

Financial Statements

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

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Look out for these throughout the financial statements:

-  Significant accounting policies
-  Critical & key accounting estimates and significant judgements

Independent auditor's report to the members of BT Group plc

1. Our opinion is unmodified

We have audited the financial statements of BT Group plc ("the Company") for the year ended 31 March 2021 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 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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to 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 to the extent applicable.

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 three financial years ended 31 March 2021. 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 judgement, 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)

Certain unquoted investments in the BTPS: included within unquoted BTPS plan assets of £18.0 billion (2020: £20.3 billion)

Risk vs 2020:

 Refer to **page 82** (Audit & Risk Committee Report), **page 155** (note 20 accounting policy Retirement benefit plans) and **pages 154 to 165** (disclosures note 20 Retirement benefit plans).

The risk

Subjective valuation:

The BTPS has unquoted plan assets in private equity, UK and overseas property, mature infrastructure, longevity insurance contracts, secure income and non-core credit assets. Significant judgement 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 2020, 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 judgement was required to evaluate the market indices used by the Group to estimate adjustments to those asset valuations. The same level of market turbulence has not occurred in 2021, therefore the judgement required in evaluating the asset values has reduced.

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

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of unquoted plan assets in the BTPS 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, and possibly many times that amount. The financial statements (note 20) disclose the sensitivities of key assumptions for the valuation of certain unquoted plan assets estimated by the Group.

Our response – our procedures included:

Assessing valuers' credentials: Evaluating the scope, competencies and objectivity of the Group's external experts who assisted in determining the key unobservable inputs and market indices listed above.

Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the asset valuations to these assumptions.

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 and certain secure income assets

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 rates used in determining the mature infrastructure and certain secure income assets by comparing them to discount rates for comparable external assets.

Comparing valuations: Developed an independent expectation of the fair value for a sample 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, non-core credit assets and certain secure income assets

External confirmations: Comparing the estimated net asset values for private equity, non-core credit and certain secure income assets to confirmations obtained directly from third parties.

Test of details: Comparing 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.

We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

We consider the valuation of the BTPS unquoted plan assets to be acceptable (2020: acceptable).

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

BTPS obligation: £57.7 billion (2020: £53.0 billion)

Risk vs 2020: ⊖

Refer to **page 82** (Audit & Risk Committee Report), **page 155** (note 20 accounting policy Retirement benefits) and **pages 154 to 165** (disclosures note 20 Retirement benefit plans).

The risk

Subjective estimate:

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

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the BTPS defined benefit obligation 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, and possibly many times that amount. The financial statements (note 20) disclose the sensitivity of key assumptions for the obligation estimated by the Group.

Our response – our procedures included:

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

Assessing actuaries' credentials: Evaluating the scope, competency and objectivity of the Group's external experts who assisted in determining the actuarial assumptions used to determine the defined benefit obligation.

Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the obligation to these assumptions.

We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

We found the resulting estimate of the BTPS defined benefit obligation to be acceptable (2020: acceptable).

Accuracy of revenue due to the complexity of the billing systems

Certain revenue streams: included within total revenue of £21.3 billion (2020: £22.9 billion)

Risk vs 2020: ⊖

Refer to **pages 129 to 132** (financial disclosures note 5 Revenue).

The risk

Processing error

BT non-long-term contract revenue consists of a large number of 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 price 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 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, this is considered to be an area of most significance in our audit.

Our response

Our procedures included:

Process understanding: Obtaining an understanding of the revenue processes by observing transactions from customer initiation to cash received for certain material revenue streams.

Test of details: Comparing a sample of revenue transactions, including credit notes, to supporting evidence e.g. customer bills, orders, price lists, contractual terms, proof of service and cash received (all where applicable).

We performed the detailed tests above rather than seeking to rely on the Group's controls because our knowledge of the design of these controls indicated that we would be unlikely to obtain the required evidence to support reliance on controls.

Our results

We considered revenue relating to non-long-term contract revenue to be acceptable (2020: acceptable).

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

Investment in subsidiary £11,096 million (2020: £11,024 million)

Refer to **page 189** (accounting policy Investments) and **page 189** (financial disclosures note 2 Investments).

Loans to group undertakings £972 million (2020: £4,234 million)

Refer to **page 189** (accounting policy Impairment of financial assets).

The risk

Low risk, high value

The carrying amount of the parent company investment in subsidiary and the amount of loans to group undertakings represent 92% and 8% respectively (2020: 72% and 28% respectively), of the company's total assets.

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

Independent auditor's report to the members of BT Group plc continued

Our response

Our procedures included:

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

Comparing valuations: Comparing the carrying amount of the parent company's investment and loans to group undertakings, with the market capitalisation of the Group.

We performed the tests above rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

We found the carrying amounts of the investment in subsidiary and debt due from group entities to be acceptable (2020: acceptable).

We continue to perform procedures over the adequacy of regulatory provisions. However, as there have not been significant changes in the judgements taken in the current year, and no new matters with a high degree of estimation uncertainty, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is 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 £105 million (2020: £115 million), determined with reference to a benchmark of group profit before tax from continuing operations normalised by averaging over the last 5 years due to fluctuations as a result of Covid-19 of £2,359 million (2020: benchmark of group profit before tax from continuing operations of £2,353 million), of which it represents 4.5% (2020: 4.9%).

Materiality for the parent company financial statements as a whole was set at £95 million (2020: £75 million), determined with reference to a benchmark of total assets, of which it represents 0.8% (2020: 0.5%), and chosen to be lower than materiality for the group financial statements as a whole.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2020: 65%) of materiality for the financial statements as a whole, which equates to £68 million (2020: £75 million) for the group and £61.75 million (2020: £48 million) for the parent company. We applied this percentage in our determination of performance materiality based on the level of identified control deficiencies during the prior year.

We agreed to report the Audit Committee any corrected or uncorrected identified misstatements exceeding £5.25 million (2020: £5.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

In the current year we reassessed how we define components of the group and have determined our audit scope predominately on a legal entity basis, rather than a Consumer Facing Unit/ Corporate Unit basis. Of the group's 233 (2020: seven) reporting components, we subjected four (2020: all) to full scope audits for group purposes. Work on the Group's entire property, plant and equipment balance was performed by the group audit team 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	87%	78%	95%
2020	98%	97%	100%

The remaining 13% (2020: 2%) of total group revenue, 22% (2020: 3%) of group profit before tax and 5% (2020: 0%) of total group assets is represented by 229 (2020: nil) reporting components, none of which individually represented more than 6% (2020: 2%) of any of total group revenue, group profit before tax or total group assets. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The work on all components, excluding the audit of BT Italy, was performed by the Group audit team. The parent company was also audited by the Group audit team. The group team instructed the BT Italy component auditor as to the significant areas to be covered, including the risks identified above and the information to be reported back.

The group team approved the component materialities, which ranged from £25 million to £90 million (2020: £40 million to £110 million), having regard to the mix and size and risk profile of the Group across components.

The Group audit team met frequently on video conference meetings with the BT Italy component audit team as part of the audit planning and completion stages to explain our audit instructions and discuss the component auditor's plans as well as performing file reviews upon the completion of the component auditor's engagement.

At these meetings with the component auditor, 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. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its 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 an additional lockdown as a result of Covid;
- The impact of a complete ban on certain high-risk vendors;
- The impact of a significant service interruption.

We also considered less predictable but realistic second order impacts, such as a large scale cyber breach or adverse changes to telecoms regulation which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We also assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 106 is materially consistent with the financial statements and our audit knowledge.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel

for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

- Reading Board, Remuneration Committee and Executive Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors including the EPS target for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because non-long-term contract revenues are not judgemental and consist of a high number of low value transactions, and long-term contracts are generally low in complexity with most having a revenue recognition profile aligned to billing.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to unusual or seldom used accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

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

Independent auditor's report to the members of BT Group plc continued

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 license to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, regulations affecting telecommunication providers, and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities (including compliance with Ofcom regulation) and its legal form. 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. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

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

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability statement on page 68 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Emerging and Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability statement, set out on page 68 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 105, 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 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 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.

9. 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 the 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, 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.

John Luke

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
13 May 2021

Group income statement

Year ended 31 March 2021

	Notes	Before specific items ('Adjusted') £m	Specific items ^a £m	Total (Reported) £m
Revenue	4, 5	21,370	(39)	21,331
Operating costs	6	(18,302)	(442)	(18,744)
Operating profit (loss)	4	3,068	(481)	2,587
Finance expense	27	(785)	(18)	(803)
Finance income		12	–	12
Net finance expense		(773)	(18)	(791)
Share of post tax profit (loss) of associates and joint ventures		8	–	8
Profit (loss) before taxation		2,303	(499)	1,804
Taxation	10	(428)	96	(332)
Profit (loss) for the year		1,875	(403)	1,472
Earnings per share	11			
Basic		18.9p	(4.1)p	14.8p
Diluted		18.6p	(4.0)p	14.6p

Year ended 31 March 2020

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

a For a definition of specific items, see page 197. An analysis of specific items is provided in note 9.

Group statement of comprehensive income

Year ended 31 March

	Notes	2021 £m	2020 £m
Profit for the year		1,472	1,734
Other comprehensive income (loss)			
Items that will not be reclassified to the income statement			
Remeasurements of the net pension obligation	20	(4,856)	4,853
Tax on pension remeasurements	10	918	(808)
Items that have been or may be reclassified to the income statement			
Exchange differences on translation of foreign operations	29	(189)	40
Fair value movements on assets at fair value through other comprehensive income	29	–	(5)
Movements in relation to cash flow hedges:			
– net fair value gains (losses)	29	(1,468)	854
– recognised in income and expense	29	850	(382)
Tax on components of other comprehensive income that have been or may be reclassified	10, 29	133	(84)
Other comprehensive (loss) income for the year, net of tax		(4,612)	4,468
Total comprehensive (loss) income for the year		(3,140)	6,202

Group balance sheet

At 31 March

	Notes	2021 £m	2020 £m
Non-current assets			
Intangible assets	13	13,357	13,889
Property, plant and equipment	14	19,397	18,474
Right-of-use assets	15	4,863	5,391
Derivative financial instruments	28	1,165	2,229
Investments	24	31	20
Associates and joint ventures		17	12
Trade and other receivables	17	314	481
Contract assets	5	344	279
Deferred tax assets	10	989	300
		40,477	41,075
Current assets			
Programme rights	16	328	310
Inventories		297	300
Trade and other receivables	17	3,257	2,704
Contract assets	5	1,515	1,442
Assets classified as held for sale	23	–	268
Current tax receivable		281	67
Derivative financial instruments	28	70	260
Investments	24	3,652	5,092
Cash and cash equivalents	25	1,000	1,549
		10,400	11,992
Current liabilities			
Loans and other borrowings	26	911	2,842
Derivative financial instruments	28	88	46
Trade and other payables	18	5,980	5,794
Contract liabilities	5	925	972
Lease liabilities	15	730	812
Liabilities classified as held for sale	23	–	211
Current tax liabilities		84	21
Provisions	19	288	288
		9,006	10,986
Total assets less current liabilities		41,871	42,081
Non-current liabilities			
Loans and other borrowings	26	15,774	16,492
Derivative financial instruments	28	1,195	966
Contract liabilities	5	167	179
Lease liabilities	15	5,422	5,748
Retirement benefit obligations	20	5,096	1,140
Other payables	18	682	754
Deferred tax liabilities	10	1,429	1,608
Provisions	19	427	431
		30,192	27,318
Equity			
Share capital		499	499
Share premium		1,051	1,051
Own shares	21	(143)	(237)
Merger reserve		998	2,572
Other reserves	29	436	1,119
Retained earnings		8,838	9,759
Total equity		11,679	14,763
		41,871	42,081

The consolidated financial statements on pages 118 to 196 were approved by the Board of Directors on 12 May 2021 and were signed on its behalf by:

Jan du Plessis
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

Group statement of changes in equity

	Notes	Share capital ^a £m	Share premium ^b £m	Own shares ^c £m	Merger reserve ^d £m	Other reserves ^e £m	Retained (loss) earnings £m	Total equity (deficit) £m
At 1 April 2019		499	1,051	(167)	4,147	718	3,848	10,096
Profit for the year		–	–	–	–	–	1,734	1,734
Other comprehensive income (loss) – before tax		–	–	–	–	889	4,853	5,742
Tax on other comprehensive income (loss)	10	–	–	–	–	(84)	(808)	(892)
Transferred to the income statement		–	–	–	–	(382)	–	(382)
Total comprehensive income (loss) for the year		–	–	–	–	423	5,779	6,202
Dividends to shareholders	12	–	–	–	–	–	(1,521)	(1,521)
Unclaimed dividend over 10 years		–	–	–	–	–	2	2
Share-based payments	22	–	–	–	–	–	72	72
Tax on share-based payments	10	–	–	–	–	–	–	–
Net buyback of own shares	21	–	–	(70)	–	–	(14)	(84)
Transfer to realised profit		–	–	–	(1,575)	(22)	1,597	–
Other movements		–	–	–	–	–	(4)	(4)
At 31 March 2020		499	1,051	(237)	2,572	1,119	9,759	14,763
Profit for the year		–	–	–	–	–	1,472	1,472
Other comprehensive income (loss) – before tax		–	–	–	–	(1,657)	(4,856)	(6,513)
Tax on other comprehensive income (loss)	10	–	–	–	–	133	918	1,051
Transferred to the income statement		–	–	–	–	850	–	850
Total comprehensive income (loss) for the year		–	–	–	–	(674)	(2,466)	(3,140)
Dividends to shareholders	12	–	–	–	–	–	–	–
Share-based payments	22	–	–	–	–	–	72	72
Tax on share-based payments	10	–	–	–	–	–	5	5
Net buyback of own shares	21	–	–	94	–	–	(107)	(13)
Transfer to realised profit		–	–	–	(1,574)	(9)	1,583	–
Other movements		–	–	–	–	–	(8)	(8)
At 31 March 2021		499	1,051	(143)	998	436	8,838	11,679

a The allotted, called up, and fully paid ordinary share capital of BT Group plc at 31 March 2021 was £499m comprising 9,968,127,681 ordinary shares of 5p each (2019/20: £499m comprising 9,968,127,681 ordinary shares of 5p each).

b The share premium account, comprising the premium on allotment of shares, is not available for distribution.

c For further analysis of own shares, see note 21.

d The merger reserve balance at 1 April 2019 includes £998m related to the group reorganisation that occurred in November 2001 and represented the difference between the nominal value of shares in the new parent company, BT Group plc, and the aggregate of the share capital, share premium account and capital redemption reserve of the prior parent company, British Telecommunications plc. In addition, on 29 January 2016, the company issued 1,594,900,429 ordinary shares of 5p at 470.7p per share. These shares were used as part consideration for the acquisition of EE. As a result of this transaction the merger reserve was credited with £7,424m net of £3m issue costs. Following settlement of intercompany loans by qualifying consideration of £1,574m (2019/20: £1,575m), equivalent balances were transferred from merger reserve to realised profit.

e For further analysis of other reserves, see note 29.

Group cash flow statement

Year ended 31 March

	Notes	2021 £m	2020 £m
Cash flow from operating activities			
Profit before taxation		1,804	2,353
Share of post tax (profit) loss of associates and joint ventures		(8)	33
Net finance expense		791	897
Operating profit		2,587	3,283
Other non-cash charges ^a		267	209
(Profit) loss on disposal of businesses		(65)	36
Profit on disposal of property, plant and equipment and intangible assets		(66)	(115)
Depreciation and amortisation		4,347	4,274
Decrease (increase) in inventories		2	69
Decrease (increase) in programme rights		13	33
(Increase) decrease in trade and other receivables ^b		327	163
(Increase) decrease in contract assets		(141)	(119)
(Decrease) increase in trade and other payables		(43)	144
(Decrease) increase in contract liabilities		(48)	(236)
(Decrease) increase in other liabilities ^c		(927)	(1,182)
(Decrease) increase in provisions		(2)	(78)
Cash generated from operations		6,251	6,481
Income taxes paid		(288)	(210)
Net cash inflow from operating activities		5,963	6,271
Cash flow from investing activities			
Interest received		6	30
Dividends received from associates and joint ventures		5	1
Acquisition of subsidiaries		(7)	–
Proceeds on disposal of subsidiaries, associates and joint ventures		164	60
Acquisition of associates and joint ventures		–	(8)
Proceeds on disposal of current financial assets ^d		13,506	12,000
Purchases of current financial assets ^d		(12,085)	(13,877)
Net (purchase) disposal of non-current asset investments ^e		(11)	33
Proceeds on disposal of property, plant and equipment and intangible assets		85	216
Purchases of property, plant and equipment and intangible assets ^f		(4,903)	(4,105)
Net cash outflow from investing activities		(3,240)	(5,650)
Cash flow from financing activities			
Equity dividends paid		(2)	(1,520)
Interest paid		(770)	(736)
Repayment of borrowings ^g		(1,162)	(1,111)
Proceeds from bank loans and bonds		–	2,843
Payment of lease liabilities		(782)	(651)
Cash flows from derivatives related to net debt		(490)	452
Proceeds from issue of own shares		1	2
Repurchase of ordinary share capital		(14)	(86)
Net cash outflow from financing activities		(3,219)	(807)
Net decrease in cash and cash equivalents		(496)	(186)
Opening cash and cash equivalents ^h		1,409	1,594
Net decrease in cash and cash equivalents		(496)	(186)
Effect of exchange rate changes		(17)	1
Closing cash and cash equivalents^h	25	896	1,409

a Other non-cash charges in 2019/20 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. See note 23.

b Excludes a prepayment of £702m (2019/20: £nil) in respect of the acquisition of spectrum which completes in 2021/22.

c Includes pension deficit payments of £955m (2019/20: £1,274m).

d Primarily consists of investment in and redemption of amounts held in liquidity funds.

e Relates to (purchase) disposal of fair value through equity investments.

f Consists of additions to property, plant and equipment and software of £4,197m, movements in capital accruals of £4m and prepayments of £702m in respect of spectrum which will be recognised as an asset in 2021/22.

g Repayment of borrowings includes the impact of hedging.

h Net of bank overdrafts of £104m (2019/20: £183m).

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 international accounting standards in conformity with the requirements of the Companies Act 2006. The consolidated financial statements are also prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The consolidated financial statements are prepared on a going concern basis.

This assessment is consistent with the assessment of our viability, as set out on page 68, in estimating the financial impact for a severe but plausible outcome for each risk, 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 and emerging risks, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the group and parent company financial statements. This assessment covers the period to May 2022, which is consistent with the FRC guidance. When reaching this conclusion, the directors took into account the group's and parent company's overall financial position (including trading results and ability to repay term debt as it matures without recourse to refinancing) and the exposure to principal risks.

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

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

New and amended accounting standards effective during the year

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.

- 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)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)
- Covid-19-Related Rent Concessions (Amendment to IFRS 16)

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.

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The replacement of Interbank Offered Rates (IBORs) with Alternative Reference Rates (ARAs) will begin from December 2021. Where floating interest bearing receivables and payables exist (currently based on IBORs) the Group will apply suitable replacement benchmark rates and account for the instruments in accordance with the amendments to IFRS 9 Financial Instruments published in 2019 (Phase 1) and 2020 (Phase 2). The adoption of these amendments and the transition to ARAs are expected to have an immaterial financial impact. The implications on the trading results of our segments of IBOR reform have also been assessed and the expected impact is immaterial. The Group is preparing to move to the new benchmark rates in accordance with timelines as per regulatory guidelines.

Presentation of specific items

Our income statement and segmental analysis separately identify trading results before specific items ('adjusted'). The directors believe that presentation of our results in this way is relevant to an understanding of our financial performance, as specific items are identified by virtue of their size, nature or incidence.

This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the *Executive Committee* and assists in providing a meaningful analysis of our trading results. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Specific items may not be comparable to similarly titled measures used by other companies. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, regulatory settlements, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as specific items.

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

Adjustments to prior year disclosures due to internal reorganisations

On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result will now be reported in Group 'Other' financial results. This did not impact the primary financial statements. In 2019/20 the impact on segmental revenue was a reduction in Enterprise segmental revenue of £141m and an increase in Other segmental revenue of £28m. The prior year comparatives for Enterprise and Other CFU results have been restated to reflect this. Refer to Notes 4, 5, 7 and 17.

Notes to the consolidated financial statements continued

2. Critical & key accounting estimates and significant 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.

Our critical accounting estimates are those estimates that carry a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year. We also make other key estimates when preparing the financial statements, which, while not meeting the definition of a critical estimate, involve a higher degree of complexity and can reasonably be expected to be of relevance to a user of the financial statements. Management has discussed its critical and other key accounting estimates and associated disclosures with the *Audit & Risk Committee*.

