change our assessment of whether we will exercise a purchase, renewal or termination option.

15. Leases continued

Right-of-use assets are initially measured at the initial amount of the corresponding lease liabilities, adjusted for any prepaid lease payments, plus any initial direct costs incurred and an estimate of any decommissioning costs that have been recognised as provisions, less any lease incentives received. They are subsequently depreciated using the straight-line method to the earlier of the end of the useful life of the asset or the end of the lease term. Right-of-use assets are tested for impairment following the policy set out in note 14 and are adjusted for any remeasurement of lease liabilities.

We have elected not to recognise lease liabilities and right-of-use assets for short-term leases that have a lease term of 12 months or less, and leases of low-value assets with a purchase price under £5,000. We recognise lease payments associated with these items as an expense on a straight-line basis over the lease term.

Any variable lease payments that do not depend on an index or rate, such as usage-based payments, are recognised as an expense in the period to which the variability relates.

IAS 17 lease accounting policy applicable to the 2017/18 and 2018/19 financial reporting periods

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to use the asset.

Leases of property, plant and equipment where we hold substantially all the risks and rewards of ownership are classified as finance leases and are presented within property, plant and equipment (note 14). Finance lease assets are capitalised at the commencement of the lease term at the lower of the present value of the minimum lease payments or the fair value of the leased asset. The obligations relating to finance leases, net of finance charges in respect of future periods, are recognised as liabilities. Leases are subsequently measured at amortised cost using the effective interest method.

Leases where a significant portion of the risk and rewards are held by the lessor are classified as operating leases. Rentals are charged to the income statement on a straight-line basis over the period of the lease and are presented within operating costs (note 6).

Key judgements made in accounting for leases

The following represent key judgements made in accounting for leases under IFRS 16 during the 2019/20 financial year.

Determining the lease term including reasonable certainty

Lease accounting requires determination of the lease term, which is defined as the noncancellable period of the lease adjusted for the impact of any extension, termination and purchase options that we consider the lessee to be reasonably certain to take. The lease term is a key determinant of the size of the lease liability and right-of-use asset recognised where the group acts as lessee; and the deferral period for any upfront connection charges where the group acts as lessor.

Determining the lease term requires judgement to evaluate whether the lessee is reasonably certain to exercise any options. Where the group acts as lessee, in particular in regard to our portfolio of property and network infrastructure arrangements that potentially have terms beyond the medium-term planning horizon, we consider key facts and circumstances that would give us an incentive to exercise any extension and termination options when setting the lease term. These include:

- Our anticipated operational, retail and office property requirements in the mid and long-term.
- The need to maintain flexibility in our ability to develop and manage our network infrastructure to react quickly to technological developments and evolving capacity requirements.
- The availability of suitable alternative sites.
- Costs or penalties associated with exiting lease arrangements relative to the benefits to be gained, including costs of removing leasehold improvements or relocating, and indirect costs such as disruption to business.
- Costs associated with extending lease arrangements including rent increases during secondary lease periods.

Our definition of 'reasonable certainty', and therefore the lease term, will often align with the judgements made in our medium-term plan, in particular for rolling (or 'evergreen') leases that continue until terminated. It will generally be the case that we cannot be reasonably certain to require the use of the underlying asset beyond the medium-term planning horizon, unless specific evidence exists to the contrary.

Assumptions made in our medium term plan reflect the anticipated impact of Covid-19. Including the cost of exiting leases in the short-term, Covid-19 is not considered to have any material impact on our assessment of reasonable certainty. In particular we do not consider the lease term of our retail stores to be materially affected because the closure is only expected to be for a temporary duration. Additionally, although the stores are closed to usual operations, a significant number continue to be used to operate customer service operations.

Notes to the consolidated financial statements continued

15. Leases continued

Right-of-use assets

Most of our right-of-use assets are associated with our leased property portfolio, specifically our office, retail and exchange estate. We also lease a significant proportion of our network infrastructure, including mobile cell and switch sites.

	Land and buildings £m	Network infrastructure £m	Other[a] £m	Total £m
At 1 April 2019	4,628	189	338	5,155
Additions[b]	942	59	475	1,476
Depreciation charge for the year	(513)	(37)	(99)	(649)
Other movements[c]	(203)	(32)	(356)	(591)
At 31 March 2020	**4,854**	**179**	**358**	**5,391**

[a] Other mainly comprises motor vehicles.
[b] Additions comprise increases to right-of-use assets as a result of entering into new leases and upwards remeasurement of existing leases arising from lease extensions or reassessments and increases to lease payments.
[c] Other movements relate to terminated leases and downwards remeasurements of right-of-use assets arising from reductions or reassessments of lease terms and decreases in lease payments. Other movements in 2019/20 include reclassification of right-of-use assets with a carrying amount of £65m to held-for-sale, see note 23. On reclassification to held for sale, assets associated with the France and Latin America disposals were impaired by £31m.

Lease liabilities

Lease liabilities recognised at 31 March 2020 total £6,560m. £812m of this balance is classified as current, with the remaining £5,748m classified as non-current. Note 28 presents a maturity analysis of the payments due over the remaining lease term for these liabilities.

During the year we reclassified lease liabilities with a carrying amount of £62m to held-for-sale, see note 23.

The following amounts relating to the group's obligations under lease arrangements were recognised in the income statement in the year to 31 March 2020:

- Interest expense of £140m accrued on lease liabilities.
- Variable lease payments of £29m which are not dependent on an index or rate and which have not been included in the measurement of lease liabilities.

Expenses relating to leases of low-value assets and short-term leases for which no right-of-use asset or lease liability has been recognised were immaterial.

The total cash outflow for leases in the year was £791m.

Other information relating to leases

During the year we recognised net gains of £115m from sale and leaseback transactions, substantially all of which relates to the disposal of our BT Centre headquarters. We shall continue to occupy the property under a lease arrangement until our new headquarters is ready for occupation.

At 31 March 2020 the group was committed to future minimum lease payments of £274m in respect of leases which have not yet commenced and for which no lease liability has been recognised.

The following table analyses payments to be received across the remaining term of operating lease arrangements where BT is lessor:

At 31 March 2020	To be recognised as revenue (note 5) £m	To be recognised as other operating income (note 6) £m	Total £m
Less than one year	310	52	362
One to two years	130	16	146
Two to three years	34	10	44
Three to four years	1	9	10
Four to five years	–	7	7
More than five years	–	11	11
Total undiscounted lease payments	**475**	**105**	**580**

16. Programme rights

Significant accounting policies that apply to programme rights

Programme rights are recognised on the balance sheet from the point at which the legally enforceable licence period begins. They are initially recognised at cost and are amortised from the point at which they are available for use, on a straight line basis over the programming period, or the remaining licence term, as appropriate, which is generally 12 months. Programme rights are tested for impairment in accordance with our impairment policy as set out in note 13.

Additions reflect TV programme rights for which the legally enforceable licence period has started during the year. Rights for which the licence period has not started are disclosed as contractual commitments in note 31. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 17).

	Total £m
At 1 April 2018	272
Additions	879
Amortisation	(841)
At 1 April 2019	**310**
Additions	870
Amortisation	(870)
At 31 March 2020	**310**

£310m of programme rights recognised on the balance sheet at 31 March 2020 relate to sporting events postponed as a result of Covid-19. These are not considered to be impaired at the balance sheet date as sporting governing bodies, for example the Premier League and UEFA, are still determining how, or if, to complete the current season. Whether and how the seasons are completed could have an impact on whether there is any impairment. The majority of programme rights assets affected by Covid-19 relate to domestic and European football leagues which are amortised over 12 months from August and which will be fully amortised by July 2020. If any impairment is recognised in future periods we would also seek compensation in respect of rights which have not been fulfilled. Until this is established any potential recoveries would represent contingent assets and would not meet the criteria for recognition until this is virtually certain.

Covid-19 is not anticipated to have an impact on commissioned or acquired programming for which we have made an advance payment. At 31 March 2020 these total £110m and are classified as prepayments within trade and other receivables (note 17).

17. Trade and other receivables

Significant accounting policies that apply to trade and other receivables

We initially recognise trade and other receivables at fair value, which is usually the original invoiced amount. They are subsequently carried at amortised cost using the effective interest method. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

We provide services to consumer and business customers, mainly on credit terms. We know that certain debts due to us will not be paid through the default of a small number of our customers. Because of this, we recognise an allowance for doubtful debts on initial recognition of receivables, which is deducted from the gross carrying amount of the receivable. The allowance is calculated by reference to credit losses expected to be incurred over the lifetime of the receivable. In estimating a loss allowance we consider historical experience and informed credit assessment alongside other factors such as the current state of the economy and particular industry issues. We consider reasonable and supportable information that is relevant and available without undue cost or effort.

Once recognised, trade receivables are continuously monitored and updated. Allowances are based on our historical loss experiences for the relevant aged category as well as forward-looking information and general economic conditions, this includes the impact of Covid-19. Allowances are calculated by individual customer-facing units in order to reflect the specific nature of the customers relevant to that customer-facing unit.

Following the outbreak of Covid-19 we have reassessed our expected loss provisions including assessing the risk factors associated with various industry sectors and applying a risk weighting to each sector.

Contingent assets such as any insurance recoveries, or prepaid programme rights which we expect to recoup, have not been recognised in the financial statements as these are only recognised within trade and other receivables when their receipt is virtually certain.

Notes to the consolidated financial statements continued

17. Trade and other receivables continued

At 31 March	**2020 £m**	2019 £m	2018 £m
Current			
Trade receivables	1,375	1,732	1,741
Prepayments[a]	607	698	1,103
Accrued income	57	34	777
Deferred contract costs	422	417	–
Other receivables	243	341	393
	2,704	**3,222**	**4,014**

At 31 March	**2020 £m**	2019 £m	2018 £m
Non-current			
Other assets[b]	222	173	317
Deferred contract costs	259	272	–
	481	**445**	**317**

a 2017/18 includes £325m in respect of the acquisition of Spectrum.
b Other assets comprise prepayments and leasing debtors. Included in prior year comparatives are costs relating to the initial set-up, transition or transformation phase of long-term networked IT services contracts (2018/19: £nil, 2017/18: £145m), which are presented within deferred contract costs following adoption of IFRS 15.

Trade receivables are stated after deducting allowances for doubtful debts, as follows:

	2020 £m	2019 £m	2018 £m
At 1 April	299	375	303
Expense	213	95	129
Utilised	(189)	(165)	(61)
Exchange differences	6	(6)	4
At 31 March	**329**	**299**	**375**

Included within the 2019/20 expense is a £67m increase reflecting increased expected credit losses above our standard provisioning policies as a result of Covid-19. This increase above our standard provisioning policies was recorded as a specific item (note 9).

Note 28 provides further disclosure regarding the credit quality of our gross trade receivables. Trade receivables are due as follows:

			Past due and not specifically impaired				
At 31 March	Not past due £m	Trade receivables specifically impaired net of provision £m	Between 0 and 3 months £m	Between 3 and 6 months £m	Between 6 and 12 months £m	Over 12 months £m	Total £m
2020	903	25	308	45	49	45	**1,375**
2019	1,229	34	371	42	40	16	**1,732**
2018	1,251	61	293	44	25	67	**1,741**

Gross trade receivables which have been specifically impaired amounted to £34m (2018/19: £57m, 2017/18: £124m).

Trade receivables not past due and accrued income are analysed below by customer-facing unit.

	Trade receivables not past due			Accrued income		
At 31 March	**2020 £m**	2019 £m	2018 £m	**2020 £m**	2019 £m	2018 £m
Consumer	353	457	–	1	32	–
Enterprise	139	274	–	3	2	–
Global	409	498	477	–	–	222
Openreach	–	–	61	51	–	67
BT Consumer	–	–	157	–	–	86
EE	–	–	206	–	–	122
Business and Public Sector	–	–	253	–	–	134
Wholesale and Ventures	–	–	92	–	–	145
Other	2	–	5	2	–	1
Total	**903**	**1,229**	**1,251**	**57**	**34**	**777**

Given the broad and varied nature of our customer base, the analysis of trade receivables not past due and accrued income by customer-facing unit is considered the most appropriate disclosure of credit concentrations. Cash collateral held against trade and other receivables amounted to £nil (2018/19: £9m, 2017/18: £6m).

17. Trade and other receivables continued

Deferred contract costs

Significant accounting policies that apply to deferred contract costs

We capitalise certain costs associated with the acquisition and fulfilment of contracts with customers and amortise them over the period that we transfer the associated services.

Connection costs are deferred as contract fulfilment costs because they allow satisfaction of the associated connection performance obligation and are considered recoverable. Sales commissions and other third party contract acquisition costs are capitalised as costs to acquire a contract unless the associated contract term is less than 12 months, in which case they are expensed as incurred. Capitalised costs are amortised over the minimum contract term. A portfolio approach is used to determine contract term.

Where the initial set-up, transition and transformation phases of long-term contractual arrangements represent distinct performance obligations, costs in delivering these services are expensed as incurred. Where these services are not distinct performance obligations, we capitalise eligible costs as a cost of fulfilling the related service. Capitalised costs are amortised on a straight line basis over the remaining contract term, unless the pattern of service delivery indicates a more appropriate profile. To be eligible for capitalisation, costs must be directly attributable to specific contracts, relate to future activity, and generate future economic benefits. Capitalised costs are regularly assessed for recoverability.

The following table shows the movement on deferred costs:

	Deferred connection costs £m	Deferred contract acquisition costs-commissions £m	Deferred contract acquisition costs-dealer incentives £m	Transition and transformation £m	Total £m
At 1 April 2019	31	86	432	140	689
Additions	10	86	451	21	568
Amortisation	(9)	(75)	(426)	(27)	(537)
Impairment	(1)	(4)	(7)	(21)	(33)
Other	1	1	(1)	(7)	(6)
At 31 March 2020	**32**	**94**	**449**	**106**	**681**

18. Trade and other payables

Significant accounting policies that apply to trade and other payables

We initially recognise trade and other payables at fair value, which is usually the original invoiced amount. We subsequently carry them at amortised cost using the effective interest method.

At 31 March	2020 £m	2019 £m	2018 £m
Current			
Trade payables	3,889	4,141	3,991
Other taxation and social security	562	564	704
Other payables	498	387	456
Accrued expenses	545	630	492
Deferred income[a]	300	68	1,525
	5,794	**5,790**	**7,168**

At 31 March	2020 £m	2019 £m	2018 £m
Non-current			
Other payables[b]	18	873	871
Deferred income[a]	736	606	455
	754	**1,479**	**1,326**

[a] Deferred income recognised at 31 March 2020 includes connection fee income recognised on transition to IFRS 16 on 1 April 2019, see note 1. The amount recognised at 31 March 2018 was substantially reclassified to contract liabilities on adoption of IFRS 15 on 1 April 2018. Deferred income includes £94m (2018/19: £51m, 2017/18: £132m) current and £525m (2018/19: £586m, 2017/18: £404m) non-current liabilities relating to the Building Digital UK programme, for which grants received by the group may be subject to re-investment or repayment depending on the level of take-up.

[b] Other payables recognised in prior years included accruals for rent inflation associated with operating leases. These were reclassified to right-of-use assets on transition to IFRS 16 on 1 April 2019, see note 1.

Notes to the consolidated financial statements continued

19. Provisions

Our provisions principally relate to obligations arising from property rationalisation programmes, restructuring programmes, asset retirement obligations, network assets, insurance claims, litigation and regulatory risks.

Significant accounting policies that apply to provisions

We recognise provisions when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where these criteria are not met we disclose a contingent liability if the group has a possible obligation, or has a present obligation with an outflow that is not probable or which cannot be reliably estimated. Contingent liabilities are disclosed in note 31.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Critical accounting estimates and key judgements made in accounting for provisions

We exercise judgement in determining the quantum of all provisions to be recognised. Our assessment includes consideration of whether we have a present obligation, whether payment is probable and if so whether the amount can be estimated reliably.

As part of this assessment, we also assess the likelihood of contingent liabilities occurring in the future. Contingent liabilities are not recognised as liabilities on our balance sheet; they are disclosed in note 31. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. We assess the likelihood that a potential claim or liability will arise and also quantify the possible range of financial outcomes where this can be reasonably determined. In estimating contingent liabilities we make key judgements in relation to applicable law and any historical and pending court rulings, and the likelihood, timing and cost of resolution.

Restructuring programmes involve estimation of the direct cost necessary for the restructuring and exclude items that are associated with ongoing activities. The amounts below exclude restructuring costs for which the timing and amount are certain. These are recognised as part of trade and other payables.

In measuring property provisions, we have made estimates of the costs to restore properties upon vacation where this is required under the lease agreements.

Asset retirement obligations (AROs) involve an estimate of the cost to dismantle equipment and restore network sites upon vacation and the timing of the event. The provision represents the group's best estimate of the amount that may be required to settle the obligation.

Network asset provisions represent our future operational costs and vacant site rentals arising from obligations relating to network share agreements. Costs are expected to be incurred over a period of up to 20 years.

Our regulatory provision represents our best estimate of the cost to settle our present obligation in relation to historical regulatory matters. The charge/credit for the year represents the outcome of management's re-assessment of the estimates and regulatory risks across a range of issues, including price and service issues. The prices at which certain services are charged are regulated and may be subject to retrospective adjustment by regulators. When estimating the likely value of regulatory risk we make key judgements, including in regard to interpreting Ofcom regulations and past and current claims.

For all risks, the ultimate liability may vary materially from the amounts provided and will be dependent upon the eventual outcome of any settlement.

	Restructuring £m	Property £m	Network ARO £m	Network share £m	Regulatory £m	Litigation £m	Other £m	Total £m
At 31 March 2018	12	294	71	33	320	64	261	1,055
Additions	–	84	102	2	58	3	66	315
Unwind of discount	–	11	2	1	–	–	–	14
Utilised or released	–	(71)	(13)	(9)	(196)	(9)	(109)	(407)
Transfers	(12)	21	–	–	–	27	(7)	29
Exchange differences	–	–	–	–	–	(1)	1	–
At 31 March 2019	**–**	**339**	**162**	**27**	**182**	**84**	**212**	**1,006**
IFRS 16 adjustment[a]	–	(183)	(14)	(12)	–	–	–	(209)
At 1 April 2019		**156**	**148**	**15**	**182**	**84**	**212**	**797**
Additions	–	18	52	88	26	7	70	261
Unwind of discount	–	1	1	–	–	–	–	2
Utilised or released	–	(31)	(22)	(91)	(129)	(14)	(77)	(364)
Transfers[b]	–	–	–	–	–	11	11	22
Exchange differences	–	–	–	–	–	–	1	1
31 March 2020	**–**	**144**	**179**	**12**	**79**	**88**	**217**	**719**

[a] On transition to IFRS 16 on 1 April 2019, all onerous lease provisions were either reclassified to the corresponding right-of-use assets as a proxy for impairment, or were otherwise released to equity as a transition adjustment. See note 1.
[b] Transfers include £5m on provisions associated with held-for-sale assets during the period. See note 23.

19. Provisions continued

At 31 March	2020 £m	2019 £m	2018 £m
Analysed as:			
Current	288	424	603
Non-current	431	582	452
	719	**1,006**	**1,055**

Included within 'Other' provisions are contract loss provisions of £10m (2018/19: £25m) relating to the anticipated total losses in respect of certain contracts.

Covid-19 has been considered when identifying and measuring contract loss provisions in line with the accounting policy set out in note 5. We identified £7m of contract loss provisions in respect of revenue contracts that are expected to become loss-making as a result of Covid-19 impacts. This increase above our standard contract loss provisioning policies is recorded as a specific item (note 9).

It is expected that the majority of contract loss provisions will be utilised in the next few years. Although there is a short period remaining to the finalisation of these contracts, there remains uncertainty as to whether potential future changes to key assumptions made when estimating their future losses could have a significant impact. There is no single change in key variables that could materially affect future expected losses on these contracts, but it is reasonably possible there will be a combination of changes in key variables that could have a material impact. Also included in 'Other' are amounts provided for constructive obligations arising from insurance claims which will be utilised as the obligations are settled.

20. Retirement benefit plans

Background to BT's pension plans

The group has both defined benefit and defined contribution retirement benefit plans. The group's main plans are in the UK and the largest by membership is the BT Pension Scheme (BTPS) which is a defined benefit plan that was closed to new entrants on 31 March 2001. After that date new entrants to BT in the UK have been able to join a defined contribution plan, currently the BT Retirement Saving Scheme (BTRSS), a contract-based arrangement operated by Standard Life.

Sections B and C of the BTPS were closed to future benefit accrual on 30 June 2018 (which represented over 99% of the BTPS active membership at the time) and affected employees were able to join the BTRSS or the BT Hybrid Scheme (BTHS) for future pension accrual. The BTHS, which combines elements of both defined benefit and defined contribution pension schemes, was set up in April 2019 for non-management employees impacted by the closure of the BTPS and was closed to new entrants on 30 September 2019.

EE Limited operates the EE Pension Scheme (EEPS), which has a defined benefit section that was closed to future benefit accrual in 2014 and a defined contribution section which is open to new joiners.

We also have retirement arrangements around the world in line with local markets and culture.

