British Telecommunications plc

Annual Report and Financial Statements

Year ended 31 March 2021

Company number 1800000

Contents

Corporate information

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Strategic report

Non-financial information statement

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

The overall strategy of British Telecommunications plc ("BT plc" or the "Company") is part of that of BT Group plc which is outlined in the BT Group plc's 2021 Annual Report, which does not form part of this report.

How we're organised

Consumer

Serving over 14m households, we're the UK's largest provider of consumer mobile, fixed and converged communications solutions. We serve all types of consumers, giving them a great connection and keeping them safe online. Our ambition is to create a single smart, converged network that seamlessly connects customers – wherever they are – to the things that matter most to them.

Enterprise

Enterprise keeps around 1.2m UK and Republic of Ireland businesses and public sector organisations connected. We also provide network solutions to more than 1,400 UK communications providers. Our ambition is to partner with our customers in their digital transformation journeys and be a growth engine for UK business and the public sector.

Global

With the ability to serve customers in over 180 countries, Global integrates, secures and manages network and cloud infrastructure and services for multinational corporations. Our ambition is to solve customers' increasingly complex connectivity and communication needs with over-the-top and platform-enabled business solutions.

Openreach

Openreach runs the UK's main fixed connectivity access network, connecting homes, mobile phone masts, schools, shops, banks, hospitals, libraries, broadcasters, governments and big and small businesses to the world. To make sure everyone in the UK benefits from being connected, we want to build the best possible network with the highest quality of service

Technology units

Our Technology units lead and drive a unified technology strategy and architecture to underpin transformation and growth in our customer-facing units through the design, build and operation of our network and IT.

Corporate units

Our corporate units run activities on behalf of the business where it's beneficial to do things once, for everyone. This includes finance, strategy & business services, human resources, corporate affairs, legal, company secretarial and regulatory affairs.

Key performance indicators

This year, we continued to refine the KPIs we use to track progress against our strategy. We use nine KPIs – five operational and four financial. We reconcile the financial measures to the closest IFRS measure on page 132.

Operational

Group Net Promoter Score (NPS)
This tracks changes in our customers' perceptions of BT since we launched the measure in April 2016. It's a combined measure of 'promoters' minus 'detractors' across our business units. Group NPS measures Net Promoter Score in our retail business and Net Satisfaction in our wholesale business.

Group NPS increased by 7.8 percentage points (2019/20: up 5.5pp). Our priority is to truly differentiate ourselves on customer experience and we'll keep exploring ways to do that.

Total Openreach FTTP connections
This tracks how many premises are connected to Openreach's full fibre network.

A total of 905k premises were connected to Openreach's FTTP (full fibre) network at 31 March 2021, compared to 524k at 31 March 2020. Openreach's full fibre rollout has now reached 4.6m footprint, achieving a record 2.0m premises passed in year.

Total 5G connections
This measures the number of EE customers connected to our 5G products.

A total of 1,610k EE customers were connected to our 5G network at 31 March 2021 (2019/20: 64k). Coverage continues to grow and 5G is now in 160 locations. The new spectrum we secured in the latest Ofcom auction will allow us to continue to grow our position as the UK's number one 5G network next year and beyond.

Percentage reduction in carbon emissions intensity
This measures performance against our target to cut carbon emissions intensity by 87% by the end of March 2031 (compared to 2016/17 levels). It's measured by reference to tonnes of CO_2e (carbon dioxide equivalent) per £m value added (adjusted[a] EBITDA plus employee costs).

We've cut our carbon emissions intensity by 57% since 2016/17 (2019/20: 43% reduction).

[a] Items presented as adjusted are stated before specific items. See page 132 for more information.

Cumulative number of people reached to help improve their digital skills
This measures the number of people we've reached with help to improve their digital skills through our Skills for Tomorrow programme. At 31 March 2021 we had helped a total of 10.1m people improve their digital skills (2019/20: 2.8m).

We hit our initial ambition of reaching 10m people in the UK five years early, so we've extended our target and now want to reach 25m people by the end of March 2026.

Financial

Reported revenue
This is our revenue as reported in our income.

Reported revenue was £21,331m (2019/20: £22,905m). The decrease was mainly due to the impact of Covid-19 and ongoing legacy product declines and divestments, partly offset by higher Openreach bases in fibre and Ethernet.

Adjusted[a] EBITDA
This measures our earnings before interest, tax, depreciation and amortisation, specific items, share of post-tax profits/losses of associates and joint ventures and net non-interest related finance expenses.

Adjusted[a] EBITDA was £7,419m (2019/20: £7,910m). The decrease was mainly driven by the fall in revenue, special frontline bonus, increased service costs and continued investment in copper-to-fibre migration and our full fibre base, partly offset by sports rights rebates and cost savings including our modernisation programme, tight cost control and Covid-19 mitigation actions.

Adjusted[a] EBITDA margin
This measures our margin, calculated using our adjusted[a] EBITDA and adjusted[a] revenue.

Adjusted[a] EBITDA margin has remained flat at 35% over the past two financial years. The increase of 3pp over the preceding years is attributable to the adoption of IFRS 16 Leases on 1 April 2019, with lease payments no longer reflected in EBITDA after this date.

Reported capital expenditure
This measures additions to property, plant and equipment and intangible assets during the year.

Reported capital expenditure was £4,216m (2019/20: £3,960m). This was primarily driven by higher network and equipment spend, reflecting continued investment in full fibre deployment and the mobile network.

Group performance

Reported revenue was £21,331m, down 7% and adjusted[a] revenue was £21,370m, down 6%. This was due primarily to the impact of Covid-19 on Consumer and our enterprise units, ongoing legacy product declines and divestments, but was partially offset by higher equipment revenue and Openreach bases in fibre and Ethernet.

Reported profit before tax was £1,997m, down 23% primarily reflecting the decline in adjusted[a] EBITDA.

Adjusted[a] EBITDA of £7,419m (2019/20: £7,910) was down 6%. This was primarily due to the fall in revenue, special frontline bonus, increased service costs and continued investment in copper-to-fibre migrations and our full fibre base, partly offset by sports rights rebates and cost savings including our modernisation programme, tight cost control and Covid-19 mitigation actions.

Alternative performance measures
We assess the performance of the group using various alternative performance measures. These measures are not defined under IFRS so are termed 'non-GAAP' measures. We present a reconciliation from these to the nearest prepared measure in line with IFRS on page 132. The alternative performance measures we use may not be directly comparable with similarly-titled measures used by other companies.

Summarised income statement

	2021 £m	2020 £m
Revenue	21,331	22,905
Operating costs	(14,393)	(15,345)
Depreciation and amortisation	(4,347)	(4,274)
Operating profit	**2,591**	**3,286**
Net finance expense	(602)	(659)
Associates and joint ventures	8	(33)
Profit before tax	**1,997**	**2,594**
Tax	(368)	(665)
Profit for the year	**1,629**	**1,929**

Revenue
Reported revenue was down 7%, primarily due to the impact of Covid-19 on Consumer including reduced BT Sport revenue and the closures of retail stores and pubs & clubs, as well as a reduction in business activity in our enterprise units. The decline in revenue was also driven by ongoing legacy product declines and divestments in our enterprise businesses, but was partly offset by higher equipment revenue in Consumer and higher rental bases of fibre-enabled products and Ethernet in Openreach.

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

[a] Items presented as adjusted are stated before specific items. See page 132 for more information

Operating costs
Reported operating costs were down 4%, mainly driven by sports rights rebates and savings including our modernisation programme, tight cost control and Covid-19 mitigation actions. This was partly offset by increased service costs in Openreach, a special bonus for frontline colleagues, and continued investment in copper-to-fibre migrations and our full fibre base in Consumer.

In May 2020 we announced the next phase of our transformation focused on simplifying our product portfolio, simplifying and automating our customer journeys, moving to a modern, modular IT architecture, and migrating customers from our legacy networks to our modern FTTP and 5G networks.

We delivered gross annualised savings of £764m in the first year of the modernisation programme with an associated cost of £438m, against the three-year target of £1bn savings at a £900m cost and a five-year target of £2bn savings at a £1.3bn cost. The cost savings were delivered through simplification and automation of processes, operational productivity improvement programmes, enhanced procurement supported by digital tools, rigorous functional cost control, and Covid-19 mitigating actions.

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

Adjusted[a] EBITDA
Adjusted[a] EBITDA of £7,419m was down 6%, mainly driven by the fall in revenue and increased costs as described above. You can find details of adjusted[a] EBITDA in Note 4 of the consolidated financial statements.

Profit before tax
Reported profit before tax of £1,997m was down 23%, primarily reflecting the decline in adjusted[a] EBITDA.

Specific items
As we explain on page 132, we separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence. We call these specific items. Specific items are used to derive the adjusted[a] results as presented in the consolidated income statement. Adjusted[a] results are consistent with the way that financial performance is measured by management and assists in providing an additional analysis of the reported trading results of the group.

Specific items resulted in a net charge after tax of £403m (2019/20: £590m). The components are regulatory charges of £35m (2019/20: release of £72m), restructuring costs of £421m (2019/20: £322m), the settlement with Dixons Carphone of £149m (2019/20: £nil), property rationalisation costs of £19m (2019/20: gains of £131m reflecting the gain on sale of BT Centre) and interest expense on pensions of £18m (2019/20: £145m); offset by sale of spectrum of £66m (2019/20: £nil), a net divestment-related items credit of £60m (2019/20: loss of £199m), Covid-19-related items credit of £17m (2019/20: charge of £95m) and a tax credit on specific items of £96m (2019/20: charge of £83m).

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

Taxation
Our effective tax rate was 18.4% (2019/20: 25.6%) on reported profit and 18.6% (2019/20: 18.8%) on profit before specific items. We paid income taxes globally of £288m (2019/20: £210m).

We paid UK corporation tax of £229m (2019/20: £147m). We benefited £181m from tax deductions on employees' pension schemes (2019/20: £434m).

Our tax expense recognised in the income statement before specific items was £464m (2019/20: £582m). We also recognised a £1,051m tax credit (2019/20: £892m tax charge) in the statement of comprehensive income, mainly relating to our pension scheme.

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

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

Dividends
During the year a dividend of £2,000m (2018/19: £1,575m), was paid to the parent company, BT Group Investments Ltd. The directors do not recommend payment of a final dividend in respect of 2020/21 (2019/20: £2,000m)

Capital expenditure
We continue to invest in existing and new technologies to underpin our strategy of building the strongest foundations with the best converged network.

Capital expenditure was £4,216m (2019/20: £3,960m). Network investment was £2,318m, up 12%. This was driven by higher fixed network, mobile network and equipment spend, reflecting continued investment in FTTP deployment and the mobile network. Other capital expenditure components were largely flat with £984m spent on customer-driven investments, £765m on systems and IT, and £149m spent on non-network infrastructure.

Capital expenditure contracted but not yet spent was £1,365m at 31 March 2021 (2019/20: £1,234m).

Cash flow
Net cash inflow from operating activities was down 5% to £5,962m, mainly driven by reduced operating profit partly offset by a reduction in pension deficit payments.

[a] Items presented as adjusted are stated before specific items. See page 132 for more information.

Summarised balance sheet

As at 31 March	2021 £m	2020 £m
Intangible assets	13,365	13,897
Property, plant & equipment	19,397	18,474
Right-of-use assets	4,863	5,391
Derivative financial instruments	1,235	2,489
Cash and cash equivalents	997	1,545
Investments	14,675	19,161
Trade and other receivables	3,591	3,211
Contract assets	1,859	1,721
Deferred tax assets	989	300
Other current and non-current assets	923	957
Total assets	**61,894**	**67,146**
Loans and other borrowings	17,657	21,532
Derivative financial instruments	1,283	1,012
Trade and other payables	6,656	6,583
Contract liabilities	1,092	1,151
Lease liabilities	6,152	6,560
Provisions	715	719
Retirement benefit obligations	5,096	1,140
Deferred tax liabilities	1,429	1,608
Other current and non-current liabilities	121	234
Total liabilities	**40,201**	**40,539**
Total equity	**21,693**	**26,607**

Pensions

Accounting position under IAS 19
The IAS 19 deficit has increased from £1.1bn at 31 March 2020 to £5.1bn at 31 March 2021. Net of deferred tax, the deficit has increased from £1.0bn to £4.2bn.

The increase in the gross deficit of £4.0bn since 31 March 2020 mainly reflects a fall in the real discount rate, partly offset by £1bn of deficit contributions paid over the period, lower assumed future life expectancies and positive asset returns.

BT Pension Scheme (BTPS) funding valuation and future funding obligations
BT and the Trustee of the BTPS have reached agreement on the 2020 triennial funding valuation and recovery plan. The funding deficit at 30 June 2020 is £7.98bn, compared to a deficit of £11.30bn at 30 June 2017. The key drivers for the reduction are £4.5bn of deficit contributions and lower assumed future life expectancies, partly offset by an initial allowance for the impact of the reform of RPI. Due to hedging implemented by the Scheme in recent years, the fall in real interest rates over the period had limited impact on the deficit.

The deficit will be met as follows:

– £2bn of deficit met through an asset backed funding arrangement over 13 years with annual cash payments of £180m pa, secured against the EE business

– The balance being met over the existing 10 year period with annual cash contributions reducing from £900m initially to £600m from 1 July 2024.

A new "stabiliser" mechanism has been agreed that reduces the risk of future trapped surplus and provides more certainty that the BTPS will achieve its path to full funding by clarifying how future increased deficits would be funded.

Note 19 to the consolidated financial statements gives more information on our pension arrangements.

Our stakeholders

Our colleagues, customers, shareholders, the communities we do business in, suppliers, UK Government and regulatory bodies are all key stakeholders. We connect with them at all levels of our business. That includes frontline operations, customer-facing and corporate units, our senior leadership team, the BT Group Executive Committee and the BT Group Board and its committees. The BT Group Board is the Board of our ultimate parent undertaking.

We engage with stakeholders in lots of different ways – from virtual meetings and conferences to reviews, forums and webcasts. When making decisions, the Board seeks to understand the views of its key stakeholders, including the BT Pension scheme and its members, and the impact of its behaviour and business on colleagues, customers, suppliers and society more broadly. Whilst for reasons of efficiency and effectiveness, much of this engagement takes place at a BT Group level, the Board has regard for the interests of its key stakeholders as part of its decision-making.

Colleagues

Our ambition is only as strong as the foundations we're built on, and our colleagues are absolutely central to this. Engaging with them is critical to achieving a culture where they can be their best and fully contribute towards realising our purpose, ambition, strategy and BT's long-term success.

We employ approximately 99,700 full-time equivalent colleagues in 44 countries. 80,400 are in the UK. We also engage with 1,700 colleagues through agencies and nearly 68,600 other non-regular staff.

Our colleagues want us to:

– share their personal values

– provide flexible and agile ways of working

– provide great career opportunities, development and training

– reward performance with fair and competitive pay and benefits.

How we engage with colleagues, and the result

The BT Group Board receives regular updates from the chief executive and the HR director (as appropriate) on our colleagues, progress against key people strategy initiatives, culture and overall sentiment within the organisation. The Covid-19 pandemic, combined with our cultural transformation programme, meant that wellbeing was a priority at the BT Group Board's discussions about colleagues this year. Given the focus in the organisation on diversity and inclusion, the BT Group Board also spent time discussing the diversity and inclusion strategy, how it supports the group's strategy, external targets, commitments and progress.

The BT Group Board uses the Colleague Board as its chosen method of engagement with the workforce under the UK Corporate Governance Code 2018 (the Code). Isabel Hudson, as our BT Group designated non-executive director for workforce engagement, is the primary liaison and she has discussions with Colleague Board members both through the formal meetings and informal discussions.

Once a year our colleagues tell us how it feels to work here through our Your Say engagement survey. With around 85% of colleagues taking part this year, this survey gives us a clear idea how they're feeling and helps us understand what more we can do to make BT a brilliant place to work. This year, we also wanted to know how colleagues were feeling as a result of the pandemic. Given the impact of Covid-19, we ran monthly 'pulse surveys' throughout the first four months of the year. This allowed us to review and adjust our approach to ensure it was effective in supporting our colleagues. Regular updates from the chief medical officer were a key part of the support provided.

Our People Networks are colleague-led groups that feed back thoughts, opinions and opportunities to our leadership team so we can make BT a properly diverse and inclusive place to work. Our People Networks are sponsored by one of our BT Group Executive Committee members or the CEO, Openreach.

Combined with listening directly to our colleagues, we also hear concerns through more formal engagement channels. They include our European Consultative Council, the Communications Workers Union, Prospect and EE employee representatives in the UK. These were shared and discussed with the BT Group Board via the chief executive and the HR director.

When we respond to feedback from colleagues, we first pick areas and initiatives that will make the biggest impact. Longer term, we continually shape and inform our overall people strategy to create a culture where colleagues can be their best – with a focus on skills development, diversity and inclusion, and health, safety and wellbeing.

Diversity and inclusion

We believe that diversity, inclusion, accessibility and equality is everyone's business. And they are core elements of our people strategy. During the year, we updated our UK people data by encouraging colleagues to amend their diversity records on our systems. Now we have a far better understanding of our workforce demographics, which in turn is helping us identify and tackle bias and discrimination.