Significant judgements are those made by management in applying our significant accounting policies that have a material impact on the amounts presented in the financial statements. We may exercise significant judgement in our critical and key accounting estimates.

Our critical and key accounting estimates and significant judgements are described in the following notes to the financial statements. They can be identified by the following symbol .

Note	Critical estimate	Key estimate	Significant judgement
10. Current and deferred income tax	✓		✓
13. Goodwill impairment		✓	✓
15. Reasonable certainty and determination of lease terms			✓
19. & 31. Contingent liabilities associated with litigation	✓		✓
19. & 31. Other provisions and contingent liabilities		✓	✓
20. Pension obligations	✓		✓

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. They can be identified by the following symbol .

We have applied all policies consistently to all the years presented, unless otherwise stated.

Basis of consolidation

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

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

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

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

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

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

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

Inventories

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

Government grants

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

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

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.

Notes to the consolidated financial statements continued

4. Segment information

Significant accounting policies that apply to segment information

Operating and reportable segments

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

Our organisational structure reflects the different customer groups to which we provide communications products and services via our customer-facing units (CFUs): 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*. 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

Year ended 31 March 2021	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Segment revenue	9,885	5,449	3,731	5,244	23	24,332
Internal revenue	(97)	(109)	–	(2,756)	–	(2,962)
Revenue from external customers^a	9,788	5,340	3,731	2,488	23	21,370
Adjusted EBITDA^b	2,128	1,704	596	2,937	50	7,415
Depreciation and amortisation ^a	(1,281)	(740)	(405)	(1,707)	(214)	(4,347)
Operating profit (loss)^a	847	964	191	1,230	(164)	3,068
Specific items (note 9)						(481)
Operating profit						2,587
Net finance expense ^c						(791)
Share of post tax profit (loss) of associates and joint ventures						8
Profit before tax						1,804
Year ended 31 March 2020 (restated)	Consumer £m	Enterprise ^d £m	Global £m	Openreach £m	Other ^d £m	Total £m
Segment revenue	10,388	5,952	4,361	5,112	29	25,842
Internal revenue	(102)	(163)	–	(2,753)	–	(3,018)
Revenue from external customers^a	10,286	5,789	4,361	2,359	29	22,824
Adjusted EBITDA^b	2,426	1,935	634	2,858	54	7,907
Depreciation and amortisation ^a	(1,278)	(712)	(479)	(1,712)	(115)	(4,296)
Operating profit (loss)^a	1,148	1,223	155	1,146	(61)	3,611
Specific items (note 9)						(328)
Operating profit						3,283
Net finance expense ^c						(897)
Share of post tax profit (loss) of associates and joint ventures						(33)
Profit before tax						2,353

a Before specific items.

b Adjusted EBITDA, defined as EBITDA before specific items, net non-interest related finance expense, and share of profits or losses of associates and joint ventures.

c Net finance expense includes specific item expense of £18m (2019/20): £140m. See note 9.

d On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result will now be reported in Group 'Other' financial results. The prior year comparative for the Enterprise and the Other CFU results has been restated to reflect this.

Internal revenue and costs

Year ended 31 March 2021	Internal cost recorded by					Total £m
	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	
Internal revenue recorded by						
Consumer	–	60	19	–	18	97
Enterprise	17	–	29	–	63	109
Global	–	–	–	–	–	–
Openreach	1,592	919	231	–	14	2,756
Total	1,609	979	279	–	95	2,962
Year ended 31 March 2020	Internal cost recorded by ^b					Total £m
	Consumer £m	Enterprise ^a £m	Global £m	Openreach £m	Other ^a £m	
Internal revenue recorded by						
Consumer	–	63	21	–	18	102
Enterprise ^a	11	–	51	34	67	163
Global	–	–	–	–	–	–
Openreach	1,559	932	247	–	15	2,753
Total	1,570	995	319	34	100	3,018

a On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result will now be reported in Group 'Other' financial results. The prior year comparative for the Enterprise and the Other CFU results has been restated to reflect this.

b Internal charges incurred by a corporate business unit and presented against 'Other' in prior years are now shown against the customer-facing unit that the costs are ultimately recharged to. As a result £1,416m costs presented against 'Other' in 2019/20 have been reclassified and are now presented against the relevant customer-facing unit.

Notes to the consolidated financial statements continued

4. Segment information continued

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Capital expenditure

	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Year ended 31 March 2021						
Intangible assets ^a	311	192	95	101	84	783
Property, plant and equipment ^b	771	300	93	2,148	121	3,433
Capital expenditure	1,082	492	188	2,249	205	4,216
Year ended 31 March 2020						
Intangible assets ^a	291	216	123	103	57	790
Property, plant and equipment ^b	657	280	100	2,005	128	3,170
Capital expenditure	948	496	223	2,108	185	3,960

a Additions to intangible assets as presented in note 13.

b Additions to property, plant and equipment as presented in note 14, inclusive of movement on engineering stores.

c On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result will now be reported in Group 'Other' financial results. The prior year comparative for the Enterprise and the Other CFU results has been restated to reflect this.

Geographic segmentation

Revenue from external customers

	2021 £m	2020 £m
Year ended 31 March		
UK	18,524	19,401
Europe, Middle East and Africa, excluding the UK	1,599	1,904
Americas	739	924
Asia Pacific	508	595
Revenue^a	21,370	22,824

a Before specific items.

Non-current assets

	2021 £m	2020 £m
Year ended 31 March		
UK	35,664	35,597
Europe, Middle East and Africa, excluding the UK	2,190	2,347
Americas	277	384
Asia Pacific	161	198
Non-current assets^a	38,292	38,526

a Comprising the following balances presented in the group balance sheet: intangible assets; property, plant and equipment; right-of-use assets; associates and joint ventures; trade and other receivables and contract assets.

5. Revenue

Significant accounting policies that apply to revenue

Revenue from contracts with customers in scope of IFRS 15

Most revenue recognised by the group (excluding Openreach where most revenue is recognised under the scope of IFRS 16) 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 2021 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 satisfaction of performance obligations in respect of the achievement of contract milestones and customer acceptance, which is the best measure of progress towards the completion of the performance obligation.
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 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, in line with contract milestones, or at a point in time depending on the nature of the service.

Notes to the consolidated financial statements continued

5. Revenue continued

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 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.

Variable consideration arising from contracts where services have been performed but customer acceptance has not yet been received are not recognised until it is highly probable that a significant reversal of revenue recognised will not occur.

We are applying the practical expedient to recognise revenue “as-invoiced” for certain fixed access and mobile subscription services revenues. Where we have a right to invoice at an amount that directly corresponds with performance to date, we recognise revenue at that amount. We have also adopted the practical expedient not to calculate the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied for these contracts.

We do not have any material obligations in respect of returns, refunds or warranties. Where we act as an agent in a transaction, such as insurance services offered, 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.

Revenue from lease arrangements in scope of IFRS 16

Some consumer broadband and TV products and arrangements to provide external communications providers with exclusive use of fixed-network telecommunications infrastructure meet the definition of operating leases under IFRS 16.

At inception of a contract, we determine whether the contract is, or contains a lease following the accounting policy set out in note 15. Arrangements meeting the definition of a lease in which we act as lessor are classified as operating or finance leases at lease inception based on an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case then the lease is a finance lease; if not, it is an operating lease. For sub-leases, we make this assessment by reference to the characteristics of the right-of-use asset associated with the head lease rather than the underlying leased asset.

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

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

Where an arrangement is assessed as a finance lease we derecognise the underlying asset and recognise a receivable equivalent to the net investment in the lease. The receivable is measured based on future payments to be received discounted using the interest rate implicit in the lease, adjusted for any direct costs. Any difference between the derecognised asset and the finance lease receivable is recognised in the income statement. Where the nature of services delivered relates to our core operating activities it is presented as revenue. Where it relates to non-core activities it is presented within other operating income (note 6).

5. Revenue continued

Disaggregation of external revenue

The following table disaggregates external revenue by our major service lines and by reportable segment.

Year ended 31 March 2021	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
ICT and managed networks	–	1,993	1,977	–	–	3,970
Fixed access subscriptions	4,089	1,762	321	2,426	–	8,598
Mobile subscriptions	3,492	1,262	87	–	–	4,841
Equipment and other services	2,207	323	1,346	62	23	3,961
Revenue before specific items	9,788	5,340	3,731	2,488	23	21,370
Specific items ^b (note 9)						(39)
Revenue						21,331
Year ended 31 March 2020 (restated)	Consumer £m	Enterprise ^a £m	Global £m	Openreach £m	Other ^a £m	Total £m
ICT and managed networks	–	2,109	2,199	–	–	4,308
Fixed access subscriptions	4,443	2,007	352	2,293	–	9,095
Mobile subscriptions	3,807	1,297	84	–	–	5,188
Equipment and other services	2,036	376	1,726	66	29	4,233
Revenue before specific items	10,286	5,789	4,361	2,359	29	22,824
Specific items ^b (note 9)						81
Revenue						22,905

^a Following a review of a number of products, we have re-presented the classifications within Enterprise in the 2019/20 comparative. We have also transferred £28m of revenue from Enterprise to Other due to the Ventures reorganisation. Refer to note 1 for further details.

^b Relates to regulatory matters classified as specific. See note 9.

Revenue expected to be recognised in future periods for performance obligations that are not complete (or are partially complete) as at 31 March 2021 is £13,317m (2019/20: restated £14,248m). Of this, £7,415m (2019/20: £8,191m) relates to ICT and managed services contracts and equipment and other services which will substantially be recognised as revenue within three years. Fixed access and mobile subscription services typically have shorter contract periods and so £5,902m (2019/20: restated £6,057m) 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.

Lease income

Presented within revenue is £2,496m (2019/20: £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, classified as fixed access subscription revenue in the table above, and leases of devices to Consumer customers as part of fixed access subscription offerings, classified as equipment and other services.

During the year we also recognised £36m (2019/20: £41m) operating lease income from non-core business activities which is presented in other operating income (note 6). This income relates primarily to sub-leases of unutilised properties.

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

During the year we renegotiated a non-strategic revenue contract delivered using elements of our leased buildings infrastructure, in exchange for an up-front payment of £196m. The revised arrangement, previously classified as an operating sub-lease, was reassessed as a finance sub-lease in line with the accounting policy set out above. We derecognised the £208m carrying amount of the associated right-of-use asset and a net deferred income balance of £33m previously reported within trade and other payables, and recognised in revenue a gain on disposal of £21m, consistent with the presentation of the previous operating lease income. No further amounts are due, therefore no finance lease receivable was recognised.

Notes to the consolidated financial statements continued

5. Revenue continued

Contract assets and liabilities

Significant accounting policies that apply to contract assets and liabilities

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

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

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

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

Contract assets and liabilities recognised are as follows:

Year ended 31 March	2021 £m	2020 £m
Contract assets		
Current	1,515	1,442
Non-current	344	279
	1,859	1,721
Contract liabilities		
Current	925	972
Non-current	167	179
	1,092	1,151

£886m of the contract liability recognised at 31 March 2021 was recognised as revenue during the year (2019/20: £1,094m). Impairment losses of £47m were recognised on contract assets during the year (2019/20: £59m).

The expected credit loss provision recognised against contract assets vary across the group due to the nature of our customers; the expected loss rate at 31 March 2021 was 4% (2019/20: 4%).

6. Operating costs

Year ended 31 March	Notes	2021 £m	2020 £m
Operating costs by nature			
Staff costs:			
Wages and salaries		4,096	4,203
Social security costs		403	426
Other pension costs	20	591	626
Share-based payment expense	22	72	72
Total staff costs		5,162	5,327
Own work capitalised		(895)	(903)
Net staff costs		4,267	4,424
Net indirect labour costs ^a		294	354
Net labour costs		4,561	4,778
Product costs and sales commissions		4,070	4,440
Payments to telecommunications operators		1,517	1,749
Property and energy costs		1,025	1,004
Network operating and IT costs		916	898
TV programme rights charges		786	870
Provision and installation		558	604
Marketing and sales		255	303
Net impairment losses on trade receivables and contract assets ^b		150	124
Other operating costs		343	370
Other operating income		(226)	(223)
Depreciation of property, plant and equipment:			
Owned assets	14	2,460	2,452
Right-of-use assets ^c	15	690	671
Amortisation of intangible assets	13	1,197	1,173
Total operating costs before specific items		18,302	19,213
Specific items	9	442	409
Total operating costs		18,744	19,622
Operating costs before specific items include the following:			
Leaver costs ^d		11	15
Research and development expenditure ^e		720	662
Foreign currency gains		9	(12)
Inventories recognised as an expense		2,315	2,447

a Net of capitalised indirect labour costs of £748m (2019/20: £675m).

b Previously included in other operating costs in 2019/20. This consists of net impairment losses on trade receivables and contract assets in Consumer of £115m (2019/20: £92m), in Enterprise of £33m (2019/20: £31m), in Global of £0m (2019/20: £(1)m) and in Openreach of £2m (2019/20: £2m).

c 2019/20 comparative excludes £22m reversal of impairment on right-of-use assets presented as a specific item which relate to assets impaired on adoption of IFRS 16.

d Leaver costs are included within wages and salaries, except for leaver costs of £270m (2019/20: £197m) associated with restructuring costs, which have been recorded as specific items.

e Research and development expenditure reported in the income statement includes amortisation of £650m (2019/20: £599m) in respect of capitalised development costs and operating expenses of £69m (2019/20: £63m). In addition, the group capitalised software development costs of £519m (2019/20: £476m).

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

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

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

Year ended 31 March	2021 £m	2020 £m
Short-term employee benefits	9.3	9.6
Post employment benefits ^a	0.9	1.0
Share-based payments	4.9	7.1
Termination benefits	0.2	–
	15.3	17.7

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

Key management personnel are compensated solely in the form of cash and share-based payments. During the current and prior years, key management personnel made no gains from exercise of share options.

Notes to the consolidated financial statements continued

7. Employees

	2021		2020	
	Year end 000	Average 000	Year end 000	Average 000
Number of employees in the group ^a				
UK	80.4	81.3	82.6	82.8
Non-UK	19.3	20.9	22.7	22.6
Total employees	99.7	102.2	105.3	105.4

	2021		2020	
	Year end 000	Average 000	Year end 000	Average 000
Number of employees in the group ^a				
Consumer	18.5	19.2	19.6	19.7
Enterprise ^b	11.3	11.4	11.3	11.9
Global	12.8	14.4	16.3	16.5
Openreach	35.4	34.8	35.0	34.1
Other ^b	21.7	22.4	23.1	23.2
Total employees	99.7	102.2	105.3	105.4

a These reflect the full-time equivalent of full and part-time employees.

b On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result will now be reported in Group 'Other' financial results. The prior year comparative for the Enterprise and the Other CFU results has been restated to reflect this. Refer to 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 2021 and 2020.

Year ended 31 March	2021 £000	2020 £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	10,482	10,546
The audit of the company's subsidiaries	6,280	6,315
	16,762	16,861
Audit related assurance services^b	1,993	2,416
Other non-audit services		
All other assurance services	155	228
All other services ^c	–	247
	155	475
Total services	18,910	19,752

a Services in relation to the audit of the parent company and the consolidated financial statements, including, in the prior year, 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 (2019/20: £20,000).

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 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 2021 KPMG LLP received total fees from the BT Pension Scheme of £1.5m (2019/20: £0.8m) in respect of the following services:

Year ended 31 March	2021 £000	2020 £000
Audit of financial statements of associates	1,494	819
Audit-related assurance services	9	9
Other non-audit services	–	2
Total services	1,503	830

9. Specific items

Significant accounting policies that apply to specific items

Our 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 presentation is consistent with the way that financial performance is measured by management and reported to the Board and the *Executive Committee* and assists in providing an additional analysis of our reporting trading results. 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, significant out of period contract settlements, 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.

In 2019/20 we included the impacts of Covid-19 on various balance sheet items as at 31 March 2020 as specific. Any releases to this provision have been released through specific items in 2020/21. The impact of Covid-19 on underlying trading is recognised in our underlying (adjusted) results and not as a specific item.

Year ended 31 March	2021 £m	2020 £m
Revenue		
Retrospective regulatory matters	39	(81)
	39	(81)
Operating costs		
Retrospective regulatory matters	(4)	9
Restructuring charges	421	322
Settlement with Dixons Carphone	149	–
Sale of spectrum	(66)	–
Divestment-related items	(60)	199
Property rationalisation	19	(131)
Covid-19	(17)	95
Spectrum annual licence fee refund	–	(82)
Provision for claims	–	(5)
Italian business investigation	–	2
	442	409
Operating loss	481	328
Net finance expense		
Interest expense on retirement benefit obligation	18	145
Interest on spectrum annual licence fee refund	–	(5)
	18	140
Associates and joint ventures	–	39
Net specific items charge before tax	499	507
Taxation		
Tax credit on specific items above	(96)	(73)
Tax charge on re-measurement of deferred tax	–	156
	(96)	83
Net specific items charge after tax	403	590

Retrospective regulatory matters

We recognised a net charge of £35m (2019/20: net credit of £72m) in relation to regulatory matters. This reflects the settlement of various matters. Of this, £39m charge is recognised in revenue and £4m credit in operating costs.

Restructuring charges

We incurred charges of £421m (2019/20: £322m), primarily relating to leaver costs. These costs reflect projects within the next stage of our group-wide modernisation programme, as announced in May 2020, which will deliver annualised gross benefits of £1bn by March 2023 and £2bn by March 2025, with a £1.3bn one-off cost to achieve across the five years.

Notes to the consolidated financial statements continued

9. Specific items continued

Settlement with Dixons Carphone

In March 2021, following the expiry of the retail agreement between Dixons Carphone and EE Limited earlier in the year, we mutually agreed to resolve all outstanding matters which primarily related to contingent revenue share costs that could have previously been recognised over future years. The associated cost of £149m which includes the agreed cash payment and the write off of balance sheet prepayments and accruals has been treated as a specific item in the full year 2021 results. The associated cash payment was made in April 2021 and will be reflected in the 2021/22 financial statements.

Sale of spectrum

In the year, we sold 25 MHz of unpaired 2.6 GHz spectrum and recognised a gain on disposal of £66m (2019/20: £nil) as a specific item.

Divestment-related items

In May 2020 we completed the sale of our Spanish operations and recorded a net gain of £80m. We incurred net losses on the disposals of our operations in Latin America and France of £11m. We recognised an additional £4m loss on disposal of a number of other businesses and £5m of costs relating to ongoing divestment projects.

In 2019/20 we recognised impairment charges of £127m on reclassification of our operations in Spain, France and Latin America as held for sale, losses on disposal of £36m relating to the completed divestments of BT Fleet Solutions and Tikit, and a further £36m of costs relating to ongoing divestment projects.

Property rationalisation costs

We recognised a charge of £19m (2019/20: net credit of £131m) relating to the rationalisation of the group's property portfolio under our Better Workplace Programme. The 2019/20 credit included the gain on sale of BT Centre of £115m.

Covid-19

In 2019/20 we recognised one-off charges of £95m relating to the impact of Covid-19 on various balance sheet items. In 2020/21 £17m has been released through the income statement as a specific item. At 31 March 2021 we retain £55m of provisions relating to Covid-19.

Spectrum annual licence fee refund

In 2019/20 we received a payment of £87m including interest of £5m 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.

Provision for claims

In 2019/20 we recognised a credit of £5m in relation to release of provisions for claims created through specific items in 2012/13 which were fully settled.

Italian business investigation

In 2019/20 we recognised £2m costs relating to the historical investigation in our Italian business.

Interest expense on retirement benefit obligation

During the year we incurred £18m (2019/20: £145m) of interest costs in relation to our defined benefit pension obligations.

Associates and joint ventures

In 2019/20, following renegotiation of a contract, £39m owed by an associate was determined irrecoverable and the resulting impairment recognised as a specific item.

Tax on specific items

A net tax credit of £96m (2019/20: net tax credit of £73m) was recognised in relation to specific items. In 2019/20, legislation was enacted to maintain the UK corporation tax rate at 19%. Accordingly the group re-measured its deferred tax balances which 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.

10. Taxation continued

Critical accounting estimates and significant 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 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 79% 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. £200m (2019/20: £191m) is included in current tax liabilities or offset against current tax assets where netting is appropriate.

Under a downside case an additional amount of £572m could be required to be paid, of which £474m would relate to EE losses. This amount is not provided as we don't consider this outcome to be probable.