	What are they?	How do they impact BT's financial statements?
Defined contribution plans	Benefits in a defined contribution plan are linked to: • contributions paid • the performance of each individual's chosen investments • the form in which individuals choose to take their benefits. Contributions are paid into an independently administered fund.	The operating charge in respect of defined contribution plans represents the contribution payable by the group (usually a fixed percentage of each employee's pay). The group has no exposure to investment and other experience risks.
Defined benefit plans	Benefits in a defined benefit plan are: • determined by the plan rules, dependent on factors such as age, years of service and pensionable pay • not dependent upon actual contributions made by the company or members.	The operating charge reflects the increase in the liability resulting from the pension benefit earned by active employees in the current period, the costs of administering the plans and any past service costs/credits such as those arising from curtailments or settlements. The group is exposed to investment and other experience risks and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions, expected investment income and assets held.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Significant accounting policies that apply to retirement benefit plans

Defined benefit plans

The Retirement Benefit Obligations in respect of defined benefit plans is the liability (the present value of all expected future obligations) less the fair value of the plan assets.

The income statement expense is allocated between an operating charge and net finance income or expense.

- The operating charge reflects the increase in the liability resulting from the pension benefit earned by active employees in the current period, the costs of administering the plans and any past service costs/credits such as those arising from curtailments or settlements.
- The net finance income or expense reflects the interest on the Retirement Benefit Obligations recognised in the group balance sheet, based on the discount rate at the start of the year.

Remeasurements of the Retirement Benefit Obligations are recognised in full in the group statement of comprehensive income in the year in which they arise. These comprise the impact on the liabilities of changes in demographic and financial assumptions compared with the start of the year, actual experience being different to those assumptions and the return on plan assets being above or below the amount included in the net pension interest expense.

Defined contribution plans

The income statement expense for the defined contribution pension plans we operate represents the contributions payable for the year.

Amounts in the financial statements

Group income statement

The expense or income arising from all group retirement benefit arrangements recognised in the group income statement is shown below.

Year ended 31 March	2020 £m	2019 £m	2018 £m
Recognised in the income statement before specific items			
– Service cost (including administration expenses and PPF levy):			
– defined benefit plans	86	135	376
– defined contribution plans	540	476	265
– Past service credit[a]	–	–	(17)
Subtotal	**626**	**611**	**624**
Recognised in the income statement as specific items (note 9)			
– Costs to close BT Pension Scheme and provide transition payments[b] for affected employees	22	23	–
– Cost to equalise benefits between men and women[c]	–	26	–
– Net interest expense on pensions deficit included in specific items	145	139	218
Subtotal	**167**	**188**	**218**
Total recognised in the income statement	**793**	**799**	**842**

a Relates to the removal of future indexation obligations following changes to the benefits provided under certain pension plans operating outside the UK in 2017/18.
b All employees impacted by the closure of the BTPS receive transition payments into their BTRSS pot for a period linked to the employee's age. There was no past service cost or credit on closure due to the assumed past service benefit link as an active member being the same as that assumed for a deferred member.
c In October 2018, a High Court judgement involving the Lloyds Banking Group's defined benefit pension schemes was handed down, resulting in the group needing to recognise additional liability to equalise benefits between men and women due to GMPs, in common with most UK defined benefit schemes.

Group balance sheet

The Retirement Benefit Obligations in respect of defined benefit plans reported in the group balance sheet are set out below.

	2020			2019		
At 31 March	Assets £m	Liabilities £m	Deficit[a] £m	Assets £m	Liabilities £m	Deficit[a] £m
BTPS	52,240	(53,010)	(770)	52,186	(58,855)	(6,669)
EEPS	820	(879)	(59)	816	(997)	(181)
Other plans[b]	411	(722)	(311)	362	(694)	(332)
Retirement Benefit Obligations (gross of tax)	**53,471**	**(54,611)**	**(1,140)**	**53,364**	**(60,546)**	**(7,182)**
Deferred tax asset			175			1,208
Retirement Benefit Obligations (net of tax)			**(965)**			**(5,974)**

a BT is not required to limit any pension surplus or recognise additional pensions liabilities in individual plans as economic benefits are available in the form of either future refunds or reductions to future contributions. This is on the basis that IFRIC 14 applies enabling a refund of surplus following the gradual settlement of the liabilities over time until there are no members remaining in the scheme.
b Included in the liabilities of other plans is £150m (2018/19: £101m) related to unfunded pension arrangements. As at 31 March 2020, £8m of pension liabilities in France have been classified as held for sale. Refer to note 23.

Included within trade and other payables in the group balance sheet is £43m (2018/19: £42m) in respect of contributions payable to defined contribution plans.

20. Retirement benefit plans continued

Movements in defined benefit plan assets and liabilities

The table below shows the movements on the pension assets and liabilities and shows where they are reflected in the financial statements.

	Assets £m	Liabilities £m	Deficit £m
At 31 March 2018	50,956	(57,803)	(6,847)
Service cost (including administration expenses and PPF levy)	(49)	(86)	(135)
Costs to close BT Pension Scheme	(6)	–	(6)
Cost to equalise benefits between men and women due to guaranteed minimum pension (GMP)	–	(26)	(26)
Interest on pension deficit	1,356	(1,495)	(139)
Included in the group income statement			**(306)**
Return on plan assets above the amount included in the group income statement	1,607	–	1,607
Actuarial loss arising from changes in financial assumptions[a]	–	(3,920)	(3,920)
Actuarial gain arising from changes in demographic assumptions[a]	–	247	247
Actuarial loss arising from experience adjustments[b]	–	(36)	(36)
Included in the group statement of comprehensive income			**(2,102)**
Regular contributions by employer	43	–	43
Deficit contributions by employer	2,024	–	2,024
Included in the group cash flow statement			**2,067**
Contributions by employees	1	(1)	–
Benefits paid	(2,564)	2,564	–
Other (e.g. foreign exchange)	(4)	10	6
Other movements			**6**
At 31 March 2019	**53,364**	**(60,546)**	**(7,182)**
Service cost (including administration expenses and PPF levy)	(66)	(20)	(86)
Interest on pension deficit	1,246	(1,391)	(145)
Included in the group income statement			**(231)**
Return on plan assets above the amount included in the group income statement	249	–	249
Actuarial gain arising from changes in financial assumptions[a]	–	3,746	3,746
Actuarial gain arising from changes in demographic assumptions[a]	–	498	498
Actuarial gain arising from experience adjustments[b]	–	360	360
Included in the group statement of comprehensive income			**4,853**
Regular contributions by employer	160	–	160
Deficit contributions by employer	1,274	–	1,274
Included in the group cash flow statement			**1,434**
Contributions by employees	–	–	–
Benefits paid	(2,764)	2,764	–
Other (e.g. foreign exchange)	8	(22)	(14)
Other movements			**(14)**
At 31 March 2020	**53,471**	**(54,611)**	**(1,140)**

a The actuarial gain or loss arises from changes in the assumptions used to value the defined benefit liabilities at the end of the year compared with the assumptions used at the start of the year. This includes both financial assumptions, which are based on market conditions at the year end, and demographic assumptions such as life expectancy.
b The actuarial loss or gain arising from experience adjustments on defined benefit liabilities represents the impact on the liabilities of differences between actual experience during the year compared with the assumptions made at the start of the year. Such differences might arise, for example, from members choosing different benefit options at retirement, actual salary increases being different from those assumed or actual benefit increases being different to the pension increase assumption.

How do we value our retirement benefit plans?

Valuation methodology

The Retirement Benefit Obligations are measured as the present value of the estimated future benefit cash flows to be paid by each plan, calculated using the projected unit credit method. These calculations are performed by professionally qualified actuaries.

The expected future benefit payments are based on a number of assumptions including future inflation, retirement ages, benefit options chosen and life expectancy and are therefore inherently uncertain. Actual benefit payments in a given year may be higher or lower, for example if members retire sooner or later than assumed, or take a greater or lesser cash lump sum at retirement than assumed.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Overview and governance of the BTPS

What is the profile of the BTPS?
At 30 June 2019, the date of the membership data used to value the liabilities, there were 286,000 members in the BTPS. Members belong to one of three sections depending upon the date they first joined the BTPS. The membership is analysed below.

Analysis of BTPS

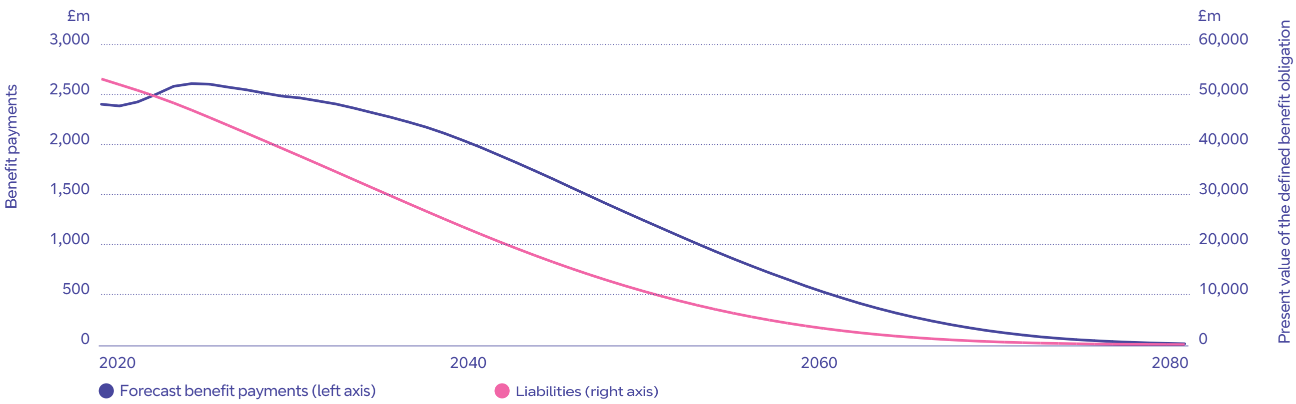
	Active members	Deferred members	Pensioners	Total
Sections A and B liabilities (£bn)[a]	–	7.2	28.7	35.9
Section C liabilities (£bn)	–	12.8	4.3	17.1
Total IAS 19 liabilities (£bn)	**–**	**20.0**	**33.0**	**53.0**
Total number of members	**–**[b]	**81,000**	**205,000**	**286,000**

[a] Sections A and B have been aggregated in this table as Section A members have typically elected to take Section B benefits at retirement.
[b] At 30 June 2019 there are around 50 active members in the BTPS.

The estimated duration of the BTPS liabilities, which is an indicator of the weighted average term of the liabilities, is around 15 years although the benefits payable by the BTPS are expected to be paid over more than 70 years. Whilst benefit payments are expected to increase over the earlier years, the value of the liabilities is expected to reduce.

The chart below illustrates the estimated benefits payable from the BTPS forecast using the IAS 19 assumptions.

Forecast benefit payable by BTPS at 31 March 2020 (unaudited)



What are the benefits under the BTPS?
Benefits earned for pensionable service prior to 1 April 2009 are based upon a member's final salary and a normal pensionable age of 60.

Between 1 April 2009 and 30 June 2018, Section B and C active members accrued benefits based upon a career average re-valued earnings (CARE) basis and a normal pensionable age of 65. On a CARE basis benefits are built up based upon earnings in each year and the benefit accrued for each year is increased by the lower of inflation or the individual's actual pay increase in each year to retirement.

Under the Scheme rules the determination of the rate of inflation for statutory minimum rates of revaluation and indexation for the majority of benefits is based upon either the Retail Price Index (RPI) or the Consumer Price Index (CPI) which apply to each category of member as shown below.

	Active members	Deferred members	Pensioners
Section B[a]	Benefits accrue on a CARE basis increasing at the lower of RPI or the individual's actual pensionable pay increase	Preserved benefits are revalued before retirement based upon CPI	Increases in benefits in payment are currently based upon CPI
Section C			Increases in benefits in payment are currently based upon RPI up to a maximum of 5%

[a] Section A members have typically elected to take Section B benefits at retirement.

20. Retirement benefit plans continued

How is the BTPS governed and managed?
BT Pension Scheme Trustees Limited (the Trustee) has been appointed by BT as an independent trustee to administer and manage the BTPS on behalf of the members in accordance with the terms of the BTPS Trust Deed and Rules and relevant legislation (principally the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004).

Under the terms of the Trust Deed there are nine Trustee directors, all of whom are appointed by BT, as illustrated below. Trustee directors are usually appointed for a three-year term but are then eligible for re-appointment.

Chairman of the Trustees
Appointed by BT after consultation with, and with the agreement of, the relevant trade unions.

Member nominated Trustees
Appointed by BT based on nominations by trade unions.

Employer nominated Trustees
Appointed by BT. Two normally hold senior positions within the group and two normally hold (or have held) senior positions in commerce or industry.

BTPS assets

Critical accounting judgements and key estimates made when valuing our pension assets

Under IAS19, plan assets must be valued at the bid market value at the balance sheet date. Our pension assets include quoted and unquoted investments. A portion of unquoted investments are valued based on inputs that are not directly observable, which require more judgement. The assumptions used in valuing unquoted investments are affected by current market conditions and trends which could result in changes in fair value after the measurement date.

Valuation of main quoted investments
- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds that are regularly traded are valued using broker quotes.
- Exchange traded derivative contracts are valued based on closing bid prices.

Valuation of main unquoted investments (prior to estimated adjustments)
- Equities are valued using the IPEVC guidelines where the most significant assumptions are the discount rate and earnings assumptions.
- Property investments are valued on the basis of open market value by an independent valuer. The significant assumptions used in the valuation are rental yields and occupancy rates. In light of the negative impact of the Covid-19 pandemic on financial markets, the independent valuers included material uncertainty clauses in respect of £2bn of the UK Property asset valuations. The directors still consider these valuations to be the best estimate of the valuation of the Property investments, but there is a higher degree of uncertainty compared to previous years.
- Bonds that are not regularly traded are valued by an independent valuer using pricing models making assumptions for credit risk, market risk and market yield curves.
- Over the counter derivatives are valued by an independent valuer using cashflows discounted at market rates. The significant assumptions used in the valuation are the yield curves and cost of carry.
- Holdings in investment funds are valued at fair value which is typically the Net Asset Value provided by the fund administrator or investment manager. The significant assumption used in the valuation is the Net Asset Value.
- Infrastructure investments are valued by an independent valuer using a model-based valuation such as a discounted cash flow approach. The significant assumptions used in the valuation are the discount rate and the expected cash flows.
- The value of the longevity insurance contract held by the BTPS is measured by discounting the projected cash flows payable under the contract (projected by an actuary, consistent with the terms of the contract). The significant assumptions used to value the asset are the discount rate and the mortality assumptions.

Estimated adjustments to the valuation of main unquoted investments
Under IAS 19, around £6bn of these unquoted assets have been initially measured using the most recent valuations, adjusted for cash movements between the last valuation date and 31 March 2020. As the latest valuations for these assets precede the negative impact of the Covid-19 pandemic on financial markets, we have applied an estimated adjustment by reference to either market indices or estimated 31 March 2020 valuations provided by the portfolio investment manager.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

The overall effect of this adjustment has reduced the valuation of illiquid assets by £0.5bn, and is reflected in the final IAS 19 position at 31 March 2020. Whilst intended to capture material market driven asset valuation movements in the period to 31 March 2020, the calculation of this estimated adjustment contains additional uncertainty over that of the formal valuation process for these assets.

Asset allocation
The allocation of assets between different classes of investment is reviewed regularly and is a key factor in the Trustee's investment policy. The allocations reflect the Trustee's views on the appropriate balance to be struck between seeking returns and incurring risk, and on the extent to which the assets should be allocated to match liabilities. Current market conditions and trends are regularly assessed which may lead to adjustments in the asset allocation.

The fair value of the assets of the BTPS analysed by asset category are shown below. These are subdivided by assets that have a quoted market price in an active market and those that do not (such as investment funds).

		2020[a]				2019[a]		
		Assets prior to estimated adjustments £bn	Total assets[b] £bn	of which quoted[c] £bn	Total %	Total assets £bn	of which quoted[c] £bn	Total %
Growth								
Equities	UK	0.3	0.3	*0.3*	1	0.5	*0.4*	1
	Overseas developed	*6.7*	*6.7*	*5.6*	13	7.7	*7.3*	15
	Emerging markets	1.0	1.0	*1.0*	2	1.1	*1.1*	2
Private Equity		1.6	1.3	–	2	1.5	–	3
Property	UK	3.5	3.5	–	7	3.5	–	7
	Overseas	1.1	1.1	–	2	1.1	–	2
Other growth assets	Absolute Return[d]	1.2	1.2	–	2	1.2	–	2
	Non Core Credit[e]	4.4	4.2	*1.0*	8	3.8	*1.1*	7
	Mature Infrastructure	1.5	1.5	–	3	1.4	–	3
Liability matching								
Government bonds	UK	13.9	13.9	*13.9*	27	13.2	*13.2*	25
Investment grade credit	Global	14.4	14.4	*10.1*	28	14.3	*10.1*	27
Cash, derivatives and other								
Cash balances		2.3	2.3	–	4	2.7	–	5
Longevity insurance contract[f]		(0.8)	(0.8)	–	(2)	(0.7)	–	(1)
Other[g]		1.6	1.6	–	3	0.9	–	2
Total		**52.7**	**52.2**	***31.9***	**100**	**52.2**	***33.2***	**100**

a At 31 March 2020, the Scheme did not hold any equity issued by the group (2018/19: nil). The Scheme also held £1,867m (2018/19: £2,154m) of bonds issued by the group.
b Includes an estimated adjustment to assets where the latest valuation precedes the negative impact of the Covid-19 pandemic on financial markets. The calculation of this estimated adjustment contains additional uncertainty over that of the formal valuation process for these assets.
c Assets with a quoted price in an active market.
d This allocation seeks to generate returns irrespective of the direction of markets. Managers within this allocation will typically manage their portfolios without close regard to a specific market benchmark.
e This allocation includes a range of credit investments, including emerging market, sub-investment grade and unrated credit. The allocation seeks to exploit investment opportunities within credit markets using the expertise of a range of specialist investment managers.
f The Trustee has hedged some of the Scheme's longevity risk through a longevity insurance contract which was entered into in 2014. The value reflects experience to date on the contract from higher than expected deaths. This amount partly offsets a reduction which has been recognised in the Scheme's liabilities.
g Includes collateral posted in relation to derivatives held by the Scheme.

BTPS Liabilities

Critical accounting judgements and key estimates made when valuing our pension liabilities

The measurement of the service cost and the liabilities involves judgements about uncertain events including the life expectancy of the members, price inflation and discount rates used to calculate the net present value of the future pension payments. We use estimates for all of these uncertain events. Our assumptions reflect historical experience, external advice and our judgement regarding future expectations at the balance sheet date.

20. Retirement benefit plans continued

The table below summarises the approach used to set the key IAS 19 assumptions for the BTPS.

	Approach to set the assumption
Discount rate	IAS 19 requires that the discount rate is determined by reference to market yields at the reporting date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension obligations. The assumption is calculated by applying the projected BTPS benefit cash flows to a corporate bond yield curve constructed by our external actuary based on the yield on AA-rated corporate bonds. In setting the yield curve, judgement is required on the selection of appropriate bonds to be included in the universe and the approach used to then derive the yield curve.
RPI and CPI inflation	The RPI inflation assumption is set using an inflation curve derived from market yields on government bonds, weighted by projected BTPS benefit cash flows, and making an adjustment for an inflation risk premium (to reflect the extra premium paid by investors for inflation protection), which we currently assume to be 20bps. CPI is assessed at a margin below RPI taking into account market forecasts and independent estimates of the expected difference. A consultation on the future of Retail Prices Index (RPI) launched in March 2020 has created uncertainty around future expectations of RPI and CPI and therefore the measurement of the pension liabilities at 31 March 2020. The consultation considers aligning RPI with CPIH at a point between 2025 and 2030. We estimate that 60% of the impact of aligning RPI with CPIH from 2030 is reflected in the value of RPI-linked assets at 31 March 2020 and we have amended our long-term RPI and CPI assumptions accordingly. Additional developments could lead to further changes to our inflation assumptions and/or asset valuations at future reporting dates.
Pension increases	Benefits are assumed to increase in line with the RPI or CPI inflation assumptions, based on the relevant index for increasing benefits, as prescribed by the rules of the BTPS and summarised above.
Longevity	The longevity assumption takes into account: • the actual mortality experience of the BTPS pensioners, based on a formal review conducted at the 2014 triennial funding valuation • future improvements in longevity based on a model published by UK actuarial profession's Continuous Mortality Investigation (using the CMI 2018 Mortality Projections model with a 1.25% per year long-term improvement parameter).

The key financial assumptions used to measure the liabilities of the BTPS are shown below.

	Nominal rates (per year)			Real rates (per year)[a]		
At 31 March	**2020**	2019	2018	**2020**	2019	2018
Rate used to discount liabilities	2.45%	2.35%	2.65%	(0.15)%	(0.87)%	(0.44)%
Inflation – increase in RPI	2.60%	3.25%	3.10%	–%	–%	–%
Inflation – increase in CPI	2.10%[b]	2.25%[c]	2.00%[d]	(0.5)%[b]	(1.0)%[c]	(1.1)%[d]

a The real rate is calculated relative to RPI inflation.
b Assumed to be 0.4% lower until 31 March 2030.
c Assumed to be 0.1% lower until 31 March 2023.
d Assumed to be 0.1% higher until 31 March 2023.

The BTPS represents over 97% of the group's pension liabilities. While the financial assumptions may vary for each scheme, the nominal financial assumptions weighted by liabilities across all schemes are equal to the figures shown in the table above (to the nearest 0.05%).