This year, the BT Group increased its focus on race equality, particularly around addressing issues of systemic racism and instances of prejudice across our business. We launched our Ethnicity Rapid Action Plan, and made significant progress in the areas where we could make the biggest immediate differences.

As part of our Valuable 500 commitments on disability inclusion, we've established a Disability Rapid Action Plan across our business to help us make faster progress. The plan is amplifying colleagues' voices through our Able2 People Network and helping us embed disability inclusion right across our business.

Health, safety and wellbeing

Covid-19 presented new and far greater day-to-day challenges to customers' and colleagues' health, safety and wellbeing. We're offering a lot more support to our colleagues, to promote their ongoing health and resilience. During the pandemic, we have delivered preventative wellbeing services, supported shielding workers with a bespoke rehabilitation service and launched an online medical support programme. Our BT Group chief medical officer has provided regular updates, with content on topics like remote working, emotional resilience and communication.

Putting effective Covid-19 management measures in place helped our operational, customer and field teams keep working safely while following Government guidelines and legislation. Over 50,000 key workers continued to work from our buildings and out in the field during the pandemic, alongside more than 3,000 retail colleagues who staffed our shops when they were allowed to open.

Customers

We want to give all our customers standout experiences by delivering brilliant solutions and outcomes. We have a large and diverse customer base including consumers, businesses, multinational corporations, public sector organisations and communications providers. Engaging with our customers and understanding their needs is critical to delivering on our strategy, ambition and purpose.

Our customers want us to:

– give them an outstanding experience and deliver outcomes that meet their needs

– provide reliable solutions and propositions to keep them connected

– protect their security and data.

How we engage with customers, and the result

There are lots of different ways we engage with our customers. At the early stage of developing new solutions, we work with them to understand their needs and make sure what we sell – and their overall buying-to-billing experience – is the best it can be.

Our insight centre of excellence serves all parts of BT and gives us a strong analytical capability that delivers a deeper understanding of what customers want and need. We use a number of different methodologies and data sources to understand what customers expect, and how they act, across different channels. This insight helps shape our strategy, position our solutions, design customer-driven improvements and develop our brand and communications.

Our Global Advisory Board enables us to talk directly with senior leaders at our major global customers. It helps us understand their short-, medium- and long-term priorities, so we can design solutions that match them – delivering better business outcomes.

Each customer-facing unit CEO and management team tracks how well their business is performing on customer experience, including NPS, so that collectively we deliver on our ambitions in this area. Regular reviews with BT Group Executive Committee members – led by the chief executive and chief financial officer – focus on how to continually improve performance.

This year we built stronger, more trusting relationships with customers with a range of initiatives to support them through the Covid-19 pandemic. They included a Lockdown Learning support package for consumers and our Small Business Support Scheme for business customers.

Openreach continues to make sure all its customers get equal access to our fixed network. It does this by ensuring that its industry consultation process is straightforward and compliant, with strong governance controls. All communications providers have the opportunity to engage with Openreach confidentially during an initial consultation stage.

The BT Group chief executive, Executive Committee and senior BT leaders regularly review and discuss complaints directly with customers. It keeps them connected to issues on the ground, allows them to have a better understanding of how to fix common problems and helps us improve the way we respond to complaints.

Our customers and the impact on them are always considered by the BT Group Board and the chief executive (with input from the Executive Committee) as part of decision-making – whether on strategic direction, investments or the solutions we develop. The BT Group Board regularly receives updates on, and discusses, customer experience and the NPS for the group as a whole, customer-facing units and underlying customer segments. The BT Group Board also discusses initiatives having a positive impact on our customers, key focus areas and areas for improvement.

The BT Group Board understands how important it is to act proactively to protect consumers' interests and meet the expectations of the regulator and Government for greater commitment to a culture of consumer fairness at all levels within communications providers.

To enhance our commitment to protecting consumers' interests, the BT Group Board approved proposals to enhance our consumer fairness governance framework with oversight provided by the BT Group Compliance Committee on consumer fairness matters.

Communities

Our products, services, networks and people are at the heart of the communities we operate in, and help bring them together. Building and preserving relationships with all the communities we serve isn't just core to our commercial success. It's also key to the way we operate as a responsible and sustainable business and supports our purpose of connecting for good.

Communities rely on us to:

– give them reliable and secure connections

– help local people and enterprises get more from the digital world

– protect the environment, help tackle issues like climate change and do business ethically and responsibly.

How we engage with communities, and the result

We reach communities in all aspects of day-to-day life, such as conversations with customers in EE/BT retail stores and when visiting individuals in their homes to set up their broadband service. We engage with charities, non-governmental organisations and partners on digital skills programmes. We also undertake research to understand the topics that are most important to communities when they think of BT.

The insights we get inform the strategies and programmes we develop, from digital skills to climate change action. The BT Group Digital Impact & Sustainability Committee approves our strategy and monitors our progress as a responsible and sustainable business. It also makes sure we're contributing positively to the communities we live, work, and operate in.

This year, the BT Group Digital Impact & Sustainability Committee approved a change in approach to our Skills for Tomorrow programme, and its pivot to become 'digital-first' as a direct result of Covid-19, to make sure we could still reach all those who needed help most with digital skills. This also led to a bigger focus on supporting job seekers and SMEs – both groups severely affected by the pandemic.

During the year, we worked with the UK National Emergencies Trust to support many communities through the Covid-19 pandemic. We helped fund its operations and gave other digital skills support to help people harness technology to stay safe, healthy, connected and resilient. We've supported communities through the pandemic in many other ways too, such as launching our Lockdown Learning support package for families and children most in need of help to continue learning at home.

To track how we're doing, we measure reputational performance and trust, as well as our progress on the group KPI to reach 25m people in the UK with help to improve their digital skills by the end of March 2026.

Suppliers

Our relationships with suppliers are instrumental to our success. They help us deliver the solutions and propositions we use to create standout customer experiences.

We source from across the world, with suppliers in nearly 100 countries.

Our suppliers want us to:

– pay them in line with our agreed terms

– act ethically and transparently

– help them optimise their own supply chains.

How we engage with suppliers, and the result
We need to know who we're doing business with, and who's acting on our behalf. So we:

– choose suppliers based on principles that make sure we act ethically and responsibly

– undertake due diligence on them before and after we sign a contract, covering financial health, anti-bribery and corruption, and whether they meet our standards on areas such as quality management, security and data privacy

– check the things we buy are made, delivered and disposed of in a socially and environmentally responsible way

– measure suppliers' energy use, environmental impact and labour standards, and work with them to improve these.

During the year, we announced and progressed a plan to set up a standalone procurement company, BT Sourced, which will manage most of our purchasing. The new company will improve our already strong relationships with suppliers by making it easier for them to do business with us and creating more chances to innovate. It will also challenge some traditional ways of buying goods and services through simplifying processes, bringing in new technology and encouraging more collaboration.

In order to get new suppliers on board faster, we're moving a lot of our processes from manual to digital, whilst still maintaining the existing rigour in our due diligence and assurance.

This year the BT Group plc Audit & Risk Committee discussed our supply chain landscape, performance across the sourcing and supplier payment process, and the key risks and assurance activities in this area.

The committee and the BT plc Board were also updated on our progress against the Government's Prompt Payment Code (PPC) programme in the UK and our consistent improvements in payment performance. This year, we paid 95% of supplier invoices in line with the terms we'd agreed with them. Recent reforms to the PPC require us to pay 95% of invoices from smaller suppliers in 30 days, and we're on target to do this by the 1 July 2021 deadline.

During the year, the BT Group plc Board discussed the Government's evolving advice on high-risk vendors (including Huawei) and the development of both the Telecommunications (Security) Bill in the UK and US government restrictions, and the potential procurement and commercial implications for BT. The BT Group Board reviewed and approved the entering into of contracts with Nokia and Ericsson and the split of the services provided by these two vendors across our UK sites.

The BT Group Digital Impact & Sustainability Committee considers and approves our modern slavery initiatives on behalf of the BT Group Board, which we subsequently disclose in our annual modern slavery statement approved by the BT plc board.

We engage with suppliers on a range of proactive initiatives – for example progress towards net zero carbon emissions, including the increased uptake in renewable energy, and cutting plastic packaging and waste. This is a key part of our digital impact and sustainability strategy and therefore initiatives are regularly discussed by the BT Group Digital Impact & Sustainability Committee with feedback shared to continue to test and enhance our approach.

On diversity and inclusion, we've developed a plan to encourage and help our suppliers to meet and match our own commitments. We've also taken more diversity-led steps in our dealings with suppliers. They include participating in SME events like 'meet the buyer' and benchmarking ourselves via external organisations.

We're keen to make sure we engage with as broad a range of suppliers as we can.

We're discussing how we create a more diverse supplier selection process with software suppliers, and next year we'll increase the purpose/diversity weighting we use in the procurement adjudication process.

A clear framework monitors Covid-19 risks for 430 critical suppliers. It:

– assesses the potential effects of transport logistics disruption and manufacturing slowdowns

– monitors suppliers' financial viability and tracks incremental costs due to disruption

– continuously monitors their business continuity plans to make sure they can keep delivering services.

UK Government

We add over £24bn to the UK's economy each year, supporting critical services and working with more than 1,600 public sector customers.

Our networks make sure vital public services like welfare, tax, health, social care, police and defence function, while protecting citizens' personal data. Our relationship with Government bodies underpins our three strategic pillars and lets us contribute to policies and initiatives that promote the best stakeholder outcomes.

Government stakeholders want us to:

– keep investing in our network infrastructure

– provide the fastest, most reliable and secure connection possible, to the widest possible range of communities

– invest in the best products and services, at fair prices, with high levels of customer service.

How we engage with the Government, and the result
We operate the UK's Critical National Infrastructure and support national security. Our priority is fulfilling our responsibilities and obligations for the country and our customers.

Our policy and public affairs team manages our relationships with Government and other politicians. Our Enterprise team delivers and looks after public sector contracts and services such as the Emergency Services Network.

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

We keep an open dialogue with Government through the BT Group chairman, chief executive and senior leaders – as well as through consultation responses and cross-industry initiatives. Through those conversations we build support for policies that will deliver good results for the UK and our shareholders.

Our public policy work with Government covers a wide territory, from infrastructure investment to national security, from regulating online harms to trade and economic policy. For example, this year we launched a programme with the Department for Education to give free BT Wi-Fi vouchers to disadvantaged families to make sure their children could continue to learn at home while schools were closed during Covid-19 lockdowns.

We also helped the wider Government response through text message alerts sent on behalf of GOV.UK to around 43m devices connected to our mobile network, and gave tailored support to NHS staff and vulnerable customers.

We'll continue offering as much support as possible to Government and NHS teams to help them during the pandemic. That includes providing connectivity to hospitals and vaccination centres.

The BT Group Board is updated on discussions with Government through the chairman, chief executive and Executive Committee members, with the BT Group Board providing views and comments.

Regulators

Communications and TV services are regulated. This ensures consistent rules and standards within each jurisdiction, protecting consumers and promoting competition. If we don't engage effectively with our regulators we risk unnecessary regulatory intervention that could stand in the way of us achieving our strategy.

Our main regulatory relationship is with Ofcom in the UK. The main source of Ofcom's powers and duties is the Communications Act 2003, which gives it general competition powers for the sector and helps it enforce consumer law. We also engage with other regulatory bodies like the Competition and Markets Authority.

Ofcom wants to:

– advance citizens' and consumers' interests, often by promoting competition

– encourage investment and innovation

– support investment in the UK's critical digital infrastructure.

How we engage with Ofcom, and the result
We have a positive and open dialogue with Ofcom through the BT Group chairman, chief executive and senior leaders.

Our conversations focus on how regulation can support its ambition for a world-class UK digital infrastructure and allow efficient investment, while keeping the market fair and competitive.

We're briefing Ofcom regularly on our Covid-19 response. It has welcomed our efforts to support customers and work with industry to help UK people and businesses stay connected during the pandemic.

Following Ofcom's 2017 Digital Communications Review, we implemented a set of Commitments and the supporting Governance Protocol. These provide Openreach with more strategic and operational independence, while allowing us to exercise the right level of parent company control.

The BT Group Compliance Committee monitors BT's compliance with the Commitments. It also reviews the progress being made in areas of greatest importance to consumers, communications providers and other stakeholders. The committee seeks views on the Commitments from stakeholders, and keeps Ofcom updated including through the annual review of the BT Group Compliance Committee.

Ofcom says that BT and Openreach are still making good progress to safeguard Openreach's independence. We continue to engage with Ofcom and communications providers to increase their confidence that we're following both the letter and spirit of the Commitments.

Championing responsible tech and human rights

This year, we launched our new responsible tech strategy. We want to make sure we develop, use, buy and sell technology in a way that consistently benefits society and minimises harm.

We aim to use responsible tech to differentiate existing products and propositions, and to help us grow in areas like health, connected homes and security. Responsible tech directly supports our ambition to be the world's most trusted connector of people, devices and machines. And it will differentiate us as customers seek to make ever more ethical buying decisions.

We base our responsible tech approach on these key principles:

For Good
We design and deliver tech to empower people and improve their lives.

Accountable
We're accountable for our actions and take care to avoid and protect against tech misuse.

Fair
We work hard to ensure everyone is treated fairly and with respect.

Open
We listen, collaborate and are transparent about our actions.

We follow all Modern Slavery Act requirements and international standards on human rights that apply to our business. These include the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the UN Guiding Principles on Business and Human Rights.

We continue to champion human rights through partnerships and collaborations, including our work with the Global Network Initiative, Tech Against Trafficking, the Marie Collins Foundation, the Centre for Sport and Human Rights and UK charity Unseen. Our processes and procedures identify and address potential and actual human rights impacts throughout our business.

We have embedded checks in our sales processes to help us find and address potential risks. In our supply chain, we have mandatory contractual standards on working conditions – and we check that our suppliers stick to them.

For more information, take a look at our modern slavery statement at **bt.com/modernslavery**

Innovation

BT Labs is the heart of our research, development and innovation, continually pushing the boundaries of connectivity solutions. This year, we created the 5G Edge-XR, a real-time service which combines cloud computing and 5G networks for sports fans to watch immersive events from whatever angle, on whatever device. We invested £720m on research and development this year, filing 109 initial patent applications to add to our current portfolio of more than 5,100 patents and patent applications.

Section 172 statement

In their discussions and decision-making during the year ended 31 March 2021, the directors of BT plc have acted in the way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to stakeholders and the matters set out in subsections 172(1)(a-f) of the Companies Act 2006 (the 2006 Act).

During the year, the Board considered information from across the organisation to help it understand the interests of our key stakeholders and other relevant factors when making decisions. As is normal for large companies, we delegate authority for day-to-day management of the company to executives and then engage management in setting, approving and overseeing the execution of the strategy and related policies. Information is distributed to the Board in a range of different formats. During the year, the Board reviewed a range of matters including the company's financial and operational performance; key transactions, including acquisitions and divestments; matters relating to the Commitments which were made as part of the Digital Communications Review with Ofcom; legal, regulatory, funding and pensions matters, and diversity and inclusion. The Board received papers and reports on these matters which were then reviewed, discussed and approved, as necessary.

The Board considers the matters set out in section 172 of the 2006 Act in all its discussions and decision-making.

That includes:

a. The likely consequence of any decision in the long term: The directors recognise that the decisions they make today will affect BT's long-term success. In addition, the BT Group plc Board had particular regard to the long-term success of the company in its discussions on the evolution of the company's purpose and strategic framework.
b. The impact of BT's operations on the community and environment. Further, the BT Group Digital Impact & Sustainability Committee monitors progress on the digital impact and sustainability strategy and supporting goals for digital skills, responsible tech and human rights, and climate change and the environment.
c. The desirability to maintain a reputation for high standards of business conduct. In addition, the BT Group Board is responsible for setting and monitoring the culture, values and reputation of the group. Our colleagues are central to us achieving our ambition and we are building a culture where our colleagues can be their best. During the year, the BT Group Board considered BT's culture in its decision-making and discussions. We set out our commitment to high standards of business conduct in The BT Way (our Ethics Code), see bt.com/ethics
d. The interests of our colleagues and the need to foster business relationships with our key stakeholders. Both the BT plc Board and the BT Group Board and its committees understand the strategic importance of stakeholders to BT's business. When making decisions, the directors have regard to the interests of colleagues, and the need to foster business relationships with other key stakeholders. We acknowledge that not every decision we make will necessarily result in a positive outcome for all our stakeholders and the Board therefore has to balance competing interests in reaching its decisions. While there are cases where the Board judges that it should engage with certain stakeholders on some issues, the size and distribution of the BT Group and our stakeholder groups means that stakeholder engagement best takes place at an operational or group level. The Company finds that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For example, the BT Group plc Board considered the proposal and was supportive of the planned publication of our diversity and inclusion targets and commitments in relation to gender, ethnicity and disability, and approved proposals to enhance our consumer fairness governance framework during the year. The BT plc Board also considers information from across the organisation to help it understand how our operations affect our stakeholders' interests and views. There are more details on how we engage across the Group with key stakeholders (including customers and suppliers) on pages 7 to 11 and in the BT Group plc 2021 Annual Report.
e. The need to act fairly as between members of the company.

