British Telecommunications plc

Annual Report and Financial Statements

Year ended 31 March 2020

Company number 1800000

Contents

Corporate information

Directors

Simon Lowth

Neil Harris

Ulrica Fearn

Edward Heaton (appointed 4 March 2020)

Keighly Droy-Whelan (appointed 4 March 2020)

Secretary

Kathryn Zielinski (appointed 13 August 2019)

Heather Brierley (resigned 13 August 2019)

Independent Auditor

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Strategic Report

Non-financial information statement

Our integrated approach to reporting means that we address the requirements of the Non-Financial Reporting Directive through the Strategic report.

Our customer-facing units

Consumer

Our three brands – BT, EE and Plusnet – connect UK consumers to information, entertainment, friends and family, at home and on the move. Between them, they provide the whole of the UK with mobile, broadband, home phone and TV services.

We buy access to fixed-line and broadband infrastructure from Openreach, and we use EE's mobile network to provide mobile phone services.

Enterprise

We are the leading business communications provider in the UK. We connect more than 1m business customers and public sector organisations with our extensive portfolio of communications and IT solutions. We also provide network products and services to communications providers operating in the UK and Republic of Ireland.

We focus on four main product markets: fixed voice, mobile, fixed connectivity and IT services. We provide managed services for large networking and security contracts. Openreach provides us access to fixed-line and broadband infrastructure, and we deliver mobile phone services over EE's mobile network.

Global

We are a leading business connectivity, communications and IT services provider to major multinational corporations in around 180 countries. We own an extensive global voice and data network providing managed services, security and network and IT infrastructure services, enabling customers' digital transformations.

We partner in countries worldwide for access to voice and data infrastructure and we buy enterprise technologies and equipment for our customers from the world's leading technology providers.

Openreach

We build, and sell access to, the network that connects the UK's homes and businesses. We provide wholesale 'last mile' fixed access from homes and businesses to exchanges, and we install and maintain the fibre and copper communications networks.

Strategy and Transformation

We develop and set corporate, network and product strategies for the group. We also drive pan-BT transformation programmes.

Technology

We design, build and operate BT's networks, platforms and IT systems. We also work with the customer-facing units to develop and roll out products and services for their customers.

Corporate functions

The remaining corporate units carry out central activities on behalf of the group. We benefit from shared expertise and economies of scale. These include: Finance, Legal & Company Secretarial, Corporate Affairs, Regulatory Affairs, HR, Risk, Compliance & Assurance, Property & Facilities, Procurement and Group Business Services (who provide shared services across the company).

Key performance indicators

We use four key performance indicators (KPIs) to measure progress against strategy, two operational and two financial. Our operational KPIs were improvement in customer service, measured using Group Net Promoter Score (NPS) and Keeping Our Promises. Our financial KPIs are: change in adjusted[a] revenue and adjusted[a] EBITDA. Reconciliations of these financial measures to the closest IFRS measure are set out in the Additional information section from page 134.

Net Promoter Score (NPS)

This tracks changes in our customers' perception of BT since we launched the measure in April 2016. It's a combined measure of 'promoters' minus 'detractors' across our business units. Group NPS measures Net Promoter Score in our retail business and Net Satisfaction in our wholesale business. Group NPS was up 5.5 percentage points (pp) (2018/19: up 6.5pp). Despite these improvements, our strategic priority is to truly differentiate ourselves on customer experience, and we will keep looking for ways to do that.

[a] Items presented as adjusted are stated before specific items. See page 134 for more information.

Keeping Our Promises
This customer service measure is focused on us meeting the commitments we make to customers and providing a more reliable service. That could be keeping to appointment times, completing orders in the promised timeframe or fixing faults when we say we will. As well as improving service and customer experience, improving our performance means less work required to fix mistakes and so helps us to cut costs. Keeping Our Promises was up 2.6% (2018/19: up 5.4%). Improving our service is key to providing a differentiated customer experience. We're making good progress and every customer-facing unit has improved its Keeping Our Promises score.

Change in adjusted revenue
Adjusted[a] revenue excludes the impact of specific items to reflect the underlying performance of the group. Change in adjusted[a] revenue was down 3% (2018/19: down 1%). This mainly reflects the impact of regulation, declines in legacy products, strategic reductions of low margin business and divestments. This was partially offset by growth in new products and services and higher rental bases of fibre-enabled products and Ethernet.

Adjusted[a] EBITDA
Adjusted[a] EBITDA is defined as the group profit or loss before interest, taxation, depreciation and amortisation, specific items, net non-interest related finance expense, and share of post-tax profits or losses of associates and joint ventures. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies, particularly in the telecommunications sector. We consider adjusted[a] EBITDA to be a useful measure of our operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. Adjusted[a] EBITDA of £7,910m was up 7%. This was mainly driven by the impact of IFRS 16. Excluding this adjusted[a] EBITDA was down 3%.

Group performance

Reported revenue was £22.9bn, down 2% and adjusted[a] revenue was £22.8bn, down 3%. This mainly reflects the impact of regulation, declines in legacy products, strategic reductions of low margin business and divestments. This was partially offset by growth in new products and services and higher rental bases of fibre-enabled products and Ethernet. Reported profit before tax was £2.4bn, impacted by the higher upfront interest expense associated with IFRS 16 lease liabilities recognised on 1 April 2019.

Adjusted[a] EBITDA of £7.9bn was up 7%. This was mainly driven by the impact of IFRS 16. Excluding this, adjusted[a] EBITDA was down 3%, mainly driven by the fall in revenue, increased business rates, investments in customer experience and increased salary costs in Openreach to support FTTP rollout and better service, partially offset by savings from our ongoing transformation programme.

Alternative performance measures

We assess the performance of the group using various alternative performance measures. These measures are not defined under IFRS so are termed 'non-GAAP' measures. We present a reconciliation from these to the nearest prepared measure in line with IFRS on page 134. The alternative performance measures we use may not be directly comparable with similarly-titled measures used by other companies.

Summarised income statement

Year ended 31 March	2020 (IFRS 16) £m	2019 (IAS 17) £m
Revenue	**22,905**	23,428
Operating costs[b]	**(15,345)**	(16,458)
Depreciation and amortisation	**(4,274)**	(3,546)
Operating profit	**3,286**	3,424
Net finance expense	**(659)**	(527)
Associates and joint ventures	**(33)**	1
Profit before tax	**2,594**	2,898
Tax	**(665)**	(551)
Profit for the year	**1,929**	2,347

Revenue
Reported revenue fell by 2% and adjusted[a] revenue fell by 3%. This was primarily due to the impact of regulation, declines in legacy products, strategic reductions of low margin business and divestments. This was partially offset by growth in new products and services and higher rental bases of fibre-enabled products and Ethernet.

You can find details of revenue by customer-facing unit on Note 4 of the consolidated financial statements. Note 5 to the consolidated financial statements shows a full breakdown of reported revenue by all our major product and service categories.

[a] Items presented as adjusted are stated before specific items. See page 134 for more information.

[b] Excluding depreciation and amortisation.

Operating costs

Both reported and adjusted[a] operating costs were down 2%. This was mainly driven by savings from our ongoing transformation programmes, partially offset by increased business rates, investment in customer experience and increased salary costs in Openreach to support FTTP rollout and better service.

Our cost transformation programme announced in May 2018 is complete with an annual benefit of over £1,550m and an associated implemention cost of £670m. During the year there was a reduction of 5,000 roles, taking the total to 9,000 over the past 2 years.

The next phase of our transformation will focus on simplifying our product portfolio, simplifying and automating our customer journeys, moving to a modern, modular IT architecture, and migrating customers from our legacy networks to our modern FTTP and 5G networks. This will deliver annualised gross cost savings of £1bn per annum by the end of March 2023, realised in broadly equal annual increments, increasing to £2bn per annum by the end of March 2025. The savings will comprise reductions in both our total labour costs and spend with external suppliers. We expect around 80% of the savings will be realised in operating costs and the remainder in capital expenditure. We anticipate that the one-off cost to achieve these savings will be £1.3bn in total across the five years of the programme, of which £900m will be invested in the first three years, including around £400m this fiscal year.

Note 6 to the consolidated financial statements shows a detailed breakdown of our operating costs.

Profit before tax

Reported profit before tax was £2,594m and adjusted[a] profit before tax was £3,101m. This was impacted by the higher upfront interest expense associated with IFRS 16 lease liabilities recognised on 1 April 2019.

Adjusted EBITDA

Adjusted[a] EBITDA of £7,910m was up 7%. This was mainly driven by the impact of IFRS 16. Excluding this adjusted[a] EBITDA was down 3%, reflecting the revenue decline partly offset by the lower costs as described above. You can find details of adjusted[a] EBITDA by customer-facing unit in Note 4 of the consolidated financial statements.

Specific items

As we explain on page 134, we separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence. We call these specific items. Specific items are used to derive the adjusted results as presented in the consolidated income statement. Adjusted[a] results are consistent with the way that financial performance is measured by management and assists in providing an additional analysis of the reported trading results of the group.

Specific items resulted in a net charge after tax of £590m (2018/19: £452m). The main components are restructuring costs of £322m (2018/19: £386m) divestment related items of £199m (2018/19: £5m), interest expense on pensions of £145m (2018/19: £139m), £95m one-offs resulting from Covid-19 (2018/19: £nil) and a tax charge on specific items of £83m (2018/19: credit of £112m).

These charges were offset by the gain on disposal of BT Centre of £115m (2018/19: £nil); release of regulatory provisions of £72m (2018/19: £27m charge); and payment of £87m including settlement interest of £5m from Ofcom relating to overpaid annual licence fees that were charged during the period 2015- 2017.

Note 9 to the consolidated financial statements shows the details of all revenues and costs that we have treated as a specific item.

Net finance expense

Reported net finance expense has increased by £122m to £659m. Net finance expense before specific items of £519m (2017/18: £388m) increased by £131m.

Year ended 31 March	**2020**	2019	2018
Before specific items	**£m**	£m	£m
Interest on borrowings	838	697	561
Interest related to derivatives	—	(3)	15
Total finance expense before specific items	**838**	**694**	**576**
Total finance income	(319)	(306)	(215)
Net finance expense before specific items	**519**	**388**	**361**

Finance expense of £838m (2018/19: £694m) increased by £144m as average gross debt is higher than last year.

[a] Items presented as adjusted are stated before specific items. See page 134 for more information.

Taxation
Our effective tax rate was 25.6% (2018/19: 19.0%) on reported profit and 18.8% (2018/19: 19.2%) on profit before specific items. We paid income taxes globally of £210m (2018/19: £431m).

We paid UK corporation tax of £147m (2018/19: £317m). We benefited £434m from tax deductions on employees' pension and share schemes (2018/19: £391m). We no longer benefit from EE's historical tax losses (2018/19: benefit of £90m).

Our tax expense recognised in the income statement before specific items was £582m (2018/19: £663m). We also recognised a £892m tax charge (2018/19: £343 tax credit) in the statement of comprehensive income, mainly relating to our pension scheme.

We expect our sustainable income statement effective tax rate before specific items to be around the UK rate of corporation tax, as we do most of our business in the UK.

Note 10 to the consolidated financial statements shows further details of our tax expense, along with our key tax risks.

Dividends
During the year a dividend of £1,575m (2018/19: £2,500m), was paid to the parent company, BT Group Investments Ltd. Subsequent to 31 March 2020, The directors have declared a dividend of £2,000m payable in 2020/21.

Capital expenditure
In recent years we have prioritised capital expenditure to underpin our strategy, and to expand coverage and capacity whilst making our fixed and mobile networks faster and more resilient.

Capital expenditure was £3,960m (2018/19: £3,963m). This includes grant funding deferral under the Building Digital UK (BDUK) programme. Excluding BDUK gainshare, capital expenditure was £3,943m (2018/19: £3,750m). Network investment (excluding BDUK gainshare) was £2,053m[a], up 4%[a]. This reflects our continued investment in our fibre cities network build and the rollout of 5G. Other capital expenditure components were up 6%[a], with £972m[a] spent on customer driven investments, £755m[a] on systems and IT, and £163m[a] on non-network infrastructure. Capital expenditure contracted but not yet spent was £1,234m at 31 March 2020 (2018/19: £1,432m).

Summarised cash flow statement

Year ended 31 March	2020 £m	2019 £m
Cash generated from operating activities	**6,480**	4,692
Income taxes paid	**(210)**	(431)
Net cash inflow from operating activities	**6,270**	4,261
Cash flow from investing activities		
Interest received	**30**	23
Dividends received from associates and joint ventures	**1**	—
Disposals and acquisitions	**52**	14
Movement on non-current amounts owed by ultimate parent company	**(1,605)**	(1,508)
Net movement on current financial assets	**(1,877)**	(201)
Capital expenditure	**(3,889)**	(3,637)
Other	**33**	1
Cash flow from financing activities		
Interest paid	**(736)**	(531)
Loans and other borrowings	**1,732**	2,549
Other	**(199)**	124
Net increase in cash and cash equivalents	**(188)**	1,095

Cash flow
Net cash inflow from operating activities was up £2,009m from last year to £6,270m. This was mainly driven by £750m lower deficit contributions to the BT Pension Scheme in the current year and significant one-off cash flows. Net cash cost of specific items was £112m (2018/19: net cash cost of £598m). This includes restructuring payments of £350m (2018/19: £372m) and regulatory payments of £39m (2018/19: £170m), offset by proceeds on disposal of BT Centre of £210m (2018/19: £nil) and receipt of annual licence fee refund from Ofcom of £87m (2018/19: £nil).

[a] Capital expenditure by spend type has been re-presented to reflect an improved mapping process.

Summarised balance sheet

As at 31 March	2020 £m	2019 £m	Movement £m
Intangible assets	**13,897**	14,393	(496)
Property, plant & equipment	**18,474**	17,835	639
Right-of-use assets	**5,391**	—	5,391
Derivative financial instruments	**2,489**	1,592	897
Cash and cash equivalents	**1,545**	1,664	(119)
Investments	**19,161**	17,005	2,156
Trade and other receivables	**3,211**	3,683	(472)
Contract assets	**1,721**	1,602	119
Deferred tax assets	**300**	1,347	(1,047)
Other current and non-current assets	**957**	925	32
Total assets	**67,146**	**60,046**	7,100
Loans and other borrowings	**21,532**	18,977	2,555
Derivative financial instruments	**1,012**	940	72
Trade and other payables	**6,583**	7,306	(723)
Contract liabilities	**1,151**	1,425	(274)
Lease liabilities	**6,560**	—	6,560
Provisions	**719**	1,006	(287)
Retirement benefit obligations	**1,140**	7,182	(6,042)
Deferred tax liabilities	**1,608**	1,407	201
Other current and non-current liabilities	**234**	15	219
Total liabilities	**40,539**	**38,258**	**2,281**
Total equity	**26,607**	**21,788**	**4,819**

Pensions
The accounting deficit, net of tax, decreased during the year from £6.0bn to £1.0bn. This mainly reflects an increase in the real discount rate, deficit contributions paid over the period and positive asset returns. However, interest rates are extremely volatile in the current markets and we estimate our IAS 19 deficit will have materially worsened since 31 March principally reflecting the subsequent fall in capital spreads. Note 19 to the consolidated financial statements gives more information on our pension arrangements.

Culture and colleagues

Our colleague strategy is summed up by our ambition to make BT a brilliant place to work. Delivering a differentiated customer experience relies on getting our employee experience right. That means making sure everyone at BT feels engaged and inspired to be at their best.

Building future capabilities and careers

Our business is constantly shaped by fast technological change. So we need to continuously renew our skills, capabilities and behaviours. The way people look at current and prospective employers is also changing. They expect different career experiences - such as flexible working, career breaks, multiple careers and for their employer to share their values.

We're changing our career planning and capability development practices in line with these trends. For example, we now outline various career options and help our colleagues re-map their careers to remain relevant. We're embracing more flexible ways of working to attract people from every segment of society. And we have clearly articulated our purpose so people know what we stand for.

Our development toolkit provides a range of learning, planning and networking opportunities - tailored so people can learn how, when and where they choose. Our learning offering focuses not only on technical skills, but also on broader key behavioural competencies - such as resilience and adaptability. We developed a new tool that provides greater transparency of roles, outlining the full range of career opportunities at BT. We've created networks like TechWomen and the Aspire programme, and specialist communities for subjects like engineering.

Workplace helps to share learnings and build skills. All these opportunities allow our colleagues to maximise the power of communities and crowdsource knowledge. We help our colleagues develop life skills outside the workplace too - like digital and financial skills. We also encourage our colleagues to take their skills back into society through volunteering, such as our Skills for Tomorrow programme. This year, that amounted to c.3,500 days of volunteering, and we're aiming to grow that in the year ahead as more of our colleagues support the programme.

As a Disability Confident Leader we have a positive approach to attracting, recruiting and developing our disabled talent. That includes our range of support services and processes to help our managers make necessary adjustments for new and existing disabled colleagues who work here. We have an active Colleague Network for our disabled and neurodiverse colleagues who maintain active links with our team of Diversity and Inclusion specialists. We are also signatories of the Valuable 500 initiative.

Pay and benefits

We regularly review our pay and benefits to make sure they are competitive, sustainable and fair. Most of our UK-based engineering and support colleagues' pay is negotiated through collective bargaining with our recognised trade unions.

As part of an initiative to encourage everyone to be a long-term shareholder in BT and align our colleagues' interests with the long-term success of the company, they will each receive an annual award of shares through the yourshare plan. We also give our colleagues the opportunity to participate in all employee share plans such as save as you earn (saveshare) and share incentive plan (directshare).

Our executives may also get long-term share awards. These are determined by group performance against the longterm strategy of the company as well as personal performance. Incentives for Openreach colleagues are based on a combination of personal contribution and Openreach performance.

We offer our colleagues other benefits including retirement savings plans and other country-specific benefits.

Health and wellbeing

Leading business performance is underpinned by the highest levels of employee wellbeing. We focus on updating and improving the range of physical, mental and emotional support we provide to our colleagues.

We continue to work towards zero avoidable harm in relation to safety incidents. There were 4% fewer safety incidents than last year, helping to achieve an incident rate of 0.22 per 200,000 working hours for lost time injuries, the lowest year-end rate yet reported. And we're rolling out a new fall-arrest harness system for our colleagues working at height to further reduce risk from this activity.

From April 2019, our core reporting system also captures all sickness absence for employees in India. This change, as well as a slightly upward trend overall, has seen an increase in the rate for the group to 3%.

We have enhanced our colleagues' wellbeing support services with an innovative web portal that holds wellbeing resources, activities, support and information all in one place. Covering topics like family, money and health, anyone in BT can access it - anywhere and anytime. We have now reached more than 1,880 people through our line manager mental health awareness training.

This year, BT-funded rehabilitation services got over 96% of people needing treatment, back to work on full duties.

This year we have investigated employee wellbeing via an in-depth survey of thousands of employees plus follow-up focus groups.

Our stakeholders

Colleagues

Our colleagues are central to delivering our vision, goals, strategy and transformation. We employ 105,300 full-time equivalent people in 58 countries, 82,700 of these are in the UK, and an additional 1,800 people through agencies.

Our colleagues want us to:

- share their personal values
- provide flexible and agile ways of working
- provide career opportunities, development and training
- reward performance with fair and competitive pay and benefits.

How do we engage and what is the outcome of our engagement?

Senior leaders across BT regularly meet their teams through roundtables, town hall debates, site visits, webcasts and blogs, using these opportunities to share relevant information and invite comments and questions. We also listen to any concerns through more formal engagement with our European Consultative Council, the Communication Workers Union and Prospect.

Twice a year our colleagues share feedback about how it feels to work at BT through our Your Say engagement survey. With around 85% of colleagues taking part, this survey gives us a good understanding as to how our colleagues are feeling and helps us understand what more we can do to make BT a brilliant place to work.

The Board was kept updated on talent management and culture throughout the organisation and how this has shaped our initiatives and programmes, including those in relation to the wellbeing of our colleagues, and progress against these.

We use feedback from our colleagues to focus on key areas and initiatives that will make the biggest impact. Colleague feedback is used to further shape and inform the things that we do for our colleagues, for example our Skills for Tomorrow programme, as well as launching collaboration tools such as Workplace and our Better Workplace Programme.

Workplace is a best-in-class, mobile-first, internal social networking channel and is a secure and simple way for colleagues to connect, share knowledge and keep up to date with BT news and activities. Colleagues can access Workplace wherever they are and on the device of their choice. Workplace helps us become the best connected company across all the markets we do business in, bringing together colleagues from all our brands and offices on one social platform. It also enhances two-way conversations across BT and allows the BT Group plc Executive Committee and senior leaders to connect more easily with colleagues across the business.