Based on the IAS 19 longevity assumptions, the forecast life expectancies for BTPS members aged 60 are as follows:

At 31 March	**2020** Number of years	2019 Number of years
Male in lower pay bracket	25.4	25.7
Male in medium pay bracket	26.7	27.0
Male in higher pay bracket	28.1	28.5
Female in lower pay bracket	28.1	28.5
Female in higher pay bracket	28.4	28.7
Average improvement for a member retiring at age 60 in 10 years' time	0.7	0.7

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Risks underlying the assumptions

Background

The BTPS faces similar risks to other UK DB schemes: things like future low investment returns, high inflation, longer life expectancy and regulatory changes may all mean the BTPS becomes more of a financial burden. Further details are set out on page 59.

Changes in external factors, such as interest rates, can have an impact on the IAS 19 assumptions, impacting the measurement of BTPS liabilities. These factors can also impact the Scheme assets. The BTPS hedges some of these risks, including longevity and currency using financial instruments and insurance contracts.

Some of the key financial risks, and mitigations, for the BTPS are set out in the table below.

Changes in corporate and government bond yields	A fall in yields on AA-rated corporate bonds, used to set the IAS 19 discount rate, will lead to an increase in the IAS 19 liabilities. The BTPS's assets include corporate bonds, government bonds and interest rate derivatives which are expected to partly offset the impact of movements in the discount rate. However, yields on these assets may diverge compared with the discount rate in some scenarios.
Changes in inflation expectations	A significant proportion of the benefits paid to members are currently increased in line with RPI or CPI inflation. An increase in long-term inflation expectations will lead to an increase in the IAS 19 liabilities. The BTPS's assets include index-linked government bonds and inflation derivatives which are expected to largely offset the impact of movements in inflation expectations.
Changes in growth assets	A significant proportion of the BTPS assets are invested in growth assets, such as equities and property. Although the BTPS has temporary hedges in place to partly offset the impact of a fall in equity markets, a fall in these growth assets will lead to a worsening of the IAS 19 deficit.
Changes in life expectancy	An increase in the life expectancy of members will result in benefits being paid out for longer, leading to an increase in the BTPS liabilities. The BTPS holds a longevity insurance contract which covers around 25% of the BTPS's total exposure to improvements in longevity, providing long-term protection and income to the BTPS in the event that members live longer than currently expected.
The future of RPI	If RPI is aligned with CPIH in the future it could lead to a fall in long-term RPI of around 1%. At 31 March 2020, we estimate that 60% of the impact of aligning RPI with CPIH from 2030 is reflected in the value of RPI-linked assets. Full alignment from 2030 would therefore reduce RPI inflation expectations from 2030 by 0.4%. This change would reduce the value of the RPI-linked pension liabilities by around £0.4bn. However, the value of the scheme's RPI-linked assets would also be negatively impacted (assuming no compensation is provided to asset holders) by around £1.4bn. The result would be a net increase in the IAS 19 deficit of around £1bn. If the alignment of RPI with CPIH is carried out earlier, the impact on the deficit will be greater.

Other risks include: volatile asset returns (ie where asset returns differ from the discount rate); changes in legislation or regulation which impact the value of the liabilities or assets; and member take-up of options before and at retirement to reshape their benefits.

Scenario analysis

The potential negative impact of the key risks is illustrated as the following five scenarios. These have been assessed by BT's independent actuary as scenarios that might occur no more than once in every 20 years.

Scenario

	1-in-20 events	
	2020	2019
1. Fall in bond yields[a]	1.1%	1.1%
2. Increase in credit spreads only	0.7%	N/A
3. Increase to inflation rate[b]	0.7%	0.7%
4. Fall in growth assets [c]	20.0%	N/A
5. Increase to life expectancy	1.25 years	1.25 years

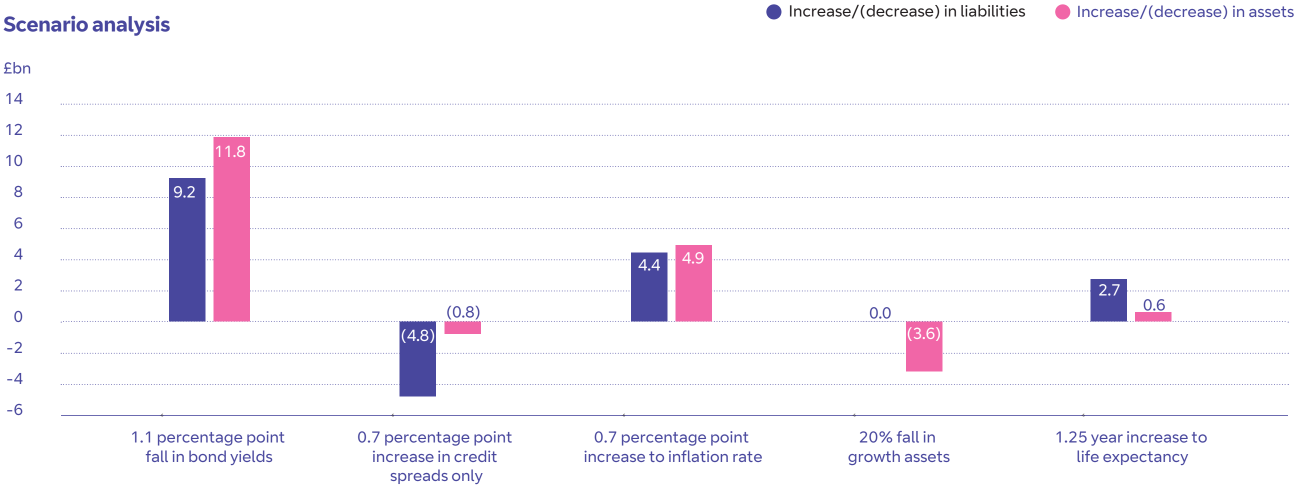
[a] Scenario assumes a fall in the yields on both government and corporate bonds.
[b] Assuming RPI, CPI, pension increases and salary increases all increase by the same amount.
[c] Impact includes the potential impact of temporary equity hedges held by the Scheme.

The impact shown under each scenario looks at each event in isolation – in practice a combination of events could arise.

20. Retirement benefit plans continued

Impact of illustrative scenarios which might occur no more than once in every 20 years

Scenario analysis



The sensitivities have been prepared using the same approach as 2018/19 which involves calculating the liabilities and assets assuming the change in market conditions assumed under the scenario occurs.

BTPS funding

Triennial funding valuation

The triennial valuation is carried out for the Trustee by a professionally qualified independent actuary. The purpose of the valuation is to design a funding plan to ensure that the BTPS has sufficient funds available to meet future benefit payments. The latest funding valuation was performed as at 30 June 2017. The next funding valuation will have an effective date of no later than 30 June 2020.

The valuation methodology for funding purposes, which is based on prudent assumptions, is broadly as follows:

- Assets are valued at market value at the valuation date.
- Liabilities are measured on an actuarial funding basis using the projected unit credit method and discounted to their present value.

The results of the two most recent triennial valuations are shown below.

	June 2017 valuation £bn	June 2014 valuation £bn
BTPS liabilities	(60.4)	(47.2)
Market value of BTPS assets	49.1	40.2
Funding deficit	(11.3)	(7.0)
Percentage of accrued benefits covered by BTPS assets at valuation date	81.3%	85.2%
Percentage of accrued benefits on a solvency basis covered by the BTPS assets at the valuation date	62.2%	63.0%

Key assumptions – funding valuation

These valuations were determined using the following prudent long-term assumptions.

	Nominal rates (per year)		Real rates (per year)[a]	
	June 2017 valuation %	June 2014 valuation %	June 2017 valuation %	June 2014 valuation %
Average single equivalent discount rate	2.6	4.5	(0.8)	1.0
Average long-term increase in RPI	3.4	3.5	–	–
Average long-term increase in CPI	2.4	2.5	(1.0)	(1.0)

[a] The real rate is calculated relative to RPI inflation and is shown as a comparator.

Notes to the consolidated financial statements continued

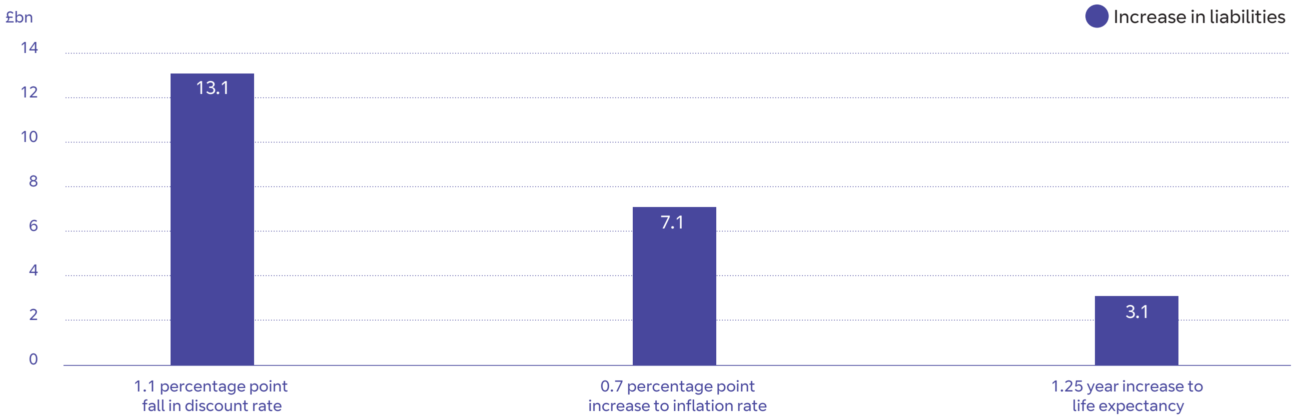
20. Retirement benefit plans continued

The discount rate at 30 June 2017 was derived from prudent return expectations above a risk-free yield curve based on gilt and swap rates. The discount rate reflects views of future returns at the valuation date, allowing for the Scheme to hold 45% of its investments in growth assets initially, before de-risking to a low risk investment approach by 2034. This gives a prudent discount rate of 1.4% per year above the yield curve initially, trending down to 0.7% per year above the curve in the long-term. The assumption is equivalent to using a flat discount rate of 1.0% per year above the risk-free yield curve at the valuation date.

The average life expectancy assumptions at the valuation dates, for members 60 years of age, are as follows.

Number of years from valuation date	**June 2017 assumptions**	**June 2014 assumptions**
Male in lower pay bracket	25.9	26.1
Male in medium pay bracket	27.2	27.5
Male in high pay bracket	28.6	29.0
Female in lower pay bracket	28.6	28.9
Female in high pay bracket	28.9	29.2
Average improvement for a member retiring at age 60 in 10 years' time	0.9	1.3

Changes in the funding position
The impact of changes in market conditions on the funding liabilities may differ from the impact on the IAS 19 liabilities. The estimated impact of the scenarios illustrated on page 169 on the funding liabilities is shown in the chart below.



Payments made to the BTPS

Year ended 31 March	**2020 £m**	2019 £m
Ordinary contributions	118	33
Deficit contributions	1,250	2,000
Total contributions in the year	**1,368**	**2,033**

Future funding obligations and recovery plan
Under the terms of the Trust Deed, the group is required to have a funding plan, determined at the conclusion of the triennial funding valuation, which is a legal agreement between BT and the Trustee and should address the deficit over a maximum period of 20 years.

In May 2018, the 2017 triennial funding valuation was finalised, agreed with the Trustee and certified by the Scheme Actuary. The funding deficit at 30 June 2017 was £11.3bn. The deficit was agreed to be met over a 13 year period, with the remaining payments shown in the table below.

BT is scheduled to make future deficit payments to the BTPS in line with the table below.

Year to 31 March	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Deficit contribution (£m)	900[a]	900[b]	907	907	907	907	907	907	907	907

a £400m payable by 30 June 2020.
b £200m payable by 30 June 2021.

Based on the 2017 funding valuation agreement, the group expects to make contributions of approximately £960m to the BTPS in 2020/21, comprising of contributions of approximately £60m for expenses and future accrual and deficit contributions of £900m.

20. Retirement benefit plans continued

Other protections
The 2017 funding agreement with the Trustee included additional features for BT to provide support to the BTPS. These include:

Feature	Detail
Shareholder distributions	BT will provide additional payments to the BTPS by the amount that shareholder distributions exceed a threshold. The threshold allows for 10% per year dividend per share growth plus £200m per year of share buybacks on a cumulative basis. This will apply until 30 June 2021, or until the finalisation of the next valuation if earlier. BT will also consult with the Trustee if it considers share buybacks in excess of £200m per year or making a special dividend. This obligation is on-going until otherwise terminated.
Material corporate events	In the event that BT generates net cash proceeds greater than £1.0bn from disposals (net of acquisitions) in any 12-month period ending 30 June, BT will make additional contributions to the BTPS equal to one third of those net cash proceeds. This obligation applies until the next valuation is signed. BT will consult with the Trustee if: • it considers making acquisitions with a total cost of more than £1.0bn in any 12-month period; or • it considers making disposals of more than £1.0bn; or • it considers making a Class 1 transaction (acquisition or disposal); or • it is subject to a takeover offer. This obligation is on-going until otherwise terminated. BT will advise the Trustee should there be other material corporate events which would materially impact BT's covenant to the BTPS. This obligation is on-going until otherwise terminated.
Negative pledge	A negative pledge that future creditors will not be granted superior security to the BTPS in excess of a £1.5bn threshold, to cover both British Telecommunications plc and BT Group plc. This provision applies until the deficit reduces to below £2.0bn at any subsequent funding valuation.

In the highly unlikely event that the group were to become insolvent there are additional protections of BTPS members' benefits:

Feature	Detail
Crown Guarantee	The Crown Guarantee was granted by the Government when the group was privatised in 1984 and would only come into effect upon the insolvency of BT. The Trustee brought court proceedings to clarify the scope and extent of the Crown Guarantee. The Court of Appeal judgement on 16 July 2014 established that: • the Crown Guarantee covers BT's funding obligation in relation to the benefits of members of the BTPS who joined post-privatisation as well as those who joined pre-privatisation (subject to certain exceptions) • the funding obligation to which the Crown Guarantee relates is measured with reference to BT's obligation to pay deficit contributions under the rules of the BTPS. The Crown Guarantee is not taken into account for the purposes of the actuarial valuation of the BTPS and is an entirely separate matter, only being relevant in the highly unlikely event that BT became insolvent.
Pension Protection Fund (PPF)	Further protection is also provided by the Pension Protection Fund which is the fund responsible for paying compensation in schemes where the employer becomes insolvent.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Other benefit plans

In addition to the BTPS, the group maintains benefit plans around the world with a focus on these being appropriate for the local market and culture.

EEPS

The EEPS is the second largest defined benefit plan sponsored by the group. It has a defined benefit section that is closed to future accrual, with liabilities of around £0.9bn, and a defined contribution section with around 9,000 members.

At 31 March 2020, the defined benefit section's assets are invested across a number of asset classes including global equities (20%), property & illiquid alternatives (25%), an absolute return portfolio (23%) and a liability driven investment portfolio (32%).

The most recent triennial valuation of the defined benefit section was performed as at 31 December 2018 and agreed in March 2020. This showed a funding deficit of £161m. The group is scheduled to contribute £3.3m each month until 31 July 2022.

BTRSS

The BTRSS is the largest defined contribution plan maintained by the group with around 67,000 active members. In the year to 31 March 2020, £460m of contributions were payable by the group to the BTRSS.

BTHS

The BTHS combines elements of both defined benefit and defined contribution pension schemes. It was set up in April 2019 for non-management employees impacted by the closure of the BTPS and was closed to new entrants on 30 September 2019. At 31 March 2020 it had liabilities of around £12m.

21. Own shares

Significant accounting policies that apply to own shares

Own shares are recorded at cost and deducted from equity. When shares held for the beneficial ownership of employees vest unconditionally or are cancelled they are transferred from the own shares reserve to retained earnings at their weighted average cost.

	Treasury shares[a]		Employee share ownership trust[a]		Total	
	millions	£m	millions	£m	millions	£m
At 31 March 2018	46	(145)	12	(41)	58	(186)
Own shares purchased[b]	–	–	5	(9)	5	(9)
Share options exercised[b]	(1)	2	–	–	(1)	2
Executive share awards vested	–	–	(8)	26	(8)	26
At 1 April 2019	**45**	**(143)**	**9**	**(24)**	**54**	**(167)**
Own shares purchased[b]	41	(80)	3	(6)	44	(86)
Share options exercised[b]	–	–	–	–	–	–
Executive share awards vested	–	–	(8)	22	(8)	22
Conversion of ADR shares[c]	–	–	3	(6)	3	(6)
At 31 March 2020	**86**	**(223)**	**7**	**(14)**	**93**	**(237)**

a At 31 March 2020, 85,921,056 shares (2018/19: 45,308,559) with an aggregate nominal value of £4m (2018/19: £2m) were held at cost as treasury shares and 7,255,789 shares (2018/19: 9,021,714) with an aggregate nominal value of £nil (2018/19: £nil) were held in the Trust.
b See group cash flow statement on page 128. The cash paid for the repurchase of ordinary shares was £86m (2018/19: £9m). The cash received for proceeds on the issue of treasury shares was £2m (2018/19: £5m).
c Conversion of American depositary receipts to ordinary shares following delisting from the NYSE and termination of BT's ADR programme from the US Securities Exchange Commission registration.

The treasury shares reserve represents BT Group plc shares purchased directly by the group. The BT Group Employee Share Ownership Trust (the Trust) also purchases BT Group plc shares.

The treasury shares and the shares in the Trust are being used to satisfy our obligations under employee share plans. Further details on these plans are provided in note 22.

22. Share-based payments

Significant accounting policies that apply to share-based payments

We operate a number of equity-settled share-based payment arrangements, under which we receive services from employees in consideration for equity instruments (share options and shares) of the group. Equity-settled share-based payments are measured at fair value at the date of grant. Market-based performance criteria and non-vesting conditions (for example, the requirement for employees to make contributions to the share purchase programme) are reflected in this measurement of fair value. The fair value determined at the grant date is recognised as an expense on a straight line basis over the vesting period, based on the group's estimate of the options or shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured using either the Binomial options pricing model or Monte Carlo simulations, whichever is more appropriate to the share-based payment arrangement.

Service and performance conditions are vesting conditions. Any other conditions are non-vesting conditions which have to be taken into account to determine the fair value of equity instruments granted. In the case that an award or option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either counterparty, this is accounted for as a cancellation. Cancellations are treated as accelerated vesting and all remaining future charges are immediately recognised in the income statement. As the requirement to save under an employee save share arrangement is a non-vesting condition, employee cancellations, other than through a termination of service, are treated as an accelerated vesting.

No adjustment is made to total equity for awards that lapse or are forfeited after the vesting date.

Year ended 31 March	2020 £m	2019 £m	2018 £m
Employee Saveshare Plans	36	38	42
Executive Share Plans:			
Incentive Share Plan (ISP)	16	6	16
Deferred Bonus Plan (DBP)	7	6	4
Retention Share Plan (RSP)	9	17	21
Other plans	4	–	1
	72	**67**	**84**

What share incentive arrangements do we have?

Our plans include savings-related share option plans for employees and those of participating subsidiaries, further share option plans for selected employees and a stock purchase plan for employees in the US. We also have several share plans for executives. All share-based payment plans are equity-settled. Details of these plans is set out below.

Employee Saveshare Plans

Under an HMRC-approved savings-related share option plan, employees save on a monthly basis, over a three or five-year period, towards the purchase of shares at a fixed price determined when the option is granted. This price is set at a 20% discount to the market price for five-year plans and 10% for three-year plans. The options must be exercised within six months of maturity of the savings contract, otherwise they lapse. Similar plans operate for our overseas employees.

Yourshare

We have announced a new share incentive plan under which people who were employees of the group at 31 December 2019 will be awarded £500 of BT shares in June 2020. The shares will be held in trust for a 3 year vesting period after which they will be transferred to employees, providing they have been continuously employed during that time.

Incentive Share Plan (ISP)

Under the ISP, participants are entitled to the shares in full at the end of a three-year period only if the company has met the relevant pre-determined corporate performance measures and if the participants are still employed by the group. For ISP awards granted in 2019/20, 2018/19 and 2017/18: 40% of each award is linked to a total shareholder return (TSR) target for a comparator group of companies from the beginning of the relevant performance period; 40% is linked to a three-year cumulative normalised free cash flow measure; and 20% to growth in underlying revenue.

Deferred Bonus Plan (DBP)

Under the DBP, awards are granted annually to selected employees. Shares in the company are transferred to participants at the end of three years if they continue to be employed by the group throughout that period.

Retention Share Plan (RSP)

Under the RSP, awards are granted to selected employees. Shares in the company are transferred to participants at the end of a specified retention period if they continue to be employed by the group throughout that period.

Under the terms of the ISP, DBP and RSP, dividends or dividend equivalents earned on shares during the conditional periods are reinvested in company shares for the potential benefit of the participants.

Notes to the consolidated financial statements continued

22. Share-based payments continued

Employee Saveshare Plans

Movements in Employee Saveshare options are shown below.