One example of how the BT plc directors have had regard for matters set out in section 172(1) (a)-(f) of the Companies Act 2006 during the year as part of their decision-making was in relation to 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. During the year, the Board considered the acquisition recommended by management, the benefits and risks and the wider context including the potential impact of Covid-19 on the SME market. The Board had regard for the matters set out in section 172 of the Companies Act 2006, noting a specific paper circulated as part of the materials prepared for the directors. The BT plc Board recognised that this acquisition supported the group's strategy to invest in innovative technologies to become the most trusted connector of people, devices and machines and subsequently approved the acquisition. In April 2021, the acquisition completed and is set out in the post balance sheet events in note 31 of the consolidated financial statements.

For further details on how the BT Group engages with its key stakeholders (including customers and suppliers) and how stakeholder interests and section 172 duties have been considered in reaching certain key strategic decisions taken by the BT Group Board, please see the BT Group plc 2021 Annual Report.

Principal risks and uncertainties

Our risk management framework helps us tackle risks and uncertainties consistently to stop them derailing our strategy. It also lets us think smarter about risk while running our business with operational discipline.

How we identify and assess risks

Group risk categories

We define our risk landscape through areas of enduring risk called group risk categories. They are not intended to contain the whole risk universe, just the parts we think are most relevant to BT.

We classify our group risk categories in four ways according to the type of risk they represent: strategic, financial, compliance and operational.

For each category, we define the level of risk we're willing to take (our risk appetite) through a number of metrics; and we describe the rules we've set to manage it (policies, standards and controls).

We apply our framework to constantly reassess, monitor, manage and report on the main risks to our strategy.

We also identify and manage point and emerging risks within each of these categories and across categories.

Point risks

Some risks aren't always adequately covered by the set of rules in place; or by the ways we normally set our risk appetite.

They might need extra focus at the moment because they're unusual, changing rapidly, or currently have a potentially significant impact.

We call these point risks and we put extra management focus on them.

Emerging risks

Other risks might be more like uncertainties – not yet fully formed into specific risks. That makes them particularly difficult to quantify or make specific plans for.

These are emerging risks. We use ongoing monitoring to spot the triggers that could crystallise these uncertainties and turn them into specific risks.

Collectively, this risk landscape describes the principal risks and uncertainties affecting BT.

How we manage risks

Each group risk category is assigned a BT Group Executive Committee owner.

They're ultimately accountable for setting our risk appetite for each particular risk category. They set out how we measure our exposure to that risk, how we manage it (including setting the right policies and controls) and ensure that we take the actions necessary to achieve and maintain our target risk appetite and level of control. Point and emerging risks relating to each category are continuously reviewed and managed.

Each of our business units also reviews, on a periodic basis, its exposure in all these categories and the point and emerging risks that might affect its performance.

Our governance structures ensure that different oversight bodies and leadership teams get the right level of information on our risk exposures and how we're managing them. This promotes robust discussion and prioritisation, the right monitoring, and better decision-making.

We cover our full risk landscape in detail over the next pages.

Strategic

Strategy, technology and competition	Risk Owner: Chief financial officer
What this category covers	
We could fail to properly respond to an uncertain economic outlook, intensifying competition, rapid technology developments, or fail to develop products and services that match changing market dynamics or customer expectations.	
How it could affect our strategy and/or business model	**How we manage it**
• Increased competition might challenge our market share, revenue or profit, or could make it harder for us to grow the value of our business. • New technology developments could make it harder for us to monetise our network investment and could potentially force us to invest more to meet the needs of customers. • Major economic uncertainty could have a big effect on our customers – weakening demand, making them less willing to pay for premium services and increasing the risk of bad debts.	• Investing in becoming a network leader with the best converged network. • Transforming ourselves to be fitter for the future through upgrading older services and technologies. • Investing in differentiated solutions that give us opportunities to grow and deliver standout customer experiences. • Monitoring technology developments and competitor activity. • Working with regulators and key stakeholders.
Point risks that could affect this category	**Emerging risks that could affect this category**
• Stronger competition in the converged market. • Increasing competitive intensity. • A shrinking global economy.	• New disruptive technologies which substitute our products. • Over-the-top players joining the connectivity market.

Stakeholder management	Risk Owner: Corporate affairs director
What this category covers	
We might fail to properly manage our stakeholders, which may affect our significant risks, for instance those around buying, using, selling or developing new or emerging technologies responsibly.	
How it could affect our strategy and/or business model	**How we manage it**
• Not effectively managing our stakeholders' expectations, or failing to anticipate the potential effects of certain risks on the communities we serve, might damage their trust in us. That could affect our performance, shareholder value, licence to operate and might also limit new growth opportunities. • Our future strategy and growth plans could be undermined. • There might be legal liabilities for the company or individual colleagues.	• Tracking trust and reputation across our main stakeholder groups to inform our plans. • Proactively engaging with key stakeholders to build stronger relationships and support a better understanding of risks. • Exploring more positive outcomes for BT in a fair and transparent way. • Operating a responsible and sustainable business, maintaining our top quartile position on environmental, social and governance criteria.
Point risks that could affect this category	**Emerging risks that could affect this category**
• Full fibre build commitments and rural connectivity. • Misinformation on 5G health concerns. • Developments from the UK withdrawing from the EU.	• Evolving trade tensions between the US and China. • Climate change policy agenda and perceptions of our sector's role in carbon emissions. • Growing focus on the digital divide and its implications. • Potential for misuse of our technology, in the context of our commitments to human rights.

Financial

Financing	Risk Owner: Chief financial officer
What this category covers	
We could find ourselves not able to fund our business or pension schemes, or to refinance debt.	
How it could affect our strategy and/or business model	**How we manage it**
• Not generating enough cash, being unable to access capital markets, or a big increase in our pension scheme obligations could stop us from being able to fund our business cash flows or meet our payment commitments.	• Regularly reviewing actual and forecast cash flow performance. • Performing annual viability assessments and conducting scenario analysis. • Issuing hybrid debt. • Having a pension investment approach that lowers our risk over time, making contributions less volatile. • Analysing our pension schemes' funding position and investment performance regularly, and negotiating funding valuations. • Responding to any relevant pensions consultations.
Point risks that could affect this category	**Emerging risks that could affect this category**
• Lack of access to capital and liquidity because of the economic downturn. • Our credit rating being downgraded. • An increase in our pension deficit.	• Pension regulator review of funding regulations, risking bigger pension liabilities or giving us less time to make deficit payments. • Future debt capital markets might not suit all our debt needs.

Financial control	Risk Owner: Chief financial officer
What this category covers	
One or more of our financial controls could fail to prevent fraud (including misappropriation of assets) or inaccurate reporting, resulting in financial losses or causing us to misrepresent our financial position.	
How it could affect our strategy and/or business model	**How we manage it**
• Failings in how we design or operate our financial controls might lead to financial loss, misstatement and/or wrong business decisions. On top of that, it could give rise to fraud, dissatisfied stakeholders, breaches and associated penalties, legal action and damage to our reputation. • Not modernising our business and financial processes by simplifying and automating our controls could make it harder for us to be agile, proactive and customer-centric.	• Maintaining an internal controls framework with clear accountability across the three lines of defence. • Performing quarterly control attestations. • Conducting annual testing covering all key controls, including relevant IT general controls. • Continuing to enhance processes, systems and controls, for instance by investing in enterprise-wide SAP to deliver improved and automated accounting and controls.
Point risks that could affect this category	**Emerging risks that could affect this category**
• Failing to simplify and modernise our finance processes. • Impact of complex legacy systems on our internal controls. • Ability to maintain sound internal controls following our deregistration from the US Securities and Exchange Commission.	• Changes to controls framework requirements as a result of changes to regulation and legislation.

Compliance

Legal compliance	Risk Owner: General counsel[a]
What this category covers	
We could fail to comply with legal requirements that apply to our business, including law relating to anti-bribery and corruption, competition, trade sanctions and corporate governance obligations.	
How it could affect our strategy and/or business model	**How we manage it**
• Not following laws that apply to us might lead to fines and penalties. That could affect our operations and shareholder value, as well as damaging the public's trust in us. • Serious breaches could lead to prosecution, litigation or to the regulator stepping in. And that might lead to fines or affect our ability to operate, especially if the breaches were deemed criminal.	• Assessing risks regularly when providing legal advice on strategic projects and commercial operations. • Scanning the horizon to prepare for legislative changes and developing policies to address them • Ensuring compliance with laws and regulations when signing off new business. • Training and communication so our colleagues are aware of legal risks, controls needed and expected standards of conduct as set out in our Ethics Code. • Running discipline and reward incentives to encourage the right behaviour in managing risks. • Carrying out monitoring and assurance, both internally and externally, on some of our external high-risk suppliers. • Fostering a culture where our colleagues can speak up, so we can identify problems and stop them happening again.
Point risks that could affect this category	**Emerging risks that could affect this category**
• Post-Brexit changes to UK laws and regulations.	• Increased reliance on third parties following the divestment of assets. • The geopolitical risks of further sanctions in high-risk territories. a

[a] Owner will change to general counsel and director of regulatory affairs from 1 June 2021

Data regulation	Risk Owner: Chief digital and innovation officer
What this category covers	
We could fail to follow data regulations, or not anticipate and adequately prepare for future ones.	
How it could affect our strategy and/or business model	**How we manage it**
• Failing to comply with global data protection laws or regulations that apply to us could damage our reputation, affect our stakeholders' trust in us and harm our colleagues, customers and suppliers. • It also means that we could face potential litigation and big fines and penalties.	• Continuously enhancing our data governance programme to tackle existing and future data regulatory risks. • Reviewing the use of personal data across the business to make sure our data protection policies are followed. • Running data protection and data handling training, and providing tools to help our colleagues make better, more risk-aware day-to-day decisions. • Monitoring the post-Brexit regulatory landscape and making contingency plans to keep data flowing where it's needed.
Point risks that could affect this category	**Emerging risks that could affect this category**
• The UK losing data adequacy status from the EU. • Preventing data loss in remote working environments. • Complying with data protection laws and regulations, while seeking innovative uses for data.	• Changes to data protection laws and regulations that apply to us wherever we operate. • Increased regulator focus on governance and ethics around data propositions and processes.

Regulation	Risk Owner: Regulatory affairs director[a]
What this category covers	
We could face an adverse regulatory environment to execute our strategy. Or we could fail to stick to the guidance and regulation set by our telecommunications and financial services regulators (Ofcom and the FCA, respectively).	
How it could affect our strategy and/or business model	**How we manage it**
• An overly strict or inflexible regulatory environment might make it harder for us to innovate and develop new products and services. • Unsupportive regulation could stop us investing at pace and scale in our full fibre rollout, 5G, converged connectivity and financial services. • An unclear or unpredictable regulatory environment could make it harder to deliver what customers and society expected from us while growing our value. • Not following regulations applying to us could lead to regulator action. That might damage our reputation or public trust, or make it harder to have a say in regulatory and government policy development.	• Making sure the Commitments are always front of mind for all colleagues, including training those in high-risk roles. • Proactively engaging with our regulators at different levels and on different policy topics. • Creating brilliant customer experiences, for example when moving customers on to our new networks. • Maintaining processes that ensure we follow regulations carefully, building trust and enabling positive future dialogue with policymakers. • Supplying timely and accurate information to our regulators.
Point risks that could affect this category	**Emerging risks that could affect this category**
• Uncertainty around the broadband Universal Service Obligation. • Shutting down our legacy networks as required.	• Increased regulation for new technology may not support good customer experience. • New or extended customer fairness regulation.

a Owner will change to general counsel and director of regulatory affairs from 1 June 2021.

Operational

Service interruption	Risk Owner: Chief technology officer
What this category covers	
Our customers could face disruption to the services we provide if we failed to fix vulnerabilities in our networks or IT infrastructure, or didn't make them resilient enough.	
How it could affect our strategy and/or business model	**How we manage it**
• An interruption to service, like one of our networks going down, would affect our customers directly. It could also make it harder for us to deliver critical services, which could damage our reputation.	• Regularly testing our business continuity and disaster recovery plans and keeping them up-to-date. • Planning how to deal with the effects of climate change globally, including network and IT resilience to face more severe weather events. • Responding quickly to incidents and reducing their impact through quickly-deployable and geographically dispersed emergency response teams. • Continually scanning the horizon and doing more proactive monitoring across our network and IT estate.
Point risks that could affect this category	**Emerging risks that could affect this category**
• The ability to remove high-risk vendors from our network. • Our suppliers' performance.	• Increasing frequency and severity of extreme weather events. • Transforming ourselves and our technology without disrupting service.

Cyber security	Risk Owner: Chief technology officer
What this category covers	
We might fail to protect ourselves, or our customers, from harm caused by intended or unintended cyber security events.	
How it could affect our strategy and/or business model	**How we manage it**
• If we didn't stop a cyber attack, it could lead to business disruption or compromised data. And that could lead to penalties, financial loss, cancelled contracts or regulatory sanctions. • If our reputation were damaged by a cyber security issue, it would also have a negative effect on our security credentials in the marketplace.	• Monitoring external threats and gathering intelligence on evolving cyber techniques, tactics and capabilities. • Keeping ourselves in a heightened state of preparedness to quickly detect and respond to cyber threats before they become incidents. • Promoting good security 'hygiene' and behaviour in our colleagues, through communications, campaigns and training. • Continuing to invest in our cyber defences and security tooling to improve our ability to protect BT and our customers.
Point risks that could affect this category	**Emerging risks that could affect this category**
• Being exposed to suppliers with security vulnerabilities. • Relying on externally hosted cloud services. • Increasing levels of remote working during and after the pandemic.	• AI and machine learning being weaponised as security threats. • Growing numbers of connected home devices need more focus on protecting customers.

Transformation delivery	Risk Owner: Chief digital and innovation officer
What this category covers	
We could fail to effectively implement the changes needed to radically simplify our processes and products, and modernise our technology.	
How it could affect our strategy and/or business model	**How we manage it**
• Not realising the benefits of our transformation could negatively impact customer and colleague experience. • It could also affect our operational efficiency and make it harder for us to make future investments. • Not having the right processes, tools and techniques to transform ourselves might stop us realising benefits, like improving our productivity through simplification.	• Having a strong governance model, with senior leaders owning major transformation activities. • Monitoring operational performance using financial and non-financial measures to make sure we generate value. • Investing in new capabilities, and developing matching skills in our colleagues, so that we have the right resources to deliver change effectively. • Collaborating across the group in a way that properly reflects our customers' end-to-end journeys.
Point risks that could affect this category	**Emerging risks that could affect this category**
• Migrating to digital platforms. • Allocating the right resources, capabilities and organisational design to maximise value creation.	• Delays to our full fibre build might make it harder to simplify our portfolio. • Switching off the PSTN in December 2025.

People	Risk Owner: HR director
What this category covers	
Our organisational structure, or the diversity, skills, engagement and culture of our workforce, could fall short of what is needed to deliver for customers in the short or longer term.	
How it could affect our strategy and/or business model	**How we manage it**
• A less diverse workforce could lead to poorer decision-making, and might make it harder for us to attract and retain talent. • If our colleagues weren't engaged, it might cut productivity, hinder innovation and slow down the pace of our transformation. It could also potentially lead to industrial action. • Failing to attract and retain talent in critical roles or with critical skills, and to foster a culture where everyone felt able to be their best, could affect our overall capabilities.	• Following a diversity and inclusion strategy to raise awareness, address bias and promote people networks and support for underrepresented groups. • Listening to colleagues through things like employee engagement and pulse surveys, the Colleague Board, town halls or social platforms, and maintaining close relationships with formal employee representative groups. • Investing in group-wide workforce and talent planning, training and development, with both role-specific and future skills in mind. • Providing fair and competitive remuneration to colleagues that promotes long-term business success, supports engagement and retention and aligns colleagues' interests with those of shareholders.
Point risks that could affect this category	**Emerging risks that could affect this category**
• The post-Brexit employment environment. • Social disruption and challenges around post-pandemic return to workplaces.	• Long-term social and workplace effects from the pandemic. • Growing colleague activism on social or environmental topics.

Health, safety and wellbeing	Risk Owner: HR director
What this category covers	
We could fail in our duty of care to make sure our people are safe, healthy and fulfilled in a culture where they feel they can be and perform their best.	
How it could affect our strategy and/or business model	**How we manage it**
• Failing to promote and embed a culture of continual improvement could stop us building a safe and compliant business that protects our colleagues at work. This would affect their morale and make us a less attractive employer. • If we don't meet leading health, safety and wellbeing standards, and reduce avoidable harm incidents to zero, we could face financial penalties and damage to our reputation.	• Training our colleagues and ensuring they are clear on their role and accountabilities with regards to health, safety and wellbeing practices. • Monitoring our colleagues' health, safety and wellbeing through surveys and focus groups, supported by a dedicated portal and mental health awareness training for managers. • Using an incident reporting system to monitor our performance on health, safety and wellbeing. • Making sure all BT suppliers operate in line with our safety standards.
Point risks that could affect this category	**Emerging risks that could affect this category**
• Maintaining secure workplace measures and controls.	• The long-term physical and mental health effects of lengthy periods of social restriction and limited mobility.