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

The value of the group's income tax assets and liabilities is disclosed on the group balance sheet on page 120. 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	2021 £m	2020 £m
United Kingdom		
Corporation tax at 19% (2019/20: 19%)	(300)	(495)
Adjustments in respect of earlier years	6	41
Non-UK taxation		
Current	(65)	(58)
Adjustments in respect of earlier years	6	(1)
Total current tax (expense)	(353)	(513)
Deferred taxation		
Origination and reversal of temporary differences	6	55
Adjustments in respect of earlier years	12	–
Impact of change in UK corporation tax rate to 19% (2019/20: 19%)	–	(156)
Remeasurement of temporary differences	3	(5)
Total deferred taxation credit/(expense)	21	(106)
Total taxation (expense)	(332)	(619)

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	2021 £m	2020 £m
Profit before taxation	1,804	2,353
Expected taxation expense at UK rate of 19% (2019/20: 19%, 2018/19: 19%)	(343)	(447)
Effects of:		
Lower/(higher) taxes on non-UK profits	15	(5)
Net permanent differences between tax and accounting ^a	(34)	(40)
Adjustments in respect of earlier years ^b	24	40
Prior year non-UK losses used against current year profits	12	11
Non-UK losses not recognised ^c	(9)	(17)
Re-measurement of deferred tax balances	3	(161)
Total taxation expense	(332)	(619)
Exclude specific items (note 9)	(96)	83
Total taxation expense before specific items	(428)	(536)

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.

Notes to the consolidated financial statements continued

10. Taxation continued

Tax components of other comprehensive income

Year ended 31 March	2021 Tax credit (expense) £m	2020 Tax credit (expense) £m
Tax on items that will not be reclassified to the income statement		
Pension remeasurements	918	(808)
Tax on items that have been or may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	22	(4)
Fair value movements on cash flow hedges		
– net fair value gains or (losses)	111	(80)
– recognised in income and expense	–	–
Total tax recognised in other comprehensive income	1,051	(892)
Current tax credit ^a	203	267
Deferred tax credit (expense)	848	(1,159)
Total tax recognised in other comprehensive income	1,051	(892)

^a Includes £181m (2019/20: £271m) relating to cash contributions made to reduce retirement benefit obligations.

Tax (expense) credit recognised directly in equity

Year ended 31 March	2021 £m	2020 £m
Tax (expense) credit relating to share-based payments	5	–

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 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
Expense (credit) recognised in the income statement	(11)	(13)	(8)	2	9	–	(21)
Expense (credit) recognised in other comprehensive income	–	(737)	–	–	(111)	–	(848)
Expense (credit) recognised in equity	–	–	(5)	–	–	–	(5)
Exchange difference	8	–	–	(2)	–	–	6
At 31 March 2021	1,587	(926)	(20)	(66)	(135)	–	440
Non-current							
Deferred tax asset	–	(926)	(20)	(66)	(135)	158	(989)
Deferred tax liability	1,587	–	–	–	–	(158)	1,429
At 31 March 2021	1,587	(926)	(20)	(66)	(135)	–	440

^a Includes a deferred tax asset of £1m (2019/20: £1m) 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.

10. Taxation continued

What factors affect our future tax charges?

The Chancellor's Budget on 3 March 2021 announced a UK corporation tax rate increase from 19% to 25%, effective from 1 April 2023. As this rate change was not substantively enacted as at 31 March 2021, deferred tax assets and liabilities in these financial statements continue to be measured at 19%, the enacted rate at which they are expected to reverse. In the event that the rate change is enacted, BT Group estimates that the impact of revaluing existing deferred tax assets and liabilities will be a £0.4bn income statement charge and a £0.3bn credit to other comprehensive income, if the rate change is theoretically applied to the deferred tax balances at 31 March 2021.

What are our unrecognised tax losses and other temporary differences?

At 31 March 2021 we had operating losses and other temporary differences carried forward in respect of which no deferred tax assets were recognised amounting to £4.1bn (2019/20: £4.5bn). 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 2021	£m	Expiry
Restricted losses		
Europe	1	2022 – 2025
Americas	409	2022 – 2045
Other	3	2022 – 2030
Total restricted losses	413	
Unrestricted operating losses	3,302	No expiry
Other temporary differences	360	No expiry
Total	4,075	

At 31 March 2021 we had UK capital losses carried forward in respect of which no deferred tax assets were recognised amounting to £16.8bn (2019/20: £16.9bn). These losses have no expiry date, but we consider the future utilisation of significant amounts of these losses to be remote.

At 31 March 2021 the undistributed earnings of non-UK subsidiaries were £1.8bn (2019/20: £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 £43m (2019/20: £36.0m) would arise if these earnings were to be repatriated to the UK.

11. Earnings per share

How is earnings per share calculated?

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

In calculating the diluted earnings per share, share options outstanding and other potential shares have been taken into account where the impact of these is dilutive.

Year ended 31 March	2021	2020
Basic weighted average number of shares (millions)	9,905	9,885
Dilutive shares from share options (millions)	30	–
Dilutive shares from share awards (millions)	137	80
Diluted weighted average number of shares (millions)	10,072	9,965
Basic earnings per share	14.8 p	17.5 p
Diluted earnings per share	14.6 p	17.4 p

The earnings per share calculations are based on profit after tax attributable to equity shareholders of the parent company which excludes non-controlling interests. Profit after tax was £1,472m (2019/20: £1,734m) and profit after tax attributable to non-controlling interests was £3m (2019/20: £2m). Profit attributable to non-controlling interests is not presented separately in the financial statements as it is not material.

12. Dividends

What dividends have been paid?

No dividend is proposed in respect of the year ended 31 March 2021 (2019/20: no final dividend paid, interim dividend of 4.62p per share amounting to £457m paid on 3 February 2020).

The amount of £1,521m for total dividends paid in the prior year ended 31 March 2020 is disclosed in our statement of changes in equity and analysed below. This value may differ from the amount shown for equity dividends paid in the group cash flow statement, which represents the actual cash paid in relation to dividend cheques that have been presented over the course of the financial year.

Notes to the consolidated financial statements continued

12. Dividends continued

Year ended 31 March	2021		2020	
	pence per share	£m	pence per share	£m
Final dividend in respect of the prior year	–	–	10.78	1,064
Interim dividend in respect of the current year	–	–	4.62	457
	–	–	15.40	1,521

13. Intangible assets

Significant accounting policies that apply to intangible assets

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

Goodwill

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

Acquired intangible assets – customer relationships and brands

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

Telecommunications licences

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

Computer software

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

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

Other

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

Estimated useful economic lives

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

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

Impairment of intangible assets

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

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

13. Intangible assets continued

	Goodwill £m	Customer relationships and brands £m	Telecoms licences and other £m	Internally developed software ^a £m	Purchased software £m	Total £m
Cost						
At 1 April 2019	8,006	3,417	3,067	4,518	1,505	20,513
Additions	–	–	–	598	192	790
Disposals and adjustments ^b	(30)	(28)	(34)	(765)	(541)	(1,398)
Transfers	–	–	(2)	14	(3)	9
Exchange differences	52	8	1	2	10	73
Transfer to assets held for sale ^c	(83)	–	–	(13)	(45)	(141)
At 31 March 2020	7,945	3,397	3,032	4,354	1,118	19,846
Additions	–	–	–	596	187	783
Disposals and adjustments ^b	1	–	(19)	(240)	(122)	(380)
Transfers	–	–	–	46	(37)	9
Exchange differences	(108)	(14)	–	(3)	(11)	(136)
At 31 March 2021	7,838	3,383	3,013	4,753	1,135	20,122
Accumulated amortisation						
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 ^c	–	–	–	(8)	(39)	(47)
At 31 March 2020	–	1,930	574	2,951	502	5,957
Charge for the year	–	322	162	593	120	1,197
Disposals and adjustments ^b	–	–	(2)	(242)	(119)	(363)
Transfers	–	–	–	(1)	1	–
Exchange differences	–	(14)	–	(2)	(10)	(26)
At 31 March 2021	–	2,238	734	3,299	494	6,765
Carrying amount						
At 31 March 2020	7,945	1,467	2,458	1,403	616	13,889
At 31 March 2021	7,838	1,145	2,279	1,454	641	13,357

a Includes a carrying amount of £608m (2019/20: £538m) 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 £0.3bn (2019/20: £1.1bn).

c 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 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.

Notes to the consolidated financial statements continued

13. Intangible assets continued

Key accounting estimates and significant judgements made in reviewing goodwill for impairment

Determining our CGUs

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

Estimating value in use

Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate for each CGU. Future cash flows used in the value in use calculations are based on our latest Board-approved five-year financial plans. 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 2021. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment and sensitivities are disclosed below.

Cost	Legacy BT Consumer £m	Legacy EE £m	Enterprise ^a £m	Global £m	Total £m
At 1 April 2019	1,183	2,768	3,509	546	8,006
Exchange differences	–	–	4	48	52
Acquisitions and disposals	–	–	(30)	–	(30)
Transfers to assets held for sale	–	–	–	(83)	(83)
At 31 March 2020	1,183	2,768	3,483	511	7,945
Exchange differences	–	–	(8)	(100)	(108)
Acquisitions and disposals	–	–	–	1	1
At 31 March 2021	1,183	2,768	3,475	412	7,838

a On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result will now be reported in Group 'Other' financial results. Goodwill was not affected by the transfer.

The decrease in goodwill is driven by foreign exchange losses.

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 2020/21 was 8.1% (2019/20: 8.0%). We have used the same discount rate for all CGUs except Global where we have used 8.5% (2019/20: 8.6%) 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 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 average long-term growth rates for those markets or sectors. We used a perpetuity growth rate of 2.3% (2019/20: 2.4%) for Global and 2.0% (2019/20: 2.0%) for Enterprise and our legacy BT Consumer and EE CGUs.

What sensitivities have we applied?

There is significant headroom in all of our CGUs. The CGU with the lowest headroom is legacy Consumer.

For legacy Consumer, the value in use exceeds the carrying value of the CGU by approximately £2.2bn (2019/20: £2.5bn). Any of the following changes in assumptions in isolation would cause the recoverable amount for the CGU to equal its carrying amount:

- A reduction in the perpetuity growth rate from our 2.0% assumption to a revised assumption of a perpetuity decline rate of 2.7%;
- An increase in the discount rate from our 8.1% assumption to a revised assumption of 11.8%; or
- Shortfalls in trading performance against forecast resulting in operating cash flows decreasing by 39.3% each year and in perpetuity.

13. Intangible assets continued

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 as at 31 March 2021. Its impact on the group is considered to be relatively 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.

14. Property, plant and equipment

Significant accounting policies that apply to property, plant and equipment

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

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

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

Estimated useful economic lives

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

Land and buildings

- Freehold buildings 14 to 50 years
- Short-term leasehold improvements Shorter of 10 years or lease term
- Leasehold land and buildings Unexpired portion of lease or 40 years, whichever is the shorter

Network infrastructure

Transmission equipment

- Duct 40 years
- Cable 3 to 25 years
- Fibre 5 to 20 years

Exchange equipment 2 to 13 years

Other network equipment 2 to 20 years

Other assets

- Motor vehicles 2 to 9 years
- Computers and office equipment 3 to 7 years

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

Network share assets

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

Impairment of property, plant and equipment

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

Notes to the consolidated financial statements continued

14. Property, plant and equipment continued

Building Digital UK (BDUK) government grants

We receive government grants in relation to the 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 recognise deferred income in respect of the funding that will be re-invested or repaid, and make a corresponding adjustment to the carrying amount of the related property, plant and equipment.

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

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

	Land and buildings £m	Network infrastructure £m	Other ^a £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2019	1,026	51,893	1,722	1,191	55,832
Additions ^b	7	83	69	2,978	3,137
Transfers	25	3,244	17	(3,295)	(9)
Disposals and adjustments ^c	(55)	(1,132)	(130)	42	(1,275)
Transfer to assets held for sale ^d	(69)	(255)	(24)	–	(348)
Exchange differences	11	60	8	–	79
At 31 March 2020	945	53,893	1,662	916	57,416
Additions ^b	10	(65)	69	3,401	3,415
Transfers	32	3,123	141	(3,305)	(9)
Disposals and adjustments ^c	(19)	(2,209)	(333)	(21)	(2,582)
Exchange differences	(22)	(146)	(19)	(1)	(188)
At 31 March 2021	946	54,596	1,520	990	58,052
Accumulated depreciation					
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 ^c	(68)	(1,128)	(91)	–	(1,287)
Transfer to assets held for sale ^d	(55)	(216)	(22)	–	(293)
Exchange differences	10	54	8	–	72
At 31 March 2020	610	37,080	1,350	–	39,040
Charge for the year	41	2,282	137	–	2,460
Transfers	(1)	2	(1)	–	–
Disposals and adjustments ^c	(20)	(2,209)	(332)	–	(2,561)
Exchange differences	(18)	(133)	(17)	–	(168)
At 31 March 2021	612	37,022	1,137	–	38,771
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 2021	334	17,574	383	990	19,281
Engineering stores	–	–	–	116	116
Total at 31 March 2021	334	17,574	383	1,106	19,397

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

b Net of government grants of £21m (2019/20: £98m).

c 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 £2.3bn (2019/20: £0.7bn). Disposals and adjustments include adjustments resulting from changes in assumptions used in calculating lease-end obligations where the corresponding asset is capitalised.

d 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.

14. Property, plant and equipment continued

Included within the above disclosure are assets used in arrangements which represent core business activities for the group and which meet the definition of operating leases:

- £13,032m (2019/20: £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 £128m (2019/20: £33m) that are made available to retail customers under arrangements that contain operating leases.

The carrying amount of land and buildings, including leasehold improvements, comprised:

At 31 March	2021 £m	2020 £m
Freehold	123	105
Leasehold	211	230
Total land and buildings	334	335

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 £625m (2019/20: £600m) and is recorded within network infrastructure. Included within this is £95m (2019/20: £112m), being the group's share of assets owned by its joint operation MBNL.

Within network infrastructure are assets with a net book value of £10.3bn (2019/20: £10bn) which have useful economic lives of more than 18 years.

15. Leases

Significant accounting policies that apply to leases

Identifying whether a lease exists

At inception of a contract, we determine whether the contract is, or contains a lease. A lease exists if the contract conveys the right to control the use of an identified asset, for a period of time, in exchange for consideration. In making this assessment, we consider whether:

- The contract involves the use of an identified asset, either explicitly or implicitly. The asset must be physically distinct or represent substantially all the capacity of a physically distinct asset. Assets that a supplier has a substantive right to substitute are not considered distinct.
- The lessee (either the group, or the group's customers) has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The lessee has the right to direct the use of the asset, in other words, has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

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

Lessee accounting

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

Lease liabilities are initially measured at the present value of lease payments that are due over the lease term, discounted using the group's incremental borrowing rate.

The lease term is the non-cancellable period of the lease adjusted for the impact of any extension options that we are reasonably certain the lessee will exercise, or termination options that we are reasonably certain the lessee will not exercise.

The incremental borrowing rate 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

Notes to the consolidated financial statements continued

15. Leases continued

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Lease liabilities are subsequently measured at amortised cost using the effective interest method. They are remeasured if there is a change in future lease payments, including changes in the index or rate used to determine those payments, or the amount we expect to be payable under a residual value guarantee.

We also remeasure lease liabilities where the lease term changes. This occurs when the non-cancellable period of the lease changes, or on occurrence of a significant event or change in circumstances within the control of the lessee and which changes our initial assessment in regard to whether the lessee is reasonably certain to exercise extension options or not to exercise termination options. Where the lease term changes we remeasure the lease liability using the group's incremental borrowing rate at the date of reassessment. Where a significant event or change in circumstances does not occur, the lease term remains unchanged and the carrying amounts of the lease liability and associated right-of-use asset will decline over time.

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

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

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

During the year we made limited use of the practical expedient available under IFRS 16 when accounting for Covid-19 related rent concessions. Its use had a negligible impact on the amounts that otherwise have been recognised in the income statement.

Significant judgements made in accounting for leases

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 we are reasonably certain the lessee will exercise extension options or will not exercise termination options. Key facts and circumstances that create an incentive to exercise those options are considered, these include:

- Our anticipated operational, retail and office property requirements in the mid and long-term.
- 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.
- Significant investments in leased sites, in particular those with useful lives beyond the lease term.
- 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 leases of non-specialised property and equipment on rolling (or 'evergreen') arrangements that continue until terminated and which can be exited without significant penalty.

Following initial determination of the lease term, we exercise judgement in evaluating whether events or changes in circumstances are sufficiently significant to change the initial assessment of whether we are reasonably certain the lessee will exercise extension options or will not exercise termination options; and in the subsequent reassessment of the lease term.

The key judgements exercised in setting the lease term are associated with our portfolios of leased properties and cell sites.

Property

Substantially all of our leased property estate is held under an arrangement with an initial term ending in 2036 but which can be terminated in 2031, at which point we may either vacate some or all properties; or purchase the entire estate. The lease liability recognised for the arrangement reflects a lease end date of 2031. On initial recognition we concluded that although the majority of these properties are expected to be needed on a long-term basis, we couldn't be reasonably certain that we wouldn't exercise either of the termination or purchase options. In coming to this conclusion we had due regard to material sub-lease arrangements relating to the estate. As time progresses our assessment may change. If this happens we will remeasure the lease liability and right-of-use asset to reflect either the rentals due over through to 2036 for any properties we will continue to occupy, or the cost of purchasing the estate. This could result in a significant increase to the respective lease liabilities and right-of-use assets.

15. Leases continued

We are permitted to hand a limited number of properties back to the lessor prior to 2031. On initial adoption of IFRS 16 we were not reasonably certain which properties would be handed back and as such the lease term did not reflect the exercise of these options. Subsequently we exercise judgement in identifying significant events that trigger reassessment of our initial conclusion. We exercise similar judgement in identifying events triggering reassessment of whether we are reasonably certain we will not exercise termination options associated with other leased properties.

In doing so we consider decisions associated with our ongoing workplace rationalisation programme, in particular decisions to exit a particular location or lease an alternative property. Generally we remain reasonably certain that we will not exercise a termination option until implementation of the associated business plan has progressed to a stage that we are committed to exiting the property. At that point we reassess the lease term by reference to the time we expect to remain in occupation of the property and any notice period associated with exercise of the option.

Cell sites

Most of the liability recognised in respect of leased cell sites relates to multi-site arrangements with commercial providers. The fixed-term nature of these arrangements means it has not been necessary to exercise significant judgement when determining the lease term.

A smaller proportion of the cell site liability relates to arrangements with individual landlords which are either rolling or can be exited with notice. When setting the initial lease term for these arrangements we exercised significant judgement in establishing the period that we are reasonably certain to require use of the site. We broadly aligned lease terms with our medium-term planning horizon after assessing the relative strengths of the following factors:

- Long-term economic incentives to remain on sites including existing capital improvements;
- A need to maintain flexibility in our ability to develop and manage our network infrastructure to react quickly to technological developments and evolving capacity requirements; and
- Incentives to renegotiate arrangements in the medium term to gain more security over sites to support future capital investment.

Subsequently, we consider key events that trigger reassessment of lease terms to be developments which resolve uncertainty around our economic incentive to remain on individual sites in the long term. These are primarily lease renegotiations and significant capital investments, for example that associated our 5G rollout and other capital refresh programmes.

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	Motor vehicles ^a £m	Other ^a £m	Total £m
At 1 April 2019	4,628	189	314	24	5,155
Additions ^b	942	59	475	–	1,476
Depreciation charge for the year	(513)	(37)	(97)	(2)	(649)
Other movements ^{c,d,e}	(228)	(32)	(315)	(16)	(591)
At 1 April 2020^e	4,829	179	377	6	5,391
Additions ^b	361	6	116	11	494
Depreciation charge for the year	(546)	(30)	(110)	(4)	(690)
Other movements ^{c,f}	(312)	(10)	(8)	(2)	(332)
At 31 March 2021	4,332	145	375	11	4,863

a The 'other' asset class has been disaggregated to present motor vehicles and other types of leased asset separately. Balances disclosed in 2019/20 have been re-presented.

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 primarily 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.

d 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.

e Other movements in 2019/20 have also been re-presented to reclassify £25m downwards movements in leased property from 'other' to 'land and buildings' with a corresponding impact on opening right-of-use assets at 1 April 2020.

f Other movements in 2020/21 include derecognition of right-of-use assets with a carrying amount of £208m associated with a finance sub-lease arrangement.

Notes to the consolidated financial statements continued

15. Leases continued

Lease liabilities

Lease liabilities recognised at 31 March 2021 total £6,152m (31 March 2020: £6,560m). £730m (31 March 2020: £812m) of this balance is classified as current, with the remaining £5,422m (31 March 2020: £5,748m) classified as non-current.

In the prior 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:

- Interest expense of £142m (2019/20: £140m) accrued on lease liabilities.
- Variable lease payments of £27m (2019/20: £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 not material.

The total cash outflow for leases in the year was £924m (2019/20: £791m). Our cash flow statement (page 122) and normalised free cash flow reconciliation (page 199) present £782m (2019/20: £651m) of the cash outflow as relating to the principal element of lease liability payments, with the remaining balance of £142m (2019/20: £140m) presented within interest paid.