During the year we also engaged with our colleagues through a survey completed by our contact centre and corporate population which highlighted that collaboration across the business is often harder than it should be. Our Better Workplace Programme aims to bring our colleagues together in modern, future-fit buildings that ensure easy collaboration. We have involved our colleagues in the creation of the workspaces at our temporary sites secured in cities such as Manchester, and in the design and prioritisation of facilities in the new corporate and contact centre spaces. Our investments are linked where possible to the elements that our colleagues care most about.

Customers

We recognise that developing a strong understanding of customers' needs and putting this at the heart of our business and strategy is critical. We have a large and diverse customer base which is integral to our future success. Our customers are consumers, businesses, multinational corporations, public sector organisations and communications providers. Everything we do starts with the aim of delivering a differentiated customer experience to generate value and create loyalty.

Our customers want us to:

- provide propositions and services that meet their needs
- create value
- deliver a consistent and reliable service.

How do we engage and what is the outcome of our engagement?

We engage with our customers at all stages of our proposition development process to understand their needs and to develop products and experiences that endeavour to meet these needs. We have an Insight Centre of Excellence that serves all parts of BT to ensure we build a strong capability that delivers a deep understanding of what customers need and want from BT.

We use a variety of methodologies and data sources to identify customer needs, expectations and behaviours in all categories and channels that we currently operate in, as well as future ones. We use these insight methods to inform all elements of our strategy including targeting & positioning, proposition & pricing, customer experience, and brand & communication development.

For our multinational customers, we run the Global Advisory Board on a regular basis where we talk to the CEOs and CIOs of our major customers to discuss and understand their needs and priorities and feed this into our activities.

Openreach continues to ensure that all of its customers obtain equal access to our network by ensuring that its industry consultation process operates compliantly, with strong governance controls. The process offers communications providers the opportunity to engage confidentially with Openreach during an initial consultation stage and this opportunity has been taken up during the past year.

The respective customer-facing unit CEOs and their management teams ultimately provide operational oversight to ensure that we meet the very highest standards of customer experience. Regular business reviews with BT Group plc Executive Committee members, led by the chief executive and chief financial officer of BT Group plc include discussions as to how we are tracking with reference to our customer experience KPIs, and how we can continue to improve on this.

The BT Group plc chief executive and the BT Group plc Executive Committee regularly review and discuss complaints directly with our customers to enable us to better understand the process we follow in responding to complaints and the areas requiring improvement.

The BT Group plc Board is updated on customer experience KPIs, namely Net Promoter Score (NPS) and Keeping Our Promises, and the initiatives which continue to drive improvements on our customer experience proposition. The BT Group plc Board has detailed discussions on customer experience with each of the customer-facing unit and Openreach chief executives supported by Strategy & Transformation.

Customers remain a central part of discussions and decisions by the Board and the BT Group plc Board and Executive Committee in relation to group strategy, including the development of our strategic plans and investment propositions.

Communities

Our communications propositions, services, networks and our colleagues are vital to the communities we operate in. Our place at the heart of so many communities also makes it important we do business ethically and transparently.

Our communities want us to:

- provide the best service and products for a fair price and to be a trusted and reliable company
- help make society and individuals more connected and able to take advantage of an increasingly digital world by helping to
- improve everyone's digital skills and confidence
- protect the environment through tackling climate change and other environmental challenges.

How do we engage and what is the outcome of our engagement?

Our teams are a key part of communities across the UK and beyond and we capture views from all key stakeholder groups as part of our annual materiality analysis. This helps us to understand which sustainability-related topics are of most importance and this is then reflected in our digital impact and sustainability strategy. The BT Group plc Digital Impact & Sustainability Committee oversees our strategy in this area. The committee reviews our performance against our sustainability and responsible business KPIs to monitor our investment in the community.

As technological advancements continue, it is our responsibility to go Beyond Limits to help our communities, people and businesses thrive. We launched one of the key parts of the digital impact and sustainability strategy this year under the Skills for Tomorrow programme, which is designed to empower 10m people in the UK by giving them help to improve their digital skills.

On top of what we invest through our day-to-day business, we have a long-standing commitment to give 1% of profit before taxes to good causes - as a mixture of cash and in-kind investments. This year, we invested £29m or 0.9% of adjusted profit before tax - below our 1% target. This was mainly due to in-kind contributions like volunteering falling as we reorganised our efforts to focus on our Skills for Tomorrow programme but we're still committed to the target, having invested £164m at an average of 0.98% over the last five years.

Suppliers

Our suppliers provide products and services that help us execute our strategy. We source from across the world and have suppliers in nearly 100 countries.

Our suppliers want us to:

- pay them in line with our agreed terms
- act ethically and transparently
- work collaboratively with them and build stronger relationships.

How do we engage and what is the outcome of our engagement?

We use our online portal, Selling2bt, to guide prospective suppliers on our requirements and expectations. As part of complying with the EU General Data Protection Regulations, we carried out a review and a phased uplift of relevant supplier contracts.

We want to know who we're doing business with and who is acting on our behalf, so we:

- choose suppliers using principles that make sure we act ethically and responsibly
- undertake due diligence on them before and after we sign a contract, including checks in relation to financial health, anti-corruption and bribery and compliance checks against our minimum standards, for example, quality management, security and data privacy requirements
- check that goods and services we buy are made, delivered and disposed of in a socially and environmentally responsible way
- measure factors such as suppliers' energy use, environmental impact and labour standards as well as working with them to improve these.

We have created a Digital Garage with our Procurement function to assess and implement the latest technologies, which includes us working with a number of early stage start-ups. This will enhance, digitise and optimise our ways of working, and help our sourcing teams become more agile and customer-focused.

This year the BT Group plc Audit & Risk Committee received an update on our Supply Chain Risk Management strategy and also reviewed the supplier KPIs that we use to measure our own effectiveness. The BT Group plc Audit & Risk Committee also keeps under review the business we undertake with high risk suppliers.

The BT Group plc Digital Impact & Sustainability Committee considers our annual Modern Slavery Statement and recommends it to British Telecommunications plc for approval.

We also engage with our suppliers on a number of proactive initiatives such as carbon emissions reduction and plastic packaging initiatives, and progress on these are discussed with the BT Group plc Digital Impact & Sustainability Committee. We remain supportive of the Government's Prompt Payment Code programme in the UK and BT plc has improved the suppliers paid in 60 days monthly run rate from around 60% to over 90% during 2019/20. BT plc paid 94.5% of supplier invoices in line with the terms we had agreed with them and aim to comply with local regulations globally.

Government

We work with over 1,800 UK public sector customers and support critical services in the UK. Our networks enable vital public services - such as welfare, tax, health, social care, police and defence to function - while protecting citizens' personal data.

It is important to the Government that BT continues to:

- invest in the UK's infrastructure
- support national security.

How do we engage and what is the outcome of our engagement?
Our policy and public affairs team manages our relationships with Government and other politicians on all public policy issues. Our Enterprise team delivers and maintains public sector contracts and services - for example, for the Emergency Services Network.

We operate the critical national infrastructure and support national security; our priority is fulfilling our responsibilities and obligations to the country and our customers.

Under the Communications Act 2003, the Government can ask us (and others) to run or restore services during disasters. The Civil Contingencies Act 2004 also states that the Government can impose obligations on us (and others) in emergencies or in connection with civil contingency planning.

We respond to initiatives and consultations, and build support for policies that will help us deliver benefits to the UK as well as to our shareholders. Government work covers a wide territory, from investment in infrastructure, national security, regulation of online harms, and trade and economic policy.

Regulators

Communications and TV services are regulated to ensure consistent rules and standards within each jurisdiction to protect consumers and promote competition.

Our main regulatory relationship is with Ofcom in the UK. Ofcom primarily operates under the Communications Act 2003, which gives it powers and duties, and maps the EU regulatory framework for electronic communications to the UK.

Ofcom has general competition powers for the sector and enforces consumer law, alongside other economic regulators and the Competition and Markets Authority (CMA).

In line with its duties, Ofcom's key concerns are:

- furthering the interests of citizens and consumers, where appropriate by promoting competition
- encouraging investment and innovation
- supporting investment in critical digital infrastructure in the UK.

How do we engage and what is the outcome of our engagement?
We have an open dialogue with Ofcom with engagement by the BT Group plc chairman, chief executive and senior leaders. This focuses on how the regulatory regime can help Ofcom's ambition for world-class digital infrastructure in the UK, and enable efficient infrastructure investment, while keeping the market fair and competitive.

Following Ofcom's 2017 Digital Communications Review, we implemented a set of Commitments and a supporting Governance Protocol. These provide Openreach with greater strategic and operational independence, whilst enabling BT to exercise appropriate parent company control.

The BT Group plc Compliance Committee monitors how BT complies with the Commitments and the chair of the committee, with the support of the Commitments Assurance Office, engages regularly with Ofcom, communications providers and other key stakeholders.

Under the Commitments we've developed and published new Guidance Notes covering regulatory, policy, legal and commercial processes. These encourage and support more efficient and transparent governance across BT and Openreach. Work is ongoing to ensure our information management and internal processes between BT and Openreach is more transparent.

Ofcom has reported that it is broadly satisfied with our progress thus far, and we continue to engage with Ofcom and communications providers to maintain and enhance confidence in our compliance with both the letter and spirit of the Commitments.

Championing human and digital rights

We respect everyone's rights and freedoms – both on and offline. Our business helps people realise their potential, and enjoy their rights and freedoms. We give them better connectivity while keeping their information secure online.

But our global communications technology could also have negative impacts – especially on customers' rights to privacy and free expression online. We must work to support and respect the rights of anyone affected by our business.

We comply with applicable modern slavery acts and follow international standards on human rights. They include the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights.

Each year, we report on our work to combat modern slavery at **bt.com/modernslavery**. We set out our overall approach in our human rights policy at **bt.com/humanrights**

We continue to champion human and digital rights through strategic partnerships and collaborations. This includes the Global Network Initiative (GNI), a global multi-stakeholder organisation dedicated to responding to evolving privacy and freedom of expression challenges. We're committed to implementing the GNI Principles.
Our other key partnerships and memberships include Tech Against Trafficking (we're co-founders of a coalition of organisations, exploring ways to use technology to combat modern slavery), the Marie Collins Foundation (supporting the training of professionals responding to children who have been harmed or abused online) and the Centre for Sport and Human Rights (helping the business of sport fully support human rights). We also support Unseen, the UK Charity which runs the UK Modern Slavery Helpline.

We have processes and procedures in place to identify and address our potential and actual human rights impacts throughout our business. Within our supply chain, we have mandatory contractual standards on working conditions. We assess the risks of our suppliers not meeting these conditions, and follow up where improvements are needed.

We have embedded checks in our sales process, used to find and address potential risks that our products or services might be misused by customers in ways that could affect someone's rights.

Research and development

Commercial success increasingly depends on innovation, which is why we invest in research and development. We are constantly looking at new innovations to deploy. This year we invested £662m (2018/19: £643m) in innovation. Over the last decade we've been one of the largest investors in innovation in the UK, and globally in the telecoms sector. We have a portfolio of more than 5,000 patents and applications, with 103 patents for inventions filed in 2019/20.

Section 172 statement

In accordance with section 172 of the Companies Act 2006, each of our directors acts in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. Our directors have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

The directors also take into account the views and interests of a wider set of stakeholders when making decisions. During the year the Board received information to enable them to consider the impact of the company's decisions on its key stakeholders. This information was distributed in a range of different formats, including through reports and presentations on our financial and operational performance, non-financial KPIs, risk and ESG matters. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders and the Board frequently has to make difficult decisions based on competing priorities. By considering the company's purpose and values, together with its strategic priorities and having a process in place for decision-making, we do, however, aim to balance those different perspectives.

As is normal for large companies, we delegate authority for day-to-day management of the company to executives and then engage management in setting, approving and overseeing the execution of the strategy and related policies. During the year, we reviewed the company's financial and operational performance; key transactions, including acquisitions and divestments; matters relating to the Commitments which were made as part of the Digital Communications Review with Ofcom; regulatory, funding and pensions matters, mechanisms of stakeholder engagement and diversity and inclusion. The Board received papers and reports on these matters which were then reviewed, discussed and approved, as necessary.

The impact of the company's activities on our stakeholders, including our colleagues, customers and suppliers is an important consideration when making decisions. The Board will sometimes engage directly with stakeholders on certain issues, but the size and distribution of our stakeholders and of BT Group means that stakeholder engagement often takes place at an operational or group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details on how the BT Group engages with its stakeholders and how stakeholder interests and section 172 duties have been considered in reaching certain key strategic decisions, please see pages 24-34 of the BT Group plc 2020 Annual Report.

As set out above, decisions taken by the Board consider the interests of our key stakeholders and the impacts of these decisions. Our directors have regard for matters set out in section 172(1) (a)-(f) of the Companies Act 2006 when discharging their section 172 duties. One example of a decision taken by the Board during the year, and the considerations given to stakeholder interests and impacts was the sale of BT's domestic operations in Spain. During the year, the Board considered and approved the proposal to sell BT España, which was announced on 16 December 2019. Consideration was given to the different stakeholders including the impact on our colleagues and customers (both multi-nationals and local) and how divestment would enable us to continue to deliver on our ongoing transformation strategy of Global and our future business operations in Spain.

Principal Risks and Uncertainties

Risk	How this could impact our strategy or business model	Examples of how we manage this risk	Focus areas for 2020/21
Covid-19 pandemic • Covid-19 is impacting our colleagues, operations, suppliers and customers, with the extent dependent on factors including, but not limited to, length of UK and international lockdowns, levels of employee absence, virus recurrence, insolvency rates, unemployment levels, nature and extent of any government interventions, severity of economic effects and the speed and nature of the recovery.	• Adverse impacts on sales activity and demand, including reduced roaming and continued suspension of sport; impacts are likely to be partially offset by reduced churn and increasing use of connectivity products. • Disruption to our ability to deliver products and services to customers in the event of supply shortages and/or widespread loss of key employee resource, with adverse impacts on customer volumes and experience. • Prolonged economic downturn could materially increase our pension deficit and associated contributions. • Material bad debts if a significant number of our SME and large corporate customers experience financial distress or insolvency. • Adverse impacts on our cash position and ability to fund investment projects and ongoing operations.	• An *Executive Committee* Command group meet regularly to identify emerging exposures and review our ability to manage them, defining and agreeing actions as required. The group is supported by an operational working group, and equivalent command groups in each customer-facing and corporate unit. • Introduction of various measures to protect the health and safety of our colleagues, ensuring continuity of critical services, and our customers; measures are continually evaluated and adjusted to reflect World Health Organisation, Public Health England, European Centre for Disease Prevention and Control and UK Government guidelines. • Response planning to manage any prolonged unavailability of key resources in our network and field engineering teams, maintaining existing network resilience levels. • Close dialogue with our critical suppliers, with sufficient inventories held to deal with anticipated scenarios. • Provision of flexible arrangements to vulnerable households and businesses that are at risk of harm and/or financial distress to ensure they remain connected.	• Continued modelling of Covid-19 scenarios to identify and evaluate financial impacts, with an assessment of potential liquidity mitigation options. • Conduct risk assessments for each customer-facing unit to identify potential strategic, operational, regulatory and colleague related exposures. • Define 2020/21 assurance activities. • Review our Covid-19 response for 'lessons learned', implementing identified opportunities to strengthen our crisis management capability.
Strategic risks **Competition** • Failure to respond effectively to intensifying competition and technology developments, and develop product propositions in line with changing market dynamics and expectations. • Potential challenges include emergence of competitors enabled by disruptive technologies, reduced market differentiation, unanticipated changes in market structures and boundaries (M&A), government restrictions on vendor choices and changes in regulation or customer behaviours.	• Reduction in our market share, revenue and/or profit could impact our ability to invest in growing and increasing the value of the business. • Significant economic decline in specific industries could impact the group's ability to continue to attract and retain customers in that industry (e.g. retail). • New technology developments could lead to accelerated shifts that affect our current propositions, an increase in investment requirements and/or a deterioration in our competitive position.	• Delivering a differentiated customer experience. • Focusing on relevant product development. • Investing in securing network leadership. • Expanding into adjacent or new markets in pursuit of revenue and profit growth. • Phasing out legacy services and technologies. • Monitoring technology developments and competitor activity.	• Deliver on key programmes that enhance customer experience, network leadership and transformation. • Ensure that we are meeting the KPIs that underpin our strategy. • Identify and focus on the right type and mix of products.

Risk	How this could impact our strategy or business model	Examples of how we manage this risk	Focus areas for 2020/21
Political risk			
• Perceived issues in deployment and connectivity of broadband and mobile coverage could escalate into larger political campaigns and regulatory intervention. • Failure to manage Covid-19 related challenges around network resilience, colleague and customer support, and data sharing (e.g. government data requests) could create political pressure on the company.	• Potential to undermine future strategy and investor confidence. • Our USO and SRN commitments, and wider ambitions around network rollout, may be impacted by a prolonged Covid-19 lockdown and associated civil engineering restrictions beyond our control; the current impact is too early to determine, but may be mitigated by any relaxation of delivery expectations by Government and/or Ofcom.	• Building partnerships with the Government to address key priorities, (e.g. full fibre investment, USO, SRN, supply chain security, online regulation and consumer fairness). • Working with business organisations including CBI, techUK and Chatham House to ensure alignment on key industry issues that matter to BT (e.g. post-Brexit policy positions). • Proactive approach with representatives from across the political spectrum on areas such as climate change, smart cities and innovation. • Close, regular, direct involvement with all relevant strands of the Government response to Covid-19 to provide the necessary support to Government, colleagues and customers.	• Fulfil USO and SRN commitments, providing greater connectivity to underserved parts of the UK. • Continued dialogue with government and other industry players on protecting consumers online ensuring any interventions are fair and proportionate. • Further assess the practical and logistical impact of the Covid-19 related lockdown on our network and coverage commitments to Government and Ofcom, including impact on pushing for FTTP fibre enablers.
Communications industry regulation			
• Failure to comply with existing regulations and/or material regulatory change could impact the way we operate and compete in terms of our pricing, the standards we must meet and the services we provide.	• A lack of supportive or disruptive regulation would impact our ability to invest at pace and scale in ultrafast networks and converged connectivity, and the flexibility to innovate whilst doing so. • An inflexible approach to regulation during the Covid-19 pandemic could stretch the delivery capability of our colleagues at a time when they're focused on maintaining critical services and meeting customers' needs.	• Encouraging clear, predictable and proportionate regulation. • Building stakeholder trust through consistent, collaborative and straightforward engagement. • Anticipating and embedding new regulatory rules and fostering a compliance culture. • Enhancing organisational agility to respond to fast-changing competitive and regulatory environment. • Continued focus on our Fairness Commitments, with regular Covid-19 stakeholder briefings.	• Engage with Ofcom on sector competitive dynamics, regulatory implications and deadline expectations. • Support pro-investment changes to the regulatory framework for fixed access regulation for 2021-26. • Support a clear customer migration strategy for the 2025 PSTN closure. • Assess any substantive updates to Ofcom's 2020/21 annual plan and review our regulatory priorities accordingly. • Work with Ofcom as its Customer Fairness Framework evolves to ensure any interventions are proportionate and enhance the customer experience, prioritising support to customers during the Covid-19 pandemic. • Develop our position, accounting for Covid-19 delays, on the future regulatory model for digital platforms. • Assess Covid-19 impacts on the format and/or timescale of the upcoming spectrum auction.