Major contracts	Risk Owner: Chief executive
What this category covers	
We could fail to sign or retain high-value national or multinational customer contracts because we weren't able to deliver the critical services agreed. Or we might end up entering into contracts with unfavourable commercial or legal terms.	
How it could affect our strategy and/or business model	**How we manage it**
• Failing to meet our contractual commitments – or respond to changing customer needs – while ensuring productivity and avoiding cost over-runs, could affect our future revenues, profitability and cash generation. • Service failures could damage our brand and reputation, particularly if they affected critical infrastructure contracts or security and data protection services. • Profits could be impacted following the pandemic as customers' businesses shrink or face consolidation or financial failure.	• Using a clear governance framework to manage the bid process and in life management of contract risks. • Following a cycle of regular contract reviews, led by senior management or our specialist independent review team. • Using advanced contract management tools to support frontline contract managers.
Point risks that could affect this category	**Emerging risks that could affect this category**
• The complexities associated with handling multiple customer obligations. • Delivering complex critical national infrastructure contracts. • Moving customers away from end-of-life products and services.	• Fast-changing customer needs in a post-Brexit business environment. • Changes to the geopolitical landscape affecting growth prospects in certain regions.

Customer service	Risk Owner: CEO Consumer
What this category covers	
We might fail to give our customers the good-value, outstanding service they expect, making it harder for us to build personal and enduring relationships with them.	
How it could affect our strategy and/or business model	**How we manage it**
• If we don't satisfy our customers with modern, competitive products and solutions, combined with outstanding service, they might leave BT for a competitor and, as a result, damage our reputation. • Failing to transform our customer experience could negatively affect customer satisfaction and retention, colleague pride and advocacy, our group revenues and brand value. • If we miss our regulatory commitments, we could face associated financial penalties.	• Delivering on our promises about the service levels customers should expect from us, and tracking a range of customer experience performance metrics. • Planning with all our suppliers how we'll manage the impact of a potential future pandemic resurgence. • Piloting schemes and testing customer equipment to minimise the impact of new hardware, services or platforms. • Making sure we won't be short on key skills by following a colleague retention and skills development plan.
Point risks that could affect this category	**Emerging risks that could affect this category**
• Drops in service level because of reduced retail presence. • Migrating to new service platforms.	• Long-term changes in customer needs and expectations.

Third party management	Risk Owner: Chief financial officer
What this category covers	
We might fail to select the right suppliers and partners, or there might be failures in how we manage the relationships with the third parties we rely on.	
How it could affect our strategy and/or business model	**How we manage it**
• Selecting suppliers who couldn't meet our needs, or depending too much on too few suppliers, could lead to poor third-party commercial terms. That could damage our strategic, market or competitive position. • Picking suppliers who weren't up to the job might lead to failed deliveries, lost revenue or investment, fines or damage to our reputation. • Managing suppliers poorly could disrupt our business and lead to regulatory fines and brand damage. For example if we discovered a supplier was involved in modern slavery, or was vulnerable to a cyber attack that could compromise BT sensitive data.	• Applying ethical and responsible business principles when picking suppliers. • Conducting pre-contract checks on our suppliers covering their financial health and their ability to meet our standards on anti-bribery and corruption, security or data privacy. • Monitoring suppliers' performance on energy use, environmental impact and labour standards and supporting their improvement plans. • Getting assurance that the goods and services we buy are made, delivered and disposed of in a socially and environmentally responsible way. • Continuing to invest in AI and machine learning tools to give us greater transparency to supplier risk across our top suppliers, and to help develop category-specific strategies.
Point risks that could affect this category	**Emerging risks that could affect this category**
• Disruption due to worldwide shortages of critical supplies. • Supplier-related cyber and data security threats. • Being sure of ethical business practices across our whole supply chain.	• Political tensions in regions where we have a high concentration of suppliers. • Single-source vendors' delivery performance. • Driver shortages affecting our suppliers' delivery models.

The strategic report was approved by the Board of Directors on 26 May 2021 and signed on its behalf by:

Simon Lowth
Director

Report of the Directors

The directors present their report and the audited financial statements of the company, British Telecommunications plc, and the group, which includes its subsidiary undertakings, for the year ended 31 March 2021. The audited consolidated financial statements are presented on pages 33 to 99 and the audited entity only financial statements are presented on pages 100 to 124.

A statement by the directors of their responsibilities for preparing the financial statements is included in the Statement of directors' responsibilities on page 26.

Principal activity

The company is the principal trading subsidiary of BT Group plc, which is the ultimate parent company. BT is one of the world's leading communications services companies. We're based in the UK but we provide solutions for our customers in over 180 countries. We provide fixed, mobile and converged connectivity solutions. They include broadband, mobile, TV, networking, IT services and related services and applications. We're responsible for building and operating networks and delivering the connectivity-based solutions that are essential to modern lives, businesses and communities. We're the UK's largest provider of consumer mobile, fixed and converged communications solutions. We also keep UK and Republic of Ireland businesses and public sector organisations connected and provide network solutions to UK communications providers. Globally we integrate, secure and manage network and cloud infrastructure and services for multinational corporations. Openreach runs the UK's main fixed connectivity access network, connecting homes, mobile phone masts, schools, shops, banks, hospitals, libraries, broadcasters, governments and big and small businesses to the world.

As well as being the principle trading subsidiary of BT Group plc, British Telecommunications plc directly or indirectly controls all other trading subsidiaries of the BT Group.

Directors

The directors at 31 March 2021 were Keighly Droy-Whelan, Ulrica Fearn, Neil Harris, Edward Heaton and Simon Lowth, all of whom served throughout the year.

Keighly Droy-Whelan resigned from the Board on 31 March 2021. Daniel Rider was appointed as a director with effect from 1 April 2021.

Critical accounting estimates, key judgements and significant accounting policies

Our critical accounting estimates and key judgements, and significant accounting policies conform with IFRSs as adopted by the EU and IFRSs issued by the International Accounting Standards Board (IASB), and are set out on page 39 of the consolidated financial statements and page 103 of the entity only financial statements. The directors have reviewed these policies and applicable estimation techniques, and have confirmed they are appropriate for the preparation of the 2020/21 consolidated financial statements.

Disclosure of information to the auditor

As far as each of the directors is aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) that hasn't been disclosed to the auditor. Each of the directors confirms that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the auditor has been made aware of that information.

Dividend

A dividend of £2,000m was paid to the parent company, BT Group Investments Limited, during 2020/21 (2019/20 £1,575m). The directors do not recommend payment of a final dividend (2019/20: £2,000m).

Going concern

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

The Strategic report on pages 3 to 21 includes information on the group structure, strategy and business model, the performance of each customer-facing unit and the impact of regulation and competition. The Group performance section on pages 4 to 6 includes information on our group financial results and balance sheet position. Notes 22, 24 and 26 of the consolidated financial statements include information on the group's investments, cash and cash equivalents, borrowings, derivatives, financial risk management objectives, hedging policies and exposure to interest, foreign exchange, credit, liquidity and market risks.

Our principal risks and uncertainties are set out on pages 13 to 21 including details of each risk and how we manage and mitigate them. The directors carried out a robust assessment of the emerging and principal risks affecting the group, including any that could threaten our business model, future performance, insolvency or liquidity.

Having assessed the principal and emerging risks, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements. This assessment covers the period to May 2022, which is consistent with the FRC guidance. When reaching this conclusion, the directors took into account the group's overall financial position (including trading results and ability to repay term debt as it matures without recourse to refinancing) and the exposure to emerging and principal risks.

At 31 March 2021, the group had cash and cash equivalents of £1.0bn and current asset investments of £3.7bn. The group also had access to committed borrowing facilities of £2.1bn. These facilities were undrawn at the period-end and are not subject to renewal until March 2026.

Directors' and officers' liability insurance and indemnity

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

As at 26 May 2021, and throughout 2020/21, British Telecommunications plc has provided an indemnity for a group of people similar to the group covered by the above insurance. Neither the insurance nor the indemnity provides cover where the individual is proven to have acted fraudulently or dishonestly.

As permitted by the company's Articles of Association, and to the extent permitted by law, the company indemnifies each of its directors and other officers of the group against certain liabilities that may be incurred as a result of their positions within the group. The indemnity was in force throughout the tenure of each director during the last financial year, and is currently in force.

Systems of risk management and internal control

The Board of BT Group plc is responsible for reviewing the group's systems of risk management and internal control each year, and ensuring their effectiveness including in respect of relevant assurance activities. These systems are designed to manage, rather than eliminate, risks we face that may prevent us achieving our business objectives and delivering our strategy. Any system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The BT Group risk management framework assists the BT Group Board in carrying out its duties as set above. The framework has been in operation throughout the year and up to the date on which this document was approved. The framework provides the business with the tools to take on the right risks and make smart risk decisions, supports the identification, assessment and management of the principal risks and uncertainties faced by the group and is an integral part of the company's annual strategic review cycle. The framework was also designed in accordance with the FRC guidance on risk management, internal control and related financial and business reporting. Further information can be found on pages 57 to 58 of the BT Group plc 2021 Annual Report.

Internal audit carry out periodic assessments of the quality of risk management and control, promote effective risk management across all our units and report to management and the BT Group Audit & Risk Committee on the status of specific areas identified for improvement. We do not cover joint ventures and associates not controlled by the company in the scope of our group risk management framework. Such third parties are responsible for their own internal control assessment. Furthermore, the BT Group Audit & Risk Committee, on behalf of the BT Group Board, reviews the effectiveness of the systems of risk management and internal control across the group.

Capital management and funding policy

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

Financial instruments

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

Credit risk management policy

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

Off-balance sheet arrangements

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

Post balance sheet events

Any material post balance sheet events have been disclosed in note 31 of the consolidated financial statements and note 22 of the entity only financial statements.

Legal proceedings

The group is involved in various legal proceedings, including actual or threatened litigation and, government or regulatory investigations. For further details of legal and regulatory proceedings to which the group is party please see note 30 to the consolidated financial statements.

Apart from the information disclosed in note 30 to the consolidated financial statements, the group does not currently believe that there are any legal proceedings, government or regulatory investigations that may have a material adverse impact on the operations or financial condition of the group. In respect of each of the claims described in note 30 the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. Many factors prevent us from making these assessments with certainty, including, that the proceedings of investigations are in early stages, no damages or remedies have been specified, and/or the frequently slow pace of litigation.

Employee engagement

Engaging with our colleagues takes many forms including through our annual Your Say survey, union/employee representative engagement, pulse surveys, the Colleague Board (established by BT Group plc) and regular colleague communications. Colleagues are kept well informed on matters such as the strategy and performance of BT Group plc and its group, including after certain key events such as quarterly trading updates.

Share plans are used to encourage colleagues to have a stake in the future of BT Group plc, of which the company is principal trading subsidiary. We annually consider which all-employee plans to offer both within the UK and globally. In 2020/21, we offered all colleagues based in the UK the opportunity to participate in a HMRC approved save as you earn plan (saveshare) and a similar scheme for our colleagues based outside the UK (dependent on local laws). We also offered UK colleagues the opportunity to participate in a HMRC approved share incentive plan (directshare). In June 2020 we launched the yourshare plan which utilised the free share element of the share incentive plan in the UK and conditional share awards internationally. In June 2020, we granted all eligible colleagues £500 worth of BT Group plc shares (or a cash equivalent where there were geographical restrictions).

Employees with disabilities
We are an inclusive employer and actively encourage the recruitment, development, promotion and retention of people with a disability. We have well established global practices to support colleagues who have or acquire disabilities or health conditions during their employment. Our disability practices also include those colleagues who are employed by the company who have caring responsibilities.

We have established a Disability Rapid Action Plan across our business to help us make faster progress as part of our Valuable 500 commitments on disability inclusion. The plan is amplifying colleagues' voices through our Able2 People Network and helping us embed disability inclusion right across our business.

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

The authority for political donations requested at the BT Group plc AGM is not intended to change this policy. It will, however, ensure that the group continues to act within the provisions of the 2006 Act requiring companies to obtain shareholder authority before they make donations to political parties and/or political organisations as defined in the 2006 Act. During 2020/21, BT plc paid the costs of BT colleagues joining corporate days at (i) the Liberal Democrats party conference; and (ii) the Labour party conference. This year these costs totalled £922 (2019/20: £9,967) which were significantly lower than last year as events were attended virtually. No company in the BT group made any loans to any political party.

Branches
Details of our branches outside the UK are set out on pages 125-131.

Governance Statement
The Board aspires to have and maintain good standards of corporate governance and has adopted a corporate governance code appropriate for the company.

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

The principles which underpin our corporate governance code and how these principles have been applied during the financial year ended 31st March 2021 are shown below:

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

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

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

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

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

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

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

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

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

The Board seeks to understand the views of its key stakeholders, and the impact of its behaviour and business on employees, customers, suppliers and society more broadly. Whilst for reasons of efficiency and effectiveness, much of this engagement takes place at a BT Group level, the Board receives updates on its key stakeholders and the mechanisms and initiatives for engagement. For more information on group level engagement with key stakeholders, see the BT Group plc 2021 Annual Report and the Section 172 statement.

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

Cross reference to the Strategic report
We have chosen to include the following information in the **Strategic report** in line with the Companies Act 2006 (otherwise required by law to be included in the **Report of the Directors**):

- An indication of likely future developments in the business of the company and its group (pages 3-21)
- An indication of our research and development activities (page 11)
- Information on how the group (and BT Group plc) engages with colleagues, and how regard has been had to the interests of colleagues and the need to foster business relationships with suppliers, customers and others, and the effect of that regard during the year (pages 7 to 12)
- Anti-bribery and corruption (page 9)
- Social and community (pages 8-9)
- Human rights (pages 7 to 11)

By order of the Board

Kathryn Zielinski

Secretary

26 May 2021

Statement of directors' responsibilities

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (the 2006 Act) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework. In addition the group financial statements are required under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs) to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the group's profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant, reliable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the 2006 Act and IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with such law and regulation.

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

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

We confirm that to the best of our knowledge:

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

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position, performance, business model and strategy.

This responsibility statement was approved by the Board on 26 May 2021 and signed on its behalf by:

Simon Lowth

Director

26 May 2021

Independent auditor's report to the members of British Telecommunications plc

1. Our opinion is unmodified

We have audited the financial statements of BT British Telecommunications 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 £17.9 billion (2020: £20.3 billion)
Risk vs 2020: down
Refer to page 67 (note 19 accounting policy Retirement benefit plans) and pages 67 to 78 (disclosures note 19 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 19) 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: same
Refer to page 67 (note 19 accounting policy Retirement benefits) and pages 67 to 78 (disclosures note 19 Retirement benefit plans).

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

The effect of these matters is 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 19) disclose the sensitivity of key assumptions for the obligation estimated by the Group.

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

Assessing actuaries' credentials: 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: same
Refer to pages 44 to 47 (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 £18,496 million (2020: £18,548 million)

Refer to page 111 (accounting policy Investments) and page 111 (financial disclosures note 7 Investments)

Loans to group undertakings £13,581 million (2020: £16,742 million)
Amounts owed by group and parent undertakings £354 million (2020: £451 million)

Refer to page 113 (accounting policy Impairment of financial assets) and page 112 and 113 (financial disclosures)

The risk
Low risk, high value
The carrying amount of the parent company investment in subsidiary and the amount of loans to group undertakings and amount owed by group and parent undertakings represent 29%, 21% and 1% respectively (2020: 27%, 24% and 1% 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.

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.

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%	81%	96%
2020	98%	96%	100%

The remaining 13% (2020: 2%) of total group revenue, 19% (2020: 4%) of group profit before tax and 4% (2020: 0%) of total group assets is represented by 227 (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; and
- we found the going concern disclosures in note 1 to be acceptable.

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.

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.