Note 28 presents a maturity analysis of the payments due over the remaining lease term for lease liabilities currently recognised on the balance sheet. This analysis only includes payments to be made over the reasonably certain lease term. Cash outflows are likely to exceed these amounts as payments will be made on optional periods that we do not currently consider to be reasonably certain, and in respect of leases entered into in future periods.

Other information relating to leases

We did not enter into any material sale and leaseback transactions this year. In 2019/20 we recognised net gains of £115m from sale and leaseback transactions, substantially all of which related to the disposal of our BT Centre headquarters. We occupy the property under a lease arrangement while our new headquarters is prepared. As the transaction met the definition of a sale under IFRS 15 we recognised a right-of-use asset for the leaseback at the proportion of the previous carrying amount of the headquarters, reflecting the right of use retained. We recognised a gain in the income statement relating to the rights transferred to the buyer-lessor.

Our material lease arrangements do not have indexation clauses linked to Interbank Offered Rates (IBORs). As a result we do not consider that the upcoming Interest Rate Benchmark Reform will have a material impact on the lease liabilities or right-of-use assets recognised at 31 March 2021.

At 31 March 2021 the group was committed to future minimum lease payments of £4m in respect of leases which have not yet commenced and for which no lease liability has been recognised (31 March 2020: £274m, primarily leases entered into under our workplace restructuring programme and including our new headquarters).

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

	To be recognised as revenue (note 5) £m	To be recognised as other operating income (note 6) £m	Total £m
At 31 March 2021			
Less than one year	449	27	476
One to two years	179	13	192
Two to three years	51	10	61
Three to four years	2	10	12
Four to five years	1	10	11
More than five years	–	30	30
Total undiscounted lease payments	682	100	782

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

16. Programme rights

Significant accounting policies that apply to programme rights

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

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

	Total £m
At 1 April 2019	310
Additions	870
Amortisation	(870)
At 1 April 2020	310
Additions	903
Credits received on prepaid programme rights ^a	(99)
Amortisation	(786)
At 31 March 2021	328

a Credits received in respect of prepaid programme rights relating to sporting events postponed or cancelled as a result of the Covid-19 pandemic.

17. Trade and other receivables

Significant accounting policies that apply to trade and other receivables

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

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

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

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

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

Notes to the consolidated financial statements continued

17. Trade and other receivables continued

At 31 March	2021 £m	2020 £m
Current		
Trade receivables	1,209	1,375
Prepayments ^a	1,357	607
Accrued income	130	57
Deferred contract costs	348	422
Other receivables	213	243
	3,257	2,704
Non-current		
Other assets ^b	103	222
Deferred contract costs	211	259
	314	481

a Prepayments include £702m (2019/20: £nil) relating to funds prepaid to Ofcom for the recent Spectrum auction.

b Other assets comprise prepayments and leasing debtors.

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

	2021 £m	2020 £m
At 1 April	329	299
Expense	95	213
Utilised	(131)	(189)
Exchange differences	(9)	6
At 31 March	284	329

Included within the movements above are certain items which have been classified as a specific item (see note 9). In 2020/21 a £7m release (2019/20: £67m increase) in the provision was treated as specific, reflecting lower expected credit losses above our standard provisioning policies as a result of Covid-19.

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

	Past due and not specifically impaired						Total £m
	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	
At 31 March							
2021	845	36	205	40	51	32	1,209
2020	903	25	308	45	49	45	1,375

Gross trade receivables which have been specifically impaired amounted to £52m (2019/20: £34m).

17. Trade and other receivables continued

The expected credit loss allowance for trade receivables was determined as follows:

	Past due and not specifically impaired						Total £m
	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	
At 31 March							
2021							
Expected loss rate %	4%	29%	15%	38%	47%	87%	24%
Gross carrying amount	880	51	240	65	97	254	1,587
Loss allowance	(35)	(15)	(35)	(25)	(46)	(222)	(378)
Net carrying amount	845	36	205	40	51	32	1,209
2020							
Expected loss rate %	4%	26%	12%	36%	42%	86%	24%
Gross carrying amount	944	34	351	70	84	316	1,799
Loss allowance	(41)	(9)	(43)	(25)	(35)	(271)	(424)
Net carrying amount	903	25	308	45	49	45	1,375

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

	Trade receivables not past due		Accrued income	
	2021 £m	2020 £m	2021 £m	2020 £m
At 31 March				
Consumer	319	353	50	1
Enterprise ^a	144	139	–	3
Global	380	409	–	–
Openreach	–	–	78	51
Other ^a	2	2	2	2
Total	845	903	130	57

^a On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result will now be reported in Group 'Other' financial results. The impact on trade receivables was less than £1m in 2019/20 so the 2020 comparatives have not been restated.

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.

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.

Notes to the consolidated financial statements continued

17. Trade and other receivables continued

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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 1 April 2020	32	94	449	106	681
Additions	10	76	301	26	413
Amortisation	(9)	(68)	(391)	(19)	(487)
Impairment	(1)	(4)	(11)	(15)	(31)
Other	–	(4)	–	(13)	(17)
At 31 March 2021	32	94	348	85	559

18. Trade and other payables

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Significant accounting policies that apply to trade and other payables

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

At 31 March	2021 £m	2020 £m
Current		
Trade payables	4,024	3,889
Other taxation and social security	491	562
Other payables	495	498
Accrued expenses	634	545
Deferred income ^a	336	300
	5,980	5,794

At 31 March	2021 £m	2020 £m
Non-current		
Other payables	12	18
Deferred income ^a	670	736
	682	754

^a Deferred income includes £96m (2019/20: £94m) current and £472m (2019/20: £525m) non-current liabilities relating to the Building Digital UK programme, for which grants received by the group may be subject to re-investment or repayment depending on the level of take-up.

Current trade and other payables at 31 March 2021 include £45m of trade payables that have been factored by suppliers in a supply chain financing programme (31 March 2020: £81m). These programmes are used with a limited number of suppliers with short payment terms to extend them to a more typical payment term.

19. Provisions

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

Significant accounting policies that apply to provisions

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

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

Critical & key accounting estimates and significant judgements made in accounting for provisions

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

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

In estimating contingent liabilities we make key judgements in relation to applicable law and any historical and pending court rulings, and the likelihood, timing and cost of resolution.

Establishing contingent liabilities associated with litigation brought against the group may involve the use of critical estimates and assumptions, in particular around the ability to form a reliable estimate of any probable outflow. We provide further information in note 31.

Other provisions and contingent liabilities may involve the use of key (but not critical) estimates as explained below.

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

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

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

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

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

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

Notes to the consolidated financial statements continued

19. Provisions continued

	Property £m	Network ARO £m	Network share £m	Regulatory £m	Litigation £m	Insurance ^b £m	Other ^b £m	Total £m
At 1 April 2019	156	148	15	182	84	96	116	797
Additions	18	52	88	26	7	7	63	261
Unwind of discount	1	1	–	–	–	–	–	2
Utilised or released	(31)	(22)	(91)	(129)	(14)	(14)	(63)	(364)
Transfers ^a	–	–	–	–	11	–	11	22
Exchange differences	–	–	–	–	–	–	1	1
At 31 March 2020	144	179	12	79	88	89	128	719
Additions	9	–	1	32	17	7	50	116
Unwind of discount	1	–	–	–	–	–	–	1
Utilised or released	(16)	(21)	(1)	(15)	–	(5)	(63)	(121)
Transfers	–	–	–	–	4	–	(4)	–
Exchange differences	–	–	–	–	–	–	–	–
31 March 2021	138	158	12	96	109	91	111	715

a Transfers in 2019/20 include £5m on provisions associated with held-for-sale assets during the period. See note 23.

b We have re-presented previously reported Insurance provisions as their own category. Previously these were included within 'Other'.

At 31 March	2021 £m	2020 £m
Analysed as:		
Current	288	288
Non-current	427	431
	715	719

Included within 'Other' provisions are contract loss provisions of £2m (2019/20: £10m) relating to the anticipated total losses in respect of certain contracts. Last year 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 was recorded as a specific item (note 9). In 2020/21 this provision has been fully released. This release has been classified as a specific item.

20. Retirement benefit plans

Background to BT's pension plans

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

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

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

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

	What are they?	Future implications for BT?
Defined contribution plans	Benefits in a defined contribution plan are linked to the value of each member's fund, which is based on: – contributions paid – the performance of each individual's chosen investments	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 and are: – dependent on factors such as age, years of service and pensionable pay – not dependent on actual contributions made by the company or members.	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.

20. Retirement benefit plans continued

Significant accounting policies that apply to retirement benefit plans

Defined benefit plans

The Retirement Benefit Obligations in respect of defined benefit plans is the liability (the present value of all expected future benefit cash flows to be paid by each plan, calculated using the projected unit credit method by professionally qualified actuaries) 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 financial assumptions, which are based on market conditions at the reporting date, and demographic assumptions, such as life expectancy, compared with those adopted the start of the year;
- The impact on the liabilities of actual experience being different to assumptions made at the start of the year, for example, from members choosing different benefit options at retirement or actual benefit increases being different to the pension increase assumption; and
- The return on plan assets being above or below the amount included in the net finance income or expense.

Defined contribution plans

The operating charge for the defined contribution pension plans we operate represents the contributions payable for the year.

Amounts in the financial statements

Group income statement

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

Year ended 31 March	2021 £m	2020 £m
Recognised in the income statement before specific items		
– Service cost (including administration expenses and PPF levy):		
– defined benefit plans	63	86
– defined contribution plans	527	540
– Past service cost	1	–
Subtotal	591	626
Recognised in the income statement as specific items (note 9)		
– Costs to close BT Pension Scheme and provide transition payments ^a for affected employees	21	22
– Interest on pensions deficit	18	145
Subtotal	39	167
Total recognised in the income statement	630	793

a All employees impacted by the closure of the BTPS were eligible for transition payments from the date of closure 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.

Group balance sheet

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

At 31 March	2021			2020		
	Assets £m	Liabilities £m	Deficit ^a £m	Assets £m	Liabilities £m	Deficit ^a £m
BTPS	53,172	(57,737)	(4,565)	52,240	(53,010)	(770)
EEPS	934	(1,127)	(193)	820	(879)	(59)
Other plans ^b	506	(844)	(338)	411	(722)	(311)
Retirement Benefit Obligations (gross of tax)	54,612	(59,708)	(5,096)	53,471	(54,611)	(1,140)
Deferred tax asset			925			175
Retirement Benefit Obligations (net of tax)			(4,171)			(965)

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 £146m (2019/20: £150m) related to unfunded pension arrangements.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Movements in defined benefit plan assets and liabilities

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

	Assets £m	Liabilities £m	Deficit £m
At 31 March 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	–	3,746	3,746
Actuarial gain arising from changes in demographic assumptions	–	498	498
Actuarial gain arising from experience adjustments	–	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)
Service cost (including administration expenses and PPF levy)	(44)	(19)	(63)
Past service cost	–	(1)	(1)
Interest on pension deficit	1,281	(1,299)	(18)
Included in the group income statement			(82)
Return on plan assets above the amount included in the group income statement	1,766	–	1,766
Actuarial loss arising from changes in financial assumptions	–	(8,504)	(8,504)
Actuarial gain arising from changes in demographic assumptions	–	1,746	1,746
Actuarial gain arising from experience adjustments	–	136	136
Included in the group statement of comprehensive income			(4,856)
Regular contributions by employer	17	–	17
Deficit contributions by employer	955	–	955
Included in the group cash flow statement			972
Contributions by employees	1	(1)	–
Benefits paid	(2,822)	2,822	–
Other (e.g. foreign exchange)	(13)	23	10
Other movements			10
At 31 March 2021	54,612	(59,708)	(5,096)

Overview and governance of the BTPS

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.

20. Retirement benefit plans continued

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
Sections A & 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.

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 Pensions Acts of 1993, 1995, 2004 and 2021).

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 estimates and significant judgements 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 market conditions.

Around £5bn of these unquoted investments have valuations which precede the reporting date and where the valuations have been adjusted for cash movements between the last valuation date and 31 March 2021, using the valuation approach and inputs as at the last valuation date. Typically, the valuation approach and inputs for these investments are only updated over this period where there are indications of significant market movements.

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

- 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.
- 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 (including adjustments to the risk free rate) and the mortality assumptions.

Notes to the consolidated financial statements continued

20. 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).

		2021 ^a			2020 (Restated) ^a		
		Total assets £bn	of which quoted ^b £bn	Total %	Total assets £bn	of which quoted ^b £bn	Total %
Growth							
Equities	UK	0.3	0.3	1	0.3	0.3	1
	Overseas developed	7.0	6.5	13	6.7	5.6	13
	Emerging markets	1.3	1.3	2	1.0	1.0	2
Private Equity		1.6	–	3	1.3	–	2
Property	UK	2.9	–	5	3.0	–	6
	Overseas	0.8	–	2	1.1	–	2
Other growth assets	Absolute Return ^c	1.1	–	2	1.2	–	2
	Non Core Credit ^d	4.3	1.4	8	4.1	1.0	8
	Mature Infrastructure	1.3	–	2	1.3	–	2
Liability matching							
Government bonds	UK	14.3	14.3	27	13.9	13.9	27
Investment grade credit	Global	14.1	11.5	27	14.4	10.1	28
Secure income assets ^e		2.1	–	4	0.8	–	2
Cash, derivatives and other							
Cash balances		1.4	–	3	2.3	–	4
Longevity insurance contract ^f		(0.8)	–	(2)	(0.8)	–	(2)
Other ^g		1.5	–	3	1.6	–	3
Total		53.2	35.3	100	52.2	31.9	100

a At 31 March 2021, the Scheme did not hold any equity issued by the group (2019/20: nil). The Scheme held £2,216m (2019/20: £1,867m) of bonds issued by the group.

b Assets with a quoted price in an active market.

c This allocation seeks to generate a positive return irrespective in all market conditions.

d 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.

e Category introduced in 2020/21 reclassifying certain existing assets, including property, infrastructure and credit investments, as these provide a stable income which supports cashflow and liability management.

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 and movements partly offset a corresponding reduction in the Scheme's liabilities over the same period

g Includes collateral posted in relation to derivatives held by the Scheme.

BTPS IAS 19 liabilities

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

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

20. Retirement benefit plans continued

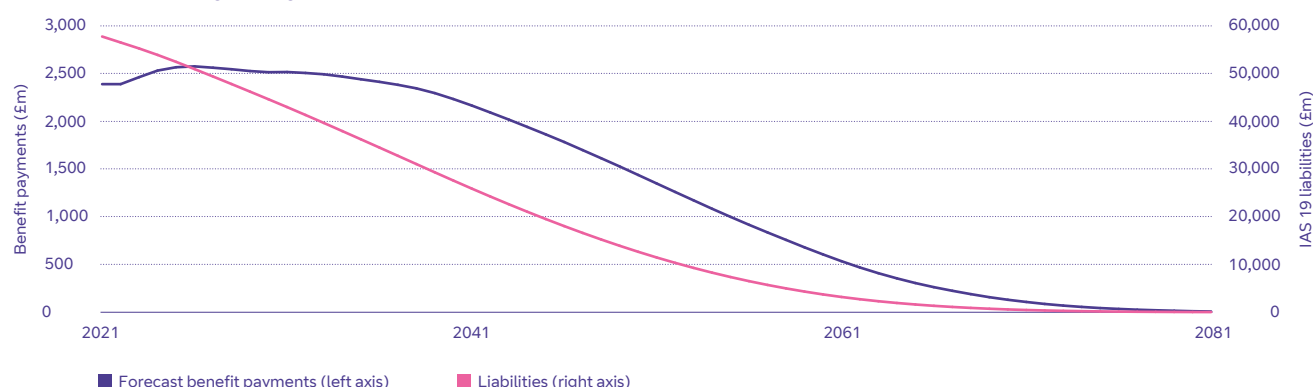
What are the forecast benefits payable from the BTPS?

There were 280,000 members in the BTPS at 30 June 2020, the date of the membership data used to value the IAS 19 liabilities. Members belong to one of three sections depending upon the date they first joined the BTPS, which impacts the benefits they are expected to receive.

Benefits to members from the BTPS are expected to be paid over more than 60 years. Projecting future expected benefit payments requires a number of assumptions, including future inflation, retirement ages, benefit options chosen and life expectancy and is 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. The liabilities are the present value of the future estimated benefit payments.

The chart below illustrates the estimated benefits payable from the BTPS, and projected liabilities, forecast using the IAS 19 assumptions. Whilst benefit payments are expected to increase over the earlier years, the value of the liabilities is expected to reduce.

Forecast benefits payable by BTPS at 31 March 2021 (unaudited)



The estimated duration of the BTPS liabilities, which is an indicator of the weighted average term of the liabilities, is 15 years using the IAS 19 assumptions.

What is the breakdown of the membership and liabilities?

	Active members	Deferred members	Pensioners	Total
Sections A and B liabilities (£bn) ^a	–	6.9	31.5	38.4
Section C liabilities (£bn)	–	14.0	5.3	19.3
Total IAS 19 liabilities (£bn)	–	20.9	36.8	57.7
Total number of members	– ^b	73,900	206,100	280,000

^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 2020 there were around 30 active members in the BTPS.

What are the key assumptions and how have they been set?

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

	Nominal rates (per year)		Real rates (per year) ^a	
	2021	2020	2021	2020
At 31 March				
Rate used to discount liabilities	2.05%	2.45%	(1.11)%	(0.15)%
Inflation – average increase in RPI	3.20%	2.60%	–%	–%
Inflation – average increase in CPI	2.75%	1.90%	(0.44)%	(0.68)%

^a The real rate is calculated relative to RPI inflation.

The BTPS represents around 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%).

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

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

	2021	2020
At 31 March	Number of years	Number of years
Male in lower pension bracket	25.5	25.4 to 26.7
Male in higher pension bracket	27.6	28.1
Female	27.9	28.1 to 28.4
Average additional life expectancy for a member retiring at age 60 in 10 years' time	0.4	0.7

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. The discount rate model has been updated over the year to use a wider universe of corporate bonds to derive the yield curve. The revised model is a standard approach developed by our external actuary. The revised model leads to a 20bps increase in the discount rate at 31 March 2021 and a corresponding £1.7bn reduction in the BTPS liabilities.
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). CPI is assessed at a margin below RPI taking into account market forecasts and independent estimates of the expected difference. In 2020, it was announced that RPI will be aligned with CPIH from 2030 onwards. The following judgements have been updated reflecting the announcement: – the assumed inflation risk premium has been increased from 20bps to an average of 25bps (based on 20bps until 2030, and 30bps thereafter). This has reduced the BTPS liabilities by £0.4bn at 31 March 2021 – CPI is assumed to be in line with RPI after 2030, as historically CPI and CPIH have been broadly comparable. This has increased the BTPS liabilities by £1.1bn at 31 March 2021
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. Certain pension increases in the BTPS are linked to benefits provided by Government to public sector pension schemes. In 2018, Government made a temporary decision about how these benefits would be increased. We anticipated Government would continue to pay higher pension increases to public sector pension schemes at the end of the temporary period and intended to reflect in the liabilities once confirmed. In March 2021, Government confirmed this decision, which has crystallised a £0.3bn increase to the BTPS liabilities at 31 March 2021.
Longevity	The longevity assumption takes into account: – the actual mortality experience of the BTPS pensioners, based on a formal review conducted at the 2020 triennial funding valuation – future improvements in longevity based on a model published by the UK actuarial profession's Continuous Mortality Investigation (updating to use the CMI 2019 Mortality Projections model, and reducing the long-term improvement parameter to 1.00% per year). No adjustments were made to mortality assumptions in relation to Covid-19. These changes reflect our expectation that life expectancy will not improve as quickly as previously assumed and reduce the BTPS liabilities by £1.7bn at 31 March 2021.

20. Retirement benefit plans continued

Risks underlying the assumptions

Background

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

Changes in external factors, such as bond yields, 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 with reference to the funding liabilities (see page 163 for sensitivities to the funding liabilities). This leads to the BTPS being over-hedged to changes in bond yields under IAS 19.

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 more than offset the impact of movements in the discount rate on the IAS 19 liabilities (but only partly offset movements in the funding liabilities). 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, and adopts a diverse portfolio, 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 20% 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.

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.

Scenario analysis

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

Scenario	1-in-20 events	
	2021	2020
1. Fall in bond yields ^a	1.1%	1.1%
2. Increase in credit spreads ^b	0.7%	0.7%
3. Increase to inflation rate ^c	0.7%	0.7%
4. Fall in growth assets ^d	20.0%	20.0%
5. Increase to life expectancy	1.00 years	1.25 years

a Scenario assumes a fall in the yields on both government and corporate bonds.

b Scenario assumes an increase in the yield on corporate bonds, with no change to yield on government bonds.

c Assuming RPI, CPI, pension increases and salary increases all increase by the same amount.

d Impact includes the potential impact of temporary equity hedges held by the Scheme. Scenario considers combinations of changes to the key inputs used to value the growth assets, as detailed on page 157, leading to a 20% fall in the aggregate value of the growth assets prior to temporary hedges held by the Scheme.