Risk	How this could impact our strategy or business model	Examples of how we manage this risk	Focus areas for 2020/21
Operational risks			
Cyber security			
• Cyber security risks could arise from colleagues inside BT or from external sources, with any failure to effectively manage these exposures presenting a material threat to our reputation as a leader in cyber security. • External adversaries, including hacktivists, criminals, terrorists and/or nation states, could attempt to disrupt service availability through the use of hacking tools, phishing scams and disruptive malware. • Covid-19 related work from home requirements could introduce additional security vulnerabilities, with any sickness-related absence of key employees potentially impacting our ability to defend against cyber attacks.	• Potential financial loss, long-term reputational damage, loss of market share, contract terminations, regulatory sanctions and fines. • A cyber attack could disrupt our business or lead to data being compromised at a time when communications are vital to the global response to Covid-19.	• Adopting an intelligence-led, risk-based response to cyber threats, underpinned by robust business continuity plans that mitigate the absence of key employees (e.g. geographically dispersed operations). • Liaising with governments and other companies on emerging cyber threats. • Monitoring and logging our networks and systems to rapidly detect and respond to threats to service availability. • Testing our defences using our own ethical hacking teams and externally conducted assessments to identify and remediate vulnerabilities. • Raising security awareness and promoting good security hygiene among our colleagues through campaigns, training and phishing tests.	• Sharing intelligence and keeping pace with evolving threats. • Continued investment in our defences. • Maintaining cyber hygiene. • Protecting BT and its customers in responding to the pandemic.
Supply chain			
• A failure in the supplier selection and/or in-life management process. • Restrictions in our ability to engage with perceived high-risk vendors following the UK Government's Telecoms Supply Chain Review. • Disruptions to supply continuity where suppliers are materially impacted by Covid-19.	• Selecting the wrong supplier for our requirements and/or over-dependence on certain suppliers could result in poor commercial terms, with a detrimental impact on our strategic, market and competitive position. • Failing to effectively manage suppliers and sub-suppliers could result in business disruption, regulatory fines and/or brand damage, through, for example, the failure of suppliers to meet key regulatory obligations such as General Data Protection Regulation (GDPR) or human rights.	• Clear definition of our operational and business requirements, against which suppliers are assessed. • Due diligence checks at selection for all third parties, covering adverse media, financial health and bribery and corruption, along with other compliance checks tailored to the goods/services being procured. • Regular in-life supplier due-diligence, heightened in response to Covid-19, and monitoring of operational performance and compliance across key risks areas (e.g.information security, data privacy, anti-bribery and corruption, human rights, health and safety, business continuity, financial insolvency and location). • Providing commercial flexibility to suppliers impacted by Covid-19 (e.g. relaxation service level agreements and accelerated payments) and establishing alternative sources of supply in key areas to promote supply continuity.	• Launching a new digital source to contract platform to deliver global standardisation in our supplier selection process. • Assessing digital capabilities that will enhance our in-life risk management capability. • Developing responses to external factors that could generate significant supply chain risk including GDPR non-compliance, Brexit, Huawei ban, cyber security risk and, more recently, Covid-19.

Risk	How this could impact our strategy or business model	Examples of how we manage this risk	Focus areas for 2020/21
Change management			
• We are moving into the next phase of our transformation programme that will transform our customers' and colleagues' experience through the simplification of our products, processes, IT systems and networks. • Our next phase of transformation requires a new set of capabilities and enablers; in order to stay competitive we must redefine our approach to change management to focus on removing obstacles to improve BT's efficiency and productivity. • We are currently managing the operational impacts Covid-19 is having on our transformation (e.g. resource availability, remote working).	• Failure to realise the benefits of our transformation and manage the impacts of Covid-19 could negatively impact customer experience and our operational efficiency, as well as our ability to make future investments. • Covid-19 is delaying our ability in some parts of the business to immediately realise the benefits of transformation.	• Establishing a clear transformation management structure , underpinned by agile delivery principles, which assigns ownership for major transformation activities with the senior leaders of the business. • Monitoring performance in each of the operational areas of our plan using measures to ensure we deliver true business transformation. • Leveraging the use of collaboration tools to maintain our ability to work effectively, despite Covid-19 related restrictions on the colocation of our colleagues.	• Developing and implementing the transformation delivery governance model, implementing programme management tools and continuing to develop the skills of our colleagues. • Tracking progress of the financial and non-financial measures of the transformation. • Continue to drive to identify and implement more transformation initiatives across the business.
Major contracts			
• Failure to successfully manage our large, complex and high-value national and multinational customer contracts (including the Emergency Services Network and the Building Digital UK programme) and deliver the anticipated benefits. • Covid-19 related challenges, including employee absenteeism, supplier disruption, and changing customer demands, could impact our ability to deliver on all aspects of our major contracts.	• Failure to meet our contractual commitments and/or respond to changing customer needs, budgets or strategy could adversely impact expected future revenue, profitability and cash generation. • Our brand and reputation may be damaged by service failures, particularly those associated with critical infrastructure contracts and security and data protection services. • Covid-19 could inhibit our ability to meet our contracted delivery timescales and service levels. Additionally, profits could be impacted where customers experience shrinkage, consolidation and/ or financial failure.	• Governance, assurance, risk management and reporting processes against a clearly defined framework to manage out risk in-life. • Assurance review activity over individual contracts by an independent review team.	• Developing skills across contract management teams to better identify and manage risk. • Adopt a clear approach to understanding Covid-19 impacts on contracts and implement effective strategies to manage and recover them. • Utilisation of enhanced contract management tools to further support frontline contract managers. • Deploying artificial intelligence capability to enhance analysis of contractual risks and obligations.

Risk	How this could impact our strategy or business model	Examples of how we manage this risk	Focus areas for 2020/21
Customer experience			

• Failure to transform the customer experience so that it is brand enhancing and drives sustainable profitable revenue growth.	• Any failure to transform could adversely impact our brand value, employee pride and advocacy, customer retention, group revenues, and/or regulatory compliance and associated financial penalties.	• Closely tracking a range of customer experience metrics to drive improvement and maintain high performing areas.
		• Launching innovative propositions (e.g. BT Halo and answering all BT consumer calls in the UK).
		• Investing in our network, including programmes which aim to increase network resilience through proactive maintenance and weather-proofing.
		• Focus on maintaining customer experience during the Covid-19 pandemic through:
		  • employee redeployment, as required, to support service levels for critical services;
		  • comprehensive planning to underpin network and IT availability, and broadband performance; and
		  • prioritising and supporting vulnerable and distressed customers and critical industries, with changes to product packages and payment plans.
			• Rapid rollout of FTTP and 5G networks.
			• Continued development and launch of innovative product and service propositions.
			• Migrating homes and businesses to superfast broadband at no extra cost to them.
			• Maintaining network performance and customer experience during the Covid-19 pandemic.

Service interruption			
• Any major or repeated failure to maintain the continuity of end-to-end customer services (e.g. network connectivity and performance, and IT systems and service platforms). • A failure could be caused by natural perils, pandemics, network and system faults, malicious acts, supply chain failure, and software or infrastructure outages.	• Regulatory breaches, financial penalties, reduced productivity and potential harm to individuals. • Damage to reputation, especially during the Covid-19 outbreak when the country is so reliant on our connectivity, and our ability to retain and grow our customer base.	• Close monitoring of our IT, fixed and mobile network performance and maintaining controls for incident, change and problem management. • Implementation of lessons-learned from our continual war-gaming and analysis of real incidents. • Weather resilience improvement programmes for our key network assets (e.g. flood, lightning, wind, heat). • Mobile, geographically dispersed Emergency Response Teams to mitigate incident impacts.	• Improved change management processes through strengthening our testing capability and driving greater accountability across third-party changes. • Initiation of projects aimed at mitigating the longer-term risk to our estate posed by climate change and associated extreme weather events. • Planning to manage near and longer-term service risks related to a transition from the pandemic lockdown back to a normal trading model. • Heightened monitoring and service protection measures across all services and platforms in response to Covid-19, with increased call capacity between mobile and fixed lines to handle increased demand.

Risk	How this could impact our strategy or business model	Examples of how we manage this risk	Focus areas for 2020/21
Colleague engagement			
• Negative reaction to change or poor consultation adversely impacts colleague engagement and subsequent ability to achieve our strategic objectives. • Covid-19 and associated lockdown reduces employee availability and our ability to operate effectively.	• Loss of talent and skills could impact our recruitment costs and ability to deliver our strategic objectives. • Poor engagement could slow our change agenda, and/or lead to industrial unrest and action. • Reduced employee attendance, engagement, and discretionary effort, with subsequent impact on customer experience, in the event we fail to support employee needs during the Covid-19 pandemic.	• Our *Colleague Board* with representation from across our business, gives colleagues a louder voice. • Streamlining management structures to move decision making and colleague engagement closer to the front line. • Close engagement and consultation with the recognised trade unions and impacted employees to deliver our market aligned, streamlined organisation structure - the People Framework. • Comprehensive employee engagement programme to deliver the retraining, reskilling, redeployment and redundancy plans underpinning our transformation agenda. • Enabling our colleagues to work from home where possible and highlighting guidance and support mechanisms available to them. • Deployed policies, aligned to Government, Public Health England and medical advice, that support and protect employees delivering critical national services and those unable to work during the Covid-19 pandemic.	• Robustness of our business continuity plans to enable rapid adaption to changing circumstances. • Continued extensive communication with our colleagues and taking of steps to safeguard their wellbeing. • Investment in direct employee engagement and our *Colleague Board*, alongside our formal employee representative structures.
Financial risks			
Pension scheme			
• Our defined benefit pension schemes, in particular the BT Pension Scheme (BTPS), could become more of a financial burden as a result of future low investment returns, changes in inflation expectations, longer life expectancies, a more prudent approach being taken(e.g. if BT's financial strength is viewed as having worsened) and/or regulatory changes. • The risk has increased due to the forthcoming review of contributions for the BTPS as at 30 June 2020 and recent market movements following the Covid-19 outbreak.	• Additional cash contributions to the BTPS could reduce our ability to invest in our business and/or pay dividends. • A rise in the BTPS deficit could negatively affect our share price and/or credit rating making it harder and more expensive to access funding.	• Regularly reviewing the BTPS's funding position and investment performance. • Agreeing an investment strategy with the BTPS Trustee, which reduces investment risk over time, including hedging of the exposure to changes in interest rates, inflation and life expectancy.	• Agree the next triennial valuation of the BTPS, as at June 2020, which will set the contributions we need to make for the next three years. • Review and prepare response to relevant consultations, including those relating to RPI reform and the funding regime for defined benefit pension schemes, to support the Pensions Regulator's aim of being clearer, quicker and tougher.

Risk	How this could impact our strategy or business model	Examples of how we manage this risk	Focus areas for 2020/21
Financial risk			
• Exposure to funding and liquidity risks, including those arising from our underlying business operations, and also to financial risks such as interest rate, foreign exchange and counterparty risks. • Any failure to properly anticipate future tax changes and/or comply with the tax rules of the countries in which we operate.	• Interest and foreign exchange rate movements could negatively affect our profitability, cash flow and balance sheets (see note 26 to the consolidated financial statements). • Counterparty risks could negatively impact our liquidity and profitability. • Tax risks could expose us to poor business decisions (e.g. under-pricing contract bids), financial penalties and reputational damage. • Funding and liquidity risks could impact our viability and ability to continue as a going concern, including a downturn in our business operations for unexpected factors, e.g. Covid-19.	• The Board has set a long-term credit rating target of BBB+/Baa1, with a BBB floor, and approves an annual five-year funding plan that identifies liquidity and funding requirements. • Management of our liquidity and funding requirements and financial risks through a centralised treasury function, which is required to maintain minimum amounts of committed stand-by liquidity and pre-funding debt maturities up to 18 months in advance. • Tax risks are managed through our Tax Control Framework. • Enhanced counterparty credit risk management procedures in response to Covid-19.	• Taking action, as required, to maintain our current credit rating at BBB. • Monitoring the development of the OECD's proposals to update international tax rules to deal with the digitalisation of economies. • Managing any increased volatility in foreign exchange and counterparty risks associated with the expected end of the transitional Brexit period and Covid-19. • Maintain sufficient funding and liquidity for our updated annual business plans, especially in light of Covid-19 related uncertainty.
Compliance risks			
Health, safety & wellbeing			
• Any failure to look after the health, safety and wellbeing of our colleagues and/or members of the public, especially in light of Covid-19 related exposures, with potential breaches of health and safety laws and regulations.	• Potential injury of our colleagues and/or members of the public, financial penalties, disruption to our operations, and associated reputational damage.	Our goal is to achieve zero incidents of avoidable harm and to enable leading performance in standards of health, safety and wellbeing for our colleagues, achieved by: • training all of our colleagues in basic health, safety and wellbeing; • monitoring the health, safety and wellbeing of our colleagues through survey and focus groups, supported by a dedicated Your Wellbeing portal and a mental health awareness training programme for line managers; • monitoring performance levels across our operations using a global incident reporting system; and • risk-based oversight of supplier compliance with BT minimum safety standards.	• Rollout of our fall-arrest harness training programme. • Continue to assess public perceptions on the UK-wide 5G rollout and ensure compliance with European and industry guidance. • Strengthening our assurance and oversight functions. • Monitoring potential Covid-19 impacts on our colleagues, and complying with global and government public health guidance, assessments and measures; this also informs our business continuity planning activity.

Risk	How this could impact our strategy or business model	Examples of how we manage this risk	Focus areas for 2020/21
Significant control failure			
• Any failure of our financial controls to prevent and/or detect fraud, financial misstatement or other financial loss.	• Failures in our financial control framework could result in financial misstatement, financial loss including a failure to prevent fraud, or key decisions being taken based on incorrect information.	• Implementation of a financial controls framework with appropriate policies, processes, checks and balances – including quarterly certifications over key controls by senior leaders. • Training of our colleagues on financial controls assurance and fraud awareness and implementing best practice, awareness and understanding of controls. • Carrying out effective first, second and third-line assurance activities. • While not complete, management have made good progress in remediating the matters we concluded to be material weaknesses (as defined by the Sarbanes Oxley Act, under our previous US listing) in the prior year, in relation to IT general controls and risk assessment.	• Continue our control enhancement programme, in particular an ongoing focus on the remediation of the material weaknesses in IT general controls and risk assessment. • Ongoing implementation of technology enablers, including SAP Governance Risk and Compliance (GRC) module and expanding our use of data analytic procedures.
Privacy and data protection			
• Breach of data privacy laws through misuse of, or failure to secure and protect, customer and employee data. • Potential additional Covid-19 related security risks in relation to increased working from home arrangements.	• Regulatory enforcement action that could result in an order to cease data processing, significant fines, class-action legal suits and/or prison sentences. Other impacts may include material reputational damage, disruption of business operations and increased customer churn.	• Review of activity across the business that utilises personal data to ensure compliance with our data policies. • Provision of data handling training and tools to help our colleagues make better, risk-based decisions in their day-to-day activities. • Due diligence activity over third parties' data-handling and security arrangements. • Agree of Binding Corporate Rules with the UK data regulator to guide and support our business operations. • Implement Brexit contingency planning to maintain required data flows. • Additional privacy impact assessments undertaken and security measures implemented to mitigate against potential risk associated with high volumes of colleagues working from home.	• Continued development of our operating model to ensure regulatory requirements and compliance expectations are consistently and appropriately ascertained, communicated and monitored across our business. • Evaluating and enhancing systems related to our evolving data processing operations. • Developing new and targeted employee training and engagement. • Further enhancing the clarity and consistency of our data governance and assurance programmes.
Ethical culture			
• The prevailing culture in BT leads to a failure to promptly recognise and report wrongdoing by our colleagues and/or those working on our behalf, which could include a breach of our internal policies and procedures, and/ or applicable laws (e.g. anti-bribery and corruption, trade sanctions and human rights).	• Unethical or inappropriate behaviour could result in fraud or a breach of regulation or legislation, exposing BT to significant penalties, criminal prosecution, reputational damage and/or loss of customers and revenue.	• Setting appropriate policies and monitoring their implementation and compliance through assurance reviews, data analytics and our integrity risk dashboard. • Employee awareness communication and training. • Due diligence over business changes and suppliers and monitoring key metrics. • Operation of a confidential SpeakUp channel, which anyone can use to call out wrongdoings.	• Continued focus on our due-diligence, monitoring and review activities on higher risk areas and third parties, (e.g. agents, resellers, distributors, joint ventures and subsidiaries). • A new and targeted approach to senior manager training and engagement on ethics and compliance. • Implementing our one BT Integrity and Compliance programme to enhance the clarity, consistency and governance around how we set and govern policy, and ensure our organisational culture is 'fit for purpose' everywhere that we operate.

Emerging Risks

We face a number of uncertainties that have the potential to be materially significant to our long-term strategy but cannot be fully defined as a specific risk at present, and therefore cannot be fully assessed or managed. These emerging risks typically have a long time horizon, such as climate change, certain new technologies and long-term geopolitical trends.

Our enhanced risk management framework places greater emphasis on the identification of emerging risks, so that we can pro-actively monitor them and ensure they inform our strategic planning and resilience activities.

A focus on climate change

The physical impacts of climate change and the actions taken by governments and society to try and limit global warming to well below 2°C by 2100 may impact our assets in the UK and globally, as well as our ability to source raw materials. As our customers seek to reduce their own emissions, demand for our propositions and services may also change.

We have conducted an analysis of the potential future climate-related impacts on BT; the main threats and opportunities identified are as follows:

Physical impacts:

- the impacts of extreme weather events, in particular of flooding and chronic increases in temperature, on our suppliers, operational assets and vehicle fleet.

Policy decisions and low carbon transition risks:

- potential carbon price increasing the operating cost of our assets
- potential policy changes that impact our ability to use our existing vehicle fleet
- increased costs of sourcing renewable energy due to changes in demand
- potential policy changes around end-of-life obligations and rights to repair relevant to our propositions.

Opportunities:

- the potential to recover and reuse infrastructure and product materials, which can contribute to a low carbon, circular economy
- increasing demand for our propositions to support customers to move to a net zero society.

In response, we have pledged to become a net zero carbon emissions business by 2045. We plan to meet this target through the purchase of 100% renewable electricity, converting our vehicle fleet to ultra-low emissions vehicles and to continue to decarbonise our buildings. We are also considering our global response to physical climate impacts, building on work in the UK to implement flood defences and minimise service disruption.

The strategic report was approved by the Board of Directors on 20 May 2020 and signed on its behalf by:

Simon Lowth

Director

Directors' report

The directors present their report and the audited financial statements of the company, British Telecommunications plc, and the group, which includes its subsidiary undertakings, for the 2019/20 financial year. The audited consolidated financial statements are presented on pages 34 to 127.

Dividend

A dividend of £1,575m was paid to the parent company, BT Group Investments Limited, during 2019/20 (2018/19 £2,500m). Subsequent to 31 March 2020, the directors have declared a final dividend of £2,000m payable in 2020/21.

Principal activity

The company is the principal trading subsidiary of BT Group plc, which is the ultimate parent company. BT is one of the world's leading communications services companies. We're based in the UK but we serve customers in 180 countries. We develop and sell communications products and services and build and operate networks that are an essential part of modern lives, businesses and communities. Our three brands – BT, EE and Plusnet – provide the whole of the UK with mobile, broadband, home phone and TV services. We also sell communications and IT solutions to businesses and public sector organisations and provide network products and services to communications providers operating in the UK and Ireland. Globally we are a leading business connectivity, communications and IT services provider, serving multinational corporations in around180 countries, providing managed services, security and network and IT infrastructure services, enabling customers' digital transformations. Openreach build and sell access to the network that connects the UK's homes and businesses.

Directors

The directors at 31 March 2020 were Neil Harris, Ulrica Fearn and Simon Lowth, who served throughout 2019/20, and Edward Heaton and Keighly Droy-Whelan who were appointed on 4 March 2020.

Directors' and officers' liability insurance and indemnity

BT Group plc purchases insurance to cover the directors, officers and employees in positions of managerial supervision of BT Group plc and its subsidiaries. This is intended to protect against defence costs, civil damages and, in some circumstances, civil fines and penalties following an action brought against them in their personal capacity. The policy also covers individuals serving as directors of other companies or of joint ventures or on boards of trade associations or charitable organisation's at BT's request. The insurance protects the directors and officers directly in circumstances where, by law, BT cannot provide an indemnity. It also provides BT, subject to a retention, with cover against the cost of indemnifying a director or officer. One layer of insurance is ringfenced for the directors of BT Group plc.

As at 20 May 2020, and throughout 2019/20, British Telecommunications plc has provided an indemnity for group of people who would be covered by the above insurance. Neither the insurance nor the indemnity provides cover where the individual is proven to have acted fraudulently or dishonestly.

Governance Statement

The board of directors ("the Board") aspires to have and maintain good standards of corporate governance and has adopted a corporate governance code appropriate for the company.

The Board has chosen not to adopt and report against the 2018 UK Corporate Governance Code, which in its view is designed, and is therefore more appropriate, for premium listed companies. Whilst we support the introduction of the Wates Corporate Governance Principles for Large Private Companies, we consider that they are less suitable for a wholly-owned subsidiary of a premium listed company. We have therefore adopted our own corporate governance code in the form of four overarching principles (as set out below), which we believe are appropriate for the company and are designed to ensure effective decision-making to promote the company's long-term success.

The principles which underpin our corporate governance code and how these principles have been applied during the financial year ended 31st March 2020 are shown below:

Principle One: Leadership

"The Company is led by a Board of directors who promote the success of the Company for the benefit of its members, ensuring that it operates with a clear sense of purpose that aligns with its values, strategy and culture."

The strategy and culture of the company is underpinned by a clear vision of the company's purpose and overall values which are articulated through the leadership of the Board (having reference to the BT Group's strategy, culture and values). Given the importance of this, the Board seeks to promote the values, strategy and culture at different levels within the business. Culture remains an area of focus, with the Board promoting ethical leadership and accountability to achieve a dynamic and positive culture.