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 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 26, 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

26 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	(18,298)	(442)	(18,740)
Operating profit (loss)	4	**3,072**	**(481)**	**2,591**
Finance expense	25	(791)	(18)	(809)
Finance income	25	207	0	207
Net finance expense		**(584)**	**(18)**	**(602)**
Share of post tax profit (loss) of associates and joint ventures		8	—	8
Profit (loss) before taxation		**2,496**	**(499)**	**1,997**
Taxation	10	(464)	96	(368)
Profit (loss) for the year		**2,032**	**(403)**	**1,629**

Year ended 31 March 2020

	Notes	Before specific items ('Adjusted') £m	Specific itemsa £m	Total (Reported) £m
Revenue	4,5	22,824	81	22,905
Operating costs	6	(19,210)	(409)	(19,619)
Operating profit (loss)	4	**3,614**	**(328)**	**3,286**
Finance expense	25	(838)	(145)	(983)
Finance income	25	319	5	324
Net finance expense		**(519)**	**(140)**	**(659)**
Share of post tax profit (loss) of associates and joint ventures		6	(39)	(33)
Profit (loss) before taxation		**3,101**	**(507)**	**2,594**
Taxation	10	(582)	(83)	(665)
Profit (loss) for the year		**2,519**	**(590)**	**1,929**

[a] For a definition of specific items, see page 132. 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		**1,629**	**1,929**
Other comprehensive income (loss)			
Items that will not be reclassified to the income statement			
Remeasurements of the net pension obligation	19	(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	27	(189)	40
Fair value movements on assets at fair value through other comprehensive income	27	—	(5)
Movements in relation to cash flow hedges:			
– net fair value gains (losses)	27	(1,468)	854
– recognised in income and expense	27	850	(382)
Tax on components of other comprehensive income that have been or may be reclassified	10, 27	133	(84)
Other comprehensive income (loss) for the year, net of tax		**(4,612)**	**4,468**
Total comprehensive income (loss) for the year		**(2,983)**	**6,397**

Group balance sheet

At 31 March

	Notes	2021 £m	2020 £m
Non-current assets			
Intangible assets	12	13,365	13,897
Property, plant and equipment	13	19,397	18,474
Right-of-use assets	14	4,863	5,391
Derivative financial instruments	26	1,165	2,229
Investments	21	11,023	13,789
Associates and joint ventures		17	12
Trade and other receivables	16	314	481
Contract assets	5	344	279
Deferred tax assets	10	989	**300**
		51,477	**54,852**
Current assets			
Programme rights	15	328	310
Inventories		297	300
Trade and other receivables	16	3,277	2,730
Contract assets	5	1,515	1,442
Assets classified as held for sale	23	—	268
Current tax receivable		281	67
Derivative financial instruments	26	70	260
Investments	21	3,652	5,372
Cash and cash equivalents	22	997	1,545
		10,417	**12,294**
Current liabilities			
Loans and other borrowings	24	912	3,957
Derivative financial instruments	26	88	46
Trade and other payables	17	5,974	5,829
Contract liabilities	5	925	972
Lease liabilities	14	730	812
Liabilities classified as held for sale	23	—	211
Current tax liabilities		121	23
Provisions	18	288	288
		9,038	**12,138**
Total assets less current liabilities		**52,856**	**55,008**
Non-current liabilities			
Loans and other borrowings	24	16,745	17,575
Derivative financial instruments	26	1,195	966
Contract liabilities	5	167	179
Lease liabilities	14	5,422	5,748
Retirement benefit obligations	19	5,096	1,140
Other payables	17	682	754
Deferred tax liabilities	10	1,429	1,608
Provisions	18	427	431
		31,163	**28,401**
Equity			
Ordinary shares		2,172	2,172
Share premium		8,000	8,000
Other reserves	27	1,143	1,826
Retained earnings		10,378	14,609
Total shareholders' equity		**21,693**	**26,607**
		52,856	**55,008**

The consolidated financial statements on pages 33 to 99 were approved by the Board of Directors on 26 May 2021 and were signed on its behalf by:

Simon Lowth
Director

Group statement of changes in equity

	Notes	Share capital[a] £m	Share premium[b] £m	Other reserves[c] £m	Retained earnings (loss) £m	Total equity (deficit) £m
At 1 April 2019		**2,172**	**8,000**	**1,425**	**10,120**	**21,717**
Profit for the year		—	—	—	1,929	1,929
Other comprehensive income (loss) – before tax		—	—	889	4,853	5,742
Tax on other comprehensive income (loss)	10	—	—	(84)	(808)	(892)
Transferred to the income statement		—	—	(382)	—	(382)
Total comprehensive income (loss) for the year		—	—	423	5,974	6,397
Share-based payments	20	—	—	—	72	72
Tax on share-based payments	10	—	—	—	—	—
Dividends to parent company	11	—	—	—	(1,575)	(1,575)
Transfer to realised profit		—	—	(22)	22	—
Other movements		—	—	—	(4)	(4)
At 31 March 2020		**2,172**	**8,000**	**1,826**	**14,609**	**26,607**
Profit for the year		—	—	—	1,629	1,629
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)	(2,309)	(2,983)
Share-based payments	20	—	—	—	72	72
Tax on share-based payments	10	—	—	—	5	5
Dividends to parent company	11	—	—	—	(2,000)	(2,000)
Transfer to realised profit		—	—	(9)	9	—
Other movements		—	—	—	(8)	(8)
At 31 March 2021		**2,172**	**8,000**	**1,143**	**10,378**	**21,693**

[a] The allotted, called up, and fully paid ordinary share capital of the company at 31 March 2021 was £2,172m comprising 8,689,755,905 ordinary shares of 25p each.
[b] The share premium account, comprising the premium on allotment of shares, is not available for distribution.
[c] For further analysis of other reserves, see note 27.

Group cash flow statement

Year ended 31 March

	Notes	2021 £m	2020 £m
Cash flow from operating activities			
Profit before taxation		1,997	2,594
Share of post tax (profit) loss of associates and joint ventures		(8)	33
Net finance expense		602	659
Operating profit		2,591	3,286
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		(48)	140
(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		**6,250**	**6,480**
Income taxes paid		(288)	(210)
Net cash inflow from operating activities		**5,962**	**6,270**
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)
Outflow on non-current amounts owed by ultimate parent company[d]		(13)	(1,605)
Proceeds on disposal of current financial assets[e]		13,506	12,000
Purchases of current financial assets[e]		(12,085)	(13,877)
Net (purchase) disposal of non-current asset investments[f]		(11)	33
Proceeds on disposal of property, plant and equipment and intangible assets		85	216
Purchases of property, plant and equipment and intangible assets[g]		(4,903)	(4,105)
Net cash outflow from investing activities		(3,253)	**(7,255)**
Cash flow from financing activities			
Interest paid		(770)	(736)
Repayment of borrowings[h]		(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
Net cash (outflow) inflow from financing activities		**(3,204)**	**797**
Net decrease in cash and cash equivalents		**(495)**	**(188)**
Opening cash and cash equivalents[i]		1,405	1,592
Net decrease in cash and cash equivalents		(495)	(188)
Effect of exchange rate changes		(17)	1
Closing cash and cash equivalents[i]	22	**893**	**1,405**

[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 during the period. 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] There are non-cash movements in this intra-group loan arrangement which principally relate to the settlement of dividends with the parent company and amounts the ultimate parent company was owed by the parent company which were settled through their loan accounts with British Telecommunications plc. Refer to note 29 for further information.
[e] Primarily consists of investment in and redemption of amounts held in liquidity funds.
[f] Relates to (purchase) disposal of fair value through equity investments.
[g] 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.
[h] Repayment of borrowings includes the impact of hedging.
[i] 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.

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 British Telecommunications plc, the parent company, and its subsidiaries (together the 'group', 'us', 'we' or 'our'.

The consolidated financial statements are prepared on the historical cost basis, except for certain financial and equity instruments that have been measured at fair value. The consolidated financial statements are presented in sterling, the functional currency of 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 of BT Group plc and assists in providing a meaningful analysis of our trading results. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

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

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 16.

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 and Risk Committee of BT Group plc.

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.

Note	Critical estimate	Key estimate	Significant judgement
10. Current and deferred income tax	✓		✓
12. Goodwill impairment		✓	✓
14. Reasonable certainty and determination of lease terms			✓
18. & 30. Contingent liabilities associated with litigation	✓		✓
18. & 30. Other provisions and contingent liabilities		✓	✓
19. 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. We have applied all policies consistently to all the years presented, unless otherwise stated.

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

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

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

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

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

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

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

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

Grants for the purchase or production of property, plant and equipment are deducted from the cost of the related assets and reduce future depreciation expense accordingly. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Estimates and judgements applied in accounting for government grants received in respect of the BDUK programme and other rural superfast broadband contracts are described in note 13.

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

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

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

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

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

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

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

4. Segment information

Significant accounting policies that apply to segment information

Operating and reportable segments
Our operating segments are reported based on financial information provided to the Executive Committee of BT Group plc, which is the key management committee and represents the 'chief operating decision maker'.

Our organisational structure reflects the different customer groups to which we provide communications products and services via our customer-facing units (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 of BT Group plc. Finance expense and income are not allocated to the reportable segments, as the central treasury function manages this activity, together with the overall net debt position of the group.

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

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

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

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

4. Segment information continued

Segment revenue and profit

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	54	7,419
Depreciation and amortisation[a]	(1,281)	(740)	(405)	(1,707)	(214)	(4,347)
Operating profit (loss)[a]	**847**	**964**	**191**	**1,230**	**(160)**	**3,072**
Specific items (note 9)						(481)
Operating profit						**2,591**
Net finance expense[c]						(602)
Share of post tax profit (loss) of associates and joint						8
Profit before tax						**1,997**

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	57	7,910
Depreciation and amortisation[a]	(1,278)	(712)	(479)	(1,712)	(115)	(4,296)
Operating profit (loss)[a]	**1,148**	**1,223**	**155**	**1,146**	**(58)**	**3,614**
Specific items (note 9)						(328)
Operating profit						**3,286**
Net finance expense[c]						(659)
Share of post tax profit (loss) of associates and joint						(33)
Profit before tax						**2,594**

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

	Internal cost recorded by					
Year ended 31 March 2021	**Consumer £m**	**Enterprise £m**	**Global £m**	**Openreach £m**	**Other £m**	**Total £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**

	Internal cost recorded by[b]					
Year ended 31 March 2020	Consumer £m	Enterprise[a] £m	Global £m	Openreach £m	Other[a] £m	Total £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.

4. Segment information continued

Capital expenditure

Year ended 31 March 2021	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
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	Consumer £m	Enterprise[c] £m	Global £m	Openreach £m	Other[c] £m	Total £m
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 12.
[b] Additions to property, plant and equipment as presented in note 13, 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

Year ended 31 March	2021 £m	2020 £m
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

At 31 March	2021 £m	2020 £m
UK	35,672	35,605
Europe, Middle East and Africa, excluding the UK	2,190	2,347
Americas	277	384
Asia Pacific	161	198
Non-current assets[a]	**38,300**	**38,534**

[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.

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.

5. Revenue continued

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 contact is, or contains a lease following the accounting policy set out in note 14. Arrangements meeting the definition of a lease in which we act as lessor are classified as operating or finance leases at lease inception based on an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case then the lease is a finance lease; if not, it is an operating lease. 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 14.

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

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).

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**

5. Revenue continued

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 14 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.

Contract assets and liabilities

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

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

Where the initial set-up, transition or transformation phase of a long-term contract is considered to be a distinct performance obligation we recognise a contract asset for any work performed but not billed. Conversely a contract liability is recognised where these activities are not distinct performance obligations and we receive upfront consideration. In this case eligible costs associated with delivering these services are capitalised as fulfilment costs, see note 16.

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

Contract assets and liabilities recognised are as follows:

Year ended 31 March	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**

5. Revenue continued

£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		4,090	4,198
Social security costs		403	426
Other pension costs	19	591	626
Share-based payment expense	20	72	72
Total staff costs		**5,156**	**5,322**
Own work capitalised		(895)	(903)
Net staff costs		**4,261**	**4,419**
Net indirect labour costs[a]		294	354
Net labour costs		**4,555**	**4,773**
Product costs and sales commission		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		345	372
Other operating income		(226)	(223)
Depreciation of property, plant and equipment			
Owned assets	13	2,460	2,452
Right-of-use assets[c]	14	690	671
Amortisation of intangible assets	12	1,197	1,173
Total operating costs before specific items		**18,298**	**19,210**
Specific items	9	442	409
Total operating costs		**18,740**	**19,619**
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 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 IFRS16.
[d] Leaver costs are included within wages and salaries, except for leaver costs of £270m (2019/20: £197m) associated with restructuring and EE integration costs, which have been recorded as specific items.
[e] Research and development expenditure reported in the income statement, includes amortisation of £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 BT Group plc Executive Committee as well as the directors of the company. It is the BT Group plc Executive Committee which has responsibility for planning, directing and controlling the activities of the group.

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

Year ended 31 March	2021 £m	2020 £m
Short-term employee benefits	10.8	10.7
Post employment benefits	1.0	1.1
Share-based payments	5.4	7.5
Termination benefits	0.2	—
	17.4	**19.3**

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

7. Employees

Number of employees in the group[a]	2021 Year end 000	2021 Average 000	2020 Year end 000	2020 Average 000
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**

Number of employees in the group[a]	2021 Year end 000	2021 Average 000	2020 Year end 000	2020 Average 000
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[b]	35.4	34.8	35.0	34.1
Other	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	10,435	10,499
The audit of the company's subsidiaries	6,268	6,303
	16,703	**16,802**
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	**18,851**	**19,693**

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

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.

9. Specific items continued

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
We have recognised a net credit of £19m (2019/20: charge £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 judgements and key estimates made in accounting for taxation
We seek to pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws are unclear, and it can take many years to agree an outcome with a tax authority or through litigation. We estimate our tax on country-by-country and issue-by-issue bases. Our key uncertainties are whether EE's tax losses will be available to us, whether our intra-group trading model will be accepted by a particular tax authority and whether intra-group payments are subject to withholding taxes. We provide for the predicted outcome where an outflow is probable, but the agreed amount can differ materially from our estimates. Approximately 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, 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 35. 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%)	(336)	(541)
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	**(389)**	**(559)**
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 expense (credit)	**21**	**(106)**
Total taxation expense	**(368)**	**(665)**

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	**1,997**	**2,594**
Expected taxation expense at UK rate of 19% (2019/20: 19%, 2018/19: 19%)	(380)	(493)
Effects of:		
(Higher) lower taxes on non-UK profits	15	(5)
Net permanent differences between tax and accounting[a]	(33)	(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	**(368)**	**(665)**
Exclude specific items (note 9)	(96)	83
Total taxation expense before specific items	**(464)**	**(582)**

[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.

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	—	—
	1,051	**(892)**
Current tax credit[a]	203	267
Deferred tax (expense) credit	848	(1,159)
	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 (restated)	—	1,079	—	—	80	—	1,159
Exchange differences	1	1	—	2	(1)	—	3
Transfer to held for sale	—	—	—	—	(4)	—	(4)
Transfer from current tax	—	—	—	—	(14)	—	(14)
At 1 April 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 1 April 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 differences	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. The rate change was substantively enacted on 24 May 2021, 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: £4.2bn). Our other temporary differences have no expiry date restrictions. The expiry date of operating losses carried forward is dependent upon the tax law of the various territories in which the losses arose. A summary of expiry dates for losses in respect of which restrictions apply is set out below:

At 31 March 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 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. Dividends

What dividends have been paid and proposed for the year?

A dividend of £2,000m was paid to the parent company, BT Group Investments Limited, during 2020/21 (2019/20: £1,575m). The directors do not recommend payment of a final dividend in respect of 2020/21 (2019/20: £2,000m).

12. Intangible assets

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

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

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

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

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

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

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

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

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

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

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

12. Intangible assets continued

	Goodwill £m	Customer relationships and brands £m	Telecoms licences and other £m	Internally developed software[a] £m	Purchased software £m	Total £m
Cost						
At 1 April 2019	**8,014**	**3,417**	**3,067**	**4,518**	**1,505**	**20,521**
Additions	—	—	—	598	192	790
Disposals and adjustments[b]	(30)	(28)	(34)	(765)	(541)	(1,398)
Transfers	—	—	(2)	14	(3)	9
Exchange differences	52	8	1	2	10	73
Transfer to assets held for sale[c]	(83)	—	—	(13)	(45)	(141)
At 31 March 2020	**7,953**	**3,397**	**3,032**	**4,354**	**1,118**	**19,854**
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	**7,846**	**3,383**	**3,013**	**4,753**	**1,135**	**20,130**
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	**7,953**	**1,467**	**2,458**	**1,403**	**616**	**13,897**
At 31 March 2021	**7,846**	**1,145**	**2,279**	**1,454**	**641**	**13,365**

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.

12. 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 BT Group plc 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**	**554**	**8,014**
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**	**519**	**7,953**
Exchange differences	—	—	(8)	(100)	(108)
Acquisitions and disposals	—	—	—	1	1
At 31 March 2021	**1,183**	**2,768**	**3,475**	**420**	**7,846**

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

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.

13. Property, plant and equipment

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

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

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

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

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

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

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

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

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.

13. Property, plant and equipment continued

	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[c]	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.

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**

13. Property, plant and equipment continued

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: £10.0bn) which have useful economic lives of more than 18 years.

14. 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

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 13 and are adjusted for any remeasurement of lease liabilities.

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

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

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.

14. Leases continued

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.

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.

14. Leases continued

Right-of-use assets

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

	Land and buildings £m	Network infrastructure £m	Motor vehicles[a]	Other[a] £m	Total £m
At 1 April 2019	**4,628**	**189**	**314**	**24**	**5,155**
Additions[b]	942	59	475	0	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	**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.

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 37) presents £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 26 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).

14. Leases continued

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

At 31 March 2021	To be recognised as revenue (note 5) £m	To be recognised as other operating income (note 6) £m	Total £m
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**

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

15. Programme rights

Significant accounting policies that apply to programme rights

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

Additions reflect TV programme rights for which the legally enforceable licence period has started during the year. Rights for which the licence period has not started are disclosed as contractual commitments in note 30. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 16).

	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.

16. Trade and other receivables

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

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

Once recognised, trade receivables are continuously monitored and updated. Allowances are based on our historical loss experiences for the relevant aged category as well as forward-looking information and general economic conditions, 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.