	Number of share options			Weighted average exercise price		
Year ended 31 March	2020 millions	2019 millions	2018 millions	2020 pence	2019 pence	2018 pence
Outstanding at 1 April	190	175	189	254	306	313
Granted	107	80	69	168	175	250
Forfeited	(50)	(44)	(41)	251	298	328
Exercised	–	(1)	(30)	174	247	169
Expired	(33)	(20)	(12)	318	294	353
Outstanding at 31 March	**214**	**190**	**175**	**202**	**254**	**306**
Exercisable at 31 March	–	–	–	319	249	320

The weighted average share price for all options exercised during 2019/20 was 203p (2018/19: 249p, 2017/18: 311p).

The following table summarises information relating to options outstanding and exercisable under Employee Saveshare plans at 31 March 2020.

Normal dates of vesting and exercise (based on calendar years)	Exercise price per share	Weighted average exercise price	Number of outstanding options millions	Weighted average remaining contractual life
2020	243p – 397p	302p	26	10 months
2021	170p – 376p	228p	34	22 months
2022	164p – 353p	200p	58	34 months
2023	170p	170p	35	46 months
2024	164p	164p	61	58 months
Total		**202p**	**214**	**34 months**

Executive share plans

Movements in executive share plan awards during 2019/20 are shown below:

	Number of shares (millions)			
	ISP	DBP	RSP	Total
At 31 March 2019	74	8	11	93
Awards granted	34	5	8	47
Awards vested	–	(2)	(6)	(8)
Awards lapsed	(25)	–	(1)	(26)
Dividend shares reinvested	8	1	1	10
At 31 March 2020	**91**	**12**	**13**	**116**

Fair values

The following table summarises the fair values and key assumptions used for valuing grants made under the Employee Saveshare plans and ISP in 2019/20, 2018/19 and 2017/18.

	2020		2019		2018	
Year ended 31 March	Employee Saveshare	ISP	Employee Saveshare	ISP	Employee Saveshare	ISP
Weighted average fair value	39p	152p	41p	156p	56p	202p
Weighted average share price	206p	202p	208p	211p	296p	281p
Weighted average exercise price of options granted	168p	n/a	175p	n/a	250p	n/a
Expected dividend yield	4.16% – 5.01%	n/a	3.47% – 3.83%	n/a	3.12% – 3.21%	n/a
Risk free rates	0.55% – 0.63%	0.7%	0.74% – 1.07%	0.7%	0.1% – 0.2%	0.2%
Expected volatility	25.0% – 28.1%	24.3%	23.3% – 25.8%	23.5%	23.1% – 24.3%	23.6%

Employee Saveshare grants are valued using a Binomial options pricing model. Awards under the ISP are valued using Monte Carlo simulations. TSRs are generated for BT and the comparator group at the end of the three-year performance period, using each company's volatility and the cross correlation between pairs of stocks.

22. Share-based payments continued

Volatility has been determined by reference to BT's historical volatility which is expected to reflect the BT share price in the future. An expected life of six months after vesting date is assumed for Employee Saveshare options. For all other awards the expected life is equal to the vesting period. The risk-free interest rate is based on the UK gilt curve in effect at the time of the grant, for the expected life of the option or award.

The fair values for the DBP and RSP were determined using the market price of the shares at the grant date. The weighted average share price for DBP awards granted in 2019/20 was 195p (2018/19: 209p, 2017/18: 282p) and for RSP awards granted in 2019/20 177p (2018/19: 217p, 2017/18: 282p).

23. Assets and liabilities classified as held for sale

Assets and liabilities held for sale at 31 March 2020 relate to our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. All of these divestments are part of the Global segment and are expected to complete in financial year 2020/21. The disposal of these operations is in line with our strategy.

The disposals do not meet the definition of a discontinued operation per IFRS 5.

For operations that are classified as held for sale, impairment testing requires management to determine whether the carrying value of the disposal groups can be supported by the fair value less costs to sell. For each of the transactions which have been classified as 'held for sale' at 31 March 2020 we have agreed a selling price with a prospective purchaser which we have used as the fair value for the impairment test, which is classified as Level 3 on the fair value hierarchy. An impairment charge of £37m was recognised in relation to the France divestment and a charge of £90m was recognised in relation to the Latin America divestment. These impairment charges have been recognised as a specific item, see note 9. Our domestic operations in Spain are expected to be sold at a profit and therefore no impairment has been recognised on classification as held for sale.

The disposal groups were stated at fair value less costs to sell and comprised the following assets and liabilities:

At 31 March 2020	£m
Assets	
Intangible assets	35
Property, plant and equipment	37
Right-of-use assets	34
Trade and other receivables	87
Contract assets	8
Deferred tax assets	4
Inventories	1
Current tax receivable	19
Cash and cash equivalents	43
Assets held for sale	**268**
Liabilities	
Trade and other payables	104
Contract liabilities	28
Lease liabilities	62
Current tax liabilities	4
Retirement benefit obligations	8
Provisions	5
Liabilities held for sale	**211**

24. Investments

Significant accounting policies that apply to investments

Investments classified as amortised cost

These investments are measured at amortised cost. Any gain or loss on derecognition is recognised in the income statement.

Investments classified as fair value through profit and loss

These investments are initially recognised at fair value plus direct transaction costs. They are re-measured at subsequent reporting dates to fair value and changes are recognised directly in the income statement.

Equity instruments classified as fair value through other comprehensive income

We have made an irrevocable election to present changes in the fair value of equity investments that are not held for trading in other comprehensive income. All gains or losses are recognised in other comprehensive income and are not reclassified to the income statement when the investments are disposed of, aside from dividends which are recognised in the income statement when our right to receive payment is established. Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

Notes to the consolidated financial statements continued

24. Investments continued

IFRS 9 was applied for the first time on 1 April 2018 and introduced new classifications for financial instruments, including investments. Under IAS 39, we classified investments as available-for-sale, loans and receivables, and fair value through profit or loss. On transition to IFRS 9 we reclassified them as fair value through other comprehensive income, fair value through profit or loss, and amortised cost. The current year and 2019 figures in the following tables reflect the classifications under IFRS 9, and the 2018 figures reflect the previous classifications under IAS 39.

At 31 March	**2020 £m**	2019 £m	2018 £m
Non-current assets			
Fair value through other comprehensive income	9	48	–
Available-for-sale	–	–	46
Fair value through profit or loss	11	6	7
	20	**54**	**53**
Current assets			
Available-for-sale	–	–	2,575
Investments held at amortised cost	5,092	3,214	–
Loans and receivables	–	–	447
	5,092	**3,214**	**3,022**

Investments held at amortised cost consist of investments previously classified as loans and receivables and relate to money market investments denominated in sterling of £4,181m (2018/19: £2,687m, 2017/18: £416m), in US dollars of £29m (2018/19: £26m, 2017/18: £27m) in euros of £882m (2018/19: £499m, 2017/18: £nil) and in other currencies £nil (2018/19: £2m, 2017/18: £4m). Within these amounts are investments in liquidity funds of £4,209m (2018/19: £2,522m). In 2017/18, investments in liquidity funds of £2,575m were classified as available-for-sale.

Fair value estimation

Fair value hierarchy At 31 March 2020	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total held at fair value £m**
Non-current and current investments				
Fair value through other comprehensive income	–	–	9	9
Fair value through profit or loss	11	–	–	11
Total	**11**	**–**	**9**	**20**

Fair value hierarchy At 31 March 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Fair value through other comprehensive income	38	–	10	48
Fair value through profit or loss	6	–	–	6
Total	**44**	**–**	**10**	**54**

Fair value hierarchy At 31 March 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Available-for-sale	32	2,575	14	2,621
Fair value through profit or loss	7	–	–	7
Total	**39**	**2,575**	**14**	**2,628**

The three levels of valuation methodology used are:

Level 1 – uses quoted prices in active markets for identical assets or liabilities.

Level 2 – uses inputs for the asset or liability other than quoted prices that are observable either directly or indirectly.

Level 3 – uses inputs for the asset or liability that are not based on observable market data, such as internal models or other valuation methods.

Level 1 investments, classified as fair value through other comprehensive income, were sold in 2019/20. The fair value gain was reclassified from fair value reserve to profit and loss reserve after disposal, see note 29.

24. Investments continued

Level 2 balances disclosed in 2018 consist of investments classified as available-for-sale and relating to liquidity funds denominated in sterling of £2,180m, and in euros of £395m. Their fair value was calculated by using notional currency amounts adjusted by year end spot exchange rates. These have been reclassified on adoption of IFRS 9 and are now held at amortised cost.

Level 3 balances consist of investments classified as fair value through other comprehensive income (classified as available-for-sale in 2018) of £9m (2018/19: £10m, 2017/18: £14m) which represent investments in a number of private companies. In the absence of specific market data, these investments are held at cost, adjusted as necessary for impairments, which approximates to fair value.

25. Cash and cash equivalents

Significant accounting policies that apply to cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash, are subject to insignificant risk of changes in value and have an original maturity of three months or less. All are held at amortised cost on the balance sheet, equating to fair value.

For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above net of outstanding bank overdrafts. Bank overdrafts are included within the current element of loans and other borrowings (note 26).

IFRS 9 was applied for the first time on 1 April 2018 and introduces new classifications for financial instruments. Cash and cash equivalents were classified as loans and receivables under IAS 39, and are now classified as financial assets held at amortised cost under IFRS 9. The current year and 2019 figures in the following tables reflect the classifications under IFRS 9, and the 2018 figures reflect the previous classifications under IAS 39. This has not had an impact on the accounting for these instruments, or on their carrying amounts.

At 31 March	**2020 £m**	2019 £m	2018 £m
Cash at bank and in hand	**463**	**495**	**446**
Cash equivalents			
UK deposits	1,043	1,132	31
US deposits	8	3	26
Other deposits	35	36	25
Total cash equivalents	**1,086**	**1,171**	**82**
Total cash and cash equivalents	**1,549**	**1,666**	**528**
Bank overdrafts (note 26)	(183)	(72)	(29)
Cash and cash equivalents classified as held for sale (note 23)	43	–	–
Cash and cash equivalents per the cash flow statement	**1,409**	**1,594**	**499**

Cash and cash equivalents include restricted cash of £42m (2018/19: £44m, 2017/18: £32m), of which £29m (2018/19: £40m, 2017/18: £29m) was held in countries where local capital or exchange controls currently prevent us from accessing cash balances. The remaining balance of £13m (2018/19: £4m, 2017/18: £3m) was held in escrow accounts, or in commercial arrangements akin to escrow.

26. Loans and other borrowings

Significant accounting policies that apply to loans and other borrowings

We initially recognise loans and other borrowings at the fair value of amounts received net of transaction costs. They are subsequently measured at amortised cost using the effective interest method and, if included in a fair value hedge relationship, are re-valued to reflect the fair value movements on the associated hedged risk. The resulting amortisation of fair value movements, on de-designation of the hedge, is recognised in the income statement.

What's our capital management policy?

The objective of our capital management policy is to target an overall level of debt consistent with our credit rating target while investing in the business, supporting the pension scheme and meeting our distribution policy. In order to meet this objective, we may issue or repay debt, issue new shares, repurchase shares, or adjust the amount of dividends paid to shareholders. We manage the capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the group. The Board regularly reviews the capital structure. No changes were made to these objectives and processes during 2019/20. For details of share issues and repurchases in the year see note 21.

Our capital structure consists of net debt and shareholders' equity. The analysis below summarises the components which we manage as capital.

At 31 March	**2020 £m**	2019 £m	2018 £m
Net debt[a]	17,969	11,035	9,627
Total parent shareholders' equity[b]	14,741	10,140	9,877
	32,710	**21,175**	**19,504**

[a] Net debt at 31 March 2020 includes lease liabilities recognised following adoption of IFRS 16 on 1 April 2019, refer to note 1.
[b] Excludes non-controlling interests of £22m (2018/19: £27m, 2017/18: £34m).

Notes to the consolidated financial statements continued

26. Loans and other borrowings continued

Net debt

Net debt consists of loans and other borrowings and lease liabilities (both current and non-current), less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on balance sheet. Loans and other borrowings are measured at the net proceeds raised, adjusted to amortise any discount over the term of the debt. Lease liabilities are initially measured based on lease payments that are due over the lease term discounted at the group's incremental borrowing rate, and subsequently measured at amortised cost. Current asset investments and cash and cash equivalents are measured at amortised cost. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings and lease liabilities (current and non-current), current asset investments and cash and cash equivalents.

A reconciliation from the most directly comparable IFRS measure to net debt is given below.

At 31 March	**2020 £m**	2019 £m	2018 £m
Loans and other borrowings	19,334	16,876	14,275
Lease liabilities[a]	6,560	–	–
Net liabilities classified as held for sale[b]	19	–	–
Less:			
Cash and cash equivalents	(1,549)	(1,666)	(528)
Current asset investments	(5,092)	(3,214)	(3,022)
	19,272	**11,996**	**10,725**
Adjustments:			
To retranslate debt balances at swap rates where hedged by currency swaps	(1,049)	(701)	(874)
To remove accrued interest applied to reflect the effective interest method and fair value adjustments	(254)	(260)	(224)
Net debt	**17,969**	**11,035**	**9,627**

a Lease liabilities recognised following adoption of IFRS 16 on 1 April 2019, refer to note 1.
b Net liabilities classified as held for sale include lease liabilities of £62m less cash and cash equivalents of £43m, refer to note 23.

The table below shows the key components of net debt and of the increase of £6,934m this year.

	At 31 March 2019 £m	IFRS 16 lease liabilities[a] £m	At 1 April 2019 £m	Issuance/ (maturities) £m	Net lease additions[a] £m	Foreign exchange £m	Transfer to within one year £m	Other movements £m	At 31 March 2020 £m
Loans and other borrowings due within one year[b]	2,100	(16)	2,084	(629)	–	33	1,326	28	2,842
Lease liabilities due within one year	–	725	725	(791)	–	–	897	(19)	812
Loans and other borrowings due after one year	14,776	(190)	14,586	2,843	–	398	(1,326)	(9)	16,492
Lease liabilities due after one year	–	5,544	5,544	–	1,139	5	(897)	(43)	5,748
Impact of cross-currency swaps[c]	(701)	–	(701)	81	–	(429)	–	–	(1,049)
Removal of the accrued interest and fair value adjustments[d]	(263)	–	(263)	–	–	–	–	68	(195)
Gross debt	**15,912**	**6,063**	**21,975**	**1,504**	**1,139**	**7**	**–**	**25**	**24,650**
Less:									
Cash and cash equivalents	(1,666)	–	(1,666)	75	–	(2)	–	44	(1,549)
Current asset investments	(3,214)	–	(3,214)	(1,877)	–	(1)	–	–	(5,092)
Removal of the accrued interest[d]	3	–	3	–	–	–	–	(43)	(40)
Net debt	**11,035**	**6,063**	**17,098**	**(298)**	**1,139**	**4**	**–**	**26**	**17,969**

a Lease liabilities recognised on adoption of IFRS 16 on 1 April 2019, refer to note 1. £206m finance lease liabilities previously included in loans and other borrowings were reclassified to lease liabilities on adoption of IFRS16. Net lease additions comprise non-cash movements in lease liabilities during the period primarily new and terminated leases, and remeasurements of existing leases.
b Including accrued interest and bank overdrafts.
c Translation of debt balances at swap rates where hedged by cross currency swaps.
d Other movements include removal of accrued interest applied to reflect the effective interest rate method, removal of fair value adjustments and inclusion of held for sale assets and liabilities (see note 23).

26. Loans and other borrowings continued

The table below gives details of the listed bonds and other debt.

At 31 March	2020 £m	2019 £m	2018 £m
3.25% €600m bond due August 2018[a]	–	–	541
2.35% US$800m bond due February 2019[a]	–	–	572
4.38% £450m bond due March 2019	–	–	455
1.125% €1,000m bond due June 2019[a]	–	869	883
8.625% £300m bond due March 2020	–	300	300
0.625% €1,500m bond due March 2021[a]	1,326	1,289	1,309
0.5% €575m bond due June 2022[a]	509	495	502
1.125% €1,100m bond due March 2023[a]	972	946	961
0.875% €500m bond due September 2023[a]	442	430	–
4.5% US$675m bond due December 2023[a]	551	524	–
1% €575m bond due June 2024[a]	512	498	506
1% €1,100m bond due November 2024[a]	970	943	959
3.50% £250m index linked bond due April 2025	445	433	419
0.5% €650m bond due September 2025[a]	574	–	–
1.75% €1,300m bond due March 2026[a]	1,149	1,118	1,137
1.5% €1,150m bond due June 2027[a]	1,020	993	1,009
2.125% €500m bond due September 2028[a]	445	433	–
5.125% US$700m bond due December 2028[a]	570	542	–
5.75% £600m bond due December 2028	700	710	721
1.125% €750m bond due September 2029[a]	658	–	–
3.25% US$1,000m bond due November 2029[a]	807	–	–
9.625% US$2,670m bond due December 2030[a] (minimum 8.625%[b])	2,203	2,096	1,943
3.125% £500m bond due November 2031	502	502	502
3.64% £330m bond due June 2033	339	339	–
1.613% £330m index linked bond due June 2033	343	340	–
6.375% £500m bond due June 2037[a]	522	522	522
3.883% £330m bond due June 2039	340	340	–
1.739% £330m index linked bond due June 2039	343	340	–
3.924% £340m bond due June 2042	350	350	–
1.774% £340m index linked bond due June 2042	354	351	–
3.625% £250m bond due November 2047	250	250	250
4.25% US$500m bond due November 2049[a]	407	–	–
1.874% €500m bond due August 2080[c]	441	–	–
Total listed bonds	**18,044**	**15,953**	**13,491**
Finance leases[d]	–	206	223
Other loans	1,107	645	532
Bank overdrafts (note 25)	183	72	29
Total other loans and borrowings	**1,290**	**717**	**561**
Total loans and other borrowings	**19,334**	**16,876**	**14,275**

a Designated in a cash flow hedge relationship.
b The interest rate payable on this bond attracts an additional 0.25% for a downgrade by one credit rating by either Moody's or Standard & Poor's to the group's senior unsecured debt below A3/A– respectively. In addition, if Moody's or Standard & Poor's subsequently increase the ratings then the interest rate will be decreased by 0.25% for each rating category upgrade by each rating agency. In no event will the interest rate be reduced below the minimum rate reflected in the above table.
c Includes put option at 5.5 years.
d On adoption of IFRS 16 on 1 April 2019 finance leases were reclassified to lease liabilities which are presented on the face of the balance sheet, refer to note 1.

Unless previously designated in a fair value hedge relationship, all loans and other borrowings are carried on our balance sheet and in the table above at amortised cost. The fair value of listed bonds is £20,088m (2018/19: £17,785m, 2017/18: £14,878m). The fair value of finance leases was £251m (2018/19) and £253m (2017/18).

The fair value of our listed bonds is estimated on the basis of quoted market prices (Level 1).

The carrying amount of other loans and bank overdrafts equates to fair value due to the short maturity of these items (Level 3).

Notes to the consolidated financial statements continued

26. Loans and other borrowings continued

The interest rates payable on loans and borrowings disclosed above reflect the coupons on the underlying issued loans and borrowings and not the interest rates achieved through applying associated cross-currency and interest rate swaps in hedge arrangements.

Loans and other borrowings are analysed as follows:

At 31 March	2020 £m	2019 £m	2018 £m
Current liabilities			
Listed bonds	1,552	1,367	1,702
Finance leases[a]	–	16	18
Other loans and bank overdrafts[b]	1,290	717	561
Total current liabilities	**2,842**	**2,100**	**2,281**
Non-current liabilities			
Listed bonds	16,492	14,586	11,789
Finance leases[a]	–	190	205
Total non-current liabilities	**16,492**	**14,776**	**11,994**
Total	**19,334**	**16,876**	**14,275**

[a] On adoption of IFRS 16 on 1 April 2019 finance leases were reclassified to lease liabilities which are presented on the face of the balance sheet, refer to note 1.
[b] Includes collateral received on swaps of £1,091m (2018/19: £638m, 2017/18: £525m).

The carrying values disclosed in the above table reflect balances at amortised cost adjusted for accrued interest and fair value adjustments to the relevant loans or borrowings. These do not reflect the final principal repayments that will arise after taking account of the relevant derivatives in hedging relationships which are reflected in the table below. All borrowings as at 31 March 2020 were unsecured.

The principal repayments of loans and borrowings at hedged rates amounted to £18,028m (2018/19: £15,912m, 2017/18: £13,175m) and repayments fall due as follows:

	2020			2019			2018		
At 31 March	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m
Within one year, or on demand	**2,842**	**(406)**	**2,436**	**2,100**	**(264)**	**1,836**	**2,272**	**(291)**	**1,981**
Between one and two years	–	–	–	1,309	(133)	1,176	1,192	(66)	1,126
Between two and three years	1,482	(125)	1,357	15	–	15	1,332	(154)	1,178
Between three and four years	987	(9)	978	1,463	(89)	1,374	18	–	18
Between four and five years	1,482	9	1,491	964	33	997	1,489	(111)	1,378
After five years	12,536	(770)	11,766	10,975	(461)	10,514	7,899	(405)	7,494
Total due for repayment after more than one year	**16,487**	**(895)**	**15,592**	**14,726**	**(650)**	**14,076**	**11,930**	**(736)**	**11,194**
Total repayments	**19,329**	**(1,301)**	**18,028**	**16,826**	**(914)**	**15,912**	**14,202**	**(1,027)**	**13,175**
Fair value adjustments	5			50			73		
Total loans and other borrowings	**19,334**			**16,876**			**14,275**		

Finance leases were reclassified to lease liabilities following adoption of IFRS 16 on 1 April 2019. A maturity analysis of lease liabilities is presented in note 28.