Principle Two: Board composition

"The Board has an appropriate composition and size to enable it to effectively lead the Company."

The size and composition of the Board is appropriate and proportionate for the business of the Company. The directors have an appropriate combination of technical, financial and commercial skills, collectively demonstrating a high-level understanding of the Company's business model and its impact on key stakeholders.

All appointments to the Board are based on merit and objective criteria. Diversity remains an area of focus as we continue to build a workforce that reflects the diversity of our customers and the communities we serve.

Principle Three: Directors' responsibilities
"Directors have a clear understanding of their accountability and responsibilities. The Board's policies and practices should support effective decision making and independent challenge."

- On joining the Board, new directors receive information on the company, are offered advice from the company secretary, and can request training tailored to their specific experience and knowledge, covering both their legal duties and the business of the company.
- On an ongoing basis, directors update their skills, knowledge and familiarity with the company in a range of different ways by meeting with senior management, visiting operations and by attending appropriate external and internal seminars and training sessions. This helps by continuing to contribute to their informed and sound decision-making.
- Directors have a responsibility to declare any conflict of interest at the beginning of each Board meeting. Should a conflict arise, it would be the responsibility of the chair in conjunction with the non-conflicted directors to agree whether the director may participate and/or vote on the specific item.

The directors have equal voting rights when making decisions, except the chair, who has a casting vote. All directors have access to the advice and services of the company secretary and may, if they wish, take professional advice at the company's expense.

Principle Four: Stakeholder relationship and engagement
"The Board should build and maintain effective relationships with stakeholders."

The Board seeks to understand the views of its key stakeholders, and the impact of its behaviour and business on employees, customers, suppliers and society more broadly. Whilst for reasons of efficiency and effectiveness, much of this engagement takes place at a BT Group level, the Board receives updates on its key stakeholders and the mechanisms and initiatives for engagement. For more information on group level engagement with key stakeholders, see the BT Group plc 2020 Annual Report and the Section 172 statement.

When making decisions, the Board considers the potential impact on its key stakeholders, as well as the BT Pension Scheme and its members.

Financial statements

A statement by the directors of their responsibilities for preparing the financial statements is included in the **Statement of directors' responsibilities** on page 27. Our critical accounting estimates and key judgements, and significant accounting policies conform with IFRSs, as adopted by the EU and IFRSs issued by the International Accounting Standards Board (IASB), and are set out throughout the consolidated financial statements on pages 34 to 127. The directors have reviewed these policies and applicable estimation techniques, and have confirmed they're appropriate for the preparation of the 2019/20 consolidated financial statements. As far as each of the directors is aware, there is no relevant audit information (as defined by section 418(3) of the 2006 Act) that hasn't been disclosed to the auditors. Each of the directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the auditors have been made aware of that information.

Capital management and funding policy

The capital structure of the company is managed by BT Group plc. The policies described here apply equally to both BT Group plc and group companies. The objective of BT Group plc's capital management policy is to target an overall level of debt consistent with our credit rating objectives, while investing in the business, supporting the pension fund and meeting our distribution policy. The BT Group plc Board reviews the group's capital structure regularly. Management proposes actions which reflect the group's investment plans and risk characteristics, as well as the macro-economic conditions in which we operate. BT Group plc's funding policy is to raise and invest funds centrally to meet the group's anticipated requirements. A combination of capital market bond issuance, commercial paper borrowing and committed borrowing facilities is used to fund the group. When issuing debt, in order to avoid refinancing risk, group treasury will take into consideration the maturity profile of the group's debt portfolio as well as forecast cash flows. Details of our treasury policy are included in note 26 to the consolidated financial statements.

Financial instruments

Details of the group's financial risk management objectives and policies of the group and exposure to interest risk, credit risk, liquidity risk and foreign exchange are given in note 26 to the consolidated financial statements.

Credit risk management policy

Proactive steps are taken to minimise the impact of adverse market conditions on our financial instruments. In managing investments and derivative financial instruments, BT Group plc's central treasury function monitors the credit quality across Front treasury counterparties and actively manages any exposures that arise. Management within the business units also actively monitors any exposures arising from trading balances.

Off-balance sheet arrangements

Other than the financial commitments and contingent liabilities disclosed in note 30 to the consolidated financial statements, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on: our financial condition; changes in financial condition; revenues or expenses; results of operations; liquidity; capital expenditure; or capital resources.

Political donations

Our policy is that no company in the group will make contributions in cash or in kind to any political party, whether by gift or loan. However, the definition of political donations used in the 2006 Act is very much broader than the sense in which these words are ordinarily used. For example, it could cover making members of Parliament and others in the political world aware of key industry issues and matters affecting the company, enhancing their understanding of BT.

The authority for political donations requested at the AGM is not intended to change this policy. It will, however, ensure that the group continues to act within the provisions of the 2006 Act requiring companies to obtain shareholder authority before they make donations to EU political parties and/or political organisations as defined in the 2006 Act. During 2019/20, BT plc paid the costs of attending corporate days at (i) the Liberal Democrats' party conference; (ii) the Labour party conference; (iii) the Scottish National party conference; and (iv) the Conservative party conference. These costs totalled £9,967 (2018/19: £4,616). No company in the group made any loans to any political party.

Legal proceedings

The group is involved in various legal proceedings, including actual or threatened litigation and, government or regulatory investigations. For further details of legal and regulatory proceedings to which the group is party please see note 30 to the consolidated financial statements. Apart from the information disclosed in note 30 to the consolidated financial statements, the group does not currently believe that there are any legal proceedings, 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 described in note 30 the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. Many factors prevent us from making these assessments with certainty, including, that the proceedings of investigations are in early stages, no damages or remedies have been specified, and/or the frequently slow pace of litigation.

Going concern

In line with IAS 1 'Presentation of Financial Statements' and revised FRC guidance on 'risk management, internal control and related financial and business reporting', management has taken into account all available information about the future for a period of at least, but not limited to, 12 months from the date of approval of the financial statements when assessing the group's ability to continue as a going concern.

UK internal control and risk management

The Board of BT Group plc is responsible for the group's systems of internal control and risk management and for reviewing the effectiveness of those systems each year. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

BT has enterprise-wide risk management processes for identifying, evaluating and managing the principal risks faced by the group. These processes have been in place throughout the year and have continued up to the date on which this document was approved. The processes are in accordance with the FRC Guidance on risk management, internal control and related financial and business reporting.

Risk assessment and evaluation take place as an integral part of BT Group plc's annual strategic planning cycle. There is a detailed risk management process which identifies the key risks facing the group.

The key features of our enterprise-wide risk management and internal control process (covering financial, operational and compliance controls) are:

- senior executives collectively review the group's key risks and have created a Group Risk Register describing the risks, their owners and mitigation strategies. BT Group plc's Group Risk Panel and Executive Committee review this before it is reviewed and approved by the BT Group plc Board
- the customer facing units and group functions carry out risk assessments of their operations, create risk registers relating to those operations and ensure that the key risks are addressed
- senior executives with responsibility for major group operations report quarterly their opinion on the effectiveness of the operation of internal controls in their areas of responsibility
- the internal auditors carry out continuing assessments of the quality of risk management and control, report to management and the BT Group plc Audit & Risk Committee on the status of specific areas identified for improvement and promote effective risk management
- the BT Group plc Audit & Risk Committee, on behalf of the of BT Group plc Board, considers the effectiveness of the group's internal control procedures during the financial year. It reviews reports from the internal and external auditors and reports its conclusions to the of BT Group plc Board. The BT Group plc Audit & Risk Committee has carried out these actions for 2018/19
- the BT Group plc Audit & Risk Committee, on behalf of the BT Group plc Board, reviews the effectiveness of risk management arrangements across the group. In support of this, an annual review meeting is held with the group chief executive and the CEOs of each customer facing unit.

We haven't included joint ventures and associates, which BT doesn't control, as part of the group risk management process. Third parties we enter into joint ventures with are responsible for their own internal control assessment.

Our significant accounting policies are set out throughout the consolidated financial statements on pages 34 to 127. The consistent application of those policies is subject to ongoing verification through management review and independent review by internal and external auditors.

The processes supporting the preparation and consolidation of the financial statements have been documented and are subject to annual verification through the programme of testing done by our internal auditors. This serves to confirm the operation of the internal controls over financial reporting,

The **Strategic report** on pages 3 to 22 includes information on the group structure. The **Group performance** section on pages 4 to 7 includes information on our group financial results, cash flow, and balance sheet position. Notes 21, 22, 24 and 26 of the consolidated financial statements include information on the group's investments, cash and cash equivalents, borrowings, derivatives, financial risk management objectives, hedging policies and exposure to interest, foreign exchange, credit, liquidity and market risks.

Our principal risks and uncertainties are set out on pages 14 to 22 including details of each risk and how we manage and mitigate them. The directors carried out a robust assessment of the principal risks affecting the group, including any that could threaten our business model, future performance, insolvency or liquidity.

We estimate the financial impact for a severe but plausible outcome for each risk, including a highly severe Covid-19 scenario based on very prolonged lockdowns, both individually, in combination and through probabilistic risk modelling. This stress testing confirmed that existing projected cash flows and cash management activities provide us with adequate headroom over the going concern assessment period.

Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements. This assessment covers the period to May 2021, which is consistent with the FRC guidance.

Cross reference to the Strategic report

In line with the 2006 Act, we have chosen to include the following information in the **Strategic report** (required by law to be included in the **Directors' Report**):

- An indication of likely future developments in the business of the company (pages 3-21)
- An indication of our R&D activities (page 12)
- Engagement with our stakeholders (page 7-11)
- Our colleagues (pages 7 to 9)
- Section 172 statement (page 13)
- Anti-corruption and bribery (page 10)
- Social matters (pages 9-12)
- Human rights (pages 11-12)

By order of the Board

Kathryn Zielinski

Secretary

20 May 2020

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant and reliable;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report, Directors' report and Corporate Governance Statement that comply with such law and regulation.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Simon Lowth

Director

20 May 2020

Independent auditors' report to the members of British Telecommunications plc

1 Our opinion is unmodified

We have audited the financial statements of British Telecommunications 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 70 (note 19 accounting policy Retirement benefit plans) and page 70-81 (disclosures note 19 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 19) disclose the sensitivity 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 pages 70 (note 19 accounting policy Retirement benefit plans) and page 70-81 (disclosures note 19 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 19) 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 and parent company'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 47-50 (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).

Adequacy of regulatory provisions

Regulatory provision £79 million (2019: £182 million) Risk vs 2019: ▼
Refer to page 68-69 (financial disclosures note 18 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 historical 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* and parent company'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 £18,548 million (2019: £19,031 million)
Loans to group and parent undertakings £16,742 million (2019: £16,809 million)
Amount owed by group and parent undertakings £451 million (2019: £558 million)
Refer to page 114 financial disclosure note 7 Investments, page 114 note 8 Other investments and page 116 note 10 Trade and other receivables

The risk
Low risk, high value:
The carrying amount of the parent company's investments in subsidiaries, the amount of the loans to group undertakings and amount owned by group and parent undertakings represent 27%, 24% and 1% respectively (2019: 30%, 26% and 1% 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 one of 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 investments, loans to group and parent undertakings and amount owed by group and parent undertakings, with the relevant subsidiaries draft 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 and parent 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 4.4% (2019: 4.0%).

Materiality for the parent company financial statements as a whole was set at £110 million (2019: £110 million), determined with reference to a benchmark of net assets, of which it represents 0.6% (2019: 0.7%), and chosen to be lower than materiality for the group financial statements as a whole. Whilst materiality is unchanged the benchmark has been changed to a balance sheet measure to better reflect the financial statements presented.

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%	96%	100%
2019	97%	99%	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 on the audit of account balances 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 or 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 concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

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

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.

We are also required to report to you if a corporate governance statement has not been prepared by the company. 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 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 27 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
20 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	(19,210)	(409)	(19,619)
Operating profit (loss)	4	**3,614**	**(328)**	**3,286**
Finance expense	25	(838)	(145)	(983)
Finance income	25	319	5	324
Net finance expense		**(519)**	**(140)**	**(659)**
Share of post tax profit (loss) of associates and joint ventures		6	(39)	(33)
Profit (loss) before taxation		**3,101**	**(507)**	**2,594**
Taxation	10	(582)	(83)	(665)
Profit (loss) for the year		**2,519**	**(590)**	**1,929**

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	(19,610)	(394)	(20,004)
Operating profit (loss)	4	**3,849**	**(425)**	**3,424**
Finance expense	25	(694)	(139)	(833)
Finance income	25	306	—	306
Net finance expense		**(388)**	**(139)**	**(527)**
Share of post tax profit (loss) of associates and joint ventures		1	—	1
Profit (loss) before taxation		**3,462**	**(564)**	**2,898**
Taxation	10	(663)	112	(551)
Profit (loss) for the year		**2,799**	**(452)**	**2,347**

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	(19,752)	(587)	(20,339)
Operating profit (loss)	4	**3,994**	**(610)**	**3,384**
Finance expense	25	(576)	(218)	(794)
Finance income	25	215	—	215
Net finance expense		**(361)**	**(218)**	**(579)**
Share of post tax profit (loss) of associates and joint ventures		(1)	—	(1)
Profit (loss) before taxation		**3,632**	**(828)**	**2,804**
Taxation	10	(707)	87	(620)
Profit (loss) for the year		**2,925**	**(741)**	**2,184**

[a] For a definition of specific items, see page 134. 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		**1,929**	**2,347**	**2,184**
Other comprehensive income (loss)				
Items that will not be reclassified to the income statement				
Remeasurements of the net pension obligation	19	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	26	40	64	(188)
Fair value movements on available-for-sale assets	26	—	—	11
Fair value movements on assets at fair value through other comprehensive income	26	(5)	3	—
Movements in relation to cash flow hedges:				
– net fair value gains (losses)	26	854	176	(368)
– recognised in income and expense	26	(382)	(18)	277
Tax on components of other comprehensive income that have been or may be reclassified	10, 26	(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		**6,397**	**813**	**3,338**

Group balance sheet
At 31 March

	Notes	2020 £m	2019 £m	2018 £m
Non-current assets				
Intangible assets	12	13,897	14,393	14,455
Property, plant and equipment	13	18,474	17,835	17,000
Right-of-use assets[a]	14	5,391	—	—
Derivative financial instruments	26	2,229	1,481	1,312
Investments	21	13,789	13,519	13,354
Associates and joint ventures		12	47	38
Trade and other receivables	16	481	445	317
Contract assets	5	279	249	—
Deferred tax assets	10	300	1,347	1,326
		54,852	**49,316**	**47,802**
Current assets				
Programme rights	15	310	310	272
Inventories		300	369	239
Trade and other receivables	16	2,730	3,238	4,029
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	26	260	111	197
Investments	21	5,372	3,486	3,224
Cash and cash equivalents	22	1,545	1,664	521
		12,294	**10,730**	**8,559**
Current liabilities				
Loans and other borrowings	24	3,957	3,140	2,298
Derivative financial instruments	26	46	48	50
Trade and other payables	17	5,829	5,827	7,190
Contract liabilities	5	972	1,225	—
Lease liabilities[a]	14	812	—	—
Liabilities classified as held for sale	23	211	—	—
Current tax liabilities		23	15	83
Provisions	18	288	424	603
		12,138	**10,679**	**10,224**
Total assets less current liabilities		**55,008**	**49,367**	**46,137**
Non-current liabilities				
Loans and other borrowings	24	17,575	15,837	13,038
Derivative financial instruments	26	966	892	787
Contract liabilities	5	179	200	—
Lease liabilities[a]	14	5,748	—	—
Retirement benefit obligations	19	1,140	7,182	6,847
Other payables	17	754	1,479	1,326
Deferred tax liabilities	10	1,608	1,407	1,340
Provisions	18	431	582	452
		28,401	**27,579**	**23,790**
Equity				
Ordinary shares		2,172	2,172	2,172
Share premium		8,000	8,000	8,000
Other reserves	27	1,826	1,425	1,241
Retained earnings		14,609	10,191	10,934
Total shareholders' equity		**26,607**	**21,788**	**22,347**
		55,008	**49,367**	**46,137**

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

The consolidated financial statements on pages 34 to 101 were approved by the Board of Directors on 20 May 2020 and were signed on its behalf by:

Simon Lowth
Director

Group statement of changes in equity

	Notes	Share capital[a] £m	Share premium[b] £m	Other reserves[c] £m	Retained earnings (loss) £m	Total equity (deficit) £m
At 1 April 2017		**2,172**	**8,000**	**1,591**	**7,163**	**18,926**
Profit for the year		—	—	—	2,184	2,184
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)	3,605	3,338
Share-based payments	20	—	—	—	84	84
Tax on share-based payments	10	—	—	—	(2)	(2)
Transfer to realised profit		—	—	(83)	83	—
Other movements		—	—	—	1	1
At 31 March 2018		**2,172**	**8,000**	**1,241**	**10,934**	**22,347**
IFRS 15 & 9 opening balance adjustment[d]		—	—	—	1,308	1,308
Tax on IFRS 15 & 9 opening balance adjustment[d]		—	—	—	(248)	(248)
At 1 April 2018		**2,172**	**8,000**	**1,241**	**11,994**	**23,407**
Profit for the year		—	—	—	2,347	2,347
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	629	813
Share-based payments	20	—	—	—	67	67
Tax on share-based payments	10	—	—	—	—	—
Dividends to parent company	11	—	—	—	(2,500)	(2,500)
Unclaimed Dividend over 10 years		—	—	—	5	5
Other movements		—	—	—	(4)	(4)
At 31 March 2019		**2,172**	**8,000**	**1,425**	**10,191**	**21,788**
IFRS 16 opening balance adjustment[d]		—	—	—	(87)	(87)
Tax on IFRS 16 opening balance adjustment[d]		—	—	—	16	16
At 1 April 2019		**2,172**	**8,000**	**1,425**	**10,120**	**21,717**
Profit for the year		—	—	—	1,929	1,929
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	5,974	6,397
Share-based payments	20	—	—	—	72	72
Tax on share-based payments	10	—	—	—	—	—
Dividends to parent company	11	—	—	—	(1,575)	(1,575)
Unclaimed Dividend over 10 years		—	—	—	—	—
Transfer to realised profit		—	—	(22)	22	—
Other movements		—	—	—	(4)	(4)
At 31 March 2020		**2,172**	**8,000**	**1,826**	**14,609**	**26,607**

a The allotted, called up, and fully paid ordinary share capital of the company at 31 March 2020 was £2,172m comprising 8,689,755,905 ordinary shares of 25p each.
b The share premium account, comprising the premium on allotment of shares, is not available for distribution.
c For further analysis of other reserves, see note 27.
d 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		2,594	2,898	2,804
Share of post tax (profit) loss of associates and joint ventures		33	(1)	1
Net finance expense		659	527	579
Operating profit		3,286	3,424	3,384
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	(59)	(156)
Decrease (increase) in contract assets		(119)	15	—
Increase (decrease) in trade and other payables		140	60	(367)
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		**6,480**	**4,692**	**5,381**
Income taxes paid		(210)	(431)	(473)
Net cash inflow from operating activities		**6,270**	**4,261**	**4,908**
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 joint ventures		(8)	(9)	(9)
Outflow on non-current amounts owed by ultimate parent company[e]		(1,605)	(1,508)	(1,677)
Proceeds on disposal of current financial assets[f]		12,000	12,887	11,134
Purchases of current financial assets[f]		(13,877)	(13,088)	(12,629)
Proceeds on disposal of non-current investments[g]		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		**(7,255)**	**(5,308)**	**(6,510)**
Cash flow from financing activities				
Interest paid[h]		(736)	(531)	(555)
Repayment of borrowings[i]		(1,111)	(1,423)	(1,401)
Proceeds from bank loans and bonds		2,843	3,972	3,760
Payment of lease liabilities[h]		(651)	—	—
Cash flows from derivatives related to net debt		452	124	(188)
Net cash inflow (outflow) from financing activities		**797**	**2,142**	**1,616**
Net increase (decrease) in cash and cash equivalents		**(188)**	**1,095**	**14**
Opening cash and cash equivalents[j]		1,592	492	509
Net increase in cash and cash equivalents		(188)	1,095	14
Effect of exchange rate changes		1	5	(31)
Closing cash and cash equivalents[j]	22	**1,405**	**1,592**	**492**

[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] There are non-cash movements in this intra-group loan arrangement which principally relate to the settlement of dividends with the parent company and amounts the ultimate parent company was owed by the parent company which were settled through their loan accounts with British Telecommunications plc. Refer to note 29 for further information.
[f] Primarily consists of investment in and redemption of amounts held in liquidity funds.
[g] Relates to sale of 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.
[h] 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.
[i] Repayment of borrowings includes the impact of hedging and repayment of finance lease liabilities in 2018/19 and 2017/18.
[j] 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 British Telecommunications 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 British Telecommunications plc, the parent company.