At 31 March	2021 £m	2020 £m
Current		
Trade receivables	1,209	1,375
Amounts owed by ultimate parent company	20	26
Prepayments[a]	1,357	607
Accrued income	130	57
Deferred contract costs	348	422
Other receivables	213	243
	3,277	**2,730**

At 31 March	2021 £m	2020 £m
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 26 provides further disclosure regarding the credit quality of our gross trade receivables.

16. Trade and other receivables continued

Trade receivables are due as follows:

			Past due and not specifically impaired				
	Not past due	Trade receivables specifically impaired net of provision	Between 0 and 3 months	Between 3 and 6 months	Between 6 and 12 months	Over 12 months	Total
At 31 March	£m	£m	£m	£m	£m	£m	£m
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).

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

			Past due and not specifically impaired				
	Not past due	Trade receivables specifically impaired net of provision	Between 0 and 3 months	Between 3 and 6 months	Between 6 and 12 months	Over 12 months	Total
At 31 March	£m	£m	£m	£m	£m	£m	£m
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	2020	**2021**	2020
At 31 March	**£m**	£m	**£m**	£m
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.

16. Trade and other receivables continued

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**

17. Trade and other payables

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

At 31 March	2021 £m	2020 £m
Current		
Trade payables	4,024	3,889
Amounts owed to parent company	—	55
Amounts owed to ultimate parent company	10	1
Other taxation and social security	491	562
Other payables	479	477
Accrued expenses	634	545
Deferred income[a]	336	300
	5,974	**5,829**

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.

18. Provisions

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

Significant accounting policies that apply to provisions
We recognise provisions when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where these criteria are not met we disclose a contingent liability if the group has a possible obligation, or has a present obligation with an outflow that is not probable or which cannot be reliably estimated. Contingent liabilities are disclosed in note 30.

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

18. Provisions continued

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 30. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. We assess the likelihood that a potential claim or liability will arise and also quantify the possible range of financial outcomes where this can be reasonably determined.

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

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 30.

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.

	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	0	—	—	—	—	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	0	1	32	17	7	50	116
Unwind of discount	1	0	—	—	—	—	—	1
Utilised or released	(16)	(21)	(1)	(15)	—	(5)	(63)	(121)
Transfers	—	—	—	—	4	—	(4)	—
Exchange differences	—	—	—	—	—	—	—	—
At 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.

19. Retirement benefit plans

Background to BT's pension plans

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

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

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

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

	What are they?	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.

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.

19. Retirement benefit plans continued

Amounts in the financial statements

Group income statement

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

Year ended 31 March	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.

	2021			2020		
At 31 March	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.

19. Retirement benefit plans continued

Movements in defined benefit plan assets and liabilities

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

	Assets £m	Liabilities £m	Deficit £m
At 31 March 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.

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.

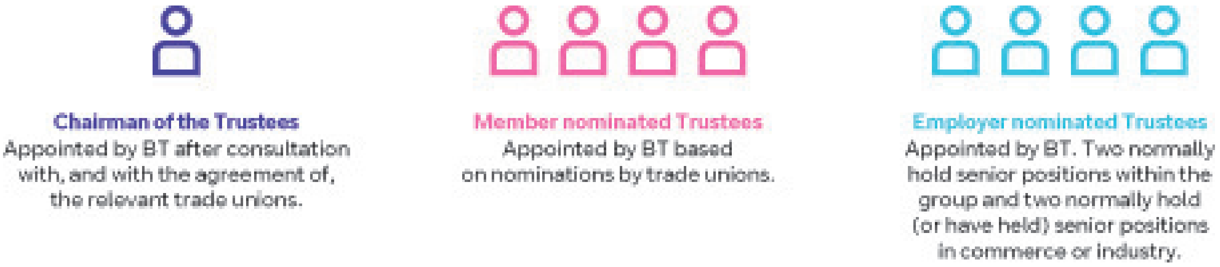
	Active members	Deferred members	Pensioners
Sections A & B[a]	Benefits accrue on a CARE basis increasing at the lower of RPI or the individual's actual pensionable pay increase	Preserved benefits are revalued before retirement based upon CPI	Increases in benefits in payment are currently based upon CPI
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.

19. Retirement benefit plans continued

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



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.

19. Retirement benefit plans continued

Asset allocation

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

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

		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
	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 IAS19 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.

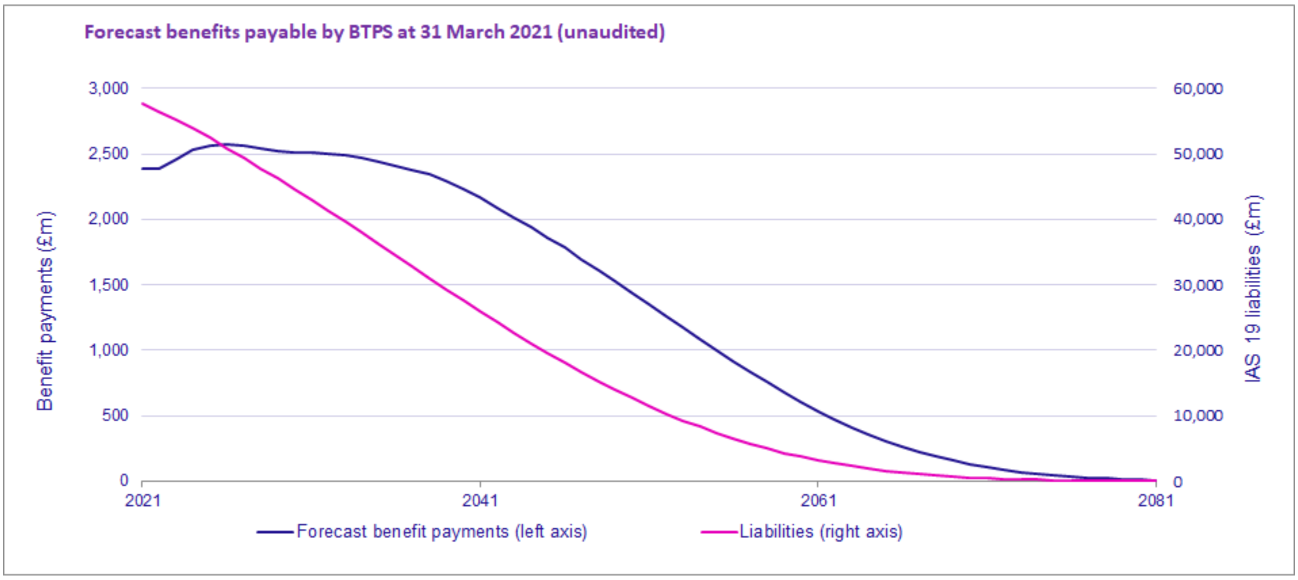
What are the forecast benefits payable from the BTPS?

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.

19. Retirement benefit plans continued

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.



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]	
At 31 March	**2021**	2020	**2021**	2020
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%).

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

19. Retirement benefit plans continued

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

	Approach to set the assumption
Discount rate	IAS 19 requires that the discount rate is determined by reference to market yields at the reporting date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension obligations. The assumption is calculated by applying the projected BTPS benefit cash flows to a corporate bond yield curve constructed by our external actuary based on the yield on AA-rated corporate bonds. In setting the yield curve, judgement is required on the selection of appropriate bonds to be included in the universe and the approach used to then derive the yield curve. 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.

19. 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 76 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 (ie where asset returns differ from the discount rate); changes in legislation or regulation which impact the value of the liabilities or assets; and member take-up of options before and at retirement to reshape their benefits.

Scenario analysis

The potential negative impact of the key risks is illustrated 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.

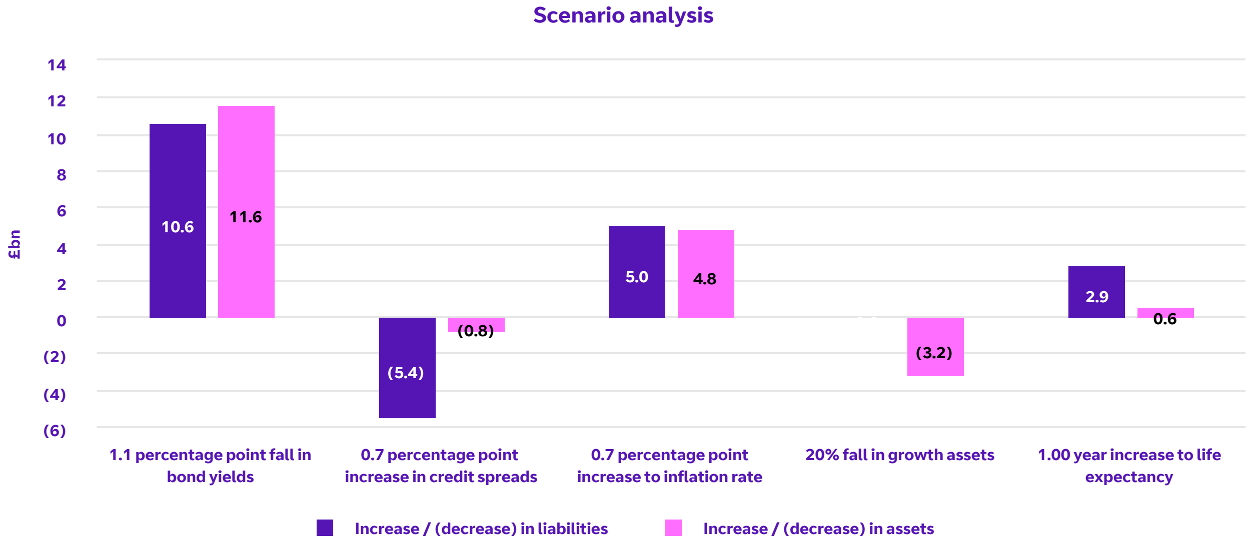
Scenario	1-in-20 events	
	2021	2020
1. Fall in bond yields[a]	1.1 %	1.1 %
2. Increase in credit spreads[b]	0.7 %	0.7 %
3. Increase to inflation rate[c]	0.7 %	0.7 %
4. Fall in growth assets [d]	20.0 %	20.0 %
5. Increase to life expectancy	1.00 years	1.25 years

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 70, 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.

19. Retirement benefit plans continued

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



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 IAS19 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.

19. 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 74 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.

19. 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.
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.

19. Retirement benefit plans continued

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

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

Other benefit plans

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

EEPS

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

20. Share-based payments

Significant accounting policies that apply to share-based payments

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

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

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

20. Share-based payments continued

Year ended 31 March	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 Share Plan (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 in BT Group plc at a fixed price determined when the option is granted. This price is usually set at a 20% discount to the market price for five-year plans and 10% for three-year plans. The options must be exercised within six months of maturity of the savings contract, otherwise they lapse. Similar plans operate for our overseas employees.

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 BT Group plc are transferred to participants at the end of three years if they continue to be employed by the group throughout that period.

Retention and Restricted Share Plans (RSP)
Awards are granted to selected employees. Shares in BT Group plc 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 in BT Group plc 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 shares in BT Group plc 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.

	Number of share options		Weighted average exercise price	
	2021	2020	2021	2020
Year ended 31 March	millions	millions	pence	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).

20. 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 31 March 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.

	2021		2020	
Year ended 31 March	**Employee Saveshare**	**ISP**	Employee Saveshare	ISP
Weighted average fair value	23p	n/a	39 p	152 p
Weighted average share price	114p	n/a	206 p	202 p
Weighted average exercise price of options	85p	n/a	168 p	n/a
Expected dividend yield	5.19% – 6.49%	n/a	4.16% – 5.01%	n/a
Risk free rates	-0.001% – 0.11%	n/a	0.55% – 0.63%	0.7 %
Expected volatility	28.33% – 28.39%	n/a	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 Group plc's historical volatility which is expected to reflect the BT Group plc share price in the future. An expected life of six months after vesting date is assumed for Employee Saveshare options. For all other awards the expected life is equal to the vesting period. The risk-free interest rate is based on the UK gilt curve in effect at the time of the grant, for the expected life of the option or award.

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

21. Investments

Significant accounting policies that apply to investments

Investments classified as amortised cost

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

Investments classified as fair value through profit and loss

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

Equity instruments classified as fair value through other comprehensive income

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

21. Investments continued

At 31 March	2021 £m	2020 £m
Non-current assets		
Fair value through other comprehensive income	20	9
Amounts owed by ultimate parent company	—	3,177
Amounts owed by parent company	10,992	10,592
Fair value through profit or loss	11	11
	11,023	**13,789**
Current assets		
Amounts owed by ultimate parent company	—	66
Amounts owed by parent company	—	214
Investments held at amortised cost	3,652	5,092
	3,652	**5,372**

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), 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**

At 31 March 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Available-for-sale	—	—	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 method.

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.

22. Cash and cash equivalents

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

For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above net of outstanding bank overdrafts. Bank overdrafts are included within the current element of loans and other borrowings (note 24).

At 31 March	2021 £m	2020 £m
Cash at bank and in hand	368	459
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	**997**	**1,545**
Bank overdrafts (note 24)	(104)	(183)
Cash and cash equivalents classified as held for sale (note 23)	—	43
Cash and cash equivalents per the cash flow statement	**893**	**1,405**

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.

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.

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

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.

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.

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

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. Loans and other borrowings

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

Capital management policy
The capital structure is managed by BT Group plc, the ultimate parent of the group. Its capital management policy is set out in the **Report of the Directors** on page 23.

The table below shows the key components of external gross debt and of the decrease of £2,197m (2019/20: increase of £8,738m).

	At 31 March 2020	Cash flows	Net lease additions[a]	Foreign exchange	Transfer to within one year	Other movements[d]	At 31 March 2021
	£m	£m	£m	£m	£m	£m	£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[d]	(257)	—	—	—	—	15	(242)
External gross debt	**24,650**	**(2,655)**	**543**	**(41)**	**—**	**(44)**	**22,453**

	At 31 March 2019	IFRS 16 lease liabilities[a]	At 1 April 2019	Cash flows	Net lease additions[a]	Foreign exchange	Transfer to within one year	Other movements[d]	At 31 March 2020
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans and other borrowings due within one year[b]	2,100	(16)	2,084	(629)	—	33	1,326	28	2,842
Lease liabilities due within one year	—	725	725	(791)	—	—	897	(19)	812
Loans and other borrowings due after one year	14,776	(190)	14,586	2,843	—	398	(1,326)	(9)	16,492
Lease liabilities due after one year	—	5,544	5,544	—	1,139	5	(897)	(43)	5,748
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)
External gross debt	**15,912**	**6,063**	**21,975**	**1,504**	**1,139**	**7**	**—**	**25**	**24,650**

[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] Including accrued interest and bank overdrafts.
[c] Translation of debt balances at swap rates where hedged by cross currency swaps.
[d] Other movements include removal of accrued interest applied to reflect the effective interest rate method, removal of fair value adjustments and divestment of held for sale assets and liabilities (see note 23).

24. Loans and other borrowings continued

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

At 31 March	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 22)	104	183
Amounts due to ultimate parent company[e]	972	2,198
Total other loans and borrowings	**1,664**	**3,488**
Total loans and borrowings	**17,657**	**21,532**

[a] Designated in a cash flow hedge relationship.
[b] The interest rate payable on this bond attracts an additional 0.25% for a downgrade by one credit rating by either Moody's or Standard & Poor's to the group's senior unsecured debt below A3/A- respectively. In addition, if Moody's or Standard & Poor's subsequently increase the ratings then the interest rate will be decreased by 0.25% for each rating category upgrade by each rating agency. In no event will the interest rate be reduced below the minimum rate reflected in the above table.
[c] Includes a call option (expiry on May 2025).
[e] Amounts due to ultimate parent company are denominated in sterling and incur a floating rate of interest based on LIBOR, their carrying amount equates to fair value (Level 3).

Unless previously designated in a fair value hedge relationship, all loans and other borrowings are carried on our balance sheet and in the table above at amortised cost. The fair value of listed bonds is £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.

24. 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[b]	692	1,290
Amounts due to ultimate parent company	1	1,115
Total current liabilities	**912**	**3,957**
Non-current liabilities		
Listed bonds	15,774	16,492
Amounts due to ultimate parent company	971	1,083
Total non-current liabilities	16,745	**17,575**
Total	**17,657**	**21,532**

[b] 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 £17,272m (2019/20: £20,184m) 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	**912**	**(220)**	**692**	**3,957**	**(448)**	**3,509**
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	3,500	(77)	3,423	1,482	9	1,491
After five years	9,463	(134)	9,329	13,619	(770)	12,849
Total due for repayment after more than one year	**16,732**	**(152)**	**16,580**	**17,570**	**(895)**	**16,675**
Total repayments	**17,644**	**(372)**	**17,272**	**21,527**	**(1,343)**	**20,184**
Fair value adjustments	13			5		
Total loans and other borrowings	**17,657**			**21,532**		

25. 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
Interest payable on ultimate parent company borrowings	6	42
Total finance expense before specific items	**791**	**838**
Specific items (note 9)	**18**	145
Total finance expense	**809**	**983**

25. Finance expense continued

Year ended 31 March	2021 £m	2020 £m
Finance income		
Interest on investments held at amortised cost	12	39
Interest income on loans to immediate and ultimate parent company	195	280
Total finance income before specific items	**207**	**319**
Specific items (note 9)	—	5
Total finance income	**207**	**324**

Year ended 31 March	2021 £m	2020 £m
Net finance expense before specific items	584	519
Specific items (note 9)	18	140
Net finance expense	**602**	**659**

26. Financial instruments and risk management

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

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

How do we manage financial risk?