27. Finance expense

Year ended 31 March	2020 £m	2019 £m	2018 £m
Finance expense			
Interest on:			
Financial liabilities at amortised cost and associated derivatives	608	582	478
Lease liabilities[a]	140	–	–
Finance leases[a]	–	13	16
Derivatives	3	–	14
Fair value movements on derivatives not in a designated hedge relationship	(3)	(3)	1
Reclassification of cash flow hedge from other comprehensive income	46	45	34
Unwinding of discount on provisions	2	14	15
Total finance expense before specific items	**796**	**651**	**558**
Specific items (note 9)	145	139	218
Total finance expense	**941**	**790**	**776**

[a] Lease liabilities were recognised following adoption of IFRS 16 on 1 April 2019, refer to note 1. Finance lease liabilities recognised at this date were reclassified to lease liabilities.

28. Financial instruments and risk management

We issue or hold financial instruments mainly to finance our operations; to finance corporate transactions such as dividends, share buybacks and acquisitions; for the temporary investment of short-term funds; and to manage currency and interest rate risks. In addition, various financial instruments, for example trade receivables and payables arise directly from operations.

How do we manage financial risk?

Our activities expose us to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk.

Treasury operation

We have a centralised treasury operation whose primary role is to manage liquidity and funding requirements as well as our exposure to associated market risks, and credit risk.

Treasury policy

Treasury policy is set by the Board. Group treasury activities are subject to a set of controls appropriate for the magnitude of borrowing, investments and group-wide exposures. The Board has delegated authority to operate these policies to a series of panels responsible for the management of key treasury risks and operations. Appointment to and removal from the key panels requires approval from two of the following: the chairman, the chief executive or the chief financial officer.

There has been no change in the nature of our risk profile between 31 March 2020 and the date of approval of these financial statements.

How do we manage interest rate risk?

Management policy

Interest rate risk arises primarily from our long-term borrowings. Interest cash flow risk arises from borrowings issued at variable rates, partially offset by cash held at variable rates. Fair value interest rate risk arises from borrowings issued at fixed rates.

Our policy, as set by the Board, is to ensure that at least 70% of ongoing net debt is at fixed rates. Short-term interest rate management is delegated to the treasury operation while long-term interest rate management decisions require further approval by the chief financial officer, group director tax, treasury, insurance and pensions or the treasury director who each have been delegated such authority from the Board.

Hedging strategy

In order to manage our interest rate profile, we have entered into cross-currency and interest rate swap agreements to vary the amounts and periods for which interest rates on borrowings are fixed. The duration of the swap agreements matches the duration of the debt instruments. The majority of the group's long-term borrowings are subject to fixed sterling interest rates after applying the impact of these hedging instruments.

How do we manage foreign exchange risk?

Management policy

Foreign currency hedging activities protect the group from the risk that changes in exchange rates will adversely affect future net cash flows.

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

The Board's policy for foreign exchange risk management defines the types of transactions typically covered, including significant operational, funding and currency interest exposures, and the period over which cover should extend for each type of transaction.

The Board has delegated short-term foreign exchange management to the treasury operation and long-term foreign exchange management decisions require further approval from the chief financial officer, group director tax, treasury, insurance and pensions or the treasury director.

Hedging strategy
A significant proportion of our external revenue and costs arise within the UK and are denominated in sterling. Our non-UK operations generally trade and are funded in their functional currency which limits their exposure to foreign exchange volatility.

We enter into forward currency contracts to hedge foreign currency capital purchases, purchase and sale commitments, interest expense and foreign currency investments. The commitments hedged are principally denominated in US dollar, euro and Asia Pacific region currencies. As a result, our exposure to foreign currency arises mainly on non-UK subsidiary investments and on residual currency trading flows. We use cross-currency swaps to swap foreign currency borrowings into sterling.

The table below reflects the currency and interest rate profile of our loans and borrowings after the impact of hedging.

	2020			2019			2018		
At 31 March	**Fixed rate interest £m**	**Floating rate interest £m**	**Total £m**	Fixed rate interest £m	Floating rate interest £m	Total £m	Fixed rate interest £m	Floating rate interest £m	Total £m
Sterling	15,289	1,757	17,046	13,556	1,767	15,323	11,990	676	12,666
Euro	–	888	888	–	589	589	–	509	509
USD	–	94	94	–	–	–	–	–	–
Total	**15,289**	**2,739**	**18,028**	**13,556**	**2,356**	**15,912**	**11,990**	**1,185**	**13,175**
Ratio of fixed to floating	85%	15%	100%	85%	15%	100%	91%	9%	100%
Weighted average effective fixed interest rate – sterling	3.9%			4.0%			4.4%		

The floating rate loans and borrowings bear interest rates fixed in advance for periods ranging from one day to one year, primarily by reference to LIBOR quoted rates, RPI and CPI.

Sensitivity analysis
The income statement and shareholders' equity are exposed to volatility arising from changes in interest rates and foreign exchange rates. To demonstrate this volatility, management has concluded that the following are reasonable benchmarks for performing sensitivity analysis:

- For interest, a 1% increase in interest rates and parallel shift in yield curves across sterling, US dollar and euro currencies.
- For foreign exchange, a 10% strengthening of sterling against other currencies.

The impact on equity, before tax and excluding any impact related to retirement benefit plans, of a 1% increase in interest rates and a 10% strengthening of sterling against other currencies is as detailed below:

At 31 March	**2020 £m Increase (reduce)**	2019 £m Increase (reduce)	2018 £m Increase (reduce)
Sterling interest rates	989	672	628
US dollar interest rates	(610)	(350)	(267)
Euro interest rates	(451)	(399)	(401)
Sterling strengthening	(289)	(219)	(236)

A 1% decrease in interest rates and 10% weakening of sterling against other currencies would have broadly the same impact in the opposite direction.

The impact of a 1% change in interest rates on the group's annual net finance expense and our exposure to foreign exchange volatility in the income statement, after hedging, (excluding translation exposures) would not have been material in 2019/20, 2018/19 and 2017/18.

28. Financial instruments and risk management continued

Credit ratings
We continue to target a BBB+/Baa1 credit rating over the cycle, with a BBB floor. We regularly review the liquidity of the group and our funding strategy takes account of medium-term requirements. These include the pension deficit and shareholder distributions.

Our December 2030 bond contains covenants which require us to pay higher rates of interest since our credit ratings fell below A3 in the case of Moody's or A– in the case of Standard & Poor's (S&P). Additional interest of 0.25% per year accrues for each ratings category downgrade by each agency below those levels effective from the next coupon date following a downgrade. Based on the total notional value of debt outstanding of £2.2bn at 31 March 2020, our finance expense would increase/decrease by approximately £11m a year if the group's credit rating were to be downgraded/upgraded, respectively, by one credit rating category by both agencies.

Our credit ratings were as detailed below:

	2020		2019		2018	
At 31 March	Rating	Outlook	Rating	Outlook	Rating	Outlook
Rating agency						
Moody's	Baa2	Negative	Baa2	Stable	Baa2	Stable
Standard & Poor's	BBB	Stable	BBB	Stable	BBB+	Negative

How do we manage liquidity risk?

Management policy
We maintain liquidity by entering into short and long-term financial instruments to support operational and other funding requirements, determined using short and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period. On at least an annual basis the Board reviews and approves the long-term funding requirements of the group and on an ongoing basis considers any related matters. We manage refinancing risk by limiting the amount of borrowing that matures within any specified period and having appropriate strategies in place to manage refinancing needs as they arise. The maturity profile of our loans and borrowings at 31 March 2020 is disclosed in note 26. We have term debt maturities of £1.3bn in 2020/21.

Our treasury operation reviews and manages our short-term requirements within the parameters of the policies set by the Board. We hold cash, cash equivalents and current investments in order to manage short-term liquidity requirements. At 31 March 2020 we had undrawn committed borrowing facilities of £2.1bn (2018/19: £2.1bn, 2017/18: £2.1bn) maturing in March 2025.

In the UK, the group has arranged for funders to offer a supplier financing scheme to the group's suppliers. This enables suppliers who sign up to the arrangements to sell their invoices to the funders and to be paid earlier than the invoice due date. The group assesses the arrangement against indicators to assess if debts which vendors have sold to the funder under the supplier financing scheme continue to meet the definition of trade payables or should be classified as borrowings. At 31 March 2020 the payables met the criteria of trade payables.

Maturity analysis
The following table provides an analysis of the remaining cash flows including interest payable for our non-derivative financial liabilities on an undiscounted basis, which therefore differs from both the carrying value and fair value.

Non-derivative financial liabilities At 31 March 2020	Loans and other borrowings[d] £m	Interest on loans and other borrowings[d] £m	Trade and other payables £m	Provisions £m	Lease liabilities[a] £m	Total £m
Due within one year	2,602	566	4,932	5	799	8,904
Between one and two years	–	562	–	3	783	1,348
Between two and three years	1,482	562	–	3	762	2,809
Between three and four years	987	548	–	4	724	2,263
Between four and five years	1,482	520	–	2	664	2,668
After five years	12,536	3,740	–	–	3,752	20,028
	19,089	**6,498**	**4,932**	**17**	**7,484**	**38,020**
Interest payments not yet accrued	–	(6,258)	–	–	–	(6,258)
Fair value adjustment	5	–	–	–	–	5
Impact of discounting	–	–	–	(1)	(924)	(925)
Carrying value on the balance sheet[b,c]	**19,094**	**240**	**4,932**	**16**	**6,560**	**30,842**

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

Non-derivative financial liabilities At 31 March 2019	Loans and other borrowings[d] £m	Interest on loans and other borrowings[d] £m	Trade and other payables £m	Provisions £m	Total £m
Due within one year	1,886	541	5,158	39	7,624
Between one and two years	1,309	505	–	33	1,847
Between two and three years	15	497	–	35	547
Between three and four years	1,463	496	–	14	1,973
Between four and five years	964	482	–	12	1,458
After five years	10,975	3,543	–	127	14,645
	16,612	**6,064**	**5,158**	**260**	**28,094**
Interest payments not yet accrued	–	(5,850)	–	–	(5,850)
Fair value adjustment	50	–	–	–	50
Impact of discounting	–	–	–	(29)	(29)
Carrying value on the balance sheet[b,c]	**16,662**	**214**	**5,158**	**231**	**22,265**

Non-derivative financial liabilities At 31 March 2018	Loans and other borrowings[d] £m	Interest on loans and other borrowings[d] £m	Trade and other payables £m	Provisions £m	Total £m
Due within one year	2,120	452	4,939	54	7,565
Between one and two years	1,192	404	–	34	1,630
Between two and three years	1,332	365	–	25	1,722
Between three and four years	18	357	–	43	418
Between four and five years	1,489	355	–	19	1,863
After five years	7,899	2,714	–	197	10,810
	14,050	**4,647**	**4,939**	**372**	**24,008**
Interest payments not yet accrued	–	(4,495)	–	–	(4,495)
Fair value adjustment	73	–	–	–	73
Impact of discounting	–	–	–	(72)	(72)
Carrying value on the balance sheet[b,c]	**14,123**	**152**	**4,939**	**300**	**19,514**

a Lease liabilities were recognised following adoption of IFRS 16 on 1 April 2019, refer to note 1.
b Foreign currency-related cash flows were translated at closing rates as at the relevant reporting date. Future variable interest rate cash flows were calculated using the most recent rate applied at the relevant balance sheet date.
c The carrying amount of trade and other payables excludes £754m (2018/19: £1,479m, 2017/18: £1,326m) of non-current trade and other payables which relates to non-financial liabilities, and £862m (2018/19: £632m, 2017/18: £2,229m) of other taxation and social security and deferred income.
d The cash flows related to index-linked bonds have not been adjusted for inflation.

Trade and other payables are held at amortised cost. The carrying amount of these balances approximates to fair value due to the short maturity of amounts payable.

The following table provides an analysis of the contractually agreed cash flows in respect of the group's derivative financial instruments. Cash flows are presented on a net or gross basis in accordance with the settlement arrangements of the instruments.

	Derivatives – Analysed by earliest payment date[a]				**Derivatives – Analysis based on holding instrument to maturity**			
Derivative financial liabilities At 31 March 2020	**Net settled £m**	**Gross settled outflows £m**	**Gross settled inflows £m**	**Total £m**	**Net settled £m**	**Gross settled outflows £m**	**Gross settled inflows £m**	**Total £m**
Due within one year	80	671	(608)	143	80	671	(608)	143
Between one and two years	109	88	(36)	161	74	88	(36)	126
Between two and three years	240	171	(131)	280	74	171	(131)	114
Between three and four years	227	524	(476)	275	74	524	(476)	122
Between four and five years	21	1,054	(1,003)	72	75	1,054	(1,003)	126
After five years	110	1,842	(1,759)	193	410	1,842	(1,759)	493
Total[b]	**787**	**4,350**	**(4,013)**	**1,124**	**787**	**4,350**	**(4,013)**	**1,124**

a Certain derivative financial instruments contain break clauses whereby either the group or bank counterparty can terminate the swap on certain dates and the mark to market position is settled in cash.
b Foreign currency-related cash flows were translated at closing rates as at the relevant reporting date. Future variable interest rate cash flows were calculated using the most recent rate applied at the relevant balance sheet date.

28. Financial instruments and risk management continued

Derivative financial liabilities At 31 March 2019	Derivatives – Analysed by earliest payment date[a] Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m	Derivatives – Analysis based on holding instrument to maturity Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	167	1,007	(950)	224	82	1,007	(950)	139
Between one and two years	128	541	(489)	180	77	541	(489)	129
Between two and three years	131	131	(96)	166	71	131	(96)	106
Between three and four years	163	633	(591)	205	71	633	(591)	113
Between four and five years	207	1,095	(1,042)	260	71	1,095	(1,042)	124
After five years	43	3,790	(3,660)	173	467	3,790	(3,660)	597
Total[b]	**839**	**7,197**	**(6,828)**	**1,208**	**839**	**7,197**	**(6,828)**	**1,208**

Derivative financial liabilities At 31 March 2018	Derivatives – Analysed by earliest payment date[a] Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m	Derivatives – Analysed based on holding instrument to maturity Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	140	587	(547)	180	91	587	(547)	131
Between one and two years	135	183	(166)	152	91	183	(166)	108
Between two and three years	156	442	(446)	152	85	69	(47)	107
Between three and four years	143	52	(29)	166	80	68	(47)	101
Between four and five years	161	52	(29)	184	80	68	(47)	101
After five years	291	2,234	(2,149)	376	599	2,575	(2,512)	662
Total[b]	**1,026**	**3,550**	**(3,366)**	**1,210**	**1,026**	**3,550**	**(3,366)**	**1,210**

[a] Certain derivative financial instruments contain break clauses whereby either the group or bank counterparty can terminate the swap on certain dates and the mark to market position is settled in cash.
[b] Foreign currency-related cash flows were translated at closing rates as at the relevant reporting date. Future variable interest rate cash flows were calculated using the most recent rate applied at the relevant balance sheet date.

How do we manage credit risk?

Management policy

Our exposure to credit risk arises from financial assets transacted by the treasury operation (primarily derivatives, investments, cash and cash equivalents) and from trading-related receivables.

For treasury-related balances, the Board's defined policy restricts exposure to any one counterparty by setting credit limits based on the credit quality as defined by Moody's and Standard & Poor's. The minimum credit ratings permitted with counterparties in respect of new transactions are A3/A– for long-term and P1/A1 for short-term investments. If counterparties in respect of existing transactions fall below the permitted criteria we will take action where appropriate.

The treasury operation continuously reviews the limits applied to counterparties and will adjust the limit according to the nature and credit standing of the counterparty, and in response to market conditions, up to the maximum allowable limit set by the Board.

Operational management policy

Our credit policy for trading-related financial assets is applied and managed by each of the customer-facing units to ensure compliance. The policy requires that the creditworthiness and financial strength of customers are assessed at inception and on an ongoing basis. Payment terms are set in accordance with industry standards. Where appropriate, we may minimise risks by requesting securities such as deposits, guarantees and letters of credit. We take proactive steps including constantly reviewing credit ratings of counterparties to minimise the impact of adverse market conditions on trading-related financial assets.

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

Exposures
The maximum credit risk exposure of the group's financial assets at the balance sheet date is as follows:

At 31 March	Notes	2020 £m	2019 £m	2018 £m
Derivative financial assets		2,489	1,592	1,509
Investments	24	5,112	3,268	3,075
Trade and other receivables[a]	17	1,432	1,766	2,518
Contract assets	5	1,721	1,602	–
Cash and cash equivalents	25	1,549	1,666	528
		12,303	**9,894**	**7,630**

[a] The carrying amount excludes £481m (2018/19: £445m, 2017/18: £317m) of non-current trade and other receivables which relate to non-financial assets, and £1,272m (2018/19: £1,456m, 2017/18: £1,496m) of prepayments, deferred contract costs and other receivables.

The credit quality and credit concentration of cash equivalents, current asset investments and derivative financial assets are detailed in the tables below. Where the opinion of Moody's and Standard & Poor's (S&P) differ, the lower rating is used.

Moody's/S&P credit rating of counterparty	2020 £m	2019 £m	2018 £m
Aa2/AA and above	4,210	2,522	2,575
Aa3/AA–	971	1,376	313
A1/A+[a]	1,363	1,145	651
A2/A[a]	1,437	649	628
A3/A–[a]	–	50	180
Baa1/BBB+[a]	100	75	59
Baa2/BBB and below[a]	585	160	207
	8,666	**5,977**	**4,613**

[a] We hold cash collateral of £1,091m (2018/19: £638m, 2017/18: £492m) in respect of derivative financial assets with certain counterparties.

The concentration of credit risk for our trading balances is provided in note 17, which analyses outstanding balances by customer-facing unit. Where multiple transactions are undertaken with a single financial counterparty or group of related counterparties, we enter into netting arrangements to reduce our exposure to credit risk by making use of standard International Swaps and Derivatives Association (ISDA) documentation. We have also entered into credit support agreements with certain swap counterparties whereby, on a daily, weekly and monthly basis, the fair value position on notional £2,836m of long dated cross-currency swaps and interest rate swaps is collateralised. The related net cash inflow during the year was £460m (2018/19: inflow £129m, 2017/18: outflow £220m). The collateral paid and received is recognised within current asset investments and loans and other borrowings, respectively.

Offsetting of financial instruments

The table below shows our financial assets and liabilities that are subject to offset in the group's balance sheet and the impact of enforceable master netting or similar agreements.

		Related amounts not set off in the balance sheet		
Financial assets and liabilities At 31 March 2020	**Amounts presented in the balance sheet £m**	**Right of set off with derivative counterparties £m**	**Cash collateral £m**	**Net amount £m**
Derivative financial assets	2,489	(948)	(1,091)	450
Derivative financial liabilities	(1,012)	948	83	19
Total	**1,477**	**–**	**(1,008)**	**469**

		Related amounts not set off in the balance sheet		
Financial assets and liabilities At 31 March 2019	Amounts presented in the balance sheet £m	Right of set off with derivative counterparties £m	Cash collateral £m	Net amount £m
Derivative financial assets	1,592	(802)	(638)	152
Derivative financial liabilities	(940)	802	90	(48)
Total	**652**	**–**	**(548)**	**104**

28. Financial instruments and risk management continued

Financial assets and liabilities At 31 March 2018	Amounts presented in the balance sheet £m	Related amounts not set off in the balance sheet: Right of set off with derivative counterparties £m	Cash collateral £m	Net amount £m
Derivative financial assets	1,509	(754)	(492)	263
Derivative financial liabilities	(837)	754	60	(23)
Total	**672**	**–**	**(432)**	**240**

Derivatives and hedging

We use derivative financial instruments mainly to reduce exposure to foreign exchange and interest rate risks. Derivatives may qualify as hedges for accounting purposes if they meet the criteria for designation as fair value hedges or cash flow hedges in accordance with IFRS 9.

Significant accounting policies that apply to derivatives and hedge accounting

All of our derivative financial instruments are held at fair value on the balance sheet.

Derivatives designated in a cash flow hedge

The group designates certain derivatives as cash flow hedges. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge. To qualify for hedge accounting, hedge documentation must be prepared at inception, the hedge must be in line with BT's risk management strategy and there must be an economic relationship based on the currency, amount and timing of the respective cash flows of the hedging instrument and hedged item. This is assessed at inception and in subsequent periods in which the hedge remains in operation. Hedge accounting is discontinued when it is no longer in line with BT's risk management strategy or if it no longer qualifies for hedge accounting.

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity, in the cash flow reserve. For cash flow hedges of recognised assets or liabilities, the associated cumulative gain or loss is removed from equity and recognised in the same line of the income statement and in the same period or periods that the hedged transaction affects the income statement. Any ineffectiveness arising on a cash flow hedge is recognised immediately in the income statement. This includes any ineffectiveness as a result of changes in our hedged forecast cash flows as a result of Covid-19.

Other derivatives

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting, some derivatives may not qualify for hedge accounting, or may be specifically not designated as a hedge because natural offset is more appropriate. These derivatives are classified as fair value through profit and loss and are recognised at fair value. Any direct transaction costs are recognised immediately in the income statement. Gains and losses on re-measurement are recognised in the income statement in the line that most appropriately reflects the nature of the item or transaction to which they relate.