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:

Year ended	£m
Operating lease commitments disclosed as at 31 March 2019[1]	**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[2]	(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**

[1] British Telecommunications plc Annual Report 2019, note 29 (page 123)

[2] Other primarily represents leases between the group 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

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 14) 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 historical 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]	14,393	(70)	14,323
Property, plant and equipment[a]	17,835	(34)	17,801
Deferred tax assets[b]	1,347	2	1,349
Other non-current assets	15,741	—	15,741
	49,316	**5,053**	**54,369**
Current assets			
Trade and other receivables[c]	3,238	(50)	3,188
Other current assets	7,492	—	7,492
	10,730	**(50)**	**10,680**
Current liabilities			
Lease liabilities	—	725	725
Loans and other borrowings[a]	3,140	(16)	3,124
Trade and other payables[d]	5,827	91	5,918
Contract liabilities[d]	1,225	(34)	1,191
Provisions[f]	424	(17)	407
Other current liabilities	63	—	63
	10,679	**749**	**11,428**
Total assets less current liabilities	**49,367**	**4,254**	**53,621**
Non-current liabilities			
Lease liabilities	—	5,544	5,544
Loans and other borrowings[a]	15,837	(190)	15,647
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
	27,579	**4,325**	**31,904**
Equity			
Retained earnings[g]	10,191	(71)	10,120
All other reserves	11,597	—	11,597
Total equity	**21,788**	**(71)**	**21,717**
	49,367	**4,254**	**53,621**

[a] Finance lease assets and liabilities reclassified to right-of-use assets 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* of BT Group plc 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.

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 & Risk Committee* of BT Group plc. The areas involving a higher degree of judgement or complexity are described in the applicable notes to the financial statements.

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 12 (E, J).
- Government grants relating to Building Digital UK (BDUK) contracts, see note 13 (J).
- Reasonable certainty and determination of lease terms, see note 14 (J).
- Provisions and contingent liabilities, see note 18 (E, J).
- Pension obligations, see note 19 (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.
- The impact on our contract loss provisions, see notes 5, 18 & 30.
- 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 12.
- Impact on reasonable certainty used in determining the lease term, see note 14.
- Retirement benefit plans, see note 19.
- Programme rights assets and commitments affected by postponement or cancellation of events, see notes 15 & 30.
- Assumptions within our expected credit losses on trade receivables, see note 16.
- Impact on hedge effectiveness for any cash flow hedges if cash flows are no longer 'highly probable', see note 26.
- Contingent liabilities, see note 30.

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 British Telecommunications 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.

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

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 13.

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 of BT Group plc, 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.

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 of BT Group plc. 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.

4. Segment information continued

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**	**27**	**7,910**
Depreciation and amortisation[a]	(1,278)	(719)	(479)	(1,712)	(108)	(4,296)
Operating profit (loss)[a]	**1,148**	**1,246**	**155**	**1,146**	**(81)**	**3,614**
Specific items (note 9)						(328)
Operating profit						**3,286**
Net finance expense[c]						(659)
Share of post tax profit (loss) of associates and joint ventures						(33)
Profit before tax						**2,594**

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**	**(34)**	**7,395**
Depreciation and amortisation[a]	(1,030)	(690)	(378)	(1,398)	(50)	(3,546)
Operating profit (loss)[a]	**1,301**	**1,220**	**66**	**1,346**	**(84)**	**3,849**
Specific items (note 9)						(425)
Operating profit						**3,424**
Net finance expense[c]						(527)
Share of post tax profit (loss) of associates and joint ventures						1
Profit before tax						**2,898**

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**	**1**	**7,508**
Depreciation and amortisation[a]	(1,013)	(676)	(432)	(1,330)	(63)	(3,514)
Operating profit (loss)[a]	**1,192**	**1,319**	**(58)**	**1,603**	**(62)**	**3,994**
Specific items (note 9)						(610)
Operating profit						**3,384**
Net finance expense[c]						(579)
Share of post tax profit (loss) of associates and joint ventures						(1)
Profit before tax						**2,804**

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

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**

	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 12.
b Additions to property, plant and equipment as presented in note 13, 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.

4. Segment information continued

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	35,605	30,303	28,843
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]	**38,534**	**32,969**	**31,810**

[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.

5. Revenue continued

Service line	Performance obligations	Revenue recognition policy
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.

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.

5. Revenue continued

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 contract is, or contains a lease following the accounting policy set out in note 14. 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 14.

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.

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**

5. Revenue continued

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

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 16.

We provide for expected lifetime losses on contract assets following the policy set out in note 16.

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		4,198	4,258	4,223
Social security costs		426	440	461
Other pension costs	19	626	611	624
Share-based payment expense	20	72	67	84
Total staff costs		**5,322**	**5,376**	**5,392**
Own work capitalised		(903)	(834)	(798)
Net staff costs		**4,419**	**4,542**	**4,594**
Net indirect labour costs[a]		354	267	315
Net labour costs		**4,773**	**4,809**	**4,909**
Product costs and sales commission[b]		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[b]		604	624	657
Marketing and sales[b]		303	322	317
Other operating costs[b]		496	832	831
Other operating income		(223)	(238)	(222)
Depreciation of property, plant and equipment				
Owned assets	13	2,452	2,390	2,381
Right-of-use assets[c,f]	14	671		
Held under finance leases[f]	13	—	2	10
Amortisation of intangible assets	12	1,173	1,154	1,123
Total operating costs before specific items		**19,210**	**19,610**	**19,752**
Specific items	9	409	394	587
Total operating costs		**19,619**	**20,004**	**20,339**
Operating costs before specific items include the following:				
Leaver costs[d]		15	17	50
Research and development expenditure[e]		662	643	632
Operating lease charges[f]		—	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 Included within 'other operating costs' in prior years were costs relating to product costs and commissions; provision and installation; and marketing and sales. These are now presented separately. The 'other operating costs' comparative for 2017/18 and 2016/17 has been re-presented for consistency.
c Excludes £22m reversal of impairment on right-of-use assets presented as a specific item which relate to assets impaired on adoption of IFRS16
d Leaver costs are included within wages and salaries, except for leaver costs of £197m (2018/19: £257m, 2017/18: £168m) associated with restructuring and EE integration costs, which have been recorded as specific items.
e 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).
f 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.

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

Key management personnel comprise executive and non-executive directors and members of the BT Group plc *Executive Committee* as well as the directors of the company. It is the BT Group plc *Executive Committee* which has responsibility for planning, directing and controlling the activities of the group.

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	10.7	14.9	12.4
Post employment benefits	1.1	1.4	1.4
Share-based payments	7.5	5.2	6.6
Termination benefits	—	0.6	2.2
	19.3	**22.1**	**22.6**

Information concerning directors' remuneration, pension entitlements and long-term incentive plans is shown in note 28.

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	10,499	8,118	5,372
The audit of the company's subsidiaries	6,303	6,049	5,866
	16,802	**14,167**	**11,238**
Audit-related assurance services[b]	**2,416**	**2,236**	**1,631**
Other non-audit services			
All other assurance services[c]	228	748	211
All other services[d]	247	210	592
	475	**958**	**803**
Total services	**19,693**	**17,361**	**13,672**

[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 34. 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 March 31	**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**

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.

9. Specific items continued

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
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 19 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, 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 36. 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%)	(541)	(478)	(614)
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	**(559)**	**(546)**	**(620)**
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	**(665)**	**(551)**	**(620)**

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	**2,594**	**2,898**	**2,804**
Expected taxation expense at UK rate of 19% (2018/19: 19%, 2017/18: 19%)	(493)	(551)	(533)
Effects of:			
(Higher) lower taxes on non-UK profits	(5)	(7)	(8)
Net permanent differences between tax and accounting[a]	(40)	(35)	(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	**(665)**	**(551)**	**(620)**
Exclude specific items (note 9)	83	(112)	(87)
Total taxation expense before specific items	**(582)**	**(663)**	**(707)**

[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 (restated)	—	15	—	—	37	—	52
Expense (credit) recognised in equity	—	—	(1)	—	—	—	(1)
Exchange differences	—	—	1	(1)	—	—	—
At 31 March 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 differences	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, FY17/18 £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**	

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 these losses to be remote.

10. Taxation continued

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. Dividends

What dividends have been paid and proposed for the year?
A dividend of £1,575m was paid to the parent company, BT Group Investments Limited, during 2019/20 (2018/19: £2,500m, 2017/18: £nil). Subsequent to 31 March 2020, the directors have declared a final dividend of £2,000m payable in 2020/21 (2019/20: £1,575m, 2018/19: £2,500m).

12. 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.

12. 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	7,953	3,410	2,951	4,822	1,574	20,710
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	**8,014**	**3,417**	**3,252**	**4,518**	**1,505**	**20,706**
Reclassification of assets held under finance leases[c]	—	—	(185)	—	—	(185)
At 1 April 2019	**8,014**	**3,417**	**3,067**	**4,518**	**1,505**	**20,521**
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	**7,953**	**3,397**	**3,032**	**4,354**	**1,118**	**19,854**
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	**7,953**	**1,467**	**2,458**	**1,403**	**616**	**13,897**
At 31 March 2019	**8,014**	**1,846**	**2,692**	**1,297**	**544**	**14,393**

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.

12. 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 BT Group plc 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	498	7,953
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**	**—**	**—**	**554**	**8,014**
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**	**—**	**—**	**519**	**7,953**

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.

13. 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 12.

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 17.

13. 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.

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.

13. Property, plant and equipment continued

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.

14. 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 contact 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.

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 13 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 13). 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).

14. Leases continued

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.

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 26 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.

14. Leases continued

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**

15. 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 12.

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 30. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 16).

Programmes produced internally are charged to the income statement over the period of the related broadcast.

	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 16).

16. 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. Allowances are calculated by individual customer-facing units in order to reflect the specific nature of the customers relevant to that customer-facing unit.

At 31 March	2020 £m	2019 £m	2018 £m
Current			
Trade receivables	1,375	1,732	1,741
Amounts owed by ultimate parent company	26	16	15
Prepayments[a]	607	698	1,103
Accrued income	57	34	777
Deferred contract costs	422	417	—
Other receivables	243	341	393
	2,730	**3,238**	**4,029**

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 26 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).

16. Trade and other receivables continued

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

	Trade receivables not past due			Accrued income		
	2020	2019	2018	**2020**	2019	2018
At 31 March	**£m**	£m	£m	**£m**	£m	£m
Consumer	353	457	—	1	32	—
Enterprise	139	274	—	3	2	—
Global Services	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 £0m (2018/19: £9m, 2017/18: £6m).

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**

17. 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.

17. Trade and other payables continued

At 31 March	2020 £m	2019 £m	2018 £m
Current			
Trade payables	3,889	4,141	3,991
Amounts owed to parent company	55	55	50
Amounts owed to ultimate parent company	1	1	—
Other taxation and social security	562	564	704
Other payables	477	368	428
Accrued expenses	545	630	492
Deferred income[a]	300	68	1,525
	5,829	**5,827**	**7,190**

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 Broadband Delivery 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.

18. 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 30.

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. Financial liabilities within provisions are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

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, but are disclosed in note 30. 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 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's cost and price methodology, other relevant factors around our pricing, and in the identification of 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.

18. Provisions continued

	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 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
At 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.

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.

19. 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.

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.

19. Retirement benefit plans continued

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.

19. 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.

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.

19. Retirement benefit plans continued

Analysis of BTPS

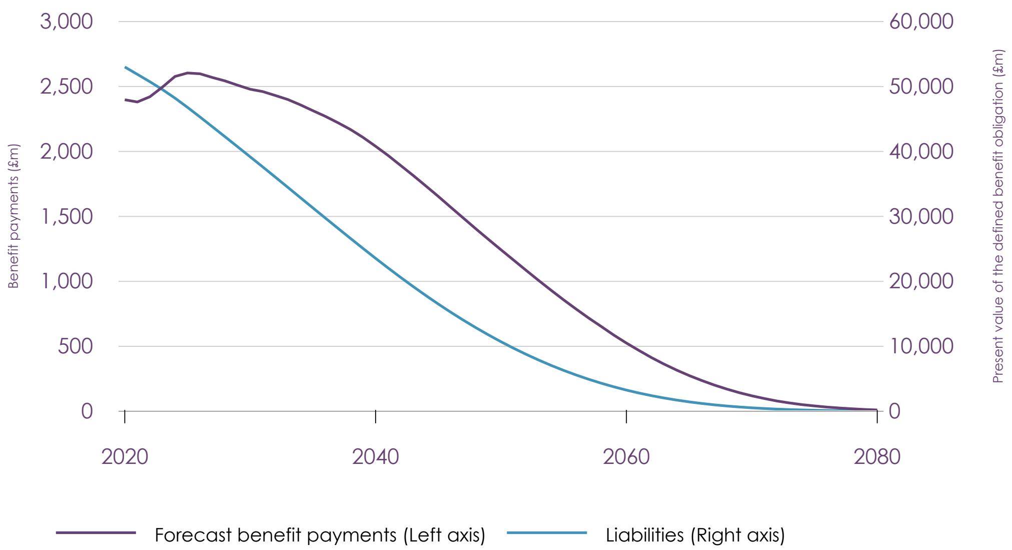
	Active members	Deferred members	Pensioners	Total
Sections A and B liabilities (£bn)[a]	—	7.2	28.7	35.9
Section C liabilities (£bn)	—	12.8	4.3	17.1
Total IAS 19 liabilities (£bn)	**—**	**20.0**	**33.0**	**53.0**
Total number of members	**—**[b]	**81,000**	**205,000**	**286,000**

[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 the 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.

19. 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 managers.

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.

19. Retirement benefit plans continued

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.

19. Retirement benefit plans continued

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.

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%).

19. Retirement benefit plans continued

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

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 19.

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 (i.e. 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.

19. Retirement benefit plans continued

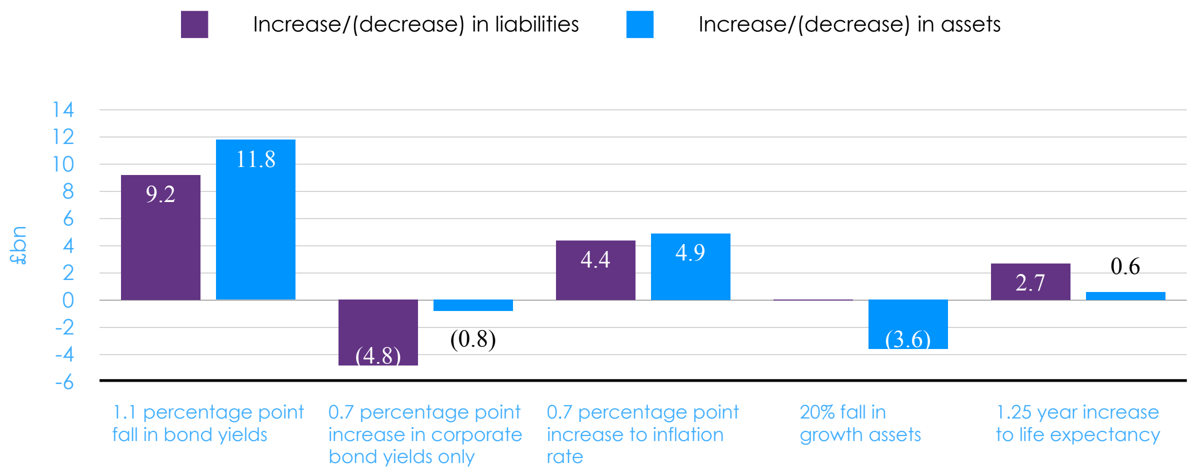
Scenario analysis
The potential negative impact of the key risks is illustrated as the following five scenarios. These have been assessed by BT's independent actuary as scenarios that might occur no more than once in every 20 years.

	1-in-20 events	
Scenario	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.

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



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%

19. Retirement benefit plans continued

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)

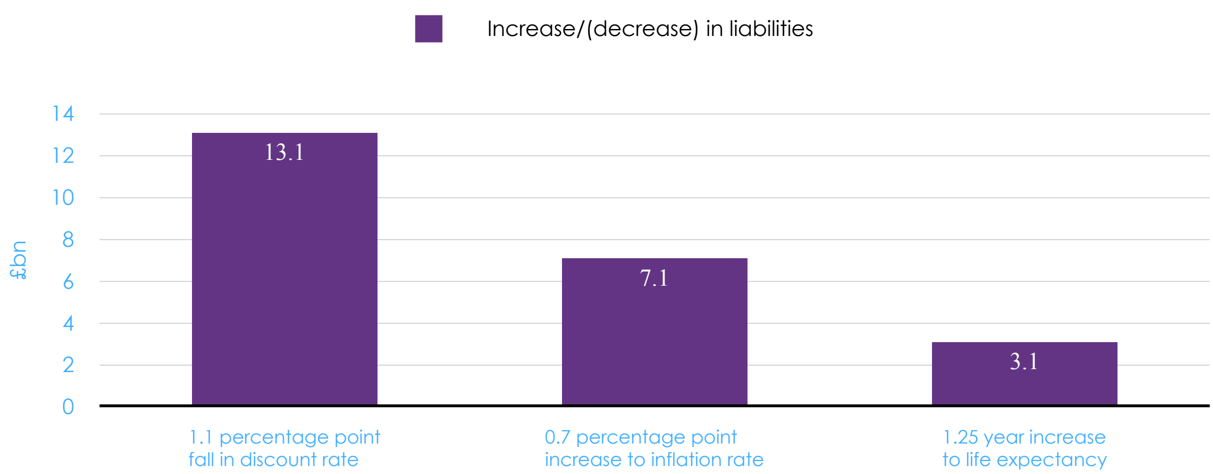
[a] The real rate is calculated relative to RPI inflation and is shown as a comparator.

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 78 on the funding liabilities is shown in the chart below.



Payments made to the BTPS

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

19. Retirement benefit plans continued

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.

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.

19. Retirement benefit plans continued

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.

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.

20. Share-based payments

Significant accounting policies that apply to share-based payments

BT Group plc operates a number of equity settled share-based payment arrangements, under which the group receives services from employees in consideration for equity instruments (share options and shares) in BT Group plc. 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 saveshare 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.

20. Share-based payments continued

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 in BT Group plc at a fixed price determined when the option is granted. This price is usually 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 shares in BT Group plc 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 shares of BT Group plc in full at the end of a three-year period only if BT Group plc 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 BT Group plc 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 BT Group plc 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 in BT Group plc during the conditional periods are reinvested in company shares for the potential benefit of the participants.

Employee Saveshare Plans

Movements in Employee Saveshare options are shown below.

	Number of share options			Weighted average exercise price		
	2020	2019	2018	2020	2019	2018
Year ended 31 March	millions	millions	millions	pence	pence	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).

20. Share-based payments continued

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	302 p	26	10 months
2021	170p – 376p	228 p	34	22 months
2022	164p – 353p	200 p	58	34 months
2023	170 p	170 p	35	46 months
2024	164 p	164 p	61	58 months
Total		**202 p**	**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	39 p	152 p	41 p	156 p	56 p	202 p
Weighted average share price	206 p	202 p	208 p	211 p	296 p	281 p
Weighted average exercise price of options granted	168 p	n/a	175 p	n/a	250 p	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.

Volatility has been determined by reference to BT Group plc's historical volatility which is expected to reflect the BT Group plc 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 it was 177p (2018/19: 217p, 2017/18: 282p).

21. 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.

IFRS 9 was applied for the first time on 1 April 2018 and introduces 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 have 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 table reflect the classifications under IFRS 9, and the 2018 figures reflect the previous classifications under IAS 39. Amounts owed by parent companies, classified as loans and receivables under IAS39 in the 2018 figures, are classified as amortised cost under IFRS9 in the current year and in 2019 figures, which has not changed the accounting for these investments.

At 31 March	**2020 £m**	2019 £m	2018 £m
Non-current assets			
Fair value through other comprehensive income	9	48	—
Available-for-sale	—	—	46
Amounts owed by ultimate parent company	3,177	3,029	2,983
Amounts owed by parent company	10,592	10,436	10,318
Fair value through profit or loss	11	6	7
	13,789	**13,519**	**13,354**
Current assets			
Available-for-sale	—	—	2,575
Amounts owed by ultimate parent company	66	61	34
Amounts owed by parent company	214	211	168
Investments held at amortised cost	5,092	3,214	—
Loans and receivables	—	—	447
	5,372	**3,486**	**3,224**

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). They also include 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**

At 31 March 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Available-for-sale	38	—	10	48
Fair value through profit or loss	6	—	—	6
Total	**44**	**—**	**10**	**54**

21. Investments continued

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 method.