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

Treasury operation

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

Treasury policy

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

There has been no change in the nature of our risk profile between 31 March 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 BT Group plc Board, is to ensure that at least 70% of BT Group plc's ongoing net debt is at fixed rates. Short-term interest rate management is delegated to the treasury operation while long-term interest rate management decisions require further approval by the BT Group plc chief financial officer, group director tax, treasury, insurance and pensions or the treasury director who each have been delegated such authority from the BT Group plc Board.

Hedging strategy

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

26. Financial instruments and risk management continued

How do we manage foreign exchange risk?

Management policy

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

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

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

Hedging strategy

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

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

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

	2021			2020		
At 31 March	**Fixed rate interest £m**	**Floating rate interest £m**	**Total £m**	Fixed rate interest £m	Floating rate interest £m	Total £m
Sterling	14,129	2,659	16,788	15,289	3,913	19,202
Euro	—	464	464	—	888	888
USD	—	20	20	—	94	94
Total	**14,129**	**3,143**	**17,272**	**15,289**	**4,895**	**20,184**
Ratio of fixed to floating	82 %	18 %	100 %	76 %	24 %	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 ARRs where applicable.

Sensitivity analysis

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

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

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

At 31 March	**2021 £m Increase (reduce)**	2020 £m Increase (reduce)
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 in sterling against other currencies would have broadly the same impact in the opposite direction.

The impact of a 1% increase in interest rates on the group's annual net finance expense would have been a decrease of £99m (2020/19: £129m). Our exposure to foreign exchange volatility in the income statement, after hedging, (excluding translation exposures) would not have been material in 2021/20 and 2020/19.

Credit ratings

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

Our December 2030 bond contains covenants which require us to pay higher rates of interest since our credit ratings fell below A3 in the case of Moody's or A- in the case of Standard & Poor's (S&P). Additional interest of 0.25% per year accrues for each ratings category downgrade by each agency below those levels effective from the next coupon date following a downgrade. Based on the total notional value of debt outstanding of £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.

26. Financial instruments and risk management continued

BT Group plc's credit ratings were as detailed below:

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

How do we manage liquidity risk?

Management policy

We maintain liquidity by entering into short and long-term financial instruments to support operational and other funding requirements, determined using short and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period. On at least an annual basis the BT Group plc Board reviews and approves the long-term funding requirements of the group and on an ongoing basis considers any related matters. We manage refinancing risk by limiting the amount of borrowing that matures within any specified period and having appropriate strategies in place to manage refinancing needs as they arise. The maturity profile of our loans and borrowings at 31 March 2021 is disclosed in note 24. 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 BT Group plc 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 requirement to be disclosed as 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 31 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 ARRs 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.

26. Financial instruments and risk management continued

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

Non-derivative financial liabilities At 31 March 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	529	5,147	1	724	7,093
Between one and two years	1,427	533	—	3	791	2,754
Between two and three years	915	520	—	4	762	2,201
Between three and four years	1,427	494	—	2	710	2,633
Between four and five years	3,500	472	—	2	592	4,566
After five years	9,463	3,076	—	—	3,391	15,930
	17,424	**5,624**	**5,147**	**12**	**6,970**	**35,177**
Interest payments not yet accrued	—	(5,404)	—	—	—	(5,404)
Fair value adjustment	13	—	—	—	—	13
Impact of discounting	—	—	—	—	(818)	(818)
Carrying value on the balance sheet[a,b]	**17,437**	**220**	**5,147**	**12**	**6,152**	**28,968**

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

a 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.
b The carrying amount of trade receivables and other payables excludes £682m (2020/2021: £754m) of non-current trade and other payables and £827m (2020/2021: £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.

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

26. Financial instruments and risk management continued

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

	Derivatives – Analysed by earliest payment date[a]				Derivatives – Analysed based on holding instrument to maturity			
Derivative financial liabilities	**Net settled**	**Gross settled outflows**	**Gross settled inflows**	**Total**	**Net settled**	**Gross settled outflows**	**Gross settled inflows**	**Total**
At 31 March 2021	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£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**

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

[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 BT Group plc Board.

Operational management policy

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

26. Financial instruments and risk management continued

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

At 31 March	Notes	2021 £m	2020 £m
Derivative financial assets		1,235	2,489
Investments	21	14,675	19,161
Trade and other receivables[a]	16	1,359	1,458
Contract assets	5	1,859	1,721
Cash and cash equivalents	22	997	1,545
Total		**20,125**	**26,374**

a The carrying amount excludes £314m (2020/2021: £481m) of non-current trade and other receivables which relate to non-financial assets, and £1,918m (2020/2021 £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 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 16, which analyses outstanding balances by customer-facing unit. Where multiple transactions are undertaken with a single financial counterparty or group of related counterparties, we enter into netting arrangements to reduce our exposure to credit risk by making use of standard International Swaps and Derivatives Association (ISDA) documentation. We have also entered into credit support agreements with certain swap counterparties whereby, on a daily, weekly and monthly basis, the fair value position on notional £2,024m of long dated cross-currency swaps and interest rate swaps is collateralised. The related net cash outflow during the year was £490m (2020/2021: 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.

		Related amounts not set off in the balance sheet		
Financial assets and liabilities At 31 March 2021	Amounts presented in the balance sheet £m	Right of set off with derivative counterparties £m	Cash collateral £m	Net amount £m
Derivative financial assets	1,235	(585)	(588)	62
Derivative financial liabilities	(1,283)	585	82	(616)
Total	**(48)**	—	**(506)**	**(554)**

		Related amounts not set off in the balance sheet		
Financial assets and liabilities At 31 March 2020	Amounts presented in the balance sheet £m	Right of set off with derivative counterparties[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

26. 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 fair value hedges or cash flow hedges in accordance with IFRS 9.

Significant accounting policies that apply to derivatives and hedge accounting

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

Derivatives designated in a cash flow hedge

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

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

Other derivatives

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

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

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

At 31 March 2021	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
Designated in a cash flow hedge	56	950	58	1,023
Other	14	215	30	172
Total derivatives	**70**	**1,165**	**88**	**1,195**

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

26. Financial instruments and risk management continued

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

Instruments designated in a cash flow hedge include interest rate swaps and cross-currency swaps hedging euro- and US dollar-denominated borrowings. Forward currency contracts are taken out to hedge step-up interest on currency denominated borrowings relating to the group's 2030 US dollar bond. The hedged cash flows will affect the group's income statement as interest and principal amounts are repaid over the remaining term of the borrowings (see note 24).

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

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 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 operating costs.

All cash flow hedges were fully effective in the period.

27. Other reserves

	Other comprehensive income					
	Cash flow reserve[a] £m	Fair value reserve[b] £m	Cost of hedging reserve[c] £m	Translation reserve[d,g] £m	Merger and other reserves £m	Total £m
At 1 April 2019	**144**	**27**	**(60)**	**456**	**858**	**1,425**
Exchange differences[e]	—	—	—	40	—	40
Net fair value gain 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 available-for-sale assets	—	(5)	—	—	—	(5)
Tax recognised in other comprehensive income	(80)	—	—	(4)	—	(84)
Transfer to realised profit	—	(22)	—	—	—	(22)
At 1 April 2020	**476**	**—**	**—**	**492**	**858**	**1,826**
Exchange differences[e]	—	—	—	(189)	—	(189)
Net fair value 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	**(90)**	**—**	**59**	**316**	**858**	**1,143**

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 £(1)m (2019/20: £(2)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 25).

g Included within the £188m movement in the translation reserve is £23m which relate to disposals.

28. Directors' emoluments and pensions

The directors at 31 March 2021 were Keighly Droy-Whelan, Ulrica Fearn, Neil Harris, Edward Heaton and Simon Lowth all of whom who served throughout the year.

For the year ended 31 March 2021 the aggregate emoluments of the directors excluding deferred bonuses of £1,044,000 (2019/20: £1,034,000) was £2,313,000 (2019/20: £2,057,000). Deferred bonuses are payable in 5p ordinary shares of BT Group plc in three years' time subject to continuous employment.

No retirement benefits were accruing to directors (2019/20: none) under a money purchase scheme.

During the year no director exercised options (2019/20: none) under BT Group share option plans. Five directors who held office for the whole or part of the year (2019/20: five) received or are entitled to receive 5p ordinary shares of BT Group plc under BT long-term incentive plans. The aggregate value of BT Group plc shares which vested to directors during the year under BT long-term incentive plans was £164,000 (2019/20: £90,000).

The emoluments of the highest paid director excluding his deferred bonus of £883,000 (2019/20: £900,000) were £905,000 (2019/20: £976,000). He is entitled to receive 4,951,780 BT Group plc 5p ordinary shares under BT long-term incentive plans subject to continuous employment and in some cases to certain performance conditions being met.

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

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

29. Related party transactions

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

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

Transactions with associates are shown below:

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

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

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

During 2020/21 a dividend of £2,000m (2019/20: £1,575m) was settled with the parent company in relation to the year ended 31 March 2020. No dividend has been declared in relation to the year ended 31 March 2021. See note 11 and the group statement of changes in equity.

During 2020/21 the group undertook a loan consolidation exercise involving British Telecommunications plc and its immediate and ultimate parents. The loan facility with the ultimate parent company accrued interest at a rate of LIBOR plus 97.5 basis points from 1 April 2020 to 28 May 2020. With effect from 29 May 2020 the company has been borrowing from the ultimate parent under this facility, at an interest rate of LIBOR plus 37.5 basis points. The maximum amount which the company can lend to the ultimate parent company under this facility is £10bn.

At 31 March 2020 other loan and deposit facilities were also in place between the company and its ultimate parent, which accrued interest at, variously, LIBOR plus 37.5bp and 97.5bp. No other facilities were in place at 31 March 2021.

The loan facility between the parent company and British Telecommunications plc accrues interest at a rate of LIBOR plus 97.5 basis points with an overall limit of £35bn. The parent company currently finances its obligations on this loan as they fall due through dividends paid by the company.

Loan agreements that reference LIBOR will be transitioned onto Alternative Reference Rates (ARRs) where applicable. We do not consider that the upcoming Interest Rate Benchmark Reform will have a material impact on the aboarrangements.

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

		2021		2020	
	Notes	Asset (liability) at 31 March £m	Finance income (expense) £m	Asset (liability) at 31 March £m	Finance income (expense) £m
Amounts owed by (to) parent company					
Loan facility - non-current assets investments	21,25	10,992	195	10,592	214
Loan facility - current asset investments	21	—	n/a	214	n/a
Trade and other payables	17	—	n/a	(55)	n/a
Amounts owed by (to) ultimate parent company					
Non-current assets investments[a]	21,25	—	—	3,177	66
Non-current liabilities loans	24,25	(971)	(6)	(1,083)	(42)
Trade and other receivables	16	20	n/a	26	n/a
Trade and other payables	17	(10)	n/a	(1)	n/a
Current asset investments	21	—	n/a	66	n/a
Current liabilities loans	24	1	n/a	(1,115)	n/a

[a] The decrease in non-currnet asset investments is due to the loan consolidation exercise in the year referenced above. During the year there were also non cash movements of £101m on non-current asset investments relating to interest on loans, employee share schemes and tax settlements made by BT plc on behalf of BT Group plc.

30. Financial commitments and contingent liabilities

Financial commitments were as follows:

At 31 March	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 16.

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

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.

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.

31. 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 Ltd, 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.

Premier League sports rights

In May 2021 the group reached an 'in principle' agreement to renew Premier League broadcast rights for a further three years, subject to agreement of detailed contractual terms which are expected to be finalised in the first quarter of 2021/22.

Financial Statements Parent company

British Telecommunications plc parent company balance sheet Registered number 01800000

At 31 March	Notes	2021 £m	2020 £m
Non-current assets			
Intangible assets	4	2,081	2,044
Property, plant and equipment	5	16,650	15,639
Right-of-use assets	6	3,375	3,708
Derivative financial instruments	21	1,165	2,229
Investments in subsidiary undertakings, associates and joint ventures	7	18,514	18,570
Other investments	8	12,180	14,607
Trade and other receivables	10	152	250
Contract assets		20	26
Deferred tax assets		881	155
		55,018	**57,228**
Current assets			
Programme rights	9	328	310
Inventories		114	121
Trade and other receivables	10	1,562	1,625
Contract assets		219	272
Current tax receivables		624	557
Derivative financial instruments	21	75	257
Other investments	8	5,054	7,228
Cash and cash equivalents[a]		847	1,370
		8,823	**11,740**
Current liabilities			
Loans and other borrowings	11	14,329	16,318
Derivative financial instruments	21	71	46
Trade and other payables	12	4,029	3,907
Contract liabilities		550	592
Lease liabilities	6	416	527
Provisions	14	171	167
		19,566	**21,557**
Total assets less current liabilities		**44,275**	**47,411**
Non-current liabilities			
Loans and other borrowings	11	17,531	18,840
Derivative financial instruments	21	1,195	966
Contract liabilities		68	69
Lease liabilities	6	4,125	4,223
Retirement benefit obligations	18	4,630	810
Other payables	13	1,249	1,340
Deferred taxation	14	1,139	1,210
Provisions	14	163	161
		30,100	**27,619**
Equity			
Ordinary shares		2,172	2,172
Share premium		8,000	8,000
Other reserves	15	719	1,215
Retained earnings[b]		3,284	8,405
Equity shareholder's funds		**14,175**	**19,792**
		44,275	**47,411**

[a] Includes cash of £246m (2019/20: £322m) and cash equivalents of £601m (2019/20: £1,048m).
[b] As permitted by Section 408(3) of the Companies Act 2006, no income statement of the company is presented. The company's profit for the financial year including dividends received from subsidiary undertakings was £584m (2019/20: £1,443m) before dividends paid of £2,000m (2019/20: £1,575m).

The financial statements of the company on pages 100 to 124 were approved by the Board of Directors on 26 May 2021 and were signed on its behalf by

Simon Lowth

Director

Parent company statement of changes in equity

	Notes	Share capital[a] £m	Share premium account[b] £m	Other reserves[c] £m	Retained earnings £m	Total equity £m
At 1 April 2019		**2,172**	**8,000**	**824**	**4,525**	**15,521**
Profit for the year[d]		—	—	—	1,443	1,443
Actuarial gain	18	—	—	—	4,742	4,742
Tax on actuarial gain		—	—	—	(791)	(791)
Share-based payments		—	—	—	62	62
Tax on share-based payments		—	—	—	—	—
Tax on items taken directly to equity	15	—	—	(81)	—	(81)
Net fair value gain on cash flow hedges	15	—	—	851	—	851
Dividends[d]		—	—	—	(1,575)	(1,575)
Transferred to the income statement	15	—	—	(379)	—	(379)
Others		—	—	—	(1)	(1)
At 31 March 2020		**2,172**	**8,000**	**1,215**	**8,405**	**19,792**
Profit for the year[d]		—	—	—	584	584
Actuarial loss		—	—	—	(4,660)	(4,660)
Tax on actuarial loss		—	—	—	885	885
Share-based payments		—	—	—	65	65
Tax on share-based payments		—	—	—	5	5
Tax on items taken directly to equity		—	—	114	—	114
Net fair value loss on cash flow hedges		—	—	(1,463)	—	(1,463)
Dividends[d]		—	—	—	(2,000)	(2,000)
Transferred to the income statement		—	—	853	—	853
At 31 March 2021		**2,172**	**8,000**	**719**	**3,284**	**14,175**

[a] The allotted, called up and fully paid ordinary share capital of the company at 31 March 2021 and 31 March 2020 was £2,172m representing 8,689,755,905 ordinary shares of 25p each.
[b] The share premium account, representing the premium on allotment of shares, is not available for distribution.
[c] A breakdown of other reserves is provided in note 15.
[d] As permitted by Section 408(3) of the Companies Act 2006, no income statement of the company is presented. The company's profit for the financial year including dividends received from subsidiary undertakings was £584m (2019/20: £1,443m) before dividends paid of £2,000m (2019/20: £1,575m).

British Telecommunications plc parent company accounting policies

1. Basis of preparation

Preparation of the financial statements

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

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

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

The financial statements are prepared on a going concern basis and on the historical cost basis, except for certain financial and equity instruments that have been measured at fair value. Refer to note 1 of the consolidated notes to the accounts for further information. The financial statements are presented in sterling, the functional currency of the company.

Exemptions

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

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

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

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

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

The financial statements have been prepared on a consistent basis with the prior year.

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 the 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 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 company 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 company is preparing to move to the new benchmark rates in accordance with timelines as per regulatory guidelines.

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 and Risk Committee of British Telecommunications plc.

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.