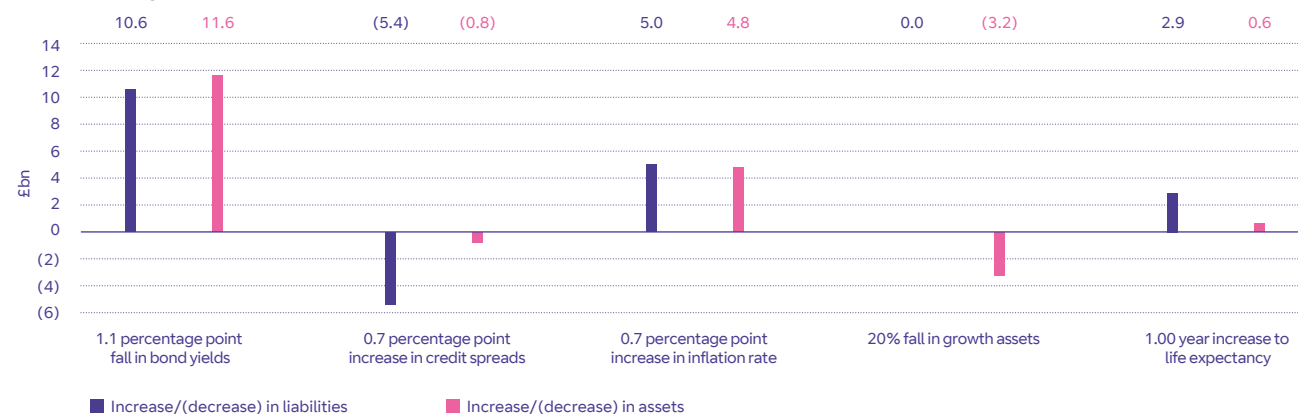
The impact shown under each scenario looks at each event in isolation – in practice a combination of events could arise.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

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

Scenario analysis



While the IAS 19 position is over-hedged against movements in interest rates, the funding deficit remains under-hedged against these movements.

The sensitivities have been prepared using the same approach as 2019/20 which involves calculating the liabilities and assets assuming the change in market conditions assumed under the scenario occurs.

BTPS funding

Triennial funding valuation

A funding valuation is carried out for the Trustee by a professionally qualified independent actuary at least every three years. The purpose of the funding valuation is for BT and the Trustee to agree cash contributions from BT to the BTPS to ensure the BTPS has sufficient funds available to meet future benefit payments to members. It is prepared using the principles set out in UK Pension legislation, e.g. the 2004 Pensions Act, and uses a prudent approach overall.

This differs from the IAS 19 valuation, which is used for deriving balance sheet and P&L figures in Company accounts with principles being set out in the IFRS standards, and uses a best-estimate approach overall.

The different purpose and principles lead to different assumptions being used, and therefore a different estimate for the liabilities and deficit.

The latest funding valuation was performed as at 30 June 2020. The next funding valuation will have an effective date of no later than 30 June 2023.

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

	June 2020 valuation £bn	June 2017 valuation £bn
BTPS funding liabilities	(65.3)	(60.4)
Market value of BTPS assets	57.3	49.1
Funding deficit	(8.0)	(11.3)
Percentage of accrued benefits covered by BTPS assets at valuation date	88%	81%
Percentage of accrued benefits on a solvency basis covered by the BTPS assets at the valuation date	71%	62%

Key assumptions – funding valuation

The most recent funding valuations were determined using the following prudent long-term assumptions.

	Nominal rates (per year)		Real rates (per year) ^a	
	June 2020 valuation %	June 2017 valuation %	June 2020 valuation %	June 2017 valuation %
Average single equivalent discount rate	1.4	2.6	(1.7)	(0.8)
Average long-term increase in RPI	3.2	3.4	–	–
Average long-term increase in CPI	2.4	2.4	(0.7)	(1.0)

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

20. Retirement benefit plans continued

The discount rate at 30 June 2020 was derived from prudent return expectations above a risk-free yield curve based on gilt and swap rates. The discount rate reflects the investment strategy over time, allowing for the Scheme de-risk to a portfolio consisting predominantly of bond and bond-like investments by 2034. It has been set consistently with the 2017 valuation, mechanically updated to reflect the move in swap pricing from LIBOR to SONIA, leading to a prudent discount rate of 1.4% per year above the yield curve in 2020, trending down to 0.8% per year above the curve in the long-term. The assumption is equivalent to using a flat discount rate of 0.9% per year above the risk-free yield curve at 30 June 2020.

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

Number of years from valuation date	June 2020 assumptions	June 2017 assumptions
Male in lower pension bracket	25.8	25.9 to 27.2
Male in higher pension bracket	28.0	28.6
Female	28.5	28.6 to 28.9
Average additional life expectancy for a member retiring at age 60 in 10 years' time	0.9	0.9

Changes in the funding position (unaudited)

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 162 on the 30 June 2020 funding liabilities, assets and deficit is shown in the table below.

Scenario	Increase in funding liabilities (£bn)	Increase in assets (£bn)	Increase in funding deficit (£bn)
1.1% fall in bond yields	13.8	13.6	0.2
0.7% increase to inflation rate	7.2	5.6	1.6
1.00 years increase to life expectancy	3.3	0.6	2.7

Future funding obligations and deficit repair 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 2021, the 2020 triennial funding valuation was finalised, agreed with the Trustee and certified by the Scheme Actuary. The funding deficit at 30 June 2020 was £7.98bn. The deficit was agreed to be met as follows:

- £2bn met through an Asset Backed Funding arrangement, expected to be implemented by 30 June 2021.

This will be structured as a Scottish Limited Partnership (SLP), with £180m per year payable annually for 13 years between June 2021 and June 2033. The stream of payments will be financed through proceeds from EE Limited, and shares in EE Limited will provide security over the payment stream. No impact is expected to the day to day operations of BT or EE as a result of implementing the structure.

If the Scheme reaches full funding as calculated by the Scheme Actuary at any 30 June, the payments to the Scheme will cease. The ABF meets £2bn of deficit as all 13 payments are assumed to be made to the BTPS. However, the market value reflects the possibility that payments may switch-off. This leads to the BTPS recognising a £1.7bn asset initially, with a corresponding reduction in the funding deficit, and BT receiving tax relief on that amount. Tax relief on the balance of the payments comes through over time as payments are made to the BTPS.

The Asset Backed Funding arrangement has no impact on the gross IAS 19 deficit in the BT plc consolidated accounts initially, but will reduce the deferred tax asset recognised, as tax relief has been received up-front. Annual capital and interest payments will reduce the IAS 19 deficit.

- Cash contributions over the 10 years to 30 June 2030.

These payments are set out in the table below.

Year to 31 March	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Cash provided by BT	900 ^a	800 ^a	600 ^b	600 ^c	600 ^c	600 ^c	600 ^c	600 ^c	600 ^c	500 ^c			
Cash provided by ABF structure	180	180	180	180	180	180	180	180	180	180	180	180	180
Total	1,080	980	780	780	780	780	780	780	780	680	180	180	180

a £400m of each payment due by 30 June.

b £500m due by 30 June.

c £490m of each payment due by 30 June. £10m is payable to the BTPS, and BT has the option to pay remaining amounts into the co-investment vehicle.

Based on the 2020 funding valuation agreement, the group expects to make cash payments of approximately £1,140m to the BTPS in 2021/22, comprising of contributions of approximately £60m for expenses and future accrual and payments from BT and the ABF to meet the deficit of £1,080m.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Co-investment vehicle

BT and the Trustee have agreed a new co-investment vehicle, which provides BT with some protection against the risk of overfunding by allowing money to be returned if not needed by the Scheme, enabling BT to provide upfront funding with greater confidence.

BT has the option to pay deficit repair plan payments after 30 June 2023 into the co-investment vehicle (which is a SLP separate to the SLP used for the Asset Backed Funding vehicle), which will be invested as if part of the overall BTPS investment strategy. The value of the assets held in the vehicle will be included in the assets of the BTPS for the purposes of calculating the both the funding deficit and the IAS 19 deficit.

To the extent there is a funding deficit at 30 June 2034, the co-investment vehicle will pay funds to the BTPS. BT will receive tax relief on funds paid at this point, rather than in the year when funds are paid from BT into the vehicle.

Any remaining funds in the co-investment vehicle will then be returned to BT in three annual payments in 2035, 2036 and 2037, unless the Scheme has subsequently moved into deficit or the Trustee, acting prudently but reasonably, decides to defer or reduce these payments.

Future funding commitment

BT has agreed additional contributions which will be automatically payable in the event the deficit repair plan is no longer sufficient to meet the deficit.

Should an annual update of the funding position reveal that the Scheme has fallen more than £1bn behind plan, BT will commence additional payments between £150m to £200m per year. The first annual test will be at 30 June 2021.

The payments will stop once the funding deficit at a future annual update has improved such that the remaining deficit repair plan is sufficient to meet the deficit. Payments can switch-on again if the deficit position subsequently deteriorates. Any payments under this mechanism cease by 30 June 2034.

Other protections

The 2020 funding agreement with the Trustee included additional features for BT to provide support to the BTPS. BT has agreed to continue to provide the Trustee with certain protections to 2035, or until the deficit calculated using the long-term discount rate, currently 0.8% per year above the risk-free yield curve, (the "Protections Deficit") has reduced below £2bn. A £2bn deficit on this measure is currently broadly equivalent to a nil funding deficit. These include:

Feature	Detail
Shareholder distributions	BT will provide additional payments to the BTPS by the amount that shareholder distributions exceed a threshold. For the next three years the threshold allows for 10% per year dividend per share growth based on dividends restarting at 7.7p per share in 2021/22. BT has agreed to implement a similar protection at each subsequent valuation, with the terms to be negotiated at the time. BT will consult with the Trustee if: – it considers share buybacks for any purpose other than relating to employee share awards; or – it considers making any shareholder distributions in any of the next 3 years if annual normalised free cashflow of the Group is below £1bn in the year and distributions within the year would be in excess of 120% of the above threshold; or – it considers making a special dividend.

20. Retirement benefit plans continued

Feature	Detail
Material corporate events	In the event that BT generates net cash proceeds greater than a threshold from disposals (net of acquisitions) in any financial year, BT will make additional contributions to the BTPS. The threshold is £750m until 30 June 2023, and £1bn thereafter (increased by CPI from 30 June 2020). The amount payable is one third of the total net cash proceeds, or the amount by which the Protections Deficit exceeds £2bn if lower. 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 likely to be subject to a takeover offer; or – there is any other material corporate or third-party events which may have a material detrimental impact on BT's covenant to the Scheme, and BT will use best endeavours to agree appropriate mitigation 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 £0.5bn threshold, to cover any member of the BT group. Business as usual financing arrangements are not included within the £0.5bn threshold.

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 £1.1bn, and a defined contribution section with around 9,000 members.

At 31 March 2021, the defined benefit section's assets are invested across a number of asset classes including global equities (25%), property & illiquid alternatives (26%), an absolute return portfolio (20%) and a liability driven investment portfolio (29%).

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 66,000 active members. In the year to 31 March 2021, £468m 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 2021 it had liabilities of around £38m.

Notes to the consolidated financial statements continued

21. Own shares

 Significant accounting policies that apply to own shares

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

	Treasury shares ^a		Employee share ownership trust ^a		Total	
	millions	£m	millions	£m	millions	£m
At 1 April 2019	45	(143)	9	(24)	54	(167)
Own shares purchased ^b	41	(80)	3	(6)	44	(86)
Share options exercised ^b	–	–	–	–	–	–
Executive share awards vested	–	–	(8)	22	(8)	22
Conversion of ADR shares ^c	–	–	3	(6)	3	(6)
At 31 March 2020	86	(223)	7	(14)	93	(237)
Own shares purchased ^b	–	–	11	(14)	11	(14)
Yourshare issue	(35)	90	–	–	(35)	90
Share options exercised ^b	–	1	–	–	–	1
Share awards vested	–	–	(9)	17	(9)	17
At 31 March 2021	51	(132)	9	(11)	60	(143)

a At 31 March 2021, 50,724,972 shares (2019/20: 85,921,056) with an aggregate nominal value of £3m (2019/20: £4m) were held at cost as treasury shares and 9,172,675 shares (2019/20: 7,255,789) with an aggregate nominal value of £nil (2019/20: £nil) were held in the Trust.

b See group cash flow statement on page 122. The cash paid for the repurchase of ordinary shares was £14m (2019/20: £86m). The cash received for proceeds on the issue of treasury shares was £1m (2019/20: £2m).

c Conversion of American Depositary Receipts ("ADR") to ordinary shares following delisting from the NYSE and termination of BT's ADR programme from the US Securities Exchange Commission registration.

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

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

22. Share-based payments

 Significant accounting policies that apply to share-based payments

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

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

22. Share-based payments continued

Year ended 31 March	2021 £m	2020 £m
Employee Saveshare Plans	38	36
Executive Share Plans:		
Incentive Share Plan (ISP)	(8)	16
Deferred Bonus Plan (DBP)	10	7
Retention and Restricted Share Plans (RSP)	14	9
Yourshare	18	4
	72	72

What share incentive arrangements do we have?

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

Employee Saveshare Plans

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

Incentive Share Plan (ISP)

Participants are entitled to ISP shares in full at the end of a three-year period only if the company has met the relevant pre-determined corporate performance measures and if the participants are still employed by the group. No ISP awards were granted in 2020/21. For ISP awards granted in previous years 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)

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

Retention and Restricted Share Plans (RSP)

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

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

Yourshare

This share incentive plan will operate again this year. All eligible employees of the group at 31 December 2020 who remain employed in June 2021 will be awarded £500 of BT shares in June 2021. 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. A similar plan operates for our overseas employees.

Employee Saveshare Plans

Movements in Employee Saveshare options are shown below.

Year ended 31 March	Number of share options		Weighted average exercise price	
	2021 millions	2020 millions	2021 pence	2020 pence
Outstanding at 1 April	214	190	202	254
Granted	283	107	85	168
Forfeited	(59)	(50)	175	251
Exercised	–	–	85	174
Expired	(24)	(33)	277	318
Outstanding at 31 March	414	214	121	202
Exercisable at 31 March	–	–	282	319

The weighted average share price for all options exercised during 2020/21 was 134p (2019/20: 203p).

Notes to the consolidated financial statements continued

22. Share-based payments continued

The following table summarises information relating to options outstanding and exercisable under Employee Saveshare plans at 31 March 2021.

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
2021	170p – 376p	229p	26	10 months
2022	164p – 243p	200p	44	22 months
2023	82p – 170p	108p	120	34 months
2024	164p	164p	50	46 months
2025	82p	82p	174	58 months
Total		121p	414	43 months

Executive share plans

Movements in executive share plan awards during 2020/21 are shown below:

	Number of shares (millions)			
	ISP	DBP	RSP	Total
At 1 April 2020	91	12	13	116
Awards granted	–	10	41	51
Awards vested	–	(2)	(6)	(8)
Awards lapsed	(25)	–	(1)	(26)
At 31 March 2021	66	20	47	133

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 2020/21 and 2019/20.

Year ended 31 March	2021	2020	ISP
	Employee Saveshare	Employee Saveshare	
Weighted average fair value	23p	39p	152p
Weighted average share price	114p	206p	202p
Weighted average exercise price of options granted	85p	168p	n/a
Expected dividend yield	5.19% – 6.49%	4.16% – 5.01%	n/a
Risk free rates	-0.001% – 0.11%	0.55% – 0.63%	0.7%
Expected volatility	28.33% – 28.39%	25.0% – 28.1%	24.3%

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

The fair values for the DBP and RSP were determined using the market price of the shares at the grant date. The weighted average share price for DBP awards granted in 2020/21 was 117p (2019/20: 195p) and for RSP awards granted in 2020/21 103p (2019/20: 177p).

23. Divestments and assets & liabilities classified as held for sale

Significant accounting policies that apply to divestments and assets & liabilities classified as held for sale

We classify non-current assets or a group of assets and associated liabilities, together forming a disposal group, as 'held for sale' when their carrying amount will be recovered principally through disposal rather than continuing use and the sale is highly probable. Sale is considered to be highly probable when management are committed to a plan to sell the asset or disposal group and the sale should be expected to qualify for recognition as a completed divestment within one year from the date of classification. We measure non-current assets or disposal groups classified as held for sale at the lower of their carrying amount and fair value less costs of disposal. Intangible assets, property, plant and equipment and right-of-use assets classified as held for sale are not depreciated or amortised.

Upon completion of a divestment, we recognise a profit or loss on disposal calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest less costs incurred in disposing of the asset or disposal group and (ii) the carrying amount of the asset or disposal group (including goodwill). The profit or loss on disposal is recognised as a specific item, see note 9.

In the event that non-current assets or disposal groups held for sale form a separate and identifiable major line of business, the results for both the current and comparative periods are reclassified as 'discontinued operations'.

Divestments

During the year we completed the sale of our domestic operations in Spain, our domestic operations in France and selected domestic operations and infrastructure in 16 countries in Latin America, which were all classified as held for sale at 31 March 2020. We recorded a net gain of £80m on disposal of our Spain operations, a combined net loss of £11m on the disposals of our operations in France and Latin America, and a net loss of £4m relating to the disposal of a number of other businesses.

In 2019/20 we recognised a loss on disposal of £36m relating to the completed divestments of BT Fleet Solutions and Tikit.

The divestment of these operations is in line with our long-term strategy. The disposals in the current or prior year have not been reclassified as discontinued operations as they do not meet our definition of a separate major line of business.

The net consideration recognised on completion of these divestments was as follows:

	2021 £m	2020 £m
Intangible assets (including goodwill)	37	41
Property, plant and equipment	39	12
Right-of-use assets	38	4
Other non-current assets	3	8
Current assets	159	69
Liabilities	(199)	(50)
Net assets of operations disposed^a	77	84
Less: recycling from translation reserve ^b	(23)	–
Net impact on the consolidated balance sheet	54	84
Profit/(loss) on disposal ^c	65	(36)
Net consideration	119	48
Satisfied by		
Cash proceeds received from disposals completed in the year	161	60
Cash received in respect of disposals completed in prior years	3	–
Proceeds received in the year per the cash flow statement	164	60
Adjustments to consideration for expected future payments (to)/from the purchaser ^d	(25)	5
Costs of disposal ^e	(20)	(17)
Net consideration	119	48

a After impairment charge of £127m in 2019/20 relating to the France and Latin America divestments, see 'Assets and liabilities held for sale' below.

b Cumulative translation differences previously held in equity and recycled to the income statement on disposal of foreign operations.

c Fully recognised as specific items, see note 9.

d 2020/21 includes provisions for proceeds to be paid back to the purchaser through deferred or contingent payments or where negotiations on post-completion purchase price adjustments are ongoing at 31 March 2021. 2019/20 relates to deferred consideration receivable. Payments expected to be made after 12 months from the balance sheet date have been discounted to a present value at the group pre-tax discount rate of 8.1%.

e £13m (2019/20: £11m) disposal costs have been paid and are included within cash flows from operating activities in the cash flow statement. The remaining £7m (2019/20: £6m) costs were accrued for at the end of the year.

Notes to the consolidated financial statements continued

23. Divestments and assets & liabilities classified as held for sale continued

Assets and liabilities held for sale

There are no assets or liabilities classified as held for sale at 31 March 2021.

During the year we reached a preliminary agreement to sell certain business units of our domestic operations in Italy. The divestment is subject to regulatory approval and therefore, in our view, does not meet the held for sale criteria per IFRS 5. Accordingly the asset and liabilities have not been classified as held for sale at 31 March 2021.

Assets and liabilities classified as held for sale at 31 March 2020 related 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 have been completed during 2020/21.

On classification as held for sale, we tested these operations for impairment by reference to whether the carrying value of the associated disposal groups was supported by the fair value less costs to sell. We used the selling price agreed with the prospective purchaser as the fair value for the impairment test, which was classified as Level 3 on the fair value hierarchy. As a result we recognised impairment charges of £37m in relation to the France divestment, and £90m in relation to the Latin America divestment. These impairment charges were recognised as specific items, see note 9.