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 27.

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 comprehensive income (classified as available-for-sale in 2018) of 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.

22. 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 and 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 24).

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	**459**	**493**	**439**
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	**1,545**	**1,664**	**521**
Bank overdrafts (note 24)	(183)	(72)	(29)
Cash and cash equivalents classified as held for sale (note 23)	43	—	—
Cash and cash equivalents per the cash flow statement	**1,405**	**1,592**	**492**

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.

23. Assets and liabilities 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. 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.

Capital management policy

The capital structure is managed by BT Group plc, the ultimate parent of the group. Its capital management policy is set out in the **Report of the Directors** on page 24.

The table below shows the key components of external gross debt and of the increase of £8,738m this year.

	At 31 March 2019	IFRS 16 lease liabilities[a]	At 1 April 2019	Issuance/ (maturities)	Net lease additions[a]	Foreign exchange	Transfer to within one year	Other movements[d]	At 31 March 2 020
	£m	£m	£m	£m	£m	£m	£m	£m	£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)
External gross debt	**15,912**	**6,063**	**21,975**	**1,504**	**1,139**	**7**	**—**	**25**	**24,650**

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 remeasurement 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).

24. Loans and other borrowings continued

The table below gives the 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 2049a	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 22)	183	72	29
Amounts due to ultimate parent company[e]	2,198	2,101	1,061
Total other loans and borrowings	**3,488**	**2,818**	**1,622**
Total loans and borrowings	**21,532**	**18,977**	**15,336**

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.
e Amounts due to ultimate parent company are denominated in sterling and incur a floating rate of interest based on LIBOR, their carrying amount equates to fair value (Level 3).

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).

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.

24. Loans and other borrowings continued

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
Amounts due to ultimate parent company	1,115	1,040	17
Total current liabilities	**3,957**	**3,140**	**2,298**
Non-current liabilities			
Listed bonds	16,492	14,586	11,789
Finance leases[a]	—	190	205
Amounts due to ultimate parent company	1,083	1,061	1,044
Total non-current liabilities	**17,575**	**15,837**	**13,038**
Total	**21,532**	**18,977**	**15,336**

[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 £20,184m (2018/19: £17,970m, 2017/18: £14,219m) 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	**3,957**	**(448)**	**3,509**	**3,140**	**(307)**	**2,833**	**2,289**	**(308)**	**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	13,619	(770)	12,849	12,036	(461)	11,575	8,943	(405)	8,538
Total due for repayment after more than one year	**17,570**	**(895)**	**16,675**	**15,787**	**(650)**	**15,137**	**12,974**	**(736)**	**12,238**
Total repayments	**21,527**	**(1,343)**	**20,184**	**18,927**	**(957)**	**17,970**	**15,263**	**(1,044)**	**14,219**
Fair value adjustments	5			50			73		
Total loans and other borrowings	**21,532**			**18,977**			**15,336**		

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 26.

25. 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	—	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
Interest payable on ultimate parent company borrowings	42	43	18
Total finance expense before specific items	**838**	**694**	**576**
Specific items (note 9)	145	139	218
Total finance expense	**983**	**833**	**794**

[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.

Year ended 31 March	2020 £m	2019 £m	2018 £m
Finance income			
Interest on available-for-sale investments	—	—	5
Interest on loans and receivables	39	34	7
Interest income on loans to immediate and ultimate parent company	280	272	203
Total finance income before specific items	**319**	**306**	**215**
Specific items (note 9)	5	—	—
Total finance income	**324**	**306**	**215**

Year ended 31 March	2020 £m	2019 £m	2018 £m
Net finance expense before specific items	**519**	**388**	**361**
Specific items (note 9)	140	139	218
Net finance expense	**659**	**527**	**579**

26. Financial instruments and risk management

Risk management is performed by BT Group plc, the ultimate parent company of the group.

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 BT Group plc Board. Group treasury activities are subject to a set of controls appropriate for the magnitude of borrowing, investments and group-wide exposures. The BT Group plc 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 BT Group plc.

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.

26. Financial instruments and risk management continued

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 BT Group plc Board, is to ensure that at least 70% of BT Group plc's 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 BT Group plc chief financial officer, group director tax, treasury, insurance and pensions or the treasury director who each have been delegated such authority from the BT Group plc 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.

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.

The BT Group plc 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 BT Group plc Board has delegated short-term foreign exchange management to the treasury operation and long-term foreign exchange management decisions require further approval from the BT Group plc 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	3,913	19,202	13,556	3,825	17,381	11,990	1,720	13,710
Euro	—	888	888	—	589	589	—	509	509
USD	—	94	94	—	—	—	—	—	—
Total	**15,289**	**4,895**	**20,184**	**13,556**	**4,414**	**17,970**	**11,990**	**2,229**	**14,219**
Ratio of fixed to floating	76%	24%	100%	75%	25%	100%	84%	16%	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 shareholder's equity are exposed to volatility arising from changes in interest rates and foreign exchange rates. To demonstrate this volatility, management have 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 in sterling against other currencies.

26. Financial instruments and risk management continued

The impact on equity, before tax, of a 1% increase in interest rates and a 10% strengthening in sterling against other currencies is as detailed below:

At March 31	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 in sterling against other currencies would have broadly the same impact in the opposite direction.

The impact on the group's annual net finance expense of a 1% Increase in interest rates would have been a decrease of £129m (2018/19: £130m, 2017/18: £143m). 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.

Credit ratings

BT Group plc continues to target a BBB+/Baa1 credit rating over the cycle. 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.

BT Group plc's 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 BT Group plc 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 24. 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 BT Group plc 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 requirement to be disclosed as trade payables or should be classified as borrowings. At 31 March 2020 the payables met the criteria of trade payables.

26. Financial instruments and risk management continued

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	3,675	608	4,967	5	799	10,054
Between one and two years	—	585	—	3	783	1,371
Between two and three years	1,482	585	—	3	762	2,832
Between three and four years	987	571	—	4	724	2,286
Between four and five years	1,482	543	—	2	664	2,691
After five years	13,619	4,519	—	—	3,752	21,890
	21,245	**7,411**	**4,967**	**17**	**7,484**	**41,124**
Interest payments not yet accrued	—	(7,129)	—	—	—	(7,129)
Fair value adjustment	5	—	—	—	—	5
Impact of discounting	—	—	—	(1)	(924)	(925)
Carrying value on the balance sheet[b,c]	**21,250**	**282**	**4,967**	**16**	**6,560**	**33,075**

Non-derivative financial liabilities At 31 March 2019	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Total £m
Due within one year	2,883	584	5,195	39	8,701
Between one and two years	1,309	528	—	33	1,870
Between two and three years	15	520	—	35	570
Between three and four years	1,463	519	—	14	1,996
Between four and five years	964	505	—	12	1,481
After five years	12,036	4,345	—	127	16,508
	18,670	**7,001**	**5,195**	**260**	**31,126**
Interest payments not yet accrued	—	(6,744)	—	—	(6,744)
Fair value adjustment	50	—	—	—	50
Impact of discounting	—	—	—	(29)	(29)
Carrying value on the balance sheet[b,c]	**18,720**	**257**	**5,195**	**231**	**24,403**

Non-derivative financial liabilities At 31 March 2018	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Total £m
Due within one year	2,120	468	4,961	54	7,603
Between one and two years	1,192	421	—	34	1,647
Between two and three years	1,332	381	—	25	1,738
Between three and four years	18	374	—	43	435
Between four and five years	1,489	372	—	19	1,880
After five years	8,943	3,300	—	197	12,440
	15,094	**5,316**	**4,961**	**372**	**25,743**
Interest payments not yet accrued	—	(5,147)	—	—	(5,147)
Fair value adjustment	73	—	—	—	73
Impact of discounting	—	—	—	(72)	(72)
Carrying value on the balance sheet[b,c]	**15,167**	**169**	**4,961**	**300**	**20,597**

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 receivables and other payables excludes £754m (2018/19: £1,479m, 2017/18: £1,326m) of non-current trade and other payables 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.

26. Financial instruments and risk management continued

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 – Analysed based on holding instrument to maturity			
Derivative financial liabilities	**Net settled**	**Gross settled outflows**	**Gross settled inflows**	**Total**	**Net settled**	**Gross settled outflows**	**Gross settled inflows**	**Total**
At 31 March 2020	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£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**

	Derivatives – Analysed by earliest payment date[a]				Derivatives – Analysed based on holding instrument to maturity			
Derivative financial liabilities	Net settled	Gross settled outflows	Gross settled inflows	Total	Net settled	Gross settled outflows	Gross settled inflows	Total
At 31 March 2019	£m	£m	£m	£m	£m	£m	£m	£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**

	Derivatives – Analysed by earliest payment date[a]				Derivatives – Analysed based on holding instrument to maturity			
Derivative financial liabilities	Net settled	Gross settled outflows	Gross settled inflows	Total	Net settled	Gross settled outflows	Gross settled inflows	Total
At 31 March 2018	£m	£m	£m	£m	£m	£m	£m	£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 BT Group plc 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 and 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 BT Group plc 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.

26. 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	21	19,161	17,005	16,578
Trade and other receivables[a]	16	1,458	1,782	2,533
Contract assets	5	1,721	1,602	—
Cash and cash equivalents	22	1,545	1,664	521
		26,374	**23,645**	**21,141**

[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 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 16, 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.

Financial assets and liabilities At 31 March 2020	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	2,489	(948)	(1,091)	450
Derivative financial liabilities	(1,012)	948	83	19
Total	**1,477**	**—**	**(1,008)**	**469**

Financial assets and liabilities At 31 March 2019	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	1,592	(802)	(638)	152
Derivative financial liabilities	(940)	802	90	(48)
Total	**652**	**—**	**(548)**	**104**

26. 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. The group designates certain derivatives as cash flow hedges. To qualify for hedge accounting, hedge documentation must be prepared at inception, the hedge must be in line with BT Group's risk management strategy and there must be an economic relationship based on currency, amount and timing of the respective cashflows of the hedged item and the hedging instrument. 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 Group'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.

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**

26. Financial instruments and risk management continued

All derivative financial instruments are categorised at Level 2 of the fair value hierarchy as defined in note 21.

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 24).

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		—	—	95		
Derivatives not in a designated hedge relationship		285	(236)	—		
Carrying value on the balance sheet		**2,489**	**(1,012)**	**(476)**		

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[e] At 31 March 2018	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 the 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.

27. Other reserves

	Other comprehensive income					
	Cash flow reserve[a] £m	Fair value reserve[b] £m	Cost of hedging reserve[c] £m	Translation reserve[d] £m	Merger and other reserves £m	Total £m
At 1 April 2017	**127**	**13**	**—**	**593**	**858**	**1,591**
Exchange differences[e]	—	—	—	(188)	—	(188)
Net fair value gain 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	**(37)**	**24**	**—**	**396**	**858**	**1,241**
Transfer to cost of hedging reserve	81	—	(81)	—	—	—
At 1 April 2018	**44**	**24**	**(81)**	**396**	**858**	**1,241**
Exchange differences[e]	—	—	—	64	—	64
Net fair value gain 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 available-for-sale assets	—	3	—	—	—	3
Tax recognised in other comprehensive income	(37)	—	—	(4)	—	(41)
Transfer to realised profit	—	—	—	—	—	—
At 1 April 2019	**144**	**27**	**(60)**	**456**	**858**	**1,425**
Exchange differences[e]	—	—	—	40	—	40
Net fair value 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	**476**	**—**	**—**	**492**	**858**	**1,826**

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 25).

28. Directors' emoluments and pensions

The directors at 31 March 2020 were Neil Harris, Ulrica Fearn and Simon Lowth, who served throughout 2019/20 and Edward Heaton and Keighly Droy-Whelan who were appointed on 4 March 2020.

For the year ended 31 March 2020 the aggregate emoluments of the directors excluding deferred bonuses of £1,034,000 (2018/19: £451,000) was £2,057,000 (2018/19: £2,973,000). Deferred bonuses are payable in 5p ordinary shares of BT Group plc in three years' time subject to continuous employment.

Retirement benefits were accruing to no directors (2018/19: none) under a money purchase scheme.

During the year no director exercised options (2018/19: none) under BT Group share option plans. Five directors who held office for the whole or part of the year (2018/19: six) received or are entitled to receive 5p ordinary shares of BT Group plc under BT long-term incentive plans. The aggregate value of BT Group plc shares which vested to directors during the year under BT long-term incentive plans was £90,000 (2018/19: £35,000).

The emoluments of the highest paid director excluding his deferred bonus of £900,000 (2018/19: £327,000) were £976,000 (2018/19: £1,606,000). He is entitled to receive 4,196,457 BT Group plc 5p ordinary shares under BT long-term incentive plans subject to continuous employment and in some cases to certain performance conditions being met.

28. Directors' emoluments and pensions continued

Included in the above aggregate emoluments are those of Simon Lowth who is also a director of the ultimate holding company, BT Group plc. The directors do not believe it is practicable for the purposes of this report to apportion the amount of total emoluments received by him between his services as director of the company and his services as director of BT Group plc.

The emoluments of the directors are calculated in accordance with the statutory provisions applicable to the company.

29. Related party transactions

Key management personnel comprise executive and non-executive directors and members of the BT Group plc *Executive Committee* as well as the directors of the company. Compensation of key management personnel is disclosed in note 6.

Amounts paid to the group's retirement benefit plans are set out in note 19.

British Telecommunications plc and certain of its subsidiaries act as a funder and deposit taker for cash related transactions for both its parent and ultimate parent company. The loan arrangements described below with these companies reflect this. Cash transactions usually arise where the parent and ultimate parent company are required to meet their external payment obligations or receive amounts from third parties. These principally relate to the payment of dividends, the buyback of shares, the exercise of share options and the issuance of ordinary shares. Transactions between the ultimate parent company, parent company and the group are settled on both a cash and non-cash basis through these loan accounts depending on the nature of the transaction.

In 2001/02 the group demerged its former mobile phone business and as a result BT Group plc became the listed ultimate parent company of the remaining group. The demerger steps resulted in the formation of an intermediary holding company, BT Group Investments Limited, between BT Group plc and British Telecommunications plc. This intermediary company held an investment of £18.5bn in British Telecommunications plc which was funded by an intercompany loan facility with British Telecommunications plc.

During 2019/20 a dividend of £1,575m (2018/19: £2,500m) was settled with the parent company in relation to the year ended 31 March 2019. A dividend of £2,000m has been declared in relation to the year ended 31 March 2020. This was declared after 31 March 2020 so no liability (amount owed to parent company) is recorded in these financial statements. See note 11 and the group statement of changes in equity.

The loan facilities with both the parent company and ultimate parent company accrue interest at a rate of LIBOR plus 102.5 basis points, and are subject to an overall maximum of £35bn and £10bn respectively. The parent company currently finances its obligations on the loan as they fall due through dividends paid by the company. The ultimate parent company also provides loan facilities to British Telecommunications plc, accruing interest at a rate of LIBOR plus 102.5 basis points and LIBOR plus 42.5 basis points.

In 2015/16 the ultimate parent company of the group raised £1.0bn from an equity placing and entered into an additional intercompany loan agreement with British Telecommunications plc for this amount. This amount was raised to support BT Group plc's planned acquisition of EE.

A summary of the balances with the parent and ultimate parent companies and the finance income or expense arising in respect of these balances is set out below:

		2020		2019		2018	
	Notes	**Asset (liability) at 31 March**	**Finance income (expense)**	Asset (liability) at 31 March	Finance income (expense)	Asset (liability) at 31 March	Finance income (expense)
		£m	**£m**	£m	£m	£m	£m
Amounts owed by (to) parent company							
Loan facility - non-current assets investments	21,25	10,592	214	10,436	211	10,318	169
Loan facility - current asset investments	21	214	n/a	211	n/a	168	n/a
Trade and other payables	17	(55)	n/a	(55)	n/a	(50)	n/a
Amounts owed by (to) ultimate parent company[a]							
Non-current assets investments	21,25	3,177	66	3,029	61	2,983	34
Non-current liabilities loans	24,25	(1,083)	(42)	(1,061)	(43)	(1,044)	(18)
Trade and other receivables	16	26	n/a	16	n/a	15	n/a
Trade and other payables	17	(1)	n/a	(1)	n/a	—	n/a
Current asset investments	21	66	n/a	61	n/a	34	n/a
Current liabilities loans	24	(1,115)	n/a	(1,040)	n/a	(18)	n/a

[a] During the year we made cash payments of £1,607m to BT Group plc offset by the receipt of £2m from BT Group plc resulting in net cash outflow of £1,605m. In addition there are non cash movements of £42m on non-current asset investments relating to interest on loans, employee share schemes and tax settlements made by BT plc on behalf of BT Group plc.

30. 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 16.

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 18 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

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.

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).

30. Financial commitments and contingent liabilities continued

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.

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 Parent company

British Telecommunications plc parent company balance sheet Registered number 01800000

At 31 March	Notes	2020 £m	2019 £m
Non-current assets			
Intangible assets	4	2,044	2,076
Property, plant and equipment	5	15,639	14,842
Right-of-use assets[a]	6	3,708	—
Derivative financial instruments	21	2,229	1,481
Investments in subsidiary undertakings, associates and joint ventures	7	18,570	19,192
Other investments	8	14,607	14,730
Trade and other receivables	10	250	200
Contract assets		26	15
Deferred tax assets	18	155	1,172
		57,228	**53,708**
Current assets			
Programme rights	9	310	310
Inventories		121	106
Trade and other receivables	10	1,625	1,915
Contract assets		272	265
Current tax receivables		557	646
Derivative financial instruments	21	257	113
Other investments	8	7,228	5,293
Cash and cash equivalents[b]		1,370	1,445
		11,740	**10,093**
Current liabilities			
Loans and other borrowings	11	16,318	14,854
Derivative financial instruments	21	46	48
Trade and other payables	12	3,907	3,684
Contract liabilities		592	797
Lease liabilities[a]	6	527	—
Provisions	14	167	280
		21,557	**19,663**
Total assets less current liabilities		**47,411**	**44,138**
Non-current liabilities			
Loans and other borrowings	11	18,840	17,613
Derivative financial instruments	21	966	892
Contract liabilities		69	96
Lease liabilities[a]	6	4,223	—
Retirement benefit obligations	18	810	6,740
Other payables	13	1,340	1,974
Deferred taxation	14	1,210	966
Provisions	14	161	304
		27,619	**28,585**
Equity			
Ordinary shares		2,172	2,172
Share premium		8,000	8,000
Other reserves	15	1,215	824
Retained earnings[c]		8,405	4,557
Equity shareholder's funds		**19,792**	**15,553**
		47,411	**44,138**

[a] Right-of-use assets and lease liabilities arise following adoption of IFRS 16 on 1 April 2019. See note 1 to the company financial statements.
[b] Includes cash of £322m (2018/19: £310m) and cash equivalents of £1,048m (2018/19: £1,135m).
[c] As permitted by Section 408(3) of the Companies Act 2006, no income statement of the company is presented. The company's profit for the financial year including dividends received from subsidiary undertakings was £1,443m (2018/19: £1,614m) before dividends paid of £1,575m (2018/19: £2,500m).