Where the fair value of a derivative contract at initial recognition is not supported by observable market data and differs from the transaction price, a day one gain or loss will arise which is not recognised in the income statement. Such gains and losses are deferred and amortised to the income statement based on the remaining contractual term and as observable market data becomes available.

The fair values of outstanding swaps and foreign exchange contracts are estimated using discounted cash flow models and market rates of interest and foreign exchange at the balance sheet date.

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

At 31 March 2020	**Current asset £m**	**Non-current asset £m**	**Current liability £m**	**Non-current liability £m**
Designated in a cash flow hedge	250	1,954	36	740
Other	10	275	10	226
Total derivatives	**260**	**2,229**	**46**	**966**

At 31 March 2019	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
Designated in a cash flow hedge	102	1,228	40	689
Other	9	253	8	203
Total derivatives	**111**	**1,481**	**48**	**892**

At 31 March 2018	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
Designated in a cash flow hedge	187	1,061	41	587
Other	10	251	9	200
Total derivatives	**197**	**1,312**	**50**	**787**

All derivative financial instruments are categorised at Level 2 of the fair value hierarchy as defined in note 24.

Instruments designated in a cash flow hedge include interest rate swaps and cross-currency swaps hedging euro- and US dollar-denominated borrowings. Forward currency contracts are taken out to hedge step-up interest on currency denominated borrowings relating to the group's 2030 US dollar bond. The hedged cash flows will affect the group's income statement as interest and principal amounts are repaid over the remaining term of the borrowings (see note 26).

We hedge forecast foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies 12 months forward with certain specific transactions hedged further forward. The related cash flows are recognised in the income statement over this period.

We have considered the impact of Covid-19 on our cash flow hedges to determine if the hedged forecast cash flows remain 'highly probable'. We do not believe that there is any ineffectiveness as a result of Covid-19. If there was a reduction in payments in future periods under our UEFA contract this may lead to some ineffectiveness being recognised in the Income Statement, however any future ineffectiveness is not envisaged to be material.

The amounts related to items designated as hedging instruments were as follows:

Hedged items At 31 March 2020	**Notional principal £m**	**Asset £m**	**Liability £m**	**Balance in cash flow hedge related reserves (gain)/loss £m**	**Fair value (gain)/loss recognised in OCI £m**	**Amount recycled from cash flow hedge related reserves to P&L £m**
Sterling, euro and US dollar denominated borrowings[a]	13,464	2,142	(744)	(490)	(828)	386
US dollar step up interest on US denominated borrowings[b]	159	7	–	(45)	(11)	4
Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies[c]	2,480	55	(11)	(57)	(36)	(8)
Fallago Rigg Energy Contract		–	(21)	21	21	–
Total cash flow hedges	**16,103**	**2,204**	**(776)**	**(571)**	**(854)**	**382**
Deferred tax		–	–	103		
Derivatives not in a designated hedge relationship		285	(236)	–		
Carrying value on the balance sheet		**2,489**	**(1,012)**	**(476)**		

a Sterling, euro and US dollar denominated borrowings are hedged using cross currency swaps and interest rate swaps. Amounts recycled to profit and loss are presented within other operating costs and finance expense.
b US dollar step up interest on US denominated borrowings are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within finance expense.
c Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies are hedged using forward currency contracts. Amounts recycled to profit and loss in respect of these items are presented within cost of sales and other operating costs.

28. Financial instruments and risk management continued

Hedged items At 31 March 2019	Notional principal £m	Asset £m	Liability £m	Balance in cash flow hedge related reserves (gain)/loss £m	Fair value (gain)/loss recognised in OCI £m	Amount recycled from cash flow hedge related reserves to P&L £m
Sterling, euro and US dollar denominated borrowings[a,d]	11,431	1,311	(702)	(48)	(130)	(19)
US dollar step up interest on US denominated borrowings[b]	145	3	(1)	(38)	(13)	4
Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies[c]	1,821	16	(26)	(13)	(33)	33
Total cash flow hedges	**13,397**	**1,330**	**(729)**	**(99)**	**(176)**	**18**
Deferred tax		–	–	15		
Derivatives not in a designated hedge relationship		262	(211)	–		
Carrying value on the balance sheet		**1,592**	**(940)**	**(84)**		

Hedged items At 31 March 2018[e]	Notional principal £m	Asset £m	Liability £m	Balance in cash flow hedge related reserves (gain)/loss £m	Fair value (gain)/loss recognised in OCI £m	Amount recycled from cash flow hedge related reserves to P&L £m
Sterling, euro and US dollar denominated borrowings[a,d]	10,417	1,222	(608)	101	347	(333)
US dollar step up interest on US denominated borrowings[b]	143	–	(6)	(29)	13	3
Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies[c]	1,989	26	(14)	(13)	8	53
Total cash flow hedges	**12,549**	**1,248**	**(628)**	**59**	**368**	**(277)**
Deferred tax		–	–	(22)		
Derivatives not in a designated hedge relationship		261	(209)	–		
Carrying value on the balance sheet		**1,509**	**(837)**	**37**		

[a] Sterling, euro and US dollar denominated borrowings are hedged using cross currency swaps and interest rate swaps. Amounts recycled to profit and loss are presented within other operating costs and finance expense.
[b] US dollar step up interest on US denominated borrowings are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within finance expense.
[c] Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies are hedged using forward currency contracts. Amounts recycled to profit and loss in respect of these items are presented within cost of sales and other operating costs.
[d] The notional principal for the 2017/18 and 2018/19 years has been re-presented to exclude £2,087m related to the notional principal of non-hedge accounted swaps previously included.
[e] We have presented comparatives to this information, now required by IFRS 7 following the adoption of IFRS 9, for 31 March 2018.

All cash flow hedges were fully effective in the period.

Notes to the consolidated financial statements continued

29. Other reserves

	Capital redemption reserve £m	Cash flow reserve[a] £m	Fair value reserve[b] £m	Cost of hedging reserve[c] £m	Translation reserve[d] £m	Total £m
		Other comprehensive income				
At 1 April 2017	**27**	**127**	**13**	**–**	**717**	**884**
Exchange differences[e]	–	–	–	–	(188)	(188)
Net fair value gain (loss) on cash flow hedges	–	(368)	–	–	–	(368)
Movements in relation to cash flow hedges recognised in income and expense[f]	–	277	–	–	–	277
Fair value movement on available-for-sale assets	–	–	11	–	–	11
Tax recognised in other comprehensive income	–	10	–	–	(9)	1
Transfer to realised profit	–	(83)	–	–	–	(83)
At 31 March 2018	**27**	**(37)**	**24**	**–**	**520**	**534**
Transfer to cost of hedging reserve	–	81	–	(81)	–	–
At 1 April 2018	**27**	**44**	**24**	**(81)**	**520**	**534**
Exchange differences[e]	–	–	–	–	64	64
Net fair value gain (loss) on cash flow hedges	–	168	–	8	–	176
Movements in relation to cash flow hedges recognised in income and expense[f]	–	(31)	–	13	–	(18)
Fair value movement on assets at fair value through other comprehensive income	–	–	3	–	–	3
Tax recognised in other comprehensive income	–	(37)	–	–	(4)	(41)
At 1 April 2019	**27**	**144**	**27**	**(60)**	**580**	**718**
Exchange differences[e]	–	–	–	–	40	40
Net fair value gain (loss) on cash flow hedges	–	823	–	31	–	854
Movements in relation to cash flow hedges recognised in income and expense[f]	–	(411)	–	29	–	(382)
Fair value movement on assets at fair value through other comprehensive income	–	–	(5)	–	–	(5)
Tax recognised in other comprehensive income	–	(80)	–	–	(4)	(84)
Transfer to realised profit	–	–	(22)	–	–	(22)
At 31 March 2020	**27**	**476**	**–**	**–**	**616**	**1,119**

[a] The cash flow reserve is used to record the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.
[b] The fair value reserve (2017/18: available-for-sale reserve) is used to record the cumulative fair value gains and losses on assets classified as fair value through other comprehensive income (2017/18: available-for-sale financial assets). The cumulative gains and losses are recycled to the income statement on disposal of the assets. Level 1 investments, classified as fair value through other comprehensive income, were sold in 2020. The fair value gain was reclassified from fair value reserve to profit and loss reserve after disposal.
[c] The cost of hedging reserve reflects the gain or loss on the portion excluded from the designated hedging instrument that relates to the currency basis element of our cross currency swaps. It is initially recognised in other comprehensive income and accounted for similarly to gains or losses in the cash flow reserve.
[d] The translation reserve is used to record cumulative translation differences on the net assets of foreign operations. The cumulative translation differences are recycled to the income statement on disposal of the foreign operation.
[e] Excludes £(1)m (2018/19: £(2)m, 2017/18: £1m) of exchange differences in relation to retained earnings attributed to non-controlling interests.
[f] Movements in cash flow hedges recognised in income and expense include a net charge to other comprehensive income of £428m (2018/19: charge of £63m, 2017/18: credit of £243m) which have been reclassified to operating costs, and a net credit to the cash flow reserve of £46m (2018/19: £45m, 2017/18: £34m) which have been reclassified to finance expense (see note 27).

30. Related party transactions

Key management personnel comprise executive and non-executive directors and members of the *Executive Committee*. Compensation of key management personnel is disclosed in note 6.

Amounts paid to the group's retirement benefit plans are set out in note 20.

31. Financial commitments and contingent liabilities

Financial commitments were as follows:

At 31 March	2020 £m	2019 £m
Operating lease commitments	–	6,619
TV programme rights commitments	2,434	2,113
Capital commitments	1,234	1,432
Other commitments	228	253
Total	**3,896**	**10,417**

Operating lease commitments are no longer disclosed following adoption of IFRS 16, which resulted in the balance sheet recognition of lease liabilities for all operating leases meeting the IFRS 16 lease definition. Note 1 provides a reconciliation of operating lease commitments disclosed at 31 March 2019 to lease liabilities recognised at 1 April 2019.

TV programme rights commitments, mainly relating to football broadcast rights, are those for which the licence period has not yet started. Payments made to receive programming in advance of the licence period are classified as prepayments in note 17.

Other than as disclosed below, there were no contingent liabilities or guarantees at 31 March 2020 other than those arising in the ordinary course of the group's business and on these no material losses are anticipated. We have insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of our operations. Otherwise, the group generally carries its own risks.

Covid-19

Contract losses

Included within other provisions in note 19 are provisions for contracts we expect to become loss making as a result of Covid-19. We have also identified other contracts that may become onerous as a result of Covid-19 but which do not meet the criteria for recognition of provisions, for example because the probability of a net outflow is not considered sufficiently probable.

Programme rights

At the reporting date no unrecognised programme rights commitments were affected by cancellations or postponements arising from Covid-19 and did not meet the criteria for disclosure as contingent liabilities.

Commitments and guarantees

BT plc

In March 2019 a formal guarantee was put in place for BT Group plc to fully and unconditionally guarantee the obligations of its wholly-owned subsidiary British Telecommunications plc ('BT plc') under its Yankee bonds. BT Group will also guarantee the obligations under the existing notes and new notes issued under BT plc's Euro Medium Term Note Programme (EMTN), and under BT plc's £300m 8.625% bonds due in 2020 and £600m 5.75% bonds due in 2028.

BDUK

Under the Building Digital UK programme, grants received by the group may be subject to reinvestment or repayment to the local authority depending on the level of take-up.

Telefónica UK Limited leases

We've provided guarantees relating to certain leases entered into by Telefónica UK Limited (formerly O2 UK Limited) prior to the demerger of mmO2 from BT on 19 November 2001. mmO2 plc (now part of the Telefónica Group) has given BT a counter indemnity for these guarantees. There is no exposure in the event of credit default in respect of amounts used to defease future lease obligations. The guarantee lasts until Telefónica UK Limited has discharged all its obligations.

Legal and regulatory proceedings

The group is involved in various proceedings, including actual or threatened litigation, and government or regulatory investigations. However, save as disclosed below, the group does not currently believe that there are any legal proceedings, or government or regulatory investigations that may have a material adverse impact on the operations or financial condition of the group. In respect of each of the claims below, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. There are many reasons why we cannot make these assessments with certainty, including, among others, that they are in early stages, no damages or remedies have been specified, and/or the often slow pace of litigation.

Italian business

US securities class action complaints: The Plaintiffs filed a fourth amended complaint in August 2019. We filed a motion to dismiss this complaint in October 2019 and briefs on that motion were completed in December 2019. On 24 April 2020, the US Federal Court Judge granted our motion and dismissed, with prejudice, all claims against BT and the named individual defendants. The Plaintiffs have 30 days in which to file any appeal.

Notes to the consolidated financial statements continued

31. Financial commitments and contingent liabilities continued

Milan Public Prosecutor prosecutions: On 11 February 2019 the Milan Public Prosecutor served BT Italia S.P.A. with a notice regarding conclusion of their preliminary investigation. The notice (which named BT Italia, as well as various individuals) records the prosecutor's view that as at the conclusion of the preliminary investigation there is a basis for proceeding with its case against BT Italia for certain potential offences under articles 5 and 25 of Legislative Decree 231/2001. BT Italia disputes this and maintains in a defence brief filed on 19 April 2019 that it should not be prosecuted. BT Italia is not presently the subject of any formal charge (nor are any of the individuals named in the prosecutor's notice).

Following a Request for Indictment from the Milan Public Prosecutor, BT Italia and the 23 named Defendants are attending preliminary hearings to determine whether or not they should be committed to trial. The first two hearings took place on 9 and 16 December 2019. Further hearings that were scheduled for February and March 2020 have been adjourned until at least May 2020 due to the effect of the Covid-19 pandemic in Italy.

Phones 4U
Since 2015 the administrators of Phones 4U Limited have made allegations that EE and other mobile network operators colluded to procure Phones 4U's insolvency. Legal proceedings for an unquantified amount were issued in December 2018 by the administrators and in April 2019 we submitted our defence to this claim. We continue to dispute these allegations vigorously.

Brazilian tax claims
The Brazilian state tax authorities have made tax demands on the exchange of goods and services (ICMS) and regulatory assessments (FUST/FUNTTEL) against certain Brazilian subsidiaries. These are indirect taxes imposed on the provision of telecommunications services in Brazil. The state tax and regulatory authorities are seeking to impose ICMS and FUST/FUNTTEL on revenue earned on activities that the company does not consider as being part of the provision of telecommunications services, such as equipment rental and managed services. The judicial process is likely to take many years.

We have disputed the basis on which ICMS and FUST/FUNTTEL are imposed and, in the case of ICMS, have challenged the rate which the tax authorities are seeking to apply. The judicial process is likely to take many years.

Currently we have 33 ICMS cases with an updated potential value of £147m. This is the assessed amount for all cases spanning the period from 1998 to 2015 (plus one outlier case for the period 2013 to 2016 in the state of Minas Gerais). An ICMS assessment worth approximately £25m was cancelled by the Administrative Court in Brasilia in January 2020.

There are currently 62 FUST/FUNTTEL cases in dispute with a known overall liability of £18m.

During the quarter BT signed an agreement to sell BT Latam Inc. and its subsidiaries to CIH Telecommunications Americas LLC (CIH). When the sale is completed (anticipated to be during the 2020 calendar year), the entities liable for the major part of the lawsuits, administrative proceedings and/or assessments related to ICMS, FUST and FUNTTEL (the IFF Matters) will no longer be part of BT Group plc and therefore primary liability for those matters will cease to be for BT Group plc to cover.

The current value of cases accruing to the retained business is around £6m for FUST/FUNTTEL and £14m for ICMS. Other than these BT Group retains no material direct exposures.

Regulatory matters
In respect of regulatory risks, the group provides for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. Estimates are used in assessing the likely value of the regulatory risk. The ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement.

Northern Ireland Public Sector Shared Network contract
On 4 April 2019 Ofcom opened an investigation into whether the award of the Public Sector Shared Network contract for Northern Ireland to BT complied with relevant significant market power conditions. We are cooperating with Ofcom's investigation.

Other regulatory matters
In the ordinary course of business, we are periodically notified of regulatory matters. We hold provisions reflecting management's estimates of regulatory risks across a range of issues, including price and service issues. The precise outcome of each matter depends on whether it becomes an active issue, and the extent to which negotiation or regulatory decisions will result in financial settlement.

Financial Statements of BT Group plc

BT Group plc company balance sheet
Registered number 4190816

At 31 March	Notes	2020 £m	2019 £m
Non-current assets			
Investments	2	11,024	10,952
Trade and other receivables[a]		3,063	4,540
		14,087	**15,492**
Current assets			
Trade and other receivables[a]		1,171	1,117
Cash and cash equivalents		5	2
		1,176	**1,119**
Current liabilities			
Trade and other payables[b]		107	96
		107	**96**
Total assets less current liabilities		**15,156**	**16,515**
Non-current liabilities			
Loans and other borrowings[c]		3,177	3,029
		3,177	**3,029**
Equity			
Ordinary shares		499	499
Share premium		1,051	1,051
Capital redemption reserve		27	27
Merger reserve	3	1,574	3,149
Own shares		(237)	(167)
Profit and loss account[d]		9,065	8,927
Total equity		**11,979**	**13,486**
		15,156	**16,515**

[a] Trade and other receivables primarily relate to a £1,010m equity placing raised in February 2015 and net proceeds of £7,507m, before £3m of issue costs, relating to the sale of EE to British Telecommunications plc on 29 January 2016. Subsequently £4,275m of the loan receivable relating to the sale of EE has been repaid. The balance consists of two loans to group undertakings of £1,082m (2018/19: £1,061m) repayable on 31 January 2058 and £1,981m (2018/19: £3,479m) repayable on 21 December 2064. The loans attract interest of LIBOR plus 102.5 basis points (2018/19: LIBOR plus 102.5 basis points). Included in current trade and other receivables are loans to group undertakings of £1,074m (2018/19: £997m) and accrued interest of £97m (2018/19: £120m).

[b] Trade and other payables consists of loans from group undertakings of £82m (2018/19: £60m) and other creditors of £25m (2018/19: £36m).

[c] Loans and other borrowings consist of a loan from group undertakings of £3,177m (2018/19: £3,029m). The loan is repayable on 31 January 2058 and attracts interest of LIBOR plus 102.5 basis points (2018/19: LIBOR plus 102.5 basis points).

[d] As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The profit for the financial year, dealt with in the profit and loss account of the company was £24m (2018/19: £44m).

The financial statements of the company on pages 193 to 196 were approved by the Board of Directors on 6 May 2020 and were signed on its behalf by:

Jan du Plessis
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

BT Group plc company statement of changes in equity

	Note	Called up share capital[a] £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Own shares[b] £m	Profit and loss account[b,c] £m	Total £m
At 1 April 2018		**499**	**1,051**	**27**	**5,649**	**(186)**	**7,833**	**14,873**
Profit for the financial year		–	–	–	–	–	44	44
Transfer to realised profit		–	–	–	(2,500)	–	2,500	–
Dividends paid		–	–	–	–	–	(1,503)	(1,503)
Capital contribution in respect of share-based payments		–	–	–	–	–	67	67
Net buyback of own shares		–	–	–	–	19	(23)	(4)
Unclaimed dividends over 10 years		–	–	–	–	–	9	9
At 1 April 2019		**499**	**1,051**	**27**	**3,149**	**(167)**	**8,927**	**13,486**
Profit for the financial year		–	–	–	–	–	24	24
Transfer to realised profit	3	–	–	–	(1,575)	–	1,575	–
Dividends paid		–	–	–	–	–	(1,521)	(1,521)
Capital contribution in respect of share-based payments		–	–	–	–	–	72	72
Net buyback of own shares		–	–	–	–	(70)	(14)	(84)
Unclaimed dividends over 10 years		–	–	–	–	–	2	2
At 31 March 2020		**499**	**1,051**	**27**	**1,574**	**(237)**	**9,065**	**11,979**

a The allotted, called up and fully paid ordinary share capital of the company at 31 March 2020 was £499m (31 March 2019: £499m), representing 9,968,127,681 (31 March 2019: 9,968,127,681) ordinary shares of 5p each.

b In 2019/20, 8,642,708 shares (2018/19: 9,066,942) were issued from Own shares to satisfy obligations under employee share schemes and executive share awards at a cost of £22m (2018/19: £28m). At 31 March 2020, 85,921,056 shares (2018/19: 45,308,559) with an aggregate nominal value of £4m (2018/19: £2m) were held at cost as treasury shares and 7,255,789 shares (2018/19: 9,021,714) with an aggregate nominal value of £nil (2018/19: £nil) were held in the Trust.

c As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The profit for the financial year, dealt with in the profit and loss account of the company was £24m (2018/19: £44m).

Notes to the company financial statements

1. BT Group plc accounting policies

Principal activity
The principal activity of the company is to act as ultimate holding company of the BT group.

Accounting basis
As used in these financial statements and associated notes, the term 'company' refers to BT Group plc (a public company limited by shares). These separate financial statements of the company are prepared in accordance with, and presented as required by, the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 (FRS 101). These financial statements have been prepared in accordance with FRS 101. FRS 101 incorporates, with limited amendments, International Financial Reporting Standards (IFRS).

Financial statements
The financial statements are prepared on a going concern basis and under the historical cost convention.

As permitted by Section 408(3) of the Companies Act 2006, the company's profit and loss account has not been presented.