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

At 31 March	2021 £m	2020 £m
Assets		
Intangible assets	–	35
Property, plant and equipment	–	37
Right-of-use assets	–	34
Trade and other receivables	–	87
Contract assets	–	8
Deferred tax assets	–	4
Inventories	–	1
Current tax receivable	–	19
Cash and cash equivalents	–	43
Assets held for sale	–	268
Liabilities		
Trade and other payables	–	104
Contract liabilities	–	28
Lease liabilities	–	62
Current tax liabilities	–	4
Retirement benefit obligations	–	8
Provisions	–	5
Liabilities held for sale	–	211

24. Investments

Significant accounting policies that apply to investments

Investments classified as amortised cost

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

Investments classified as fair value through profit and loss

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

Equity instruments classified as fair value through other comprehensive income

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

24. Investments continued

At 31 March	2021 £m	2020 £m
Non-current assets		
Fair value through other comprehensive income	20	9
Fair value through profit or loss	11	11
	31	20
Current assets		
Investments held at amortised cost	3,652	5,092
	3,652	5,092

Investments held at amortised cost relate to money market investments denominated in sterling of £3,171m (2019/20: £4,181m), in euros of £456m (2019/20: £882m) and in US dollars of £25m (2019/20: £29m). Within these amounts are investments in liquidity funds of £3,570m (2019/20: £4,209m), £82m collateral paid on swaps (2019/20 : £83m) and term deposits £nil (2019/20: £800m).

Fair value estimation

Fair value hierarchy At 31 March 2021	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	–	–	20	20
Fair value through profit or loss	11	–	–	11
Total	11	–	20	31

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

The three levels of valuation methodology used are:

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

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

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

Level 3 balances consist of investments classified as fair value through other comprehensive income of £20m (2019/20: £9m) which represent investments in a number of private companies. In the absence of specific market data, these investments are held at cost, adjusted as necessary for impairments, which approximates to fair value.

25. Cash and cash equivalents

Significant accounting policies that apply to cash and cash equivalents

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

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

Notes to the consolidated financial statements continued

25. Cash and cash equivalents continued

At 31 March	2021 £m	2020 £m
Cash at bank and in hand	371	463
Cash equivalents		
UK deposits	601	1,043
US deposits	–	8
Other deposits	28	35
Total cash equivalents	629	1,086
Total cash and cash equivalents	1,000	1,549
Bank overdrafts (note 26)	(104)	(183)
Cash and cash equivalents classified as held for sale (note 23)	–	43
Cash and cash equivalents per the cash flow statement	896	1,409

Cash and cash equivalents include restricted cash of £38m (2019/20: £42m), of which £29m (2019/20: £29m) was held in countries where local capital or exchange controls currently prevent us from accessing cash balances. The remaining balance of £9m (2019/20: £13m) was held in escrow accounts, or in commercial arrangements akin to escrow.

26. Loans and other borrowings

Significant accounting policies that apply to loans and other borrowings

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

What's our capital management policy?

The objective of our capital management policy is to target an overall level of debt consistent with our credit rating target while investing in the business, supporting the pension scheme and meeting our distribution policy. In order to meet this objective, we may issue or repay debt, issue new shares, repurchase shares, or adjust the amount of dividends paid to shareholders. We manage the capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the group. The Board regularly reviews the capital structure. No changes were made to these objectives and processes during 2020/21. For details of share issues and repurchases in the year see note 21.

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

At 31 March	2021 £m	2020 £m
Net debt	17,802	17,969
Total parent shareholders' equity ^a	11,650	14,741
	29,452	32,710

^a Excludes non-controlling interests of £29m (2019/20: £22m).

Net debt and net financial debt

Net debt consists of loans and other borrowings and lease liabilities (both current and non-current), less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on balance sheet.

Our net debt calculation starts from the expected undiscounted cash flows that should arise when our financial instruments mature. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to loans and other borrowings, current asset investments and cash equivalents to reflect the effective interest method are removed. Net financial debt is net debt excluding lease liabilities.

26. Loans and other borrowings continued

Net debt and net financial debt are considered to be alternative performance measures as they are not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings and lease liabilities (current and non-current), current asset investments and cash and cash equivalents. A reconciliation from these IFRS measures to net debt and net financial debt is given below.

At 31 March	2021 £m	2020 £m
Loans and other borrowings ^a	16,685	19,334
Lease liabilities	6,152	6,560
Net liabilities classified as held for sale ^b	–	19
Less:		
Cash and cash equivalents	(1,000)	(1,549)
Current asset investments	(3,652)	(5,092)
	18,185	19,272
Adjustments:		
To retranslate debt balances at swap rates where hedged by currency swaps ^c	(142)	(1,049)
To remove accrued interest applied to reflect the effective interest method and fair value adjustments ^d	(241)	(254)
Net debt	17,802	17,969
Lease liabilities	(6,152)	(6,560)
Lease liabilities classified as held for sale ^b	–	(62)
Net financial debt	11,650	11,347

a Includes overdrafts of £104m at 31 March 2021 (31 March 2020: £183m).

b There are no net liabilities classified as held for sale. In 2019/20, net liabilities classified as held for sale included lease liabilities of £62m less cash and cash equivalents of £43m, refer to note 23.

c The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency.

d Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at the balance sheet date.

The table below shows the key components of net debt and the decrease of £167m this year.

	At 31 March 2020 £m	Cash flows £m	Net lease additions ^a £m	Foreign exchange £m	Transfer to within one year £m	Other movements ^d £m	At 31 March 2021 £m
Loans and other borrowings due within one year ^b	2,842	(1,853)	–	(57)	–	(21)	911
Lease liabilities due within one year	812	(924)	–	–	842	–	730
Loans and other borrowings due after one year	16,492	–	–	(742)	–	24	15,774
Lease liabilities due after one year	5,748	–	543	(27)	(842)	–	5,422
Liabilities classified as held for sale	62	–	–	–	–	(62)	–
Impact of cross-currency swaps ^c	(1,049)	122	–	785	–	–	(142)
Removal of the accrued interest and fair value adjustments	(257)	–	–	–	–	15	(242)
Gross debt^e	24,650	(2,655)	543	(41)	–	(44)	22,453
Less:							
Cash and cash equivalents	(1,549)	532	–	15	–	2	(1,000)
Current asset investments	(5,092)	1,421	–	19	–	–	(3,652)
Assets classified as held for sale	(43)	43	–	–	–	–	–
Removal of the accrued interest	3	–	–	–	–	(2)	1
Net debt	17,969	(659)	543	(7)	–	(44)	17,802

Notes to the consolidated financial statements continued

26. Loans and other borrowings continued

	At 31 March 2019 £m	IFRS 16 lease liabilities ^a £m	At 1 April 2019 £m	Cash flows £m	Net lease additions ^a £m	Foreign exchange £m	Transfer to within one year £m	Other movements ^d £m	At 31 March 2020 £m
Loans and other borrowings due within one year ^b	2,100	(16)	2,084	(629)	–	33	1,326	28	2,842
Lease liabilities due within one year	–	725	725	(791)	–	–	897	(19)	812
Loans and other borrowings due after one year	14,776	(190)	14,586	2,843	–	398	(1,326)	(9)	16,492
Lease liabilities due after one year	–	5,544	5,544	–	1,139	5	(897)	(43)	5,748
Liabilities classified as held for sale	–	–	–	–	–	–	–	62	62
Impact of cross-currency swaps ^c	(701)	–	(701)	81	–	(429)	–	–	(1,049)
Removal of the accrued interest and fair value adjustments	(263)	–	(263)	–	–	–	–	6	257
Gross debt^e	15,912	6,063	21,975	1,504	1,139	7	–	25	24,650
Less:									
Cash and cash equivalents	(1,666)	–	(1,666)	75	–	(2)	–	44	(1,549)
Current asset investments	(3,214)	–	(3,214)	(1,877)	–	(1)	–	–	(5,092)
Assets classified as held for sale	–	–	–	–	–	–	–	(43)	(43)
Removal of the accrued interest ^d	3	–	3	–	–	–	–	–	3
Net debt	11,035	6,063	17,098	(298)	1,139	4	–	26	17,969

a Net lease additions comprise net non-cash movements in lease liabilities during the period primarily new and terminated leases, remeasurements of existing leases and lease interest charges.

b Includes 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 divestment of held for sale liabilities (see note 23).

e Cash flows from gross debt of £2,655m outflow (2019/20: £1,504m inflow) include repayment of borrowings £1,162m (2019/20: £1,111m outflow), proceeds from bank loans and bonds £nil (2019/20: £2,843m inflow), cash flows from derivatives related to net debt £490m outflow (2019/20: £452m inflow), payment of lease liabilities £782m (2019/20: £651m outflow), interest paid on lease liabilities £142m (2019/20: £140m outflow), and change in bank overdraft £79m outflow (2019/20: £111m inflow).

26. Loans and other borrowings continued

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

At 31 March	2021 £m	2020 £m
0.625% €1,500m bond due March 2021 ^a	–	1,326
0.5% €575m bond due June 2022 ^a	491	509
1.125% €1,100m bond due March 2023 ^a	936	972
0.875% €500m bond due September 2023 ^a	426	442
4.5% US\$675m bond due December 2023 ^a	496	551
1% €575m bond due June 2024 ^a	493	512
1% €1,100m bond due November 2024 ^a	935	970
3.50% £250m index linked bond due April 2025	449	445
0.5% €650m bond due September 2025 ^a	553	574
1.75% €1,300m bond due March 2026 ^a	1,106	1,149
1.5% €1,150m bond due June 2027 ^a	984	1,020
2.125% €500m bond due September 2028 ^a	428	445
5.125% US\$700m bond due December 2028 ^a	512	570
5.75% £600m bond due December 2028	690	700
1.125% €750m bond due September 2029 ^a	635	658
3.25% US\$1,000m bond due November 2029 ^a	726	807
9.625% US\$2,670m bond due December 2030 ^a (minimum 8.625% ^b)	1,981	2,203
3.125% £500m bond due November 2031	503	502
3.64% £330m bond due June 2033	339	339
1.613% £330m index linked bond due June 2033	347	343
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	348	343
3.924% £340m bond due June 2042	350	350
1.774% £340m index linked bond due June 2042	358	354
3.625% £250m bond due November 2047	250	250
4.25% US\$500m bond due November 2049 ^a	366	407
1.874% €500m bond due August 2080 ^c	429	441
Total listed bonds	15,993	18,044
Other loans	588	1,107
Bank overdrafts (note 25)	104	183
Total other loans and borrowings	692	1,290
Total loans and other borrowings	16,685	19,334

a Designated in a cash flow hedge relationship.

b The interest rate payable on this bond attracts an additional 0.25% for rating category downgrade 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 either rating agency. In no event will the interest rate be reduced below the minimum rate reflected in the above table.

c Includes a call option at 4.5 years (May 2025).

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 £18,554m (2019/20: £20,088m).

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.

The group does not have any listed bonds that are exposed to any benchmark interest rates that are impacted by the Interest Rate Benchmark reform. Overdraft arrangements that reference LIBOR will be transitioned onto Alternative Reference Rates (ARRs) where applicable.

Notes to the consolidated financial statements continued

26. Loans and other borrowings continued

Loans and other borrowings are analysed as follows:

At 31 March	2021 £m	2020 £m
Current liabilities		
Listed bonds	219	1,552
Other loans and bank overdrafts ^a	692	1,290
Total current liabilities	911	2,842
Non-current liabilities		
Listed bonds	15,774	16,492
Total non-current liabilities	15,774	16,492
Total	16,685	19,334

a Includes collateral received on swaps of £588m (2019/20: £1,091m).

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 2021 were unsecured.

The principal repayments of loans and borrowings at hedged rates amounted to £16,301m (2019/20: £18,028m) and repayments fall due as follows:

	2021			2020		
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
Within one year, or on demand	911	(219)	692	2,842	(406)	2,436
Between one and two years	1,427	(69)	1,358	–	–	–
Between two and three years	915	63	978	1,482	(125)	1,357
Between three and four years	1,427	65	1,492	987	(9)	978
Between four and five years	2,529	(77)	2,452	1,482	9	1,491
After five years	9,463	(134)	9,329	12,536	(770)	11,766
Total due for repayment after more than one year	15,761	(152)	15,609	16,487	(895)	15,592
Total repayments	16,672	(371)	16,301	19,329	(1,301)	18,028
Fair value adjustments	13			5		
Total loans and other borrowings	16,685			19,334		

27. Finance expense

Year ended 31 March	2021 £m	2020 £m
Finance expense		
Interest on:		
Financial liabilities at amortised cost and associated derivatives	572	608
Lease liabilities	142	140
Derivatives	–	3
Fair value movements on derivatives not in a designated hedge relationship	(1)	(3)
Reclassification of cash flow hedge from other comprehensive income	72	46
Unwinding of discount on provisions	–	2
Total finance expense before specific items	785	796
Specific items (note 9)	18	145
Total finance expense	803	941

28. Financial instruments and risk management

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

How do we manage financial risk?

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

Treasury operation

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

Treasury policy

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

There has been no change in the nature of our risk profile between 31 March 2021 and the date of approval of these financial statements.

How do we manage interest rate risk?

Management policy

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

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

Hedging strategy

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

Interest Rate Benchmark reform

The UK Financial Conduct Authority announced on 5 March 2021 that as part of the Interest Rate Benchmark Reform, LIBOR will start being discontinued as a benchmark rate from 31 December 2021. The group has no floating rate debt securities. It has 5 US dollar cross-currency interest rate swaps and 21 sterling interest rate swaps impacted by the IBOR reform maturing between 2028 and 2030. The net exposure of these swaps is nil. The group has adhered to the International Swaps And Derivatives Association, Inc. (ISDA) 2020 IBOR Fall backs Protocol and appropriate fall back rates will apply to derivatives once LIBOR benchmarks are discontinued. The impact of any resulting ineffectiveness arising from the discontinuation of LIBOR will be immaterial to the group and will not adversely affect the group's ability to manage interest rate risk.

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

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

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

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

	2021			2020		
	Fixed rate interest £m	Floating rate interest £m	Total £m	Fixed rate interest £m	Floating rate interest £m	Total £m
At 31 March						
Sterling	14,129	1,688	15,817	15,289	1,757	17,046
Euro	–	464	464	–	888	888
Other	–	20	20	–	94	94
Total	14,129	2,172	16,301	15,289	2,739	18,028
Ratio of fixed to floating	87%	13%	100%	85%	15%	100%
Weighted average effective fixed interest rate – sterling	3.8%			3.9%		

The floating rate loans and borrowings and committed facilities bear interest rates fixed in advance for periods up to one year, primarily by reference to RPI, CPI and LIBOR which will be transitioned onto ARR where applicable.

Sensitivity analysis

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

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

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

	2021 £m Increase (reduce)	2020 £m Increase (reduce)
At 31 March		
Sterling interest rates	816	989
US dollar interest rates	(438)	(610)
Euro interest rates	(349)	(451)
Sterling strengthening	(255)	(289)

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

The impact of a 1% change in interest rates on the group's annual net finance expense and our exposure to foreign exchange volatility in the income statement, after hedging, (excluding translation exposures) would not have been material in 2020/21 and 2019/20.

Credit ratings

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

Our December 2030 bond contains covenants which require us to pay higher rates of interest since our credit ratings fell below A3 in the case of Moody's or A– in the case of Standard & Poor's (S&P). Additional interest of 0.25% per year accrues for each ratings category downgrade by each agency below those levels effective from the next coupon date following a downgrade. Based on the total notional value of debt outstanding of £1.9bn at 31 March 2021, our finance expense would increase/decrease by approximately £10m a year if the group's credit rating were to be downgraded/upgraded, respectively, by one credit rating category by both agencies.

Our credit ratings were as detailed below:

	2021		2020	
	Rating	Outlook	Rating	Outlook
At 31 March				
Rating agency				
Moody's	Baa2	Negative	Baa2	Negative
Standard & Poor's	BBB	Stable	BBB	Stable

28. Financial instruments and risk management continued

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 by using short and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period. On at least an annual basis the Board reviews and approves the long-term funding requirements of the group and on an ongoing basis considers any related matters. We manage refinancing risk by limiting the amount of borrowing that matures within any specified period and having appropriate strategies in place to manage refinancing needs as they arise. The maturity profile of our loans and borrowings at 31 March 2021 is disclosed in note 26. We have no term debt maturities in 2021/22.

Our treasury operation reviews and manages our short-term requirements within the parameters of the policies set by the Board. We hold cash, cash equivalents and current investments in order to manage short-term liquidity requirements. At 31 March 2021 we had undrawn committed borrowing facilities of £2.1bn (2019/20: £2.1bn) maturing in March 2026.

In the UK, the group has arranged for funders to offer a supplier financing scheme to the group's suppliers. This enables suppliers who sign up to the arrangements to sell their invoices to the funders and to be paid earlier than the invoice due date. The group assesses the arrangement against indicators to assess if debts which vendors have sold to the funder under the supplier financing scheme continue to meet the definition of trade payables or should be classified as borrowings. At 31 March 2021 the payables met the criteria of trade payables.

Interest Rate Benchmark reform

The group's syndicated Revolving Credit Facility (undrawn at 31st March 2021) currently refers to Euribor, sterling LIBOR and US dollar LIBOR, and includes standard market LIBOR replacement language to adopt alternative benchmark rates for sterling (Sonia) and US dollars (SOFR). Notional cash pooling arrangements and overdraft arrangements which reference LIBOR will be transitioned onto ARR's where applicable. Any outstanding group contracts with reference to LIBOR benchmarks will include provisions for calculation of interest based on alternative benchmark rates when LIBOR is discontinued.

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 2021	Loans and other borrowings ^c £m	Interest on loans and other borrowings ^c £m	Trade and other payables £m	Provisions £m	Lease liabilities £m	Total £m
Due within one year	692	528	5,153	1	724	7,098
Between one and two years	1,427	528	–	3	791	2,749
Between two and three years	915	515	–	4	762	2,196
Between three and four years	1,427	489	–	2	710	2,628
Between four and five years	2,529	467	–	2	592	3,590
After five years	9,463	3,076	–	–	3,391	15,930
	16,453	5,603	5,153	12	6,970	34,191
Interest payments not yet accrued	–	(5,384)	–	–	–	(5,384)
Fair value adjustment	13	–	–	–	–	13
Impact of discounting	–	–	–	–	(818)	(818)
Carrying value on the balance sheet^{a,b}	16,466	219	5,153	12	6,152	28,002

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

a Foreign currency-related cash flows were translated at closing foreign exchange rates as at the relevant reporting date. Future variable interest cash flows were calculated using the most recent interest or indexation rates at the relevant balance sheet date.

b The carrying amount of trade and other payables excludes £682m (2019/20: £754m) of non-current trade and other payables which relates to non-financial liabilities, and £827m (2019/20: £862m) of other taxation and social security and deferred income.

c The cash flows related to index-linked bonds have not been adjusted for inflation.

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

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

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

Derivative financial liabilities At 31 March 2021	Derivatives – Analysed by earliest payment date ^a				Derivatives – Analysis based on holding instrument to maturity			
	Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m	Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	130	1,365	(1,274)	221	90	1,365	(1,274)	181
Between one and two years	283	1,248	(1,166)	365	90	1,248	(1,166)	172
Between two and three years	268	1,663	(1,541)	390	90	1,663	(1,541)	212
Between three and four years	28	1,646	(1,540)	134	90	1,646	(1,540)	196
Between four and five years	28	703	(652)	79	90	703	(652)	141
After five years	114	4,439	(4,266)	287	401	4,439	(4,266)	574
Total^b	851	11,064	(10,439)	1,476	851	11,064	(10,439)	1,476

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

a Certain derivative financial instruments contain break clauses whereby either the group or bank counterparty can terminate the swap on certain dates and the mark to market position is settled in cash.

b Foreign currency-related cash flows were translated at closing rates as at the relevant reporting date. Future variable interest rate cash flows were calculated using the most recent rate applied at the relevant balance sheet date.

How do we manage credit risk?

Management policy

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

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

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

Operational management policy

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

28. Financial instruments and risk management continued

Exposures

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

At 31 March	Notes	2021 £m	2020 £m
Derivative financial assets		1,235	2,489
Investments	24	3,683	5,112
Trade and other receivables ^a	17	1,339	1,432
Contract assets	5	1,859	1,721
Cash and cash equivalents	25	1,000	1,549
Total		9,116	12,303

a The carrying amount excludes £314m (2019/20: £481m) of non-current trade and other receivables which relate to non-financial assets, and £1,918m (2019/20: £1,272m) of prepayments, deferred contract costs and other receivables.

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

Moody's/S&P credit rating of counterparty	2021 £m	2020 ^a £m
Aa2/AA and above	3,571	5,987
Aa3/AA-	656	270
A1/A+	775	1,363
A2/A	334	786
A3/A-	115	-
Baa1/BBB+	65	100
Baa2/BBB and below	-	160
Total^b	5,516	8,666

a The 2020 comparative has been re-presented following a review of how repurchase agreements are presented. Where GILTs had been used as collateral, it has been determined that the exposure was to the UK Government and therefore it is more appropriate to present these agreements in the credit rating band that reflects UK Government risk.

b We hold cash collateral of £588m (2019/20: £1,091m) in respect of derivative financial assets with certain counterparties.