The financial statements of the company on pages 102 to 127 were approved by the Board of Directors on 20 May 2020 and were signed on its behalf by

Simon Lowth

Director

Parent company statement of changes in equity

	Notes	Share capital[a] £m	Share premium account[b] £m	Other reserves[c] £m	Retained earnings £m	Total equity £m
At 31 March 2018 - restated		**2,172**	**8,000**	**703**	**7,071**	**17,946**
IFRS opening balance adjustment		—	—	—	(16)	(16)
Tax on IFRS opening balance adjustment		—	—	—	3	3
At 1 April 2018		**2,172**	**8,000**	**703**	**7,058**	**17,933**
Profit for the year[d]		—	—	—	1,614	1,614
Actuarial loss	18	—	—	—	(2,055)	(2,055)
Tax on actuarial loss		—	—	—	377	377
Share-based payments		—	—	—	57	57
Tax on share-based payments		—	—	—	1	1
Tax on items taken directly to equity	15	—	—	(38)	—	(38)
Net fair value gain on cash flow hedges	15	—	—	176	—	176
Dividends[d]		—	—	—	(2,500)	(2,500)
Transferred to the income statement	15	—	—	(17)	—	(17)
Unclaimed dividends over 10 years		—	—	—	5	5
At 31 March 2019		**2,172**	**8,000**	**824**	**4,557**	**15,553**
IFRS 16 opening balance adjustment[e]	1	—	—	—	(40)	(40)
Tax on IFRS opening balance adjustment[e]	1	—	—	—	8	8
At 1 April 2019		**2,172**	**8,000**	**824**	**4,525**	**15,521**
Profit for the year[d]		—	—	—	1,443	1,443
Actuarial gain	18	—	—	—	4,742	4,742
Tax on actuarial gain		—	—	—	(791)	(791)
Share-based payments		—	—	—	62	62
Tax on share-based payments		—	—	—	—	—
Tax on items taken directly to equity	15	—	—	(81)	—	(81)
Net fair value gain on cash flow hedges	15	—	—	851	—	851
Dividends[d]		—	—	—	(1,575)	(1,575)
Transferred to the income statement	15	—	—	(379)	—	(379)
Others				—	(1)	(1)
At 31 March 2020		**2,172**	**8,000**	**1,215**	**8,405**	**19,792**

[a] The allotted, called up and fully paid ordinary share capital of the company at 31 March 2020 and 31 March 2019 was £2,172m representing 8,689,755,905 ordinary shares of 25p each.
[b] The share premium account, representing the premium on allotment of shares, is not available for distribution.
[c] A breakdown of other reserves is provided in note 15.
[d] As permitted by Section 408(3) of the Companies Act 2006, no income statement of the company is presented. The company's profit for the financial year including dividends received from subsidiary undertakings was £1,443m (2018/19: £1,614m) before dividends paid of £1,575m (2018/19: £2,500m).
[e] Opening retained earnings adjusted following adoption of IFRS 16 on 1 April 2019. See note 1 to the company financial statements.

British Telecommunications plc parent company accounting policies

1. Basis of preparation

Preparation of the financial statements

The term 'company' refers to British Telecommunications plc. These separate financial statements of the company ('us', 'we' or 'our') have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 100 (FRS 101).

The company meets the definition of a qualifying entity under FRS 100. Accordingly, these financial statements have been prepared in accordance with FRS 101 "Reduced disclosure framework".

FRS 101 involves the application of International Financial Reporting Standards (IFRS) with a reduced level of disclosure.

The financial statements are prepared on a going concern basis and on the historical cost basis, except for certain financial and equity instruments that have been measured at fair value. The financial statements are presented in sterling, the functional currency of the company.

Exemptions

As permitted by Section 408(3) of the Companies Act 2006, the company's income statement has not been presented.

The company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payments' in relation to group-settled share- based payments.
- The requirements of IFRS 7 'Financial Instruments: Disclosures'.
- The requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement'.
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1 'Presentation of Financial Statements'; (ii) paragraph 73 (e) of IAS 16 'Property, Plant and Equipment'; and (iii) paragraph 118(e) of IAS 38 'Intangible Assets'.
- The following paragraphs of IAS 1 'Presentation of Financial Statements':
  - 10(d) (statement of cash flows);
  - 10(f) (third statement of financial position);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements including cash flow statements);
  - 38B-D (additional comparative information);
  - 40A-D (third statement of financial position);
  - 111 (cash flow statement information); and
  - 134 to 136 (capital management disclosures).
  - The requirements of IAS 7 'Statement of Cash Flows'.
  - The requirements of paragraph 17 of IAS 24 'Related Party Disclosures'.
  - The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134 (d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'.
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- IFRS 13 fair value measurement.
- The requirements of the second sentence of paragraph 110 and from paragraphs 113a,114,115,118,119(a) to (c),120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers'.
- The second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 'Leases'.

The company intends to continue to take advantage of these exemptions in future years.

Where required, equivalent disclosures have been given in the group accounts of British Telecommunications plc (BT plc).

The financial statements have been prepared on a consistent basis with the prior year with the exception of the following items:

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. 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 predominantly relate 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.

1. Basis of preparation continued

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 the 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
Lease liabilities of £4.7bn were recognised on transition to IFRS 16 (£5.0bn including pre-existing finance leases) which were measured by discounting remaining lease payments using the company's incremental borrowing rate. The weighted-average rate applied was 2.2%.

The corresponding right-of-use assets recognised were £3.9bn. 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]	**5,336**
Arrangements not considered to be a lease under IAS 17 & IFRIC 4	20
Adjustments as a result of different treatment of extension & termination options	74
Short-term & low value leases recognised as an expense on a straight-line basis	(8)
Effect of discounting under the company's incremental borrowing rate	(752)
Other[b]	31
Additional lease liabilities recognised as a result of IFRS 16	**4,701**
Existing finance leases	110
Existing finance leases with group undertakings	192
Total lease liabilities recognised as at 1 April 2019	**5,003**

a BT plc company financial statements 2019, note 16 (page 143)
b Other primarily represents additional internal leases recognised on transition to IFRS 16

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 6) which explains movements in the right-of-use assets during the year, along with other relevant disclosures, accounting policies and judgements.

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 company'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 historical 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.

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.

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.

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 the company 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

2. Critical accounting estimates and key judgements

The preparation of financial statements in conformity with FRS 101 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 British Telecommunications plc board. The areas involving a higher degree of judgement or complexity are described in the applicable notes to the financial statements.

We have the following critical accounting estimates (E) and key judgements (J):
– Current and deferred income tax, see note 14 (E).
– Goodwill, see note 4 (E).
– Government grants relating to Building Digital UK (BDUK) contracts, see note 5 (J).
– Reasonable certainty and determination of lease terms, see note 6 (J).
– Valuation of intercompany loan receivables, see note 8 (J).
– Provisions and contingent liabilities, see note 14 (E, J).
– Pension obligations, see note 18 (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.
– Impact on future cash flows included within our value in use calculations used in impairment assessments, see note 4.
– Impact on reasonable certainty used in determining the lease term, see note 6.
– Programme rights assets and commitments affected by postponement or cancellation of events, see notes 9 & 17.
– Assumptions within our expected credit losses on trade receivables, see note 10.
– The impact on our contract loss provisions, see notes 10 & 14.
– Retirement benefit plans, see note 18.
– Contingent liabilities, see note 17.
– Impact on hedge effectiveness for any cash flow hedges if cash flows are no longer 'highly probable', see note 21.

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

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

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 12.

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.

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 company 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.

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

Share-based payments

The ultimate parent of BT plc, BT Group plc, operates a number of equity settled share-based arrangements, as detailed in note 20 to the BT plc consolidated financial statements, under which the company receives services from employees as consideration for equity instruments (share options and shares) of BT Group plc. In the company's separate financial statements these are also accounted for as equity settled.

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 company'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 saveshare 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.

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.

Bank overdrafts are included within loans and other borrowings, in current liabilities on the balance sheet.

Dividends

Dividend distributions are recognised as a liability in the year in which the dividends are approved by the board. Interim dividends are therefore recognised when they are paid; final dividends when authorised by the board.

4. 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 company, 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 company's share of the identifiable net assets (including intangible assets) of the acquired business.

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. The CGUs of the group headed by the company are legacy BT Consumer, EE, Enterprise and Global. These CGUs represent the lowest level at which it is possible to identify largely independent cash flows and at which the goodwill is monitored for internal management purposes.

The value in use of the CGU is determined using cash flow projections derived from financial plans approved by the BT Group plc 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.

Goodwill in the company's separate financial statements relates to the excess of cost over the value of the company's share of the identifiable net assets acquired where the company has purchased a business. The amount forms a small portion of the goodwill recognised in the BT plc's consolidated accounts and as such we rely on the impairment assessment performed at a BT plc consolidated level to support the valuation of goodwill in the company's separate financial statements. Below we discuss the critical accounting estimates and assumptions made for BT plc's consolidated impairment assessment to the extent that they are relevant to the company's standalone financial statements. For further information including details of the sensitivities applied please see note 12 to the consolidated accounts.

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.

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.

Costs directly associated with the production of internally developed software, including direct and indirect labour costs of development, are capitalised only 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.

The company's 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 the company's 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

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 in 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 in the section 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.

4. Intangible assets continued

Critical accounting estimates made in reviewing goodwill for impairment

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 the CGU. Future cash flows used in the value in use calculations are based on our latest BT Group plc 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 is adjusted for the risk specific to the asset, for which the future cash flow estimates have not been adjusted.

The company is required to test goodwill acquired in a business combination annually for impairment. This was carried out as at 31 March 2020. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed below. There is no reasonably possible change in assumption which would cause an impairment.

	Software[a] £m	Goodwill £m	Telecoms licences £m	Other £m	Total £m
Cost					
At 1 April 2019	4,995	530	202	23	5,750
Additions	655	—	—	—	655
Disposals and adjustments[b]	(904)	—	(202)	—	(1,106)
At 31 March 2020	**4,746**	**530**	**—**	**23**	**5,299**
Accumulated amortisation					
At 1 April 2019	3,674	—	—	—	3,674
Charge for the year	511	—	—	—	511
Disposals and adjustments[b]	(930)	—	—	—	(930)
At 31 March 2020	**3,255**	**—**	**—**	**—**	**3,255**
Net book value					
At 31 March 2020	**1,491**	**530**	**—**	**23**	**2,044**
At 31 March 2019	1,321	530	202	23	2,076

a Includes a carrying amount of £440m (2018/19: £471m) in respect of assets in course of construction, which are not yet amortised.
b Fully depreciated assets in the company's fixed asset registers were reviewed during the year, as part of the BT Group plc annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £0.9bn (2018/19: £0.7bn).

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 was 8.0% (2018/19: 8.2%).

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. The perpetuity growth rate used was 2.0% (2018/19: 2.0%).

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.

5. 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.

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.

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 4.

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 12.

5. Property, plant and equipment continued

	Land and buildings[a] £m	Network infrastructure[a,b] £m	Other[a,c] £m	Assets in course of construction £m	Total £m
Cost					
At 31 March 2019	510	45,434	1,164	752	47,860
Reclassification of assets held under finance leases[a]	(81)	(482)	(75)	—	(638)
At 1 April 2019	**429**	**44,952**	**1,089**	**752**	**47,222**
Additions	—	41	57	2,558	2,656
Transfers	18	2,725	5	(2,748)	—
Disposals and adjustments[d]	32	(596)	68	2	(494)
At 31 March 2020	**479**	**47,122**	**1,219**	**564**	**49,384**
Depreciation					
At 31 March 2019	293	31,853	937	—	33,083
Reclassification of assets held under finance leases[a]	(47)	(398)	(35)	—	(480)
At 1 April 2019	**246**	**31,455**	**902**	**—**	**32,603**
Charge for the year	22	1,691	51	—	1,764
Disposals and adjustments[d]	21	(592)	47	—	(524)
At 31 March 2020	**289**	**32,554**	**1,000**	**—**	**33,843**
Net book value					
At 31 March 2020	190	14,568	219	564	15,541
Engineering stores	—	—	—	98	98
Total	**190**	**14,568**	**219**	**662**	**15,639**
At 31 March 2019	217	13,581	227	752	14,777
Engineering stores	—	—	—	65	65
Total	**217**	**13,581**	**227**	**817**	**14,842**

a At 31 March 2019 the land and buildings, network infrastructure and other classes of asset included finance leases with carrying amounts of £34m, £84m and £40m respectively. The depreciation charge on those assets for the year ended 31 March 2019 was £2m, £53m and £9m respectively. On adoption of IFRS 16 on 1 April 2019 these assets were reclassified to right-of-use assets.

b Within network infrastructure are assets with net book value of £9.1bn (2018/19: £8.2bn) which have useful economic lives of more than 18 years.

c Other mainly comprises motor vehicles, computers and fixtures and fittings.

d Fully depreciated assets in the company's fixed asset registers were reviewed during the year, as part of the BT Group plc annual asset verification exercise, and certain assets that were no longer in use have been written out, reducing cost and accumulated depreciation by £0.5bn (2018/19: £1.5bn).

Included within the above disclosure are assets which are used in arrangements which meet the definition of operating leases under IFRS 16:

- £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 'last mile' and Ethernet services to internal and external Communications Providers that have been assessed as operating leases.
- Other assets with a carrying amount of £33m relate to devices leased to consumer customers.

At 31 March	2020 £m	2019 £m
The net book value of land and buildings comprised:		
Freehold	57	48
Leasehold	133	169
Total net book value of land and buildings	**190**	**217**

6. 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 contact 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 company, or the company'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 company'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.

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 5 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.

Lessor accounting
Where we act as lessor, we classify the lease as a finance lease or an operating lease 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.

Where the lease is an operating lease, 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.

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 5). 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.

6. Leases continued

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 company acts as lessee; and the deferral period for any upfront connection charges where the company acts as lessor.

Determining the lease term requires judgement to evaluate whether the lessee is reasonably certain to exercise any options. Where the company acts as lessee, in particular in regard to our property leases 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.

Company as lessee

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.

	Land and buildings £m	Network infrastructure £m	Other[a] £m	Total £m
At 1 April 2019	3,404	139	358	3,901
Additions[b]	199	11	460	670
Depreciation charge for the year	(292)	(42)	(83)	(417)
Other movements[c]	(48)	(13)	(385)	(446)
At 31 March 2020	**3,263**	**95**	**350**	**3,708**

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.

Lease liabilities
Lease liabilities recognised at 31 March 2020 total £4,750m. £527m of this balance is classified as current, with the remaining £4,223m classified as non-current. Note 11 presents a maturity analysis of the payments due over the remaining lease term for these liabilities.

At 31 March 2020 the company was committed to future minimum lease payments of £270m in respect of leases which have not yet commenced and for which no lease liability has been recognised.

Company as lessor

The company acts as lessor in a number of arrangements which have been classified as operating leases. These relate primarily to Openreach's leases of fixed-line telecommunications infrastructure to external communications providers. The following table analyses payments to be received across the remaining term of operating lease arrangements where the company is lessor:

At 31 March 2020	£m
Less than one year	336
One to two years	138
Two to three years	41
Three to four years	7
Four to five years	5
More than five years	5
Total undiscounted lease payments	**532**

Lessor arrangements classified as finance leases are not material to the company.

7. Investments in subsidiary undertakings, associates and joint ventures

Significant accounting policies that apply to investments in subsidiary undertakings, associates and joint ventures

Investments in subsidiary undertakings are stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable. Investments in subsidiary undertakings are derecognised when the company no longer owns the shares of the subsidiary or the subsidiary is dissolved.

	Subsidiary undertakings £m	Associates and joint ventures £m	Total £m
Cost			
At 1 April 2019	37,195	161	37,356
Additions[a]	5	8	13
Disposals[a]	(4,772)	—	(4,772)
Return of capital	(143)	(108)	(251)
At 31 March 2020	**32,285**	**61**	**32,346**
Provisions and amounts written off			
At 1 April 2019	18,164	—	18,164
Additions[a]	—	—	—
Disposals[a]	(4,427)	—	(4,427)
Write offs	—	39	39
At 31 March 2020	**13,737**	**39**	**13,776**
Net book value at 31 March 2020	**18,548**	**22**	**18,570**
Net book value at 31 March 2019	19,031	161	19,192

[a] Additions and disposals principally arise due to transactions undertaken to simplify our legal entity hierarchy.

Details of the company's subsidiary undertakings are set out on pages 128 to 133.

8. Other investments

Significant accounting policies that apply to other investments

Equity instruments
Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

Investments classified as amortised cost
These investments are measured at amortised cost.

Critical accounting judgements made in accounting for other investments

We extend loans to our subsidiaries in order to fund their activities. We regularly consider whether there is an indication of impairment. This involves judgement in reviewing year-end financial position, current year performance, known indicators of future performance and cash-flows, one-off events and contingent liabilities and assets. Based on this if there is an indication that the loan receivable may be impaired we perform an assessment of the recoverable amount and make a provision for the portion that we consider irrecoverable. We exercise judgement in determining whether the loan is fully or partially recoverable, which includes making assumptions regarding the future performance of the subsidiary. These assumptions are normally based on financial plans or through extrapolating current performance taking into account past experience and known future events. A provision of £231m is held against these loans.

At 31 March	2020 £m	2019 £m
Non-current assets		
Fair value through other comprehensive income	1	2
Loans to group undertakings	837	1,263
Loans to parent undertakings	13,769	13,465
Total non-current investments	**14,607**	**14,730**
Current assets		
Investments held at amortised cost	5,092	3,212
Loans to group undertakings	1,856	1,809
Loans to parent undertakings	280	272
Total current investments	**7,228**	**5,293**

8. Other investments continued

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), in US dollars of £29m (2018/19: £26m) and in euros of £882m (2018/19: £499m). They also include investments in liquidity funds of £4,209m (2018/19: £2,522m).

Loans to group and parent undertakings total £16,742m (2018/19: £16,809m). These consist of amounts denominated in sterling of £14,778m (2018/19: £14,763m), euros of £1,310m (2018/19: £1,257m), US dollars of £73m (2018/19: £21m) and other currencies of £581m (2018/19: £768m).

9. 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 4.

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 17. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 10).

Programmes produced internally are charged to the income statement over the period of the related broadcast.

	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 10).

10. Trade and other receivables

Significant accounting policies that apply to trade and other receivables

Recognition of 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.

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.

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. 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.

Allowance for doubtful debts
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.

Contract losses
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.

At 31 March	2020 £m	2019 £m
Current receivables		
Trade receivables	589	785
Amount owed by group undertakings	425	542
Amount owed by parent undertakings	26	16
Other receivables	140	141
Accrued income	54	—
Deferred contract costs	104	104
Prepayments	287	327
Total current receivables	**1,625**	**1,915**
Non-current trade and other receivables[a]	120	77
Deferred contract costs	130	123
Total receivables	**1,875**	**2,115**

[a] Primarily represents prepayments and leasing debtors. Included in prior year comparative is costs relating to the initial set up, transition or transformation phase of long-term networked IT services contracts.

11. 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.

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

At 31 March	2020 £m	2019 £m
1.125% €1,000m bond due June 2019[a]	—	869
8.625% £300m bond due March 2020	—	300
0.625% €1,500m bond due March 2021[a]	1,326	1,289
0.5% €575m bond due June 2022[a]	509	495
1.125% €1,100m bond due March 2023[a]	972	946
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
1% €1,100m bond due November 2024[a]	970	943
3.50% £250m index linked bond due April 2025	445	433
0.5% €650m bond due September 2025[a]	574	—
1.75% €1,300m bond due March 2026[a]	1,149	1,118
1.5% €1,150m bond due June 2027[a]	1,020	993
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
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
3.125% £500m bond due November 2031	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
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
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**
Finance leases[e]	—	110
Finance leases with group undertakings[d, e]	—	192
Total finance leases	**—**	**302**
Loans from group undertakings[d]	15,840	15,503
Other loans	1,093	639
Bank overdrafts	181	70
Total other loans and borrowings	**17,114**	**16,212**
Total loans and borrowings	**35,158**	**32,467**

[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 company'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 a put option at 5.5 years
[d] Loans from group undertakings including finance leases are £15,840m (2018/19: £15,695m). These consist of £11,855m (2018/19: £11,213m) denominated in sterling, £2,138m (2018/19: £2,986m) denominated in euros, £964m (2018/19: £733m) denominated in US dollars and £883m (2018/19: £763m) denominated in other currencies. Included within these balances are fixed interest bonds to group undertakings amounting £1,789m (2018/19: £1,804m) denominated in sterling and £16m (2018/19: £16m) denominated in euros with maturities between 2020 and 2025.
[e] 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.

11. 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.

Unless previously designated in a fair value hedge relationship, all loans and other borrowings are carried in the company balance sheet and cost. The table above is presented at amortised cost. The fair value of listed bonds is £20,088m (2018/19: £17,785m).

Loans and other borrowings are analysed as follows:

At 31 March	2020 £m	2019 £m
Current liabilities		
Listed bonds	1,552	1,367
Finance leases[a]	—	3
Finance lease with subsidiary undertakings[a]	—	107
Loans from group undertakings	13,492	12,668
Other loans and bank overdrafts	1,274	709
Total current liabilities	**16,318**	**14,854**
Non-current liabilities		
Listed bonds	16,492	14,586
Finance leases[a]	—	107
Finance lease with subsidiary undertakings[a]	—	85
Loans from group undertakings	2,348	2,835
Total non-current liabilities	**18,840**	**17,613**
Total	**35,158**	**32,467**

[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. The fair value of finance leases in 2019 was £354m.