New and amended accounting standards effective during the year
There have been no new or amended accounting standards or interpretations adopted during the year that have a significant impact on the financial statements.

Exemptions
As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payments, non-current assets held for sale, financial instruments, capital management, and presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. The company intends to continue to take advantage of these exemptions in future years. Further detail is provided below.

Where required, equivalent disclosures have been given in the consolidated financial statements of BT Group plc.

The BT Group plc consolidated financial statements for the year ended 31 March 2020 contain a consolidated cash flow statement. Consequently, as permitted by IAS 7 'Statement of Cash flow', the company has not presented its own cash flow statement.

The BT Group plc consolidated financial statements for the year ended 31 March 2020 contain related party disclosures.

Consequently, the company has taken advantage of the exemption in IAS 24, 'Related Party Disclosures' not to disclose transactions with other members of the BT Group.

The BT Group plc consolidated financial statements for the year ended 31 March 2020 contain financial instrument disclosures which comply with IFRS 7, 'Financial Instruments: Disclosures'. Consequently, the company is exempt from the disclosure requirements of IFRS 7 in respect of its financial instruments.

Investments
Investments are stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable. An impairment loss is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by continuing to hold the asset and benefiting from the net present value of the future cash flows of the investment.

Taxation
Full provision is made for deferred taxation on all temporary differences which have arisen but not reversed at the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be sufficient taxable profits from which the underlying timing differences can be deducted. The deferred tax balances are not discounted.

Dividends
Dividend distributions are recognised as a liability in the year in which the dividends are approved by the company's shareholders. Interim dividends are recognised when they are paid; final dividends when authorised in general meetings by shareholders. Dividend income is recognised on receipt.

Share capital
Ordinary shares are classified as equity. Repurchased shares of the company are recorded in the balance sheet as part of Own shares and presented as a deduction from shareholders' equity at cost.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less.

Share-based payments
The company does not incur a charge for share-based payments. However, the issuance by the company of share options and awards to employees of its subsidiaries represents additional capital contributions to its subsidiaries. An addition to the company's investment in subsidiaries is recorded with a corresponding increase in equity shareholders' funds. The additional capital contribution is determined based on the fair value of options and awards at the date of grant and is recognised over the vesting period.

2. Investments

Cost	Total £m
At 1 April 2018	**10,885**
Additions	67
At 31 March 2019	**10,952**
Additions	72
At 31 March 2020	**11,024**

Additions of £72m (2018/19: £67m) comprise capital contributions in respect of share-based payments.

The company held a 100% investment in BT Group Investments Limited, a company registered in England and Wales, throughout 2019/20 and 2018/19.

Notes to the company financial statements continued

3. Merger reserve

On 29 January 2016, the company issued 1,594,900,429 ordinary shares of 5p at 470.70p per share resulting in a total of £80m being credited to the share capital.

These shares were used as part consideration for the acquisition of EE, which completed on 29 January 2016. As a result of this transaction, a merger reserve was created of £7,424m net of £3m issue costs. The acquisition of EE was structured by way of a share-for-share exchange. This transaction fell within the provisions of Section 612 of the Companies Act 2006 (merger relief) such that no share premium was recorded in respect of the shares issued. The company chose to record its investment in EE at fair value and therefore recorded a merger reserve equal to the value of the share premium which would have been recorded had Section 612 of the Companies Act 2006 not been applicable ie equal to the difference between the fair value of EE and the aggregate nominal value of the shares issued).

This merger reserve was initially considered unrealised on the basis it was represented by the investment in EE. This was not considered to represent qualifying consideration (in accordance with Tech 02/10 (Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006)), as superseded by Tech 02/17 (Guidance on realised and distributable profits under the Companies Act 2006).

Immediately following the acquisition of EE, the company's investment in EE was transferred to BT in exchange for an intercompany loan. To the extent the loan is settled in qualifying consideration, the related proportion of the merger reserve is considered realised. Hence the merger reserve is an unrealised reserve until it is realised by the settlement of the intercompany loan by qualifying consideration.

During 2019/20, £1,575m (2018/19: £2,500m) of merger reserve was transferred to realised profit following the settlement of an intercompany loan by qualifying consideration.

4. Other information

Dividends
No final dividend is proposed in respect of the year ended 31 March 2020 (2018/19: 10.78p). An interim dividend of 4.62p per share amounting to £457m was paid on 3 February 2020 (2018/19: full year dividend 15.4p amounting to approximately £1,527m, 2017/18: 15.4p amounting to approximately £1,524m).

Employees
The chairman, the executive directors and the company secretary & general counsel, governance of BT Group plc were the only employees of the company during 2019/20 and 2018/19. The costs relating to qualifying services provided to the company's principal subsidiary, British Telecommunications plc, are recharged to that company.

Related undertakings

Subsidiaries

Company name	Group interest in allotted capital[a]	Share class
Held directly		
United Kingdom		
81 Newgate Street, London, EC1A 7AJ, United Kingdom		
BT Group Investments Limited	100%	ordinary
BT Group Nominees Limited	100%	ordinary
Held via other group companies		
Albania		
Rr. Murat Toptani, Eurocol Center, Kati 8, Tirana, Albania		
BT Albania Limited SH.P.K	100%	ordinary
Algeria		
20 Micro zone d'Activités Dar El Madina, Bloc B, Loc N01 Hydra, Alger, 16000, Algeria		
BT Algeria Communications SARL	100%	ordinary
Argentina		
Av. Luis Maria Campos 877, Piso 10, Ciudad Autonoma de, Buenos Aires, C1426, Argentina		
BT Argentina S.R.L.	100%	ordinary
BT Latam Argentina S.A	100%	common
Australia		
Level 1, 76 Berry Street, North Sydney NSW 2060, Australia		
BT Australasia Pty Limited	100%	ordinary
	100%	preference
Austria		
Louis-Häfliger-Gasse 10, 1210, Wien, Austria		
BT Austria GmbH	100%	ordinary
Azerbaijan		
The Landmark III Building, 8th Floor, c/o Deloitte & Touche, 96 Nizami Street, Baku, AZ 1010, Azerbaijan		
BT Azerbaijan Limited, Limited Liability Company	100%	ordinary
Bahrain		
Suite #659, 6th floor, Building No. 247, Road 1704, Diplomat Area 317, Bahrain		
BT Solutions Limited (Bahrain Branch)[b]	100%	–
Bangladesh		
JHK Windcel, Level 4, KA-90 Progoti Sarani, Kuril, Dhaka, Bangladesh, 1229, Bangladesh		
BT Communications Bangladesh Limited	100%	ordinary
Barbados		
3rd Floor, The Goddard Building, Haggatt Hall, St. Michael, BB11059, Barbados		
BT (Barbados) Limited	100%	ordinary
Belarus		
58 Voronyanskogo St, Office 89, Minsk 220007, Belarus		
BT BELRUS Foreign Limited Liability Company	100%	ordinary
Belgium		
Telecomlaan 9, 1831 Diegem, Belgium		
BT Global Services Belgium BV	100%	ordinary
BT Professional Services (Holdings) N.V.	100%	ordinary
Rue de L'Aêropostale 8, 4460 Grâce-Hollogne, Belgium		
IP Trade SA	100%	ordinary
Bermuda		
Century House, 16 Par-la-Ville Road, Hamilton, HM08, Bermuda		
Communications Global Network Services Limited	100%	ordinary
Bolivia		
Avda. 6 de Agosto N° 2700, Torre Empresarial CADECO, Piso 4, La Paz, Bolivia		
BT Solutions Limited Sucursal Bolivia[b]	100%	–
Bosnia and Herzegovina		
Skenderpasina 33, Sarajevo, 71000, Bosnia and Herzegovina		
BTIH Teleconsult Drustvo sa organicenom odgovornoscu za posredovanje i zastupanje d.o.o. Sarajevo	100%	–
Botswana		
Deloitte House, Plot 64518, Fairgrounds, Gaborone, PO Box 1839, Botswana		
BT Global Services Botswana (Proprietary) Limited	100%	ordinary
Brazil		
Avenida Doutora Ruth Cardoso, nº 4777, 14º andar, parte, Jardim Universidade - Pinheiros, na Cidade de, São Paulo- SP- CEP, 05477- 000, Brasil		
BT Global Communications do Brasil Limitada	100%	quotas
BT LatAm Holdings Brasil Ltda	100%	common
Avenida das Nações Unidas nº 4777 – 14º, andar- Jardim Universidade - São Paulo- SP - CEP, 05477-000, Brasil		
BT Communications do Brasil Limitada	100%	quotas
Rodovia Jornalista Francisco Aguirre Proença, Km 9, Unidade 27, Bloco Beta - Distrito Industrial, Condomínio Tech Town, Chácaras Assay, Hortolândia, São Paulo, CEP 13186-904, Brasil		
BT Brasil Serviços de Telecomunicações Ltda	100%	quotas
BT LatAm Brasil Ltda.	100%	quotas
British Virgin Islands		
Sea Meadow House, P.O. Box 116, Road Town, Tortola, British Virgin Islands		
BT LatAm (BVI) Corporation	100%	common
Bulgaria		
51B Bulgaria Blvd., fl. 4, Sofia, 1404, Bulgaria		
BT Bulgaria EOOD	100%	ordinary
Canada		
Regus Brookfield Place, 161 Bay Street, 26th and 27th Floors, Toronto, Ontario, M5J 2S1, Canada		
BT Canada Inc.	100%	common
Cabo Verde		
Avenida Andrade Corvo, 30, Praia, CP63, Cabo Verde		
B. Telecomunicações, Cabo Verde, Sociedade Unipessoal, SA	100%	ordinary
Chile		
Rosario Norte 407, Piso 6, Las Condes, Santiago, Chile		
Servicios de Telecomunicaciones BT Global Networks Chile Limitada	100%	ordinary
China		
Building 16, 6th Floor, Room 602-B, No. 269 Wuyi Road, Hi-tech Park, Dalian, 116023, China		
BT Technology (Dalian) Company Limited	100%	registered
No. 3 Dong San Huan Bei Lu, Chao Yang District, Beijing, 100027, China		
BT Limited, Beijing Office[b]	100%	–
No. 31 Software Park Road, Tower A, Science & Technology Building, Dalian Software Park, Dalian, 116023, China		
BT Global Services (Dalian) Co. Ltd.	100%	registered
Room 1206, Tower A, United Plaza, 5022 Bin He Avenue, Fu Tian District, Shenzhen, P. R. China		
Infonet Primalliance Shenzhen Co. Ltd.	35%	ordinary
Room 2101-2103, 21/F, International Capital Plaza, No. 1318 North Sichuan Road, Hong Kou District, Shanghai, 200080, China		
BT China Limited-Shanghai Branch Office[b]	100%	–

Related undertakings continued

Company name	Group interest in allotted capital[a]	Share class
Room 4B, 7/F, Tower W3, Oriental Plaza, 1 East Chang An Avenue, Dong Cheng District, Beijing, P. R. China		
Infonet Primalliance Beijing Co. Ltd.	66%	ordinary
Room 601, No. 2 BLDG, 750 West Zhong Shan Rd., Shanghai, 200051, P.R .China		
Infonet Primalliance Shanghai Co. Ltd.	28%	ordinary
Room 635-3, No. 2 BLDG, 351 Guo Shou Jing Road, Zhang Jiang High Technology Park, Shanghai, P. R. China		
Infonet Primalliance Holding Co. Ltd.	100%	ordinary
Room 702A, Tower W3,Oriental Plaza, 1 East Chang An Avenue, Dongcheng, Beijing, 100738, China		
BT China Limited	100%	registered
Unit 1537B, Floor 15th, No. 55, Xili Road, Shanghai Free Trade Zone, Shanghai, China		
BT China Communications Limited	50%	ordinary
Colombia		
Calle 113 # 7-21, Torre A oficina 1112, Teleport Business Park, Bogota, Colombia		
América Inalámbrica S.A.	100%	common
BT Colombia Limitada	100%	quotas
BT LatAm Colombia S.A.	100%	common
BT LatAm Holdings (Colombia) S.A.	100%	common
Costa Rica		
Heredia-Belen La Ribera, Centro Corporativo El Cafeta, Edificio B, segundo piso, Oficinas de Deloitte, San José, Costa Rica		
BT Global Costa Rica SRL	100%	ordinary
BT LatAm Costa Rica, S.A.	100%	common
Côte d'Ivoire		
Abidjan Plateau, Rue du commerce, Immeuble Nabil 1er étage, 01 BP 12721 Abidjan 01, Côte d'Ivoire		
BT Côte d'Ivoire	100%	ordinary
Croatia		
Savska 64, 10 000 Zagreb, Croatia		
BT Solutions Limited Podruznica Hrvatska[b]	100%	–
Cyprus		
Hadjianastassiou, Ioannides LLC, DELOITTE LEGAL, Maximos Plaza, Tower 3, 2nd Floor, 213 Arch. Makariou III Avenue, Limassol, 3030, Cyprus		
BT Solutions Limited[b]	100%	–
Czech Republic		
Katerinska 466/40, Nove Mesto, Prague 2, 120 00, Czech Republic		
BT Limited, organizacni slozka[b]	100%	–

Company name	Group interest in allotted capital[a]	Share class
Denmark		
Havnegade 39, 1058, Kobenhavn K, Denmark		
BT Denmark ApS	100%	ordinary
Dominican Republic		
Av. Abraham Lincoln Esq. Jose Amado Soler, Edif. Progresso, Local 3-A, Sector Ens. Serralles, Santo Domingo, Dominican Republic		
BT Dominican Republic, S. A.	100%	ordinary
BT LatAm Dominicana, S.A.	100%	common
Ecuador		
Av. Amazonas N21-252 y Carrión, Edificio Londres, 4° Piso, Quito, Ecuador		
BT Solutions Limited (Sucursal Ecuador)[b]	100%	–
El Salvador		
Edificio Avante Penthouse Oficina, 10-01 Y 10-03 Urbanizacion, Madre Selva, Antiguo Cuscatlan, La Libertad,El Salvador		
BT El Salvador, Limitada de Capital Variable	100%	ordinary
BT LatAm El Salvador, S.A. de CV	100%	common
Egypt		
1 Wadi El Nile St., Mohandessin, Giza, Cairo, Egypt		
BT Telecom Egypt LLC	100%	stakes
Estonia		
A.H. Tammsaare tee 47, Tallinn, 11316, Estonia		
BT Solutions Limited Eesti Filiaal[b]	100%	–
Finland		
Mannerheimvägen 12 B 6, 00100 Helsinki, Finland		
BT Nordics Finland Oy	100%	ordinary
France		
Tour Ariane, 5 place de la Pyramide, La Defense Cedex, 92088 PARIS, France		
BT France S.A.S.	100%	ordinary
BT Newco France S.A.S.	100%	ordinary
BT Services S.A.S	100%	ordinary
Georgia		
N74 Ilia Chavchavadze Avenue, Vake district, Tbilisi, Georgia		
BT Georgia Limited LLC	100%	–
Germany		
Barthstraße 4, 80339, Munich, Germany		
BT (Germany) GmbH & Co. oHG	100%	ordinary
BT Deutschland GmbH	100%	ordinary
BT Garrick GmbH	100%	ordinary
Franfurterstrasse 21-25, 65760, Eschborn Taunus, Germany		
IP Trade Networks GmbH	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Ghana		
5th Floor, Vivo Place, Cantonments City, Rangoon lane, Accra, P.O. Box MB 595, Ghana		
BT Ghana Limited	100%	ordinary
Greece		
75 Patision Street, Athens, 10434, Greece		
BT Solutions Limited-Greek Branch[b]	100%	–
Guatemala		
5ta avenida 5-55 zona 14, Edificio Europlaza World Business Center, Torre IV, nivel 7, oficina 702, Guatemala		
BT Guatemala S.A.	100%	unique
BT LatAm Guatemala, S.A.	100%	common
Honduras		
Edificio Plaza América, 5to piso, Colonia, Florencia Norte, Tegucigalpa, Honduras		
BT Sociedad De Responsabilidad Limitada	100%	–
Edificio Plaza Azul, Piso 2 do Nivel, Local No. 26, Colonia Lomas del Guijarro Sur, Avenida Paris, Calle Viena, Tegucigalpa, Honduras		
BT LatAm Honduras, S.A.	100%	common
Hong Kong		
38th Floor Dorset House, Taikoo Place, 979 King's Road, Island East, Hong Kong		
BT Hong Kong Limited	39%	ordinary
	61%	preference
Infonet China Limited	100%	ordinary
Room 1102, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong		
IP Trade Networks Limited	100%	ordinary
Hungary		
Budafoki U. 91-93, Budapest, 1117, Hungary		
BT Limited Magyarorszagi Fioktelepe[b]	100%	–
BT ROC Kft	100%	business
Iceland		
BDO ehf, Skutuvogi 1E, 104 Reykjavik, Iceland		
BT Solutions Limited Útibú á Íslandi[b]	100%	–
India		
602, Tower B, RMZ Infinity, Municipal No. 3, Old Madras Road, Benninganahalli, Bengaluru, Karnataka, 560016, India		
BT Professional Services (India) Private Limited	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
11th Floor, Eros Corporate Tower, Opp. International Trade Tower, Nehru Place, New Delhi, 110019, India		
BT (India) Private Limited	100%	ordinary
BT e-Serv (India) Private Limited	100%	equity
BT Global Business Services Private Limited	100%	ordinary
BT Global Communications India Private Limited	74%	ordinary
BT Telecom India Private Limited	74%	ordinary
A-47, Hauz Khas, New Delhi, Delhi-DL, 110016, India		
Orange Services India Private Limited	100%	ordinary
Indonesia		
World Trade Centre 5, Lantai. 13, Jl. Jend. Sudirman Kav. 29-31, Kel. Karet Setiabudi, Jakarta Selatan, Jakarta, 12920, Indonesia		
PT BT Indonesia	100%	ordinary
PT BT Communications Indonesia	95%	ordinary
PT Sun Microsystems Indonesia	60%	ordinary
Isle of Man		
Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man		
Belmullet Limited	100%	ordinary
Communicator Insurance Company Limited	99%	ordinary
Priestgate Limited	100%	ordinary
Israel		
Beit Oz, 14 Abba Hillel Silver Rd, Ramat Gan, 52506, Israel		
B.T. Communication Israel Ltd	100%	ordinary
Italy		
Strada Santa Margherita, 6 / A, 43123, Parma, Italy		
BT Enìa Telecomunicazioni S.P.A.	87%	ordinary
Via Charles Robert Darwin, no 85, 20019, Settimo Milanese, Italy		
ERPTech S.p.A.	99%	ordinary
Via Correggio 5, 20097, San Donato Milanese, Milan, Italy		
Radianz Italia S.r.l.	100%	ordinary
Via Mario Bianchini 15, 00142 Roma, Italy		
BT Global Services Limited[b]	100%	–
Via Pianezza n° 123, Torino, Italy		
Atlanet SpA	99%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Via Tucidide 56, Torre 7, 20134, Milano, Italy		
Basictel SpA	99%	ordinary
BT Italia S.p.A.	99%	ordinary
BT Nederland N.V.[b]	100%	–
Nuova Societa di Telecomunicazioni SpA	99%	ordinary
Jamaica		
26 Beechwood Avenue, Cross Roads, St. Andrew, Kingston 5, Jamaica		
BT Jamaica Limited	100%	ordinary
Japan		
ARK Mori Building, 12-32 Akasaka, 1-Chome, Minato-Ku, Tokyo, 107 - 6024, Japan		
BT Global Japan Corporation	100%	ordinary
BT Japan Corporation	100%	ordinary
Jersey		
26 New Street, St Helier, JE2 3RA, Jersey		
Ilford Trustees (Jersey) Limited	100%	ordinary
PO Box 264, Forum 4, Grenville Street, St Helier, JE4 8TQ, Jersey		
BT Jersey Limited	100%	ordinary
Jordan		
Al Gardens Area (Tlaa Al Ali), Al Salheen Neighborhood, Building #185, 7th Floor, Wasfi Al Tal Street, Amman, 962178, Jordan		
BT (International) Holdings Limited (Jordan)	100%	ordinary
Kazakhstan		
36 Al Farabi Ave., Bldg. B, Almaty Financial District, Almaty, Republic of Kazakhstan, 050059, Kazakhstan		
BT Kazakhstan LLP	100%	–
Kenya		
6th Floor, Virtual Offices, Morningside Office Park, Ngong Road, Nairobi, Kenya		
BT Communications Kenya Limited	100%	ordinary
P.O. BOX 10032-00100, Nairobi, Kenya		
BT Telecommunications Kenya Limited	100%	ordinary
Korea		
8th Floor, KTB Building, 66 Yeoui-daero, Yeongdeungpo-gu, Seoul, 07325, Korea		
BT Global Services Korea Limited	100%	common
Kuwait		
Block 2-A, 9th Floor, Ahmad Al Jaber Street, Sharq, Kuwait		
BT Solutions Limited – Kuwait Branch[b]	100%	–
Latvia		
Muitas iela 1A, Riga, LV-1010, Latvia		
BT Latvia Limited, Sabiedriba ar ierobezotu atbildibu	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Lebanon		
Abou Hamad, Merheb, Nohra & Chedid Law Firm, Chbaro Street, 22nd Achrafieh Warde Building, 1st Floor, Beirut, P.O.BOX 165126, Lebanon		
BT Lebanon S.A.L.	100%	ordinary
Lithuania		
Aludariu str 2-33, LT-01113 Vilnius, Lithuania		
UAB BTH Vilnius	100%	ordinary
Luxembourg		
12 rue Eugene Ruppert, L 2453, Luxembourg		
BT Global Services Luxembourg SARL	100%	ordinary
BT Professional Services (Luxembourg) S.A.	100%	ordinary
BT Broadband Luxembourg Sàrl	100%	ordinary
Macedonia		
Str. Dame Gruev no.8, 5th floor, Building "Dom na voenite invalidi", SKOPJE 1000, Macedonia		
BT Solutions Limited Branch Office in Skopje[b]	100%	–
Macao		
Avenida da.Praia Grande, No. 367-371, Keng Ou Building, 15th andar C, em Macao, Macau, Macao		
BT Hong Kong Ltd. – Macau Branch[b]	100%	–
Malawi		
KEZA Office Park Blocks 3, First Floor, Near Chichiri, Shopping Mall, Blantyre, Malawi		
BT Malawi Limited	100%	ordinary
Malaysia		
Menara BT, Level 8, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200, Kuala Lumpur, Malaysia		
BT Global Services (M) Sdn Bhd	100%	ordinary
BT Global Services Solutions Sdn Bhd	100%	ordinary
BT Global Technology (M) Sdn. Bhd.	100%	ordinary
BT Systems (Malaysia) Sdn Bhd	100%	ordinary
Malta		
Office 13, Verdala Business Centre, Level 1, LM Complex, Brewery Street, Zone 3, Central Business District, Birkirkara CBD, 3040, Malta		
BT Solutions Limited[b]	100%	–
Mauritius		
7th-8th Floor, Standard Chartered Tower, 19-21, Bank Street, Cybercity, Ebène, 72201, Mauritius		
BT Global Communications (Mauritius) Limited	100%	ordinary