The concentration of credit risk for our trading balances is provided in note 17, which analyses outstanding balances by customer-facing unit. Where multiple transactions are undertaken with a single financial counterparty or group of related counterparties, we enter into netting arrangements to reduce our exposure to credit risk by making use of standard International Swaps and Derivatives Association (ISDA) documentation. We have also entered into credit support agreements with certain swap counterparties whereby, on a daily, weekly and monthly basis, the fair value position on notional £2,024m of long dated cross-currency swaps and interest rate swaps is collateralised. The related net cash outflow during the year was £490m (2019/20: inflow £460m). 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 2021	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	1,235	(585)	(588)	62
Derivative financial liabilities	(1,283)	585	82	(616)
Total	(48)	-	(506)	(554)

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 ^a £m	Cash collateral £m	Net amount £m
Derivative financial assets	2,489	(742)	(1,091)	656
Derivative financial liabilities	(1,012)	742	83	(187)
Total	1,477	-	(1,008)	469

a The 2020 comparative has been re-presented to take account of collateral received from counterparties.

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

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

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. 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.

	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
At 31 March 2021				
Designated in a cash flow hedge	56	950	58	1,023
Other	14	215	30	172
Total derivatives	70	1,165	88	1,195
	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
At 31 March 2020				
Designated in a cash flow hedge	250	1,954	36	740
Other	10	275	10	226
Total derivatives	260	2,229	46	966

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

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

28. Financial instruments and risk management continued

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.

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

Hedged items At 31 March 2021	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	12,302	999	(974)	(3)	1,349	(862)
Step up interest on the 2030 US dollar bond ^b	147	–	(7)	(26)	16	3
Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies ^c	2,145	7	(64)	40	88	9
Fallago Rigg Energy Contract		–	(36)	36	15	–
Total cash flow hedges	14,594	1,006	(1,081)	47	1,468	(850)
Deferred tax		–	–	(16)		
Derivatives not in a designated hedge relationship		229	(202)	–		
Carrying value on the balance sheet		1,235	(1,283)	31		

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
Step up interest on the 2030 US dollar bond ^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)		

a Sterling, euro and US dollar denominated borrowings are hedged using cross-currency swaps and interest rate swaps. Amounts recycled to profit and loss are presented within other operating costs and finance expense.

b US dollar step up interest on US denominated borrowings are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within finance expense.

c Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies are hedged using forward currency contracts. Amounts recycled to profit and loss in respect of these items are presented within cost of sales and other operating costs.

All cash flow hedges were fully effective in the period.

Notes to the consolidated financial statements continued

29. Other reserves

	Capital redemption reserve £m	Other comprehensive income				Total £m
		Cash flow reserve ^a £m	Fair value reserve ^b £m	Cost of hedging reserve ^c £m	Translation reserve ^{d,g} £m	
At 1 April 2019	27	144	27	(60)	580	718
Exchange differences ^e	–	–	–	–	40	40
Net fair value gain (loss) on cash flow hedges	–	823	–	31	–	854
Movements in relation to cash flow hedges recognised in income and expense ^f	–	(411)	–	29	–	(382)
Fair value movement on assets at fair value through other comprehensive income	–	–	(5)	–	–	(5)
Tax recognised in other comprehensive income	–	(80)	–	–	(4)	(84)
Transfer to realised profit	–	–	(22)	–	–	(22)
At 31 March 2020	27	476	–	–	616	1,119
Exchange differences ^e	–	–	–	–	(189)	(189)
Net fair value gain (loss) on cash flow hedges	–	(1,481)	–	13	–	(1,468)
Movements in relation to cash flow hedges recognised in income and expense ^f	–	804	–	46	–	850
Fair value movement on assets at fair value through other comprehensive income	–	–	–	–	–	–
Tax recognised in other comprehensive income	–	111	–	–	22	133
Transfer to realised profit	–	–	–	–	(9)	(9)
At 31 March 2021	27	(90)	–	59	440	436

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 is used to record the cumulative fair value gains and losses on assets classified as fair value through other comprehensive income. 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 £nil (2019/20: £(1)m) 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 £778m (2019/20: charge of £428m) which have been reclassified to operating costs, and a net credit to the cash flow reserve of £72m (2019/20: £46m) which have been reclassified to finance expense (see note 27).

g Included within the £189m movement in the translation reserve is £23m which relate to disposals (see note 23).

30. Related party transactions

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

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

Transactions with associates are shown below:

	2021 £m	2020 £m
At 31 March		
Sales of services to associates	9	11
Purchases from associates	51	44
Accounts receivable from associates	3	2
Accounts payable to associates	5	3

31. Financial commitments and contingent liabilities

Financial commitments were as follows:

At 31 March	2021 £m	2020 £m
TV programme rights commitments	1,691	2,434
Capital commitments	1,370	1,234
Other commitments	263	228
Total	3,324	3,896

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

Other than as disclosed below, there were no contingent liabilities or guarantees at 31 March 2021 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.

Commitments and guarantees

BT plc

From March 2019 a formal guarantee was put in place by BT Group plc to fully and unconditionally guarantee the obligations of its wholly owned subsidiary British Telecommunications plc ("BT plc") under its corporate bonds. This guarantee has been given in respect of all bonds issued since that date and was retrospectively applied to bonds issued prior to that date. It applies to all bonds issued in BT plc's Yankee, Euro Medium Term Note and hybrid bond programmes, and under the BT plc £600 5.75% bonds due in 2028.

BDUK

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

Telefónica UK Limited leases

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

Legal and regulatory proceedings

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

Class action claim

In January 2021, law firm Mishcon de Reya applied to the Competition Appeal Tribunal to bring a proposed class action claim for damages estimated at £608m (inclusive of compound interest) or £589m (inclusive of simple interest) on behalf of our landline-only customers alleging anti-competitive behaviour through excessive pricing by BT to customers with certain residential landline services. We regret being drawn into litigation on a topic which Ofcom considered more than three years ago. At that time, Ofcom's final statement made no finding of excessive pricing or breach of competition law more generally. The claim seeks to hold against us the fact that we implemented a voluntary commitment to reduce prices for customers that have a BT landline only and not to increase those prices beyond inflation (CPI). At the reporting date we are not aware of any evidence to indicate that a present obligation exists such that any amount should be provided for. Class actions must be certified by the Competition Appeal Tribunal at a Collective Proceedings Order (CPO) hearing before proceeding to a substantive trial. The CPO hearing is listed on 24 and 25 June 2021. If the class action is certified the substantive trial will not conclude during 2021/22. BT intends to defend itself vigorously.

Italian business

Milan Public Prosecutor prosecutions: In February 2019 the Milan Public Prosecutor served BT Italia S.P.A. (BT Italia) with a notice (which named BT Italia, as well as various individuals) to record the Prosecutor's view that there is a basis for proceeding with its case against BT Italia for certain potential offences, namely the charge of having adopted, from 2011 to 2016, an inadequate management and control organisation model for the purposes of Articles 5 and 25 of Legislative Decree 231/2001.

BT Italia disputes this and maintains in a defence brief filed in April 2019 that: (i) BT Italia did not gain any interest or benefit from the conduct in question; and (ii) in any event, it had a sufficient organisational, management and audit model that was circumvented/overridden by individuals acting in their own self-interest. However, following a series of committal hearings in Autumn 2020, on 10 November 2020, the Italian court agreed (as is the normal process unless there are limitation or other fundamental issues with the claim) that BT Italia, and all but one of the individuals, should be committed to a full trial.

Notes to the consolidated financial statements continued

31. Financial commitments and contingent liabilities continued

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The trial commenced on 26 January 2021 and is expected to last at least two years. On 23 April 2021, the Italian court allowed some parties to be joined to the criminal proceedings as civil parties ('parte civile') – a procedural feature of the Italian criminal law system. These claims are directed at certain individual defendants (which include former BT/BT Italia employees). Those parties have now applied to join BT Italia as a respondent to their civil claims ('responsabile civile') on the basis that it is vicariously responsible for the individuals' wrongdoing. If successful, the quantum of those claims is not anticipated to be material.

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. The parties are now working through the procedural steps in the litigation. We continue to dispute these allegations vigorously.

Regulatory matters

In the ordinary course of business, we are periodically notified of regulatory and compliance matters and investigations. We provide for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. Provisions reflect management's estimates of regulatory and compliance 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 and compliance decisions will result in financial settlement. The ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement.

32. Post balance sheet events

BT OnePhone acquisition

On 17 April 2021 the group completed the acquisition of the remaining 30% of the share capital of BT One Phone Limited ("BTOP"), a telecom provider offering fixed-to-mobile replacement telephony networks and enterprise telephony solutions. BTOP is currently accounted for as a joint venture. The acquisition supports the group's strategy to invest in innovative technologies to become the most trusted connector of people, devices and machines.

The acquisition will be treated as a business combination under IFRS 3 and therefore the results of BTOP will be fully consolidated from the date of acquisition. The group paid £97m for full and final settlement for the remaining share of the company. A purchase price allocation exercise will be completed and allocation of consideration between net assets, identifiable intangible assets and goodwill will be reported in the group's 2021/22 results.

Spectrum auction

On 27 April 2021 it was announced that the assignment stage of Ofcom's spectrum auction for 700 MHz and 3.6–3.8 GHz spectrum bands had been completed. EE Limited, a wholly owned subsidiary of BT Group plc, has secured the following positions within the respective spectrum bands: 723–733 MHz and 778–788 MHz; 738–758 MHz; and 3680–3720 MHz. The total cost of the spectrum was £475m which will be accounted for within 2021/22 together with the related interference mitigation provision. In the 2020/21 Annual Report, £702m is held within prepayments on deposit with Ofcom. We received a refund of £227m at the conclusion of the process at the end of April 2021.

Financial Statements of BT Group plc

BT Group plc company balance sheet
Registered number 4190816

At 31 March	Notes	2021 £m	2020 £m
Non-current assets			
Investments	2	11,096	11,024
Trade and other receivables ^a		972	3,063
		12,068	14,087
Current assets			
Trade and other receivables ^a		–	1,171
Cash and cash equivalents		3	5
		3	1,176
Current liabilities			
Trade and other payables ^b		27	107
		27	107
Total assets less current liabilities		12,044	15,156
Non-current liabilities			
Loans and other borrowings ^c		–	3,177
		–	3,177
Equity			
Ordinary shares		499	499
Share premium		1,051	1,051
Capital redemption reserve		27	27
Merger reserve	3	–	1,574
Own shares		(143)	(237)
Profit and loss account ^d		10,610	9,065
Total equity		12,044	11,979
		12,044	15,156

a Trade and other receivables consisted of two loans to group undertakings of £nil (2019/20: £1,082m) repayable on 31 January 2058 and £nil (2019/20: £1,981m) repayable on 21 December 2064. Both loans were fully settled as at 31 March 2021. The remaining balance as at 31 March 2021 consists of a loan to group undertakings of £971m (2019/20: nil) and accrued interest of £1m (2019/20: £nil). The loan attracts interest of LIBOR plus 37.5 basis points (2019/20: nil). The loan is measured at amortised cost using the effective interest rate method. The expected credit loss provision against long-term loan to group undertakings is immaterial. Included in current trade and other receivables are loans to group undertakings of £nil (2019/20: £1,074m) and accrued interest of £nil (2019/20: £97m).

b Trade and other payables consists of loans from group undertakings of £10m (2019/20: £82m) and other creditors of £17m (2019/20: £25m).

c Loans and other borrowings consist of a loan from group undertakings of £nil (2019/20: £3,177m) repayable on 31 January 2058 and attracted an interest of nil (2019/20: LIBOR plus 102.5 basis points). The loan was fully settled as at 31 March 2021.

d As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The profit for the financial year, dealt with in the profit and loss account of the company was £6m (2019/20: £24m).

The financial statements of the company on pages 187 to 190 were approved by the Board of Directors on 12 May 2021 and were signed on its behalf by:

Jan du Plessis
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

BT Group plc company statement of changes in equity

	Note	Called up share capital ^a £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Own shares ^b £m	Profit and loss account ^{b,c} £m	Total £m
At 1 April 2019		499	1,051	27	3,149	(167)	8,927	13,486
Profit for the financial year		–	–	–	–	–	24	24
Transfer to realised profit		–	–	–	(1,575)	–	1,575	–
Dividends paid		–	–	–	–	–	(1,521)	(1,521)
Capital contribution in respect of share-based payments		–	–	–	–	–	72	72
Net buyback of own shares		–	–	–	–	(70)	(14)	(84)
Unclaimed dividends over 10 years		–	–	–	–	–	2	2
At 31 March 2020		499	1,051	27	1,574	(237)	9,065	11,979
Profit for the financial year		–	–	–	–	–	6	6
Transfer to realised profit	3	–	–	–	(1,574)	–	1,574	–
Capital contribution in respect of share-based payments		–	–	–	–	–	72	72
Net buyback of own shares		–	–	–	–	94	(107)	(13)
At 31 March 2021		499	1,051	27	–	(143)	10,610	12,044

a The allotted, called up and fully paid ordinary share capital of the company at 31 March 2021 was £499m (31 March 2020: £499m), representing 9,968,127,681 (31 March 2020: 9,968,127,681) ordinary shares of 5p each.

b In 2020/21, 44,573,595 shares (2019/20: 8,642,708) were issued from Own shares to satisfy obligations under employee share schemes and executive share awards at a cost of £108m (2019/20: £22m). At 31 March 2021, 50,724,972 shares (2019/20: 85,921,056) with an aggregate nominal value of £3m (2019/20: £4m) were held at cost as treasury shares and 9,172,675 shares (2019/20: 7,255,789) with an aggregate nominal value of £nil (2019/20: £nil) were held in the Trust.

c As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The profit for the financial year, dealt with in the profit and loss account of the company was £6m (2019/20: £24m).

Notes to the company financial statements

1. BT Group plc accounting policies

Principal activity

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

Accounting basis

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

Financial statements

The financial statements are prepared on a going concern basis and under the historical cost convention. Refer to page 123 for further details of this assessment.

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

New and amended accounting standards effective during the year

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

Exemptions

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

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

The BT Group plc consolidated financial statements for the year ended 31 March 2021 contain a consolidated cash flow statement. Consequently, as permitted by IAS 7 'Statement of Cash flow', the company has not presented its own cash flow statement.

The BT Group plc consolidated financial statements for the year ended 31 March 2021 contain related party disclosures. Consequently, the company has taken advantage of the exemption in IAS 24, 'Related Party Disclosures' not to disclose transactions with other members of the BT Group.

The BT Group plc consolidated financial statements for the year ended 31 March 2021 contain financial instrument disclosures which comply with IFRS 7, 'Financial Instruments: Disclosures'. Consequently, the company is exempt from the disclosure requirements of IFRS 7 in respect of its financial instruments.

Investments

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

Taxation

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

Dividends

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

Share capital

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

Cash and cash equivalents

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

Share-based payments

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

2. Investments

Cost	Total £m
At 1 April 2019	10,952
Additions	72
At 31 March 2020	11,024
Additions	72
At 31 March 2021	11,096

Additions of £72m (2019/20: £72m) comprise capital contributions in respect of share-based payments.

The company held a 100% investment in BT Group Investments Limited, a company registered in England and Wales, throughout 2020/21 and 2019/20.

Notes to the company financial statements continued

3. Merger reserve

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

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

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

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

During 2020/21, the remaining £1,574m (2019/20: £1,575m) of merger reserve was transferred to realised profit following the settlement of an intercompany loan by qualifying consideration.

4. Other information

Dividends

No interim or final dividend is proposed in respect of the year ended 31 March 2021 (2019/20: interim dividend 4.62p amounting to £457m was paid; no final dividend paid).

Employees

The chairman, the executive and non-executive directors and the company secretary & general counsel, governance of BT Group plc were the only employees of the company during 2020/21 and 2019/20. The costs relating to qualifying services provided to the company's principal subsidiary, British Telecommunications plc, are recharged to that company.

Related undertakings

Subsidiaries

Company name	Group interest in allotted capital ^a	Share class	Company name	Group interest in allotted capital ^a	Share class
Held directly			Belgium		
United Kingdom			Telecomlaan 9, 1831 Diegem, Belgium		
81 Newgate Street, London, EC1A 7AJ, United Kingdom			BT Global Services Belgium BV	100%	ordinary
BT Group Investments Limited	100%	ordinary	BT Professional Services (Holdings) N.V.	100%	ordinary
BT Group Nominees Limited	100%	ordinary	Telecomlaan 9, 1830 Diegem, Belgium		
Held via other group companies			Global Security Europe Limited – Belgian Branch ^b	100%	–
Algeria			Rue de L'Aéropostale 8, 4460 Grâce-Hollogne, Belgium		
20 Micro zone d'Activités Dar El Madina, Bloc B, Loc N01 Hydra, Alger, 16000, Algeria			IP Trade SA	100%	ordinary
BT Algeria Communications SARL	100%	ordinary	Bermuda		
Argentina			Century House, 16 Par-la-Ville Road, Hamilton, HM08, Bermuda		
Av. Luis Maria Campos 877, Piso 10, Ciudad Autonoma de, Buenos Aires, C1426, Argentina			Communications Global Network Services Limited	100%	ordinary
BT Argentina S.R.L.	100%	ordinary	Bolivia		
Australia			Avda. 6 de Agosto N° 2700, Torre Empresarial CADECO, Piso 4, La Paz, Bolivia		
Level 1, 76 Berry Street, North Sydney NSW 2060, Australia			BT Solutions Limited Sucursal Bolivia ^b	100%	–
BT Australasia Pty Limited	100%	ordinary	Bosnia and Herzegovina		
	100%	preference	Skenderpasina 33, Sarajevo, 71000, Bosnia and Herzegovina		
Austria			BTIH Teleconsult Društvo sa organiceonom odgovornoscu za posredovanje i zastupanje d.o.o. Sarajevo	100%	–
Louis-Häfliger-Gasse 10, 1210, Wien, Austria			Botswana		
BT Austria GmbH	100%	ordinary	Deloitte House, Plot 64518, Fairgrounds, Gaborone, PO Box 1839, Botswana		
Azerbaijan			BT Global Services Botswana (Proprietary) Limited	100%	ordinary
The Landmark III Building, 8th Floor, c/o Deloitte & Touche, 96 Nizami Street, Baku, AZ 1010, Azerbaijan			Brazil		
BT Azerbaijan Limited, Limited Liability Company	100%	ordinary	Avenida Doutora Ruth Cardoso, nº 4777, 14º andar, parte, Jardim Universidade – Pinheiros, na Cidade de, São Paulo – SP – CEP, 05477-000, Brasil		
Bahrain			BT Global Communications do Brasil Limitada	100%	quotas
Suite #659, 6th floor, Building No. 247, Road 1704, Diplomat Area 317, Bahrain			Avenida Das Nações Unidas, 4777 – 14 andar, Pinheiros, São Paulo, SP 05477-000, Brazil		
BT Solutions Limited (Bahrain Branch) ^b	100%	–	BT Communications do Brasil Limitada	100%	quotas
Bangladesh			Bulgaria		
JHK Windcel, Level 4, KA-90 Progoti Sarani, Kuril, Dhaka, Bangladesh, 1229, Bangladesh			51B Bulgaria Blvd., fl. 4, Sofia, 1404, Bulgaria		
BT Communications Bangladesh Limited	100%	ordinary	BT Bulgaria EOOD	100%	ordinary
Barbados			Canada		
3rd Floor, The Goddard Building, Haggatt Hall, St. Michael, BB11059, Barbados			Regus Brookfield Place, 161 Bay Street, 26th and 27th Floors, Toronto, Ontario, M5J 2S1, Canada		
BT (Barbados) Limited	100%	ordinary	BT Canada Inc.	100%	common
Belarus			Chile		
58 Voronyanskogo St, Office 89, Minsk 220007, Belarus			Rosario Norte 407, Piso 6, Las Condes, Santiago, Chile		
BT BELRUS Foreign Limited Liability Company	100%	ordinary	Servicios de Telecomunicaciones BT Global Networks Chile Limitada	100%	ordinary
			China		
			Building 16, 6th Floor, Room 602-B, No. 269 Wuyi Road, Hi-tech Park, Dalian, 116023, China		
			BT Technology (Dalian) Company Limited	100%	registered
			No. 3 Dong San Huan Bei Lu, Chao Yang District, Beijing, 100027, China		
			BT Limited, Beijing Office ^b	100%	–
			Room 1206, Tower A, United Plaza, 5022 Bin He Avenue, Fu Tian District, Shenzhen, P. R. China		
			Infonet Primalliance Shenzhen Co. Ltd.	100%	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.	80%	ordinary
			Room 601, No. 2 BLDG, 750 West Zhong Shan Rd., Shanghai, 200051, P. R. China		
			Infonet Primalliance Shanghai Co. Ltd.	90%	ordinary
			Room 635-3, No. 2 BLDG, 351 Guo Shou Jing Road, Zhang Jiang High Technology Park, Shanghai, P. R. China		
			Infonet Primalliance Holding Co. Ltd.	100%	ordinary
			Room 702A, Tower W3, Oriental Plaza, 1 East Chang An Avenue, Dongcheng, Beijing, 100738, China		
			BT China Limited	100%	registered
			Unit 1537B, Floor 15th, No. 55, Xili Road, Shanghai Free Trade Zone, Shanghai, China		
			BT China Communications Limited	50%	ordinary
			Colombia		
			Calle 113, 7-21 Piso 11, Torre A Oficina 1015, Teleport Business Park, Bogota, Colombia		
			BT Colombia Limitada	100%	quotas
			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