At 31 March 2020	Lease liabilities[a] £m	Loans and other borrowings £m	Total £m
Repayments falling due as follows: **Within one year, or on demand**	**522**	**16,318**	**16,840**
Between one and two years	471	472	943
Between two and three years	473	1,692	2,165
Between three and four years	456	1,385	1,841
Between four and five years	429	1,652	2,081
After five years	3,173	13,634	16,807
Total due for repayment after more than one year	**5,002**	**18,835**	**23,837**
Total repayments	**5,524**	**35,153**	**40,677**
Fair value adjustments for hedged risk	—	5	5
Impact of discounting	(774)	—	(774)
Total	**4,750**	**35,158**	**39,908**

11. Loans and other borrowings continued

At 31 March 2019	Loans and other borrowings £m
Repayments falling due as follows:	
Within one year, or on demand	**14,854**
Between one and two years	1,844
Between two and three years	489
Between three and four years	1,666
Between four and five years	1,364
After five years	12,204
Total due for repayment after more than one year	**17,567**
Total repayments	**32,421**
Fair value adjustments for hedged risk	46
Total loans and other borrowings	**32,467**

[a] Lease liabilities were recognised on adoption of IFRS 16 on 1 April 2019, refer to note 1.

12. Current trade and other payables

Significant accounting policies relating to trade and other payables

We initially recognise financial liabilities within 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
Trade payables	2,039	2,040
Amounts owed to parent company	613	703
Amounts owed to ultimate parent company	56	56
Other taxation and social security	209	228
Other payables	388	243
Accrued expenses	286	343
Deferred income[a,b]	316	71
Total	**3,907**	**3,684**

[a] Deferred income includes £94m (2018/19: £51m) relating to the Building Digital UK programme, for which grants received by the Company may be subject to re-investment or repayment depending on the level of take-up.
[b] Deferred income recognised at 31 March 2020 includes connection fee income recognised on transition to IFRS 16 on 1 April 2019, see note 1.

13. Other non-current payables

At 31 March	2020 £m	2019 £m
Other payables[a]	6	839
Deferred income[b,c]	1,334	1,135
Total	**1,340**	**1,974**

[a] Other payables recognised in prior years included accruals for rent inflation associated with operating leases which have been reclassified to right-of-use assets on transition to IFRS 16 on 1 April 2019, see note 1.
[b] Deferred income includes £525m (2018/19: £586m) 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. Further information on BDUK grant funding is contained in note 12.
[c] Deferred income recognised at 31 March 2020 includes connection fee income recognised on transition to IFRS 16 on 1 April 2019, see note 1.

14. Provisions

Our provisions principally relate to obligations arising from property rationalisation programmes, insurance claims, litigation and regulatory risks.

Significant accounting policies that apply to provisions

We recognise provisions when the company 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. 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. Financial liabilities within provisions are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Critical accounting estimates and key judgements made in accounting for provisions

We exercise judgement in determining the timing and 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 which are not recognised as liabilities on our balance sheet. 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. We've disclosed our assessment of contingent liabilities in note 17.

We have made estimates of the costs to restore leased properties upon vacation where this is required under the lease agreements.

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 risks 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.

Provisions for liabilities and charges excluding deferred taxation	Property £m	Regulatory £m	Litigation £m	Other £m	Total £m
At 31 March 2019	246	182	47	109	584
IFRS 16 adjustment[a]	(164)	—	—	—	(164)
At 1 April 2019	**82**	**182**	**47**	**109**	**420**
Additions	3	26	11	55	95
Unwind of discount	—	—	—	—	—
Utilised or released	(8)	(129)	(12)	(37)	(186)
Transfers	—	—	(4)	3	(1)
At 31 March 2020	**77**	**79**	**42**	**130**	**328**

[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.

At 31 March	2020 £m	2019 £m
Analysed as:		
Current	167	280
Non-current	161	304
	328	**584**

The regulatory provision movement in the year reflects the settlement of various matters outstanding from last year-end, and the re-assessment of other regulatory risks.

Included within 'Other' are contract loss provisions of £3m (2018/19: £3m) 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 10.

It is expected that the majority of contract loss provisions will be utilised within the next year. Also included in 'Other' are amounts provided for constructive obligations arising from insurance claims which will be utilised as the obligations are settled.

Taxation

The value of the company's income tax asset is disclosed on the company balance sheet on page 102. The values of the company's deferred tax assets and liabilities are disclosed in note 18 and below. Deferred tax liabilities are provided for in full on certain temporary differences.

14. Provisions continued

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. The company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and the company establishes 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 the company's assets and liabilities and their tax base. 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 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, in the foreseeable future against which the deductible temporary difference can be utilised.

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.

Critical accounting estimates and key judgements 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 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 86% 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. £163m (2018/19: £225m) is offset within current tax assets in relation to these uncertainties. Under a downside case an additional amount of £67m could be required. This amount is not provided as we don't consider this outcome to be probable.

	£m
At 1 April 2019[a]	973
Charge recognised in the income statement	156
Transfer to deferred tax asset	—
Transfer to current tax	—
Credit recognised in reserves	81
At 31 March 2020	**1,210**

At 31 March	2020 £m	2019 £m
Tax effect of temporary differences due to:		
Excess capital allowances[a]	1,144	981
Share-based payments	(7)	(6)
Other	73	(9)
Total provision for deferred taxation	**1,210**	**966**

[a] Includes tax on IFRS 16 opening balance adjustment of £7m

The deferred taxation asset relating to the retirement benefit deficit is disclosed in note 18.

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.

15. Reconciliation of movement in other reserves

	Cash flow reserve[a]	Cost of hedging reserve[b]	Capital redemption reserve[c]	Total other reserves
	£m	£m	£m	£m
At 31 March 2018	**(49)**	**—**	**752**	**703**
Transfer to cost of hedging reserve	81	(81)	—	—
At 1 April 2018	**32**	**(81)**	**752**	**703**
Transferred to the income statement	(30)	13	—	(17)
Net fair value gain (loss) on cash flow hedges	168	8	—	176
Tax on items taken directly to equity	(38)	—	—	(38)
At 31 March 2019	**132**	**(60)**	**752**	**824**
Transferred to the income statement	(408)	29	—	(379)
Tax on items taken directly to equity	(81)	—	—	(81)
Net fair value gain on cash flow hedges	820	31	—	851
At 31 March 2020	**463**	**—**	**752**	**1,215**

[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. Amounts recognised in income statement in the year relate to fair value movements on derivatives. The items generating these foreign exchange movements are in designated cash flow hedge relationships.
[b] 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 recognized in other comprehensive income and accounted for similarly to gains or losses in the cash flow reserve.
[c] The capital redemption reserve is not available for distribution.

16. Related party transactions

The company is a wholly owned subsidiary of BT Group Investments Limited, which is the immediate parent company. BT Group Investments Limited is a wholly owned subsidiary of the ultimate holding company and controlling entity, BT Group plc.

Amounts paid out to the company's retirement benefit plans are set out in note 18.

Copies of the ultimate holding company's financial statements may be obtained from The Secretary, BT Group plc, 81 Newgate Street, London EC1A 7AJ.

The results of the company are included in the consolidated financial statements of BT Group plc. As permitted by FRS 101, paragraph 8(k) and the Companies Act 2006 the company is exempt from the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such member.

17. Financial commitments and contingent liabilities

Financial commitments were as follows:

	2020	2019
At 31 March	£m	£m
Operating lease commitments	—	5,336
TV programme rights commitments	2,434	2,113
Capital commitments	881	1,145
Other commitments	14	13
Total	**3,329**	**8,607**

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 9.

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.

17. Financial commitments and contingent liabilities continued

Covid-19

Contract losses

Included within other provisions in note 14 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

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.

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.

18. Retirement benefit plans

Background to BT's pension plans

The company has both defined benefit and defined contribution retirement benefit plans. These 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 have been 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.

18. 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 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 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.

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.

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 managers.

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.

18. Retirement benefit plans continued

The Retirement Benefit Obligation in respect of defined benefit plans reported in the balance sheet is set out below:

	2020			2019		
	Assets	Liabilities	Deficit	Assets	Liabilities	Deficit
At 31 March	£m	£m	£m	£m	£m	£m
BTPS	52,240	(53,010)	(770)	52,186	(58,855)	(6,669)
Other plans[a]	99	(139)	(40)	64	(135)	(71)
Retirement Benefit Obligations (gross of tax)	**52,339**	**(53,149)**	**(810)**	**52,250**	**(58,990)**	**(6,740)**
Deferred tax asset			154			1,170
Retirement Benefit Obligations (net of tax)			**(656)**			**(5,570)**

[a] Included in the present value of liabilities of other plans is £59m (2018/19: £67m) related to unfunded pension arrangements.

At 31 March 2020 £24m (2018/19: £38m) of contributions to defined contribution plans were outstanding and are reported under other creditors on the balance sheet. A deferred tax asset of £1m (2018/19: £2m) is recognised in relation to this.

Movements in defined benefit plan assets and liabilities are shown below:

	Assets £m	Liabilities £m	Deficit £m
At 1 April 2018	49,927	(56,361)	(6,434)
Service cost (including administration expenses and PPF levy)	(54)	(77)	(131)
Cost to equalise benefits between men and women due to guaranteed minimum pension (GMP)	—	(26)	(26)
Interest on pension deficit	1,330	(1,462)	(132)
Return on plan assets above pensions interest on assets	1,549	—	1,549
Actuarial loss arising from changes in financial assumptions	—	(3,780)	(3,780)
Actuarial gain arising from changes in demographic assumptions	—	205	205
Actuarial loss arising from experience adjustments	—	(29)	(29)
Regular contributions by employer	36	—	36
Deficit contributions by employer	2,002	—	2,002
Contributions by employees	—	—	—
Benefits paid	(2,540)	2,540	—
At 1 April 2019	**52,250**	**(58,990)**	**(6,740)**
Service cost (including administration expenses and PPF levy)	(65)	(7)	(72)
Interest on pension deficit	1,221	(1,359)	(138)
Return on plan assets above pensions interest on assets	271	—	271
Actuarial gain arising from changes in financial assumptions	—	3,642	3,642
Actuarial gain arising from changes in demographic assumptions	—	475	475
Actuarial gain arising from experience adjustments	—	354	354
Regular contributions by employer	137	—	137
Deficit contributions by employer	1,251	—	1,251
Contributions by employees	—	—	—
Benefits paid	(2,742)	2,742	—
Other movements[a]	16	(6)	10
At 31 March 2020	**52,339**	**(53,149)**	**(810)**

[a] The terms of the Agency and Services Agreement between Openreach Limited and the Company, where the Company will provide for certain pension costs, requires the Company to recognise Openreach Limited's share of assets and liabilities in respect of the BTHS.

BTPS
Information covering details of the BTPS, including the valuation methodology of scheme assets and liabilities, funding valuation and future funding obligations is disclosed in note 19 of the consolidated financial statements of BT plc.

19. Employees and directors

The average number of persons employed by the company (including directors) during the year was:

Year ended 31 March	2020 000'	2019 000'
Average monthly number of employees[a]	37.8	53.4

Year ended 31 March	2020 £m	2019 £m
Wages and salaries	1,603	2,209
Share-based payments	42	44
Social security	153	218
Other pension costs	300	452
	2,098	**2,923**

In 2018/19, the employees in the Openreach CFU were transferred to a separate subsidiary company.

[a] Includes an average of 20 non-UK employees (2018/19: 21 non-UK employees).

20. Directors' remuneration

Information covering directors' remuneration, interests in shares and share options of BT Group plc (the ultimate parent), pension benefits and loss of office is included in note 28 to the consolidated financial statements of BT plc.

21. Derivatives

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

All of the company's derivative financial instruments are held at fair value on the company's 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 Group'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 Group'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
The company's 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.

21. Derivatives continued

31 March 2020	Current asset £m	Non current asset £m	Current liability £m	Non current liability £m
Designated in a cash flow hedge	247	1,954	36	740
Other	10	275	10	226
Total derivatives	**257**	**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	11	253	8	203
Total derivatives	**113**	**1,481**	**48**	**892**

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 our 2030 US dollar bond. The hedged cash flows will affect profit or loss as interest and principal amounts are repaid over the remaining term of the borrowings (see note 11).

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

All cash flow hedges were fully effective in the period. See note 15 for details of the movements in the cash flow hedge reserve.

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.

Related undertakings

Subsidiaries

Company name	Group interest in allotted capital[a]	Share class
Held directly		
Bermuda		
Century House, 16 Par-la-Ville Road, Hamilton, HM08, Bermuda		
Communications Global Network Services Limited	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
Italy		
Via Correggio 5, 20097, San Donato Milanese, Milan, Italy		
Radianz Italia S.r.l.	100 %	ordinary
Via Tucidide 56, Torre 7, 20134, Milano, Italy		
BT Italia S.p.A	99 %	ordinary
Jersey		
26 New Street, St Helier, JE2 3RA, Jersey		
Ilford Trustees (Jersey) Limited	100 %	ordinary
Luxembourg		
12 rue Eugene Ruppert, L 2453, Luxembourg		
BT Global Services Luxembourg SARL	100 %	ordinary
Netherlands		
Minerva & Mercurius building, Herikerbergweg 2, 1101CM, Amsterdam Zuidoost, Netherlands		
BT Nederland N.V.	100 %	ordinary
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
BPSLP Limited	100 %	ordinary
BT (RRS LP) Limited	100 %	ordinary
BT Centre Nominee 2 Limited	100 %	ordinary
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 Holdings Limited	100 %	ordinary
BT IoT Networks Limited	100 %	ordinary
BT Lancashire Services 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

Company name	Group interest in allotted capital[a]	Share class
BT SLE Euro Limited	100 %	ordinary
BT SLE USD Limited	100 %	ordinary
BT Solutions Limited	100 %	ordinary
Pelipod Ltd	100 %	ordinary
Radianz Limited	100 %	ordinary
Southgate Developments Limited	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 IT Services 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 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

Company name	Group interest in allotted capital[a]	Share class
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
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, n° 4777, 14° 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

Company name	Group interest in allotted capital[a]	Share class
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
Cabo Verde		
Avenida Andrade Corvo, 30, Praia, CP63, Cabo Verde		
B. Telecomunicações, Cabo Verde, Sociedade Unipessoal, SA	100 %	ordinary
Canada		
Regus Brookfield Place, 161 Bay Street,26th and 27th Floors, Toronto, Ontario, M5J 2S1, Canada		
BT Canada Inc	100 %	common
Chile		
Rosario Norte 407, Piso 6, Las Condes, Santiago, Chile		
Servicios de Telecomunicaciones BT Global Networks Chile Limitada	100 %	ordinary
China		
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 %	—
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

Company name	Group interest in allotted capital[a]	Share class
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 %	—
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 SectorEns 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 Carrion, EdificioLondres, 4° Piso, Quito, Ecuador		
BT Solutions Limited (Sucursal Ecuador)[b]	100 %	—
Egypt		
1 Wadi El Nile St., Mohandessin, Giza, Cairo,Egypt		
BT Telecom Egypt LLC	100 %	stakes

Company name	Group interest in allotted capital[a]	Share class
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
Estonia		
A.H. Tammsaare tee 47, Tallinn,11316, Estonia		
BT Solutions Limited Eesti Filiaal[b]	100 %	—
Finland		
Mannerheimvagen 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		
BarthstraBe 4, 80339,Munich, Germany		
BT (Germany) GmbH & Co. oHG[d]	100 %	ordinary
BT Deutschland GmbH	100 %	ordinary
BT Garrick GmbH	100 %	ordinary
Franfurterstrasse 21-2565760, Eschborn Taunus, Germany		
IP Trade Networks GmbH	100 %	ordinary
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

Company name	Group interest in allotted capital[a]	Share class
Room 1102, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong		
IP Trade Networks Limited	100 %	ordinary
Hungary		
Budafoki U. 91-13, 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 Utibu a Islandi[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
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	100 %	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 Mario Bianchini 15, 00142 Roma, Italy		
BT Global Services Limited[b]	100 %	—
Via Pianezza n° 123, Torino, Italy		
AtlanetSpA	99 %	ordinary
Via Tucidide 56, Torre 7, 20134, Milano, Italy		
Basictel SpA	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		
PO Box 264, Forum 4, Grenville Street, St Helier, JE4 8TQ, Jersey		
BT Jersey Limited	100 %	ordinary
Jordan		
Al Gardens Area (Tiaa 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, Morning side 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
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 Professional Services(Luxembourg) S.A.	100 %	ordinary
BT Broadband Luxembourg Sarl	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
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 %	—

Company name	Group interest in allotted capital[a]	Share class
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) Holding: B.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
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

Company name	Group interest in allotted capital[a]	Share class
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 Micro systems Phil Inc., 8767 Paseo de Roxas, Makati City, Philippines		
PSPI-Subic,Inc	51 %	ordinary
Poland		
Al. Armii Ludowej 14, 00-638 Warszawa, International Business Center, Poland		
BT Poland Spolka Z Ograniczona Odpowiedzialnoscia	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		
2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland		
BT Communications Ireland Limited	100 %	ordinary
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

Company name	Group interest in allotted capital[a]	Share class
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
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

Company name	Group interest in allotted capital[a]	Share class
Sri Lanka		
Level 03, No.11, Castle Lane, , Sri Lanka, Colombo, 04, Sri Lanka		
BT Communications Lanka (Private) Limited	100 %	ordinary
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 Sirketi	100 %	ordinary
BT Telekom Hizmetleri Anonim Sirketi	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
United Arab Emirates		
Office No G03, Ground Floor, EIB Building No 04, Dubai, United Arab Emirates		
BT MEA FZ-LLC	100 %	ordinary

Company name	Group interest in allotted capital[a]	Share class
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		
Belmullet (IoM) Limited[b]	100 %	—
Bruning Limited	100 %	ordinary
BT (International) Holdings Limited	100 %	ordinary
BT Communications Ireland Group Limited - UK Branch[b]	100 %	—
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 Limited	100 %	ordinary
BT Managed Services (No. 2) Limited	100 %	ordinary
BT Sixty-Four Limited	100 %	ordinary
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
Tudor Minstrel	100 %	ordinary
BDO LLP, 55 Baker Street, London, W1U 7EU, United Kingdom		
BT Fifty	100%	ordinary
BT LGS Limited	100%	ordinary
BT Moorgate One Limited	100 %	ordinary
BT Moorgate Two Limited	100 %	ordinary
Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom		
EE (Group) Limited	100 %	ordinary
EE Finance Limited	100 %	ordinary
EE Pension Trustee Limited	100 %	ordinary
Mainline Communications Group Limited	100 %	ordinary
Mainline Digital Communications Limited	100 %	ordinary
Orange Furbs Trustees Limited	100 %	ordinary
Orange Home UK Limited	100 %	ordinary
Orange Personal Communications Services Limited	100 %	ordinary

Company name	Group interest in allotted capital[a]	Share class
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	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
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, Twenty Eight Cyber city, 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, 32 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.

[d] BT (Germany) GmbH & Co. oHG is making use of disclosure exemption under the German Commercial Code Paragraph 264.

Additional Information

Alternative performance measures

Introduction

We assess the performance of the group using a variety of alternative performance measures that are not defined under IFRS and are therefore termed non-GAAP measures. The non-GAAP measures we use are: adjusted revenue, adjusted operating costs, adjusted finance expense, adjusted EBITDA, adjusted operating profit and adjusted profit before tax. The rationale for using these measures, along with a reconciliation from the nearest measures prepared in accordance with IFRS, are presented below.

The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

Specific items

The group's income statement and segmental analysis separately identify trading results on an adjusted basis, being before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence. This 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 an additional analysis of the reporting trading results of the group.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors, such as the frequency or predictability of occurrence.

Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, 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 adjusted results and not as a specific item.

Reported revenue, reported operating costs, reported operating profit, reported net finance expense and reported profit before tax are the equivalent IFRS measures. A reconciliation from these can be seen in the Group income statement on page 34.

Adjusted EBITDA

In addition to measuring financial performance of the group and customer-facing units based on operating profit, we also measure performance based on EBITDA and 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 post-tax profits or losses of associates and joint ventures. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies, particularly in the telecommunications sector.

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

A reconciliation of reported profit for the period, the most directly comparable IFRS measure, to EBITDA and adjusted EBITDA is set out below.

Year ended 31 March	2020[a] £m	2019[a] £m	2018[a] £m
Reported profit for the period	**1,929**	**2,347**	**2,184**
Tax	665	551	620
Reported profit before tax	**2,594**	**2,898**	**2,804**
Net interest related finance expense	512	377	345
Depreciation and amortisation	4,274	3,546	3,514
EBITDA	**7,380**	**6,821**	**6,663**
EBITDA specific items	350	425	610
Net other finance expense	147	150	234
Share of post tax losses (profits) of associates and joint ventures	33	(1)	1
Adjusted EBITDA	**7,910**	**7,395**	**7,508**

[a] Following adoption of IFRS16 on 1 April 2019, operating lease charges previously included within EBITDA and adjusted EBITDA have been replaced with depreciation on right-of-use assets and interest expense on lease liabilities. See note 1 for further information.