Related undertakings continued

Company name	Group interest in allotted capital[a]	Share class
Mexico		
Av. Renato Leduc 321, Col. Toriello Guerra, 14050 Mexico D.F.		
BT LatAm México, S.A. de C.V.	100%	common
Moldova		
IPTEH Building, 65 Stefan cel Mare Blvd, Office 806, Chisinau, Republic of Moldova		
BT MDV Limited	100%	ordinary
Montenegro		
Vasa Raickovica 4b, Podgorica, Podgorica, Montenegro		
BT Montenegro DOO	100%	–
Morocco		
193, Avenue HASSAN II, Casablanca, MAROC s/c Domicilia services, Morocco		
BT Solutions Limited – Morocco Branch[b]	100%	–
Espace Jet Business Class, 16/18 Lot Attoufik Sidi Maarouf, Casablanca, 20190, Morocco		
Syntone S.A.R.L.	100%	ordinary
Mozambique		
Avenida Kenneth Kaunda, number 660, Sommershield, Maputo City, Mozambique		
BT Mozambique, Limitada	100%	quotas
Namibia		
Unit 3, 2nd floor, Ausspann Plaza, Dr Agostinho Neto Road, Ausspannplatz, Windhoek, Private Bag, 12012, Namibia		
BT Solutions Limited[b]	100%	–
Netherlands		
Minerva & Mercurius building, Herikerbergweg 2, 1101CM, Amsterdam Zuidoost, Netherlands		
BT (Netherlands) Holdings B.V.	100%	ordinary
BT Nederland N.V.	100%	ordinary
BT Professional Services Nederland B.V.	100%	ordinary
New Zealand		
c/o Deloitte, Level 18, 80 Queen Street, Auckland Central, Auckland, 1010, NZ, New Zealand		
BT Australasia Pty Limited – New Zealand Branch[b]	100%	–
Nicaragua		
De donde fué el Restaurante Marea Alta (Ahora quesillos EL PIPE) 2 cuadras al este, 10 Metros al norte, frente al Hotel El Gran Marquez, Casa # 351, Nicaragua, Zip code: 2815		
BT LatAm Nicaragua, S.A.	100%	common
BT Nicaragua S.A.	100%	capital

Company name	Group interest in allotted capital[a]	Share class
Niger		
57, Rue des Sorkhos, BP 616, Niamey, Niger		
BT Niger	100%	ordinary
Nigeria		
ADOL House, 15 CIPM Avenue, Central Business District, Alausa, Ikeja, Lagos, Nigeria		
BT (Nigeria) Limited	100%	ordinary
Norway		
Munkedamsveien 45, c/o BDO AS, 0121 Oslo, Norway		
BT Solutions Norway AS	100%	ordinary
Oman		
Maktabi Building, Building No. 458, Unit No. 413 (4th Floor, Road No - R41, Block No. 203, Plot No. 107, Zone No. SW41, Complex No. 271, Al Watiyah, Bausher, Muscat, Sultanate of Oman, Oman		
BT International Holdings Limited & Co. LLC	100%	ordinary
Pakistan		
Deloitte Yousuf Adil, Chartered Accountants, Cavish Court, A-35, Block 7&8, KCHSU, Shahrah-e-Faisal, Karachi, 75350, Pakistan		
BT Pakistan (Private) Limited	100%	ordinary
Panama		
Edificio Credicorp Bank, Piso 3, Oficina 301, Cuidad de Panama, Panama		
BT de Panama, S.R.L.	100%	ordinary
BT LatAm Panama, Inc.	100%	common
Paraguay		
Av. Brasilia N° 767 casi Siria, Asunción, Paraguay		
BT Paraguay S.R.L.	100%	quotas
Peru		
Calle Martir Olaya, 129 of 1901, Miraflores, Lima, Peru		
BT LatAm Peru S.A.C.	100%	common
BT Peru S.R.L.	100%	ordinary
Philippines		
11th Floor, Page One Building, 1215 Acacia Ave Madrigal Business Park, Ayala Alabang, Muntinlupa, Metro Manila, 1780, Philippines		
IT Holdings, Inc	100%	ordinary
Sun Microsystems Philippines, Inc	51%	common
18th Floor, Philamlife Tower, 8767 Paseo de Roxas, Makati City, 1226, Philippines		
BT Communications Philippines Incorporated	100%	ordinary
c/o Sun Microsystems Phil Inc., 8767 Paseo de Roxas, Makati City, Philippines		
PSPI-Subic, Inc	51%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Poland		
Al. Armii Ludowej 14, 00-638 Warszawa, International Business Center, Poland		
BT Poland Spółka Z Ograniczoną Odpowiedzialnością	100%	ordinary
Portugal		
Rua D. Francisco Manuel de Melo 21-1, 1070-085 Lisboa, Portugal		
BT Portugal – Telecomunicações, Unipessoal Lda	100%	ordinary
Puerto Rico		
The Prentice-Hall Corporation System, Puerto Rico, Inc., c/o Fast Solutions, LLC, Citi Tower, 252 Ponce de Leon Avenue, Floor 20, San Juan, Puerto Rico, 00918, Puerto Rico		
BT Communications Sales, LLC Puerto Rico branch[b]	100%	–
Qatar		
1413, 14th Floor, Al Fardan Office Tower, Doha, 31316, Qatar		
BT Global Services (North Gulf) LLC	49%	ordinary
Republic of Ireland		
5th Floor, Beaux Lane House, Mercer Street Lower, Dublin 2, D02 DH60, Ireland		
BT Communications Ireland Group Limited	100%	ordinary
BT Communications Ireland Holdings Limited	100%	ordinary
BT Global Communications (Ireland) Limited	100%	ordinary
Canal Capital Investment Limited	100%	ordinary
Whitestream Industries Limited	100%	ordinary
2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland		
BT Communications Ireland Limited	100%	ordinary
Romania		
35-37 Oltenitei Str., Cladirea A1, Biroul Nr. 52, Bucharest, Sector 4, Romania		
BT Global Services Limited Londra Sucursala Bucuresti[b]	100%	–
Russia		
Room 62, prem xx, Floor 2, Pravdy, 26, 127137, Moscow, Russian Federation		
BT Solutions Limited Liability Company	100%	–
Serbia		
Dimitrija Georgijevica Starike 20, Belgrade, 11070, Serbia		
BT Belgrade d.o.o	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Sierra Leone		
84 Dundas Street, Freetown, Sierra Leone		
BT (SL) Limited	100%	ordinary
Singapore		
Level 3, #03-01/02 & #03-04, Block B, Alexandra Technopark, 438B Alexandra Road, Singapore, 119968		
BT (India) Private Limited Singapore Branch[b]	100%	–
BT Global Services Technologies Pte. Ltd.	100%	ordinary
BT Global Solutions Pte. Ltd.	100%	ordinary
BT Singapore Pte. Ltd.	100%	ordinary
Sun Vietnam Pte. Ltd.	60%	ordinary
Slovakia		
Dvorakovo nabrezie 4, 811 02, Bratislava, Slovakia		
BT Slovakia s.r.o.	100%	ordinary
Slovenia		
CESTA V MESTNI LOG 1, 1000 LJUBLJANA, Slovenia		
BT GLOBALNE STORITVE, telekomunikacijske storitve, obdelava podatkov, podatkovnih baz; d.o.o.	100%	ordinary
South Africa		
24-18th Street, Menlo Park, Pretoria, 0081, South Africa		
EE Communications (South Africa) Proprietary Limited	100%	ordinary
BT Building, Woodmead North Office Park, 54 Maxwell drive, Woodmead, South Africa		
BT Communications Services South Africa (Pty) Limited	70%	ordinary
First Floor, Culross Court North, 16 Culross Road, Bryanston, South Africa, 2021		
BT Limited[b]	100%	–
Spain		
Calle Isabel Colbrand 8, 3rd Floor, 28050, Madrid, Spain		
BT Global ICT Business Spain SLU	100%	ordinary
C/ Isabel Colbrand 6-8, 28050, Madrid, Spain		
BT ESPAÑA, Compañia de Servicios Globales de Telecommunicaciones, S.A	100%	ordinary
Sri Lanka		
Level 03, No.11, Castle Lane, Sri Lanka, Colombo, 04, Sri Lanka		
BT Communications Lanka (Private) Limited	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Sudan		
Alskheikh Mustafa Building, Parlman Street, Khartoum, Sudan		
Newgate Communication (Sudan) Co. Ltd	100%	ordinary
Sweden		
Box 30005, 104 25, Stockholm, Sweden		
BT Nordics Sweden AB	100%	ordinary
Switzerland		
Richtistrasse 5, 8304 Wallisellen, Switzerland		
BT Switzerland AG	100%	ordinary
Taiwan		
Shin Kong Manhattan Building, 14F, No. 8, Sec. 5, Xinyi Road, Taipei, 11049, Taiwan		
BT Limited Taiwan Branch[b]	100%	–
Tanzania		
BDO East Africa, 1st Floor-Wing B, Infotech Place, Mwai Kibaki Road, Dar es Salaam, Tanzania		
BT Solutions Limited – Tanzania Branch[b]	100%	–
Thailand		
Athenee Tower, 23rd Floor, (CEO Suite, Suite 38 & 40), 63 Wireless Road, Lumpini, Pathumwan, Bangkok, 10330, Thailand		
BT Siam Communications Co. Ltd.	49%	class B
BT Siam Limited	69%	preference
Trinidad and Tobago		
2nd Floor CIC Building, 122-124 Frederick Street, Port of Spain, Trinidad and Tobago		
BT Solutions Limited[b]	100%	–
Tunisia		
BT chez BDO Tunisie, Immeuble, ENNOUR BUILDING 3ème étage, Centre Urbain Nord 1082, Mahrajène Tunis, Tunisia		
BT Tunisia S.A.R.L	100%	ordinary
Turkey		
Yenisahra Mah. Yavuz Selim Cad. No.19/A D.4 Ataşehir, İstanbu, 34700, Turkey		
BT Bilisim Hizmetleri Anonim Şirketi	100%	ordinary
BT Telekom Hizmetleri Anonim Şirketi	100%	common
Uganda		
Engoru, Mutebi Advocates, Ground Floor, Rwenzori House, 1 Lumumba Avenue, Kampala, 22510, Uganda		
BT Solutions Limited[b]	100%	–
Ukraine		
Office 702, 34 Lesi Ukrainky Boulevard, Kyiv 01042, Ukraine		
BT Ukraine Limited Liability Company	100%	stakes

Company name	Group interest in allotted capital[a]	Share class
United Arab Emirates		
Office No G03, Ground Floor, EIB Building No 04, Dubai, United Arab Emirates		
BT MEA FZ-LLC	100%	ordinary
Office no.206 BLOCK B, Diamond Business Center 1, Al Barsha South Third, Dubai, P.O. BOX 25205, United Arab Emirates		
BT UAE Limited - Dubai Branch (1)[b]	100%	–
BT UAE Limited - Dubai Branch (2)[b]	100%	–
United Kingdom		
81 Newgate Street, London, EC1A 7AJ, United Kingdom		
Autumnwindow Limited	100%	ordinary
Autumnwindow No.2 Limited	100%	ordinary
Autumnwindow No.3 Limited	100%	ordinary
Belmullet (IoM) Limited[b]	100%	–
BPSLP Limited	100%	ordinary
British Telecommunications plc	100%	ordinary
Bruning Limited	100%	ordinary
BT (International) Holdings Limited	100%	ordinary
BT (RRS LP) Limited	100%	ordinary
BT Centre Nominee 2 Limited	100%	ordinary
BT Communications Ireland Group Limited – UK Branch[b]	100%	–
BT Cornwall Limited	100%	ordinary
BT Corporate Trustee Limited	100%	limited by guarantee
BT European Investments Limited	100%	ordinary
BT Facilities Services Limited	100%	ordinary
BT Fifty-One	100%	ordinary
BT Fifty-Three Limited	100%	ordinary
BT Global Security Services Limited	100%	ordinary
BT Global Services Limited	100%	ordinary
BT Holdings Limited	100%	ordinary
BT IoT Networks Limited	100%	ordinary
BT Lancashire Services Limited	100%	ordinary
BT Limited	100%	ordinary
BT Managed Services (No.2) Limited	100%	ordinary
BT Managed Services Limited	100%	ordinary
BT Nominees Limited	100%	ordinary
BT Property Holdings (Aberdeen) Limited	100%	ordinary
BT Property Limited	100%	ordinary
BT Sixty-Four Limited	100%	ordinary
BT SLE Euro Limited	100%	ordinary
BT SLE USD Limited	100%	ordinary
BT Solutions Limited	100%	ordinary

Related undertakings continued

Company name	Group interest in allotted capital[a]	Share class
BT UAE Limited	100%	ordinary
Communications Global Network Services Limited – UK Branch[b]	100%	–
Communications Networking Services (UK)	100%	ordinary
ESAT Telecommunications (UK) Limited	100%	ordinary
Extraclick Limited	100%	ordinary
Global Security Europe Limited	100%	ordinary
groupBT Limited	100%	ordinary
Newgate Street Secretaries Limited	100%	ordinary
Numberrapid Limited	100%	ordinary
Pelipod Ltd	100%	ordinary
Radianz Limited	100%	ordinary
Southgate Developments Limited	100%	ordinary
Tudor Minstrel	100%	ordinary
Alexander Bain House, 15 York Street, Glasgow, G2 8LA Scotland		
Holland House (Northern) Limited	100%	ordinary
BDO LLP, 55 Baker Street, London, W1U 7EU, United Kingdom		
BT Fifty	100%	ordinary
BT IT Services Limited	100%	ordinary
BT LGS Limited	100%	ordinary
BT Moorgate One Limited	100%	ordinary
BT Moorgate Two Limited	100%	ordinary
BT Property Holdings (Oxford) Limited	100%	ordinary
BT South Tyneside Limited	100%	ordinary
BTexact Technologies Limited	100%	ordinary
BTexact Venturing Limited	100%	ordinary
Kelvin House, 123 Judd Street, London, WC1H 9NP, United Kingdom		
Openreach Limited	100%	ordinary
The Balance, 2 Pinfold Street, Sheffield, S1 2GU, United Kingdom		
Plusnet plc	100%	ordinary
Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom		
EE (Group) Limited	100%	ordinary
EE Finance Limited	100%	ordinary
EE Limited	100%	ordinary
EE Pension Trustee Limited	100%	ordinary
Mainline Communications Group Limited	100%	ordinary
Mainline Digital Communications Limited	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Orange Furbs Trustees Limited	100%	ordinary
Orange Home UK Limited	100%	ordinary
Orange Personal Communications Services Limited	100%	ordinary
United States		
c/o Corporation Service Company, 2215-B Renaissance Drive, Las Vegas, NV 89119, United States		
BT LatAm (Nevada) Corp.	100%	common
c/o Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808, United States		
BT Americas Holdings Inc.	100%	common
BT Americas Inc.	100%	common
BT Communications Sales LLC	100%	units
BT Conferencing Video Inc.	100%	common
BT Federal Inc.	100%	common
BT LatAm Holdings One, Inc.	100%	common
BT LatAm Holdings Three, Inc.	100%	common
BT LatAm Holdings Two, Inc.	100%	common
BT LatAm Services, Inc.	100%	common
BT LatAm, Inc.	100%	common
BT Procure L.L.C.	100%	units
BT United States L.L.C.	100%	units
Infonet Services Corporation	100%	common
Radianz Americas Inc.	100%	common
Uruguay		
Rincón 487 Piso 11, Montevideo, ZIP CODE 11.000, Uruguay		
BT Solutions Limited Sucursal Uruguay[b]	100%	–
Venezuela		
Edificio Parque Cristal, Torre Oeste, Piso 5, Oficina 5, Avenida Francisco de Miranda, Urbanización Los Palos Grandes, Caracas 1060, Venezuela		
BT LatAm Venezuela, S.A.	100%	ordinary
BT Global (Venezuela) S.A.	100%	ordinary
Vietnam		
16th Floor, Saigon Tower, 29 Le Duan Road, District 1 Ho Chi Minh City, Socialist Republic of Vietnam		
BT (Vietnam) Co. Ltd.	100%	ordinary
7th Floor, ESTAR Building, 147-149 Vo Van Tan Street, Ward 6, District 3, HCM City, Vietnam		
Sun Vietnam Co., Ltd.	60%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Zambia		
Plot No. 11058, Haile Selassie Avenue, Zimbabwe, Lusaka, Lusaka Province, 34972, Zambia		
BT Solutions Limited[b]	100%	–
Zimbabwe		
3 Baines Avenue, Box 334, Harare, Zimbabwe		
Numberrapid Limited[b]	100%	–

Associates

Company name	Group interest in allotted capital[a]	Share class
Held via other group companies		
Italy		
Piazzale Luigi Sturzo, 23, 00144, Roma, Italy		
QXN S.c.p.A.	25%	ordinary
Mauritius		
IFS Court, Bank Street, TwentyEight Cybercity, Ebene, 72201, Mauritius		
Mahindra – BT Investment Company (Mauritius) Limited	43%	ordinary
Philippines		
32F Philam Life Tower, 8767 Paseo de Roxas, Makati City, Philippines		
ePLDTSunphilcox JV, Inc	20%	ordinary
SunPhilcox JV, Inc	20%	ordinary
United Kingdom		
24/25 The Shard, 32 London Bridge Street, London, SE1 9SG, United Kingdom		
Digital Mobile Spectrum Limited	25%	ordinary
Unit 1, Colwick Quays Business Park, Colwick, Nottingham, Nottinghamshire, NG4 2JY, United Kingdom		
Midland Communications Distribution Limited	35%	ordinary
Phoneline (M.C.D) Limited	35%	ordinary

Joint Ventures and Joint operations[c]

Company name	Group interest in allotted capital[a]	Share class
Held via other group companies		
United Kingdom		
Sixth Floor, Thames Tower, Station Road, Reading, RG1 1LX, United Kingdom		
Mobile Broadband Network Limited	50%	ordinary
6th Floor, One London Wall, London, EC2Y 5EB, United Kingdom		
Internet Matters Limited	25%	–
81 Newgate Street, London, EC1A 7AJ, United Kingdom		
BT OnePhone Limited	70%	ordinary
St Helen's 1 Undershaft, London, EC3P 3DQ, United Kingdom		
Rugby Radio Station (General Partner) Limited	50%	ordinary
Rugby Radio Station (Nominee) Limited	50%	ordinary
Rugby Radio Station LP	50%	–
10 Lower Thames Street, Third Floor, London, EC3R 6YT, United Kingdom		
Youview TV Limited	14%	voting

Interests in joint operations

EE Limited and Hutchison 3G UK Limited (together 'the Companies') each have a 50% share in the joint operation Mobile Broadband Network Limited ('MBNL'). MBNL's ongoing purpose is the operation and maintenance of mobile networks through a sharing arrangement. This includes the efficient management of shared infrastructure and networks on behalf of the Companies, acquiring certain network elements for shared use, and coordinating the deployment of new infrastructure and networks on either a shared or a unilateral basis (unilateral elements being network assets or services specific to one company only). The group is committed to incurring 50% of costs in respect of restructuring the Shared Network, a similar proportion of the operating costs (which varies in line with usage), and 100% of any unilateral elements.

Guarantees for the joint operation are given by British Telecommunications plc and CK Hutchison Holdings Limited.

The principal place of business of the joint operation is in the UK.

a The proportion of voting rights held corresponds to the aggregate interest in percentage held by the holding company and subsidiaries undertaking.
b No shares issued for a branch.
c All joint ventures are governed by a joint venture agreement or shareholder agreement. MBNL is accounted for as a joint operation.