Related undertakings continued

Subsidiaries continued

Company name	Group interest in allotted capital ^a	Share class
Côte d'Ivoire		
Abidjan Plateau, Rue du commerce, Immeuble Nabil 1er étage, 01 BP 12721 Abidjan 01, Côte d'Ivoire		
BT Cote D'Ivoire	100%	ordinary
Croatia		
Savska Cesta 64, Zagreb, 10000, Croatia		
BT Solutions Limited Podružnica 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%	–
Arch. Makarios III, 213, Maximos Plaza, Tower 3, Floor 2, Limassol, 3030, Cyprus		
BT Global Europe B.V. ^b	100%	–
Czech Republic		
Muchova 240/6, Dejvice, 160 00 Prague 6, Czech Republic		
BT Limited, organizacni slozka ^b	100%	–
Pujmanové 1753/10a, Nusle, 140 00, Prague, 4, Czech Republic		
BT Global Europe B.V., odštěpný závod ^b	100%	–
Denmark		
Havnegade 39, 1058, Kobenhavn K, Denmark		
BT Denmark ApS	100%	ordinary
Dominican Republic		
Av. Abraham Lincoln Esq. Jose Amado Soler, Edif. Progreso, Local 3-A, Sector Ens. Serralles, Santo Domingo, Dominican Republic		
BT Dominican Republic, S. A.	100%	ordinary
Ecuador		
Av. Amazonas N21-252 y Carrión, Edificio Londres, 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
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
Estonia		
A.H. Tammsaare tee 47, Tallinn, 11316, Estonia		
BT Solutions Limited Eesti Filiaal ^b	100%	–

Company name	Group interest in allotted capital ^a	Share class
Finland		
Mannerheimvägen 12 B 6, 00100 Helsinki, Finland		
BT Nordics Finland Oy	100%	ordinary
France		
Tour Ariane, 5 place de la Pyramide, La Defense Cedex, 92088 PARIS, France		
BT France S.A.S.	100%	ordinary
BT Newco France S.A.S.	100%	ordinary
Germany		
Barthstraße 4, 80339, Munich, Germany		
BT (Germany) GmbH & Co. oHG	100%	ordinary
BT Deutschland GmbH	100%	ordinary
BT Garrick GmbH	100%	ordinary
Frankfurter Straße 21-25, Eschborn, 65760, Frankfurt am Main, Germany		
IP Trade Networks GmbH	100%	ordinary
Widdersdorfer Strasse 252, 50933, Cologne, Germany		
Global Security Europe Limited – Germany Branch ^b	100%	–
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 City, Guatemala		
BT Guatemala S.A.	100%	unique
Honduras		
Colonia Pueblo Nuevo, Edificio Torre Morazán, torre número uno (1), piso número nueve (9), cubículo diez mil novecientos dieciocho (10918) en la Ciudad de Tegucigalpa, Municipio del Distrito Central, Departamento de Francisco Morazán, Honduras		
BT Sociedad De Responsabilidad Limitada	100%	–
Hong Kong		
38th Floor Dorset House, Taikoo Place, 979 King's Road, Island East, Hong Kong		
BT Hong Kong Limited	100%	ordinary
Infonet China Limited	100%	ordinary
Hungary		
Budafoki U. 91-93, Budapest, 1117, Hungary		
BT Global Europe B.V. Magyarországi Fioktelepe ^b	100%	–

Company name	Group interest in allotted capital ^a	Share class
BT Limited Magyarországi Fioktelepe^b		
BT ROC Kft	100%	– business
Iceland		
Skútuvogi 1e, 104, Reykjavik, Iceland		
BT Solutions Limited Útibú á Íslandi ^b	100%	–
India		
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
Isle of Man		
Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man		
Belmullet Limited 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 Enia Telecomunicazioni S.P.A.	99%	ordinary
Via Charles Robert Darwin, no 85, Settimo Milanese, 20019, Milano, Italy		
ERPTech S.p.A.	99%	ordinary
Via Correggio 5, San Donato Milanese, 20097, Milan, Italy		
Radianz Italia S.r.l.	100%	ordinary

Subsidiaries continued

Company name	Group interest in allotted capital ^a	Share class
Via Mario Bianchini 15, 00142 Roma, Italy		
BT Global Services Limited ^b	100%	–
Via Pianeza n° 123, Torino, Italy		
Atlanet SpA	99%	ordinary
Via Tucidide 56, Torre 7, 20134, Milano, Italy		
Basictel SpA	99%	ordinary
BT Italia S.p.A.	99%	ordinary
BT Nederland N.V. ^b	100%	–
Nuova Societa di Telecomunicazioni SpA	99%	ordinary
Jamaica		
26 Beechwood Avenue, Cross Roads, St. Andrew, Kingston 5, Jamaica		
BT Jamaica Limited	100%	ordinary
Japan		
ARK Mori Building, 12–32 Akasaka, 1–Chome, Minato-Ku, Tokyo, 107 – 6024, Japan		
BT Global Japan Corporation	100%	ordinary
BT Japan Corporation	100%	ordinary
Jersey		
26 New Street, St Helier, JE2 3RA, Jersey		
Ilford Trustees (Jersey) Limited	100%	ordinary
PO Box 264, Forum 4, Grenville Street, St Helier, JE4 8TQ, Jersey		
BT Jersey Limited	100%	ordinary
Jordan		
Al Gardens Area (Tlaa Al Ali), Al Salheen Neighborhood, Building #185, 7th Floor, Wasfi Al Tal Street, Amman, 962178, Jordan		
BT (International) Holdings Limited (Jordan)	100%	ordinary
Kazakhstan		
36 Al Farabi Ave., Bldg. B, Almaty Financial District, Almaty, Republic of Kazakhstan, 050059, Kazakhstan		
BT Kazakhstan LLP	100%	–
Kenya		
Aln House, Eldama Ravine close, off Eldama Ravine Road, Westlands, P O Box 764, Sarit Centre, Nairobi, 00606, 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
Latvia		
Muitas iela 1A, Riga, LV-1010, Latvia		
BT Latvia Limited, Sabiedriba ar ierobezotu atbildību	100%	ordinary

Company name	Group interest in allotted capital ^a	Share class
Lebanon		
Abou Hamad, Merheb, Nohra & Chedid Law Firm, Chbaro Street, 22nd Achrafieh Warde Building, 1st Floor, Beirut, P.O.BOX 165126, Lebanon		
BT Lebanon S.A.L.	100%	ordinary
Lithuania		
Aludariu str 2–33, LT-01113 Vilnius, Lithuania		
UAB BTH Vilnius	100%	ordinary
Luxembourg		
12 rue Eugene Ruppert, L 2453, Luxembourg		
BT Global Services Luxembourg SARL	100%	ordinary
BT Professional Services (Luxembourg) S.A.	100%	ordinary
BT Broadband Luxembourg Sàrl	100%	ordinary
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		
Level 1, LM Complex, Brewery Street, Zone 3, Central Business District, Birkirkara CBD, 3040, Malta		
BT Solutions Limited ^b	100%	–
Mauritius		
c/o Deloitte, 7th Floor Standard Chartered Tower, 19–21 Bank Street, Cybercity, Ebène, 72201, Mauritius		
BT Global Communications (Mauritius) Limited	100%	ordinary
Mexico		
Edificio Plaza Inverlat Blvd, Manuel Avila Camacho 1, Piso, Piso 6, Colonia Lomas de Chapultepec, Miguel Hidalgo, Mexico City, 11009, Mexico		
BT LatAm México, S.A. de C.V.	100%	common
Montenegro		
Vasa Raickovica 4b, Podgorica, Podgorica, Montenegro		
BT Montenegro DOO	100%	–

Company name	Group interest in allotted capital ^a	Share class
Morocco		
Bd. Abdelmoumen, Immeuble Atrium, n 374, Lot. Manazyl Al Maymoune, 5 etage, Casablanca, 20390, Morocco		
BT Solutions Limited – Morocco Branch ^b	100%	–
Mozambique		
Avenida Kenneth Kaunda, number 660, Sommershield, Maputo City, Mozambique		
BT Mozambique, Limitada	100%	quotas
Namibia		
Unit 3, 2nd floor, Ausspahn Plaza, Dr Agostinho Neto Road, Ausspahnplatz, Windhoek, Private Bag, 12012, Namibia		
BT Solutions Limited ^b	100%	–
Netherlands		
Herikerbergweg 2, 1101CM, Amsterdam Zuidoost, Netherlands		
BT Global Europe B.V.	100%	ordinary
BT (Netherlands) Holdings B.V.	100%	ordinary
BT Nederland N.V.	100%	ordinary
BT Professional Services Nederland B.V.	100%	ordinary
Global Security Europe Limited ^b	100%	–
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 Nicaragua S.A.	100%	capital
Niger		
57, Rue des Sorkhos, BP 616, Niamey, Niger		
BT Niger	100%	ordinary
Nigeria		
Civic Towers, Plot GA1, Ozumba Mbadiwe Avenue, Victoria Island, Lagos, Nigeria		
BT (Nigeria) Limited	100%	ordinary
North Macedonia		
Str. Dame Gruev no.8, 5th floor, Building “Dom na voenite invalidi”, SKOPJE 1000, North Macedonia		
BT Solutions Limited Branch Office in Skopje ^b	100%	–
Norway		
Munkedamsveien 45, c/o BDO AS, 0121 Oslo, Norway		
BT Solutions Norway AS	100%	ordinary

Related undertakings continued

Subsidiaries continued

Company name	Group interest in allotted capital ^a	Share class
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		
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
Paraguay		
Av. Brasília N° 767 casi Siria, Asunción, Paraguay		
BT Paraguay S.R.L.	100%	quotas
Peru		
Urb. Jardín Av. Las Begonias No. 441, San Isidro, Lima, Peru		
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
40th Floor, PBCom Tower 6795, Ayala Avenue cor. Rufino St, Makati City, 1226, Philippines		
BT Communications Philippines Incorporated	100%	ordinary
c/o Sun Microsystems Phil Inc., 8767 Paseo de Roxas, Makati City, Philippines		
PSPI-Subic, Inc	51%	ordinary
Poland		
Al. Armii Ludowej 14, 00–638 Warszawa, International Business Center, Poland		
BT Poland Spółka Z Ograniczoną Odpowiedzialnością	100%	ordinary
Portugal		
Rua D. Francisco Manuel de Melo 21–1, 1070–085 Lisboa, Portugal		
BT Portugal – Telecomunicações, Unipessoal Lda	100%	ordinary
Puerto Rico		
The Prentice-Hall Corporation System, Puerto Rico, Inc., c/o Fast Solutions, LLC, Citi Tower, 252 Ponce de Leon Avenue, Floor 20, San Juan, Puerto Rico, 00918, Puerto Rico		
BT Communications Sales, LLC Puerto Rico branch ^b	100%	–

Company name	Group interest in allotted capital ^a	Share class
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
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
The Faraday Procurement Company Limited	100%	ordinary
Whitestream Industries Limited	100%	ordinary
Romania		
Cladirea A1, Biroul Nr. 52, Nr 35–37, Str. Oltenitei, Sector 4, Bucharest, 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 Starika 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
Slovakia		
Dvorakovo nabrezie 4, 811 02, Bratislava, Slovakia		
BT Slovakia s.r.o.	100%	ordinary

Company name	Group interest in allotted capital ^a	Share class
Slovenia		
Cesta v Mestni Log 1, Ljubljana, 1000, Slovenia		
BT GLOBALNE STORITVE, telekomunikacijske storitve, obdelava podatkov, podatkovnih baz; d.o.o.	100%	ordinary
South Africa		
BT Building, Woodmead North Office Park, 54 Maxwell Drive, Woodmead, 2191, South Africa		
BT Communications Services South Africa (Pty) Limited	70%	ordinary
BT Limited ^b	100%	–
Spain		
Calle Isabel Colbrand 8, 3rd Floor, 28050, Madrid, Spain		
BT Global ICT Business Spain SLU	100%	ordinary
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

Subsidiaries continued

Company name	Group interest in allotted capital ^a	Share class	Company name	Group interest in allotted capital ^a	Share class	Company name	Group interest in allotted capital ^a	Share class
Trinidad and Tobago			BT Global Security Services Limited	100%	ordinary	Mainline Communications Group Limited	100%	ordinary
2nd Floor CIC Building, 122–124 Frederick Street, Port of Spain, Trinidad and Tobago			BT Global Services Limited	100%	ordinary	Mainline Digital Communications Limited	100%	ordinary
BT Solutions Limited ^b	100%	–	BT Holdings Limited	100%	ordinary	Orange Furbs Trustees Limited	100%	ordinary
Tunisia			BT IoT Networks Limited	100%	ordinary	Orange Home UK Limited	100%	ordinary
Road Lac de Constance, Carthage Center Building, Block A-2nd floor-Les berges du Lac, Tunis, 1053, Tunisia			BT Lancashire Services Limited	100%	ordinary	Orange Personal Communications Services Limited	100%	ordinary
BT Tunisia S.A.R.L	100%	ordinary	BT Limited	100%	ordinary	United States		
Turkey			BT Nominees Limited	100%	ordinary	c/o Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808, United States		
Acıbadem Mahallesi Çeçen Sk. Akasya A, Kule Kent Etabı Apt. No: 25 A/28- Üsküdar/İstanbul, Turkey			BT Property Holdings (Aberdeen) Limited	100%	ordinary	BT Americas Holdings Inc.	100%	common
BT Bilisim Hizmetleri Anonim Şirketi	100%	ordinary	BT Property Limited	100%	ordinary	BT Americas Inc.	100%	common
BT Telekom Hizmetleri Anonim Şirketi	100%	common	BT Sixty-Four Limited	100%	ordinary	BT Communications Sales LLC	100%	units
Uganda			BT SLE Euro Limited	100%	ordinary	BT Federal Inc.	100%	common
Engoru, Mutebi Advocates, Ground Floor, Rwenzori House, 1 Lumumba Avenue, Kampala, 22510, Uganda			BT SLE USD Limited	100%	ordinary	BT Procure L.L.C.	100%	units
BT Solutions Limited ^b	100%	–	BT Solutions Limited	100%	ordinary	BT United States L.L.C.	100%	units
Ukraine			BT UAE Limited	100%	ordinary	Infonet Services Corporation	100%	common
Office 702, 34 Lesi Ukrainky Boulevard, Kyiv 01042, Ukraine			Communications Global Network Services Limited – UK Branch ^b	100%	–	Radianz Americas Inc.	100%	common
BT Ukraine Limited Liability Company	100%	stakes	Communications Networking Services (UK)	100%	ordinary	Uruguay		
United Arab Emirates			EE Group Investments Limited	100%	ordinary	Rincón 487 Piso 11, Montevideo, ZIP CODE 11.000, Uruguay		
Office No G03, Ground Floor, EIB Building No 04, Dubai, United Arab Emirates			ESAT Telecommunications (UK) Limited	100%	ordinary	BT Solutions Limited Sucursal Uruguay ^b	100%	–
BT MEA FZ-LLC	100%	ordinary	Extraclick Limited	100%	ordinary	Venezuela		
Office no.206 BLOCK B, Diamond Business Center 1, Al Barsha South Third, Dubai, P.O. BOX 25205, United Arab Emirates			Global Security Europe Limited	100%	ordinary	Edificio Parque Cristal, Torre Oeste, Piso 5, Oficina 5, Avenida Francisco de Miranda, Urbanización Los Palos Grandes, Caracas 1060, Venezuela		
BT UAE Limited – Dubai Branch (1) ^b	100%	–	Newgate Street Secretaries Limited	100%	ordinary	BT LatAm Venezuela, S.A.	100%	ordinary
BT UAE Limited – Dubai Branch (2) ^b	100%	–	Numberrapid Limited	100%	ordinary	BT Global (Venezuela) S.A.	100%	ordinary
United Kingdom			Pelipod Ltd	100%	ordinary	Vietnam		
81 Newgate Street, London, EC1A 7AJ, United Kingdom			Radianz Limited	100%	ordinary	16th Floor Saigon Tower, 29 Le Duan Road, District 1, Ho Chi Minh City, 710000, Socialist Republic of Vietnam		
Autumnwindow Limited	100%	ordinary	Southgate Developments Limited	100%	ordinary	BT (Vietnam) Co. Ltd.	100%	ordinary
Autumnwindow No.2 Limited	100%	ordinary	Tudor Minstrel	100%	ordinary	Zambia		
Autumnwindow No.3 Limited	100%	ordinary	Alexander Bain House, 15 York Street, Glasgow, Lanarkshire, G2 8LA, Scotland			Plot No. 11058, Haile Selassie Avenue, Zimbabwe, Lusaka, Lusaka Province, 34972, Zambia		
Belmullet (IoM) Limited ^b	100%	–	BT Corporate Limited	100%	ordinary	BT Solutions Limited ^b	100%	–
BPSLP Limited	100%	ordinary	Holland House (Northern) Limited	100%	ordinary	Zimbabwe		
British Telecommunications plc	100%	ordinary	55 Baker Street, London, W1U 7EU, United Kingdom			3 Baines Avenue, Box 334, Harare, Zimbabwe		
Bruning Limited	100%	ordinary	BT Centre Nominee 2 Limited	100%	ordinary	Numberrapid Limited ^b	100%	–
BT (International) Holdings Limited	100%	ordinary	BT Cornwall Limited	100%	ordinary			
BT (RRS LP) Limited	100%	ordinary	BT Facilities Services Limited	100%	ordinary			
BT Communications Ireland Group Limited – UK Branch ^b	100%	–	BT LGS Limited	100%	ordinary			
BT Corporate Trustee Limited	100%	limited by guarantee	BT Managed Services Limited	100%	ordinary			
BT European Investments Limited	100%	ordinary	BT South Tyneside Limited	100%	ordinary			
BT Fifty-One	100%	ordinary	EE Finance Limited	100%	ordinary			
BT Fifty-Three Limited	100%	ordinary	groupBT Limited	100%	ordinary			
			Kelvin House, 123 Judd Street, London, WC1H 9NP, United Kingdom					
			Openreach Limited	100%	ordinary			
			The Balance, 2 Pinfold Street, Sheffield, S1 2GU, United Kingdom					
			Plusnet plc	100%	ordinary			
			Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom					
			EE (Group) Limited	100%	ordinary			
			EE Limited	100%	ordinary			
			EE Pension Trustee Limited	100%	ordinary			

Related undertakings continued

Associates

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

Joint ventures

Company name	Group interest in allotted capital ^a	Share class
Held via other group companies		
Indonesia		
World Trade Centre 5, Lantai. 13, Jl. Jend. Sudirman Kav. 29–31, Kel. Karet Setiabudi, Jakarta Selatan, Jakarta, 12920, Indonesia		
PT Sun Microsystems Indonesia	60%	ordinary
Philippines		
11th Floor, Page One Building, 1215 Acacia Ave Madrigal Business Park, Ayala Alabang, Muntinlupa, Metro Manila, 1780, Philippines		
Sun Microsystems Philippines, Inc	51%	common
Singapore		
Level 3, #03–01/02 & #03–04, Block B, Alexandra Technopark, 438B Alexandra Road, Singapore, 119968		
Sun Vietnam Pte. Ltd.	60%	ordinary
United Kingdom		
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 ^c	70% ^c	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

All joint ventures are governed by a joint venture agreement.

Joint operations

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

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 radio access sites for mobile networks through a sharing arrangement. This includes the efficient management of shared infrastructure and a 3G network 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 MBNL network, a broadly similar proportion of the operating costs (which varies in line with usage), and 100% of any unilateral elements.

MBNL is accounted for as a joint operation.

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 In April 2021, the group acquired the remaining 30% ordinary shares of BT OnePhone Limited. See note 32.