Note	Critical estimate	Key estimate	Significant judgement
4. Goodwill impairment		✓	✓
6. Reasonable certainty and determination of lease terms			✓
8. Valuation of intercompany loan receivables			✓
14. Provisions and contingent liabilities		✓	✓
14. Current and deferred income tax	✓		✓
18. Pension obligations	✓		✓

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

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

Inventories

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

Government grants

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

Grants for the purchase or production of property, plant and equipment are deducted from the cost of the related assets and reduce future depreciation expense accordingly. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Estimates and judgements applied in accounting for government grants received in respect of the BDUK programme and other rural superfast broadband contracts are described in note 5.

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

Foreign currencies

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

Research and development

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

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

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

Share-based payments

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

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

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

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

Cash and cash equivalents

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

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

Dividends

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

4. Intangible assets

Significant accounting policies that apply to intangible assets
We recognise identifiable intangible assets where we control the asset, it is probable that future economic benefits attributable to the asset will flow to the 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 company's share of the identifiable net assets (including intangible assets) of the acquired business.

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash generating unit (CGU) level. 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. The CGUs of the group headed by the company 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 BT Group plc board covering a five-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. Cash flows beyond the fifth year have been extrapolated using perpetuity growth rates.

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

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

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.

4. Intangible assets continued

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

Estimating value in use
Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate for 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.

The company is required to test goodwill acquired in a business combination annually for impairment. This was carried out as at 31 March 2021. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed below. There is no reasonably possible change in assumption which would cause an impairment.

	Software[a] £m	Goodwill £m	Other £m	Total £m
Cost				
At 1 April 2020	4,746	530	23	5,299
Additions	638	—	—	638
Disposals and adjustments[b]	(108)	—	—	(108)
At 31 March 2021	**5,276**	**530**	**23**	**5,829**
Accumulated amortisation				
At 1 April 2020	3,255	—	—	3,255
Charge for the year	601	—	—	601
Disposals and adjustments[b]	(108)	—	—	(108)
At 31 March 2021	**3,748**	**—**	**—**	**3,748**
Net book value				
At 31 March 2021	**1,528**	**530**	**23**	**2,081**
At 31 March 2020	**1,491**	**530**	**23**	**2,044**

[a] Includes a carrying amount of £481m (2019/20: £440m) in respect of assets in course of construction, which are not yet amortised.
[b] Fully depreciated assets in the company's fixed asset registers were reviewed during the year, as part of the BT Group plc annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £0.1bn (2019/20: £0.9bn).

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 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%).

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 2.0% (2019/20: 2.0%).

Has Covid-19 had a material impact on the impairment assessment?
Covid-19 is not considered to have a significant impact on the assessment of impairment as at 31 March 2021. Its impact 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.

5. Property, plant and equipment

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

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

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

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

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

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

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

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

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

Our assessment of how much grant income to defer includes consideration of the difference between the take-up percentage agreed with the local authority and the likelihood of actual take-up. The value of the government grants deferred is disclosed in note 12.

5. Property, plant and equipment continued

	Land and buildings £m	Network infrastructure[a] £m	Other[b] £m	Assets in course of construction £m	Total £m
Cost					
At 31 March 2020	479	47,122	1,219	564	49,384
Additions	—	47	54	2,688	2,789
Transfers	36	2,577	161	(2,774)	—
Disposals and adjustments[c]	(2)	(1,754)	(297)	—	(2,053)
At 31 March 2021	**513**	**47,992**	**1,137**	**478**	**50,120**
Depreciation					
At 31 March 2020	**289**	**32,554**	**1,000**	**—**	**33,843**
Charge for the year	21	1,665	108	—	1,794
Disposals and adjustments[c]	(2)	(1,754)	(295)	—	(2,051)
At 31 March 2021	**308**	**32,465**	**813**	**—**	**33,586**
Net book value					
At 31 March 2021	**205**	**15,527**	**324**	**478**	**16,534**
Engineering stores	—	—	—	116	116
Total	**205**	**15,527**	**324**	**594**	**16,650**
At 31 March 2020	190	14,568	219	564	15,541
Engineering stores	—	—	—	98	98
Total	**190**	**14,568**	**219**	**662**	**15,639**

[a] Within network infrastructure are assets with net book value of £9.4bn (2019/20: £9.1bn) which have useful economic lives of more than 18 years.
[b] Other mainly comprises motor vehicles, computers and fixtures and fittings.
[c] Fully depreciated assets in the company's fixed asset registers were reviewed during the year, as part of the BT Group plc annual asset verification exercise, and certain assets that were no longer in use have been written out, reducing cost and accumulated depreciation by £2.0bn (2019/20: £0.5bn).

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

- £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 'last mile' and Ethernet services to internal and external communications providers that have been assessed as operating leases.
- Other assets with a carrying amount of £128m (2019/20: £33m) relate to devices leased to consumer customers.

The net book value of land and buildings comprised:

At 31 March	2021 £m	2020 £m
Freehold	80	57
Leasehold	125	133
Total net book value of land and buildings	**205**	**190**

6. 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

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 5 and are adjusted for any remeasurement of lease liabilities.

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

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

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.

Lessor accounting
At inception of a contract, we determine whether the contact is, or contains a lease. 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.

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.

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.

6. Leases continued

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 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 portfolio of leased properties. 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.

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.

Company as lessee

Right-of-use assets
Most of our right-of-use assets are associated with our leased property portfolio, specifically our office and exchange estate.

	Land and buildings £m	Network infrastructure £m	Motor vehicles[a] £m	Other[a] £m	Total £m
At 1 April 2019	**3,404**	**139**	**357**	**1**	**3,901**
Additions[b]	199	11	460	—	670
Depreciation charge for the year	(292)	(42)	(82)	(1)	(417)
Other movements[c,d]	(58)	(13)	(375)	—	(446)
At 1 April 2020	**3,253**	**95**	**360**	**—**	**3,708**
Additions[b]	254	3	105	2	364
Depreciation charge for the year	(301)	(33)	(100)	—	(434)
Other movements[c,e]	(255)	(2)	(5)	(1)	(263)
At 31 March 2021	**2,951**	**63**	**360**	**1**	**3,375**

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 have also been re-presented to reclassify £10m 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.
e 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.

Lease liabilities
Lease liabilities recognised at 31 March 2021 total £4,541m (31 March 2020: £4,750m). Of this balance, £416m (31 March 2020: £527m) is classified as current, with the remaining £4,125m (31 March 2020: £4,223m) classified as non-current. Note 11 presents a maturity analysis of the payments due over the remaining lease term for these liabilities.

6. Leases continued

At 31 March 2021 the company was committed to future minimum lease payments of £2m in respect of leases which have not yet commenced and for which no lease liability has been recognised (31 March 2020: £270m, primarily leases entered into under our workplace restructuring programme and including our new headquarters).

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

At 31 March	2021 £m	2020 £m
Less than one year	448	336
One to two years	180	138
Two to three years	53	41
Three to four years	7	7
Four to five years	6	5
More than five years	20	5
Total undiscounted lease payments	**714**	**532**

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

7. Investments in subsidiary undertakings, associates and joint ventures

Significant accounting policies that apply to investments in subsidiary undertakings, associates and joint ventures
Investments in subsidiary undertakings are stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable. Investments in subsidiary undertakings are derecognised when the company no longer owns the shares of the subsidiary or the subsidiary is dissolved.

	Subsidiary undertakings[b] £m	Associates and joint ventures £m	Total £m
Cost			
At 31 March 2020 (restated[b])	36,420	61	36,481
Additions[a]	5	—	5
Disposals[a]	(57)	—	(57)
Return of capital	—	(4)	(4)
At 31 March 2021	**36,368**	**57**	**36,425**
Provisions and amounts written off			
At 31 March 2020 (restated[b])	17,872	39	17,911
Disposals[a]	—	—	—
Write offs	—	—	—
At 31 March 2021	**17,872**	**39**	**17,911**
Net book value at 31 March 2021	**18,496**	**18**	**18,514**
Net book value at 31 March 2020	**18,548**	**22**	**18,570**

[a] Additions and disposals principally arise due to transactions undertaken to simplify our legal entity hierarchy.
[b] There has been a change in the presentation of disposals in subsidiary undertakings in both 'Cost' and 'Provisions and amounts written off' sections for the 2019/20 financial year. We previously reported that at 31 March 2020 the investments in our subsidiary undertakings had a cost of £32,285m and a provision of £13,737m . This has been restated to a cost of £36,420 and a provision of £17,872m as both cost and provisions included £4,127m disposals accounted for in the prior year. There is no change on the net book value as at 31 March 2020.

Details of the company's subsidiary undertakings are set out on pages 125 to 130.

8. Other investments

Significant accounting policies that apply to other investments
Equity instruments
Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

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

Critical accounting judgements made in accounting for other investments
We extend loans to our subsidiaries in order to fund their activities. We regularly consider whether there is an indication of impairment. This involves judgement in reviewing year-end financial position, current year performance, known indicators of future performance and cash-flows, one-off events and contingent liabilities and assets. Based on this if there is an indication that the loan receivable may be impaired we perform an assessment of the recoverable amount and make a provision for the portion that we consider irrecoverable. We exercise judgement in determining whether the loan is fully or partially recoverable, which includes making assumptions regarding the future performance of the subsidiary. These assumptions are normally based on financial plans or through extrapolating current performance taking into account past experience and known future events. A provision of £164m is held against these loans.

At 31 March	2021 £m	2020 £m
Non-current assets		
Fair value through other comprehensive income	1	1
Loans to group undertakings	1,187	837
Loans to parent undertakings	10,992	13,769
Total non-current investments	**12,180**	**14,607**
Current assets		
Investments held at amortised cost	3,652	5,092
Loans to group undertakings	1,402	1,856
Loans to parent undertakings	—	280
Total current investments	**5,054**	**7,228**

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) 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).

Loans to group and parent undertakings total £13,581m (2019/20: £16,742m). These consist of amounts denominated in sterling of£11,070m (2019/20: £14,778m), euros of £334m (2019/20: £1,310m), US dollars of £461m (2019/20: £73m) and other currencies of £1,716m (2019/20: £581m).

9. Programme rights

Significant accounting policies that apply to programme rights
Programme rights are recognised on the balance sheet from the point at which the legally enforceable licence period begins. They are initially recognised at cost and are amortised from the point at which they are available for use, on a straight line basis over the programming period, or the remaining licence term, as appropriate, which is generally 12 months. Programme rights are tested for impairment in accordance with our impairment policy as set out in note 4.

Additions reflect TV programme rights for which the legally enforceable licence period has started during the year. Rights for which the licence period has not started are disclosed as contractual commitments in note 17. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 10).

	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.

10. Trade and other receivables

Significant accounting policies that apply to trade and other receivables
Recognition of trade and other receivables

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

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

Deferred contract costs
We capitalise certain costs associated with the acquisition and fulfilment of contracts with customers and amortise them over the period that we transfer the associated services. Connection costs are deferred as contract fulfilment costs because they allow satisfaction of the associated connection performance obligation and are considered recoverable. Sales commissions and other third party contract acquisition costs are capitalised as costs to acquire a contract unless the associated contract term is less than 12 months, in which case they are expensed as incurred. Capitalised costs are amortised over the minimum contract term. A portfolio approach is used to determine contract term. To be eligible for capitalisation, costs must be directly attributable to specific contracts, relate to future activity, and generate future economic benefits. Capitalised costs are regularly assessed for recoverability.

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

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

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

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

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

At 31 March	2021 £m	2020 £m
Current receivables		
Trade receivables	495	589
Amount owed by group undertakings	334	425
Amount owed by parent undertakings	20	26
Other receivables	132	140
Accrued income	79	54
Deferred contract costs	112	104
Prepayments	390	287
Total current receivables	**1,562**	**1,625**
Non-current trade and other receivables[a]	25	120
Deferred contract costs	127	130
Total receivables	**1,714**	**1,875**

[a] Primarily represents prepayments and leasing debtors.

11. Loans and other borrowings

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

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

At 31 March	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**
Loans from group undertakings[d]	15,176	15,840
Other loans	588	1,093
Bank overdrafts	103	181
Total other loans and borrowings	**15,867**	**17,114**
Total loans and borrowings	**31,860**	**35,158**

a Designated in a cash flow hedge relationship.

b The interest rate payable on this bond attracts an additional 0.25% for a downgrade by one credit rating by either Moody's or Standard & Poor's to the company's senior unsecured debt below A3/A-respectively. In addition, if Moody's or Standard & Poor's subsequently increase the ratings then the interest rate will be decreased by 0.25% for each rating category upgrade by each rating agency. In no event will the interest rate be reduced below the minimum rate reflected in the above table.

c Includes a call option (expiry on May 2025).

d Loans from group undertakings are £15,176m (2019/20: £15,840m). These consist of £12,704m (2019/20: £11,855m) denominated in sterling, £1,000m (2019/20: £2,138m) denominated in euros, £645m (2019/20: £964m) denominated in US dollars and £827m (2019/20: £883m) denominated in other currencies. Included within these balances are fixed interest bonds to group undertakings amounting £1,268m (2019/20: £1,789m) denominated in sterling and £15m (2019/20: £16m) denominated in euros with maturities between 2020 and 2025.

11. Loans and other borrowings continued

Unless previously designated in a fair value hedge relationship, all loans and other borrowings are carried in the company balance sheet and cost. The table above is presented at amortised cost. The fair value of listed bonds is £18,554m (2019/20: £20,088m).

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

Loans and other borrowings are analysed as follows:

At 31 March	2021 £m	2020 £m
Current liabilities		
Listed bonds	219	1,552
Loans from group undertakings	13,419	13,492
Other loans and bank overdrafts	691	1,274
Total current liabilities	**14,329**	**16,318**
Non-current liabilities		
Listed bonds	15,774	16,492
Loans from group undertakings	1,757	2,348
Total non-current liabilities	**17,531**	**18,840**
Total	**31,860**	**35,158**

At 31 March 2021	Lease liabilities £m	Loans and other borrowings £m	Total £m
Repayments falling due as follows: **Within one year, or on demand**	**415**	**14,329**	**14,744**
Between one and two years	492	1,635	2,127
Between two and three years	487	1,309	1,796
Between three and four years	469	1,596	2,065
Between four and five years	459	3,515	3,974
After five years	2,913	9,463	12,376
Total due for repayment after more than one year	**4,820**	**17,518**	**22,338**
Total repayments	**5,235**	**31,847**	**37,082**
Fair value adjustments for hedged risk	—	13	13
Impact of discounting	(694)	—	(694)
Total	**4,541**	**31,860**	**36,401**

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

12. Current trade and other payables

Significant accounting policies relating to trade and other payables
We initially recognise financial liabilities within trade and other payables at fair value, which is usually the original invoiced amount. We subsequently carry them at amortised cost using the effective interest method.

At 31 March	2021 £m	2020 £m
Trade payables	2,077	2,039
Amounts owed to group undertakings	688	613
Amounts owed to ultimate parent company	11	56
Other taxation and social security	187	209
Other payables	407	388
Accrued expenses	312	286
Deferred income[a]	347	316
Total	**4,029**	**3,907**

[a] Deferred income includes £96m (2019/20: £94m) relating to the Building Digital UK programme, for which grants received by the Company may be subject to re-investment or repayment depending on the level of take-up.

13. Other non-current payables

At 31 March	2021 £m	2020 £m
Other payables	5	6
Deferred income[a]	1,244	1,334
Total	**1,249**	**1,340**

[a] Deferred income includes £472m (2019/20: £525m) 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.

14. Provisions

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

Significant accounting policies that apply to provisions
We recognise provisions when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Financial liabilities within provisions are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

14. Provisions continued

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

As part of this assessment, we also assess the likelihood of contingent liabilities occurring in the future. Contingent liabilities are not recognised as liabilities on our balance sheet; they are disclosed in note 17. 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 17.

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

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

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

	Property £m	Regulatory £m	Litigation £m	Insurance[a] £m	Other[a] £m	Total £m
At 1 April 2019	**82**	**182**	**47**	**63**	**46**	**420**
Additions	3	26	11	—	55	95
Unwind of discount	—	—	—	—	—	—
Utilised or released	(8)	(129)	(12)	(4)	(33)	(186)
Transfers	—	—	(4)	—	3	(1)
At 1 April 2020	**77**	**79**	**42**	**59**	**71**	**328**
Additions	6	32	6	—	31	75
Unwind of discount	—	—	—	—	—	—
Utilised or released	(6)	(15)	—	(5)	(42)	(68)
Transfers	—	—	—	—	(1)	(1)
At 31 March 2021	**77**	**96**	**48**	**54**	**59**	**334**

[a] 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	171	167
Non-current	163	161
	334	**328**

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

Included within 'Other' are contract loss provisions of £ 2m (2019/20: £3m) relating to the anticipated total losses in respect of certain contracts. Covid-19 has been considered when identifying and measuring contract loss provisions in line with the accounting policy set out in note 10.

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

14. Provisions continued

Taxation

The value of the company's income tax asset is disclosed on the company balance sheet on page 100. The values of the company's deferred tax assets and liabilities are disclosed in note 18 and below. Deferred tax liabilities are provided for in full on certain temporary differences.

Significant accounting policies that apply to taxation

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. The company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and the company establishes provisions where appropriate on the basis of the amounts expected to be paid to tax authorities.

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amount of the company's assets and liabilities and their tax base. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and where there is an intention to settle the balances on a net basis. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is determined using tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Critical accounting estimates and key judgements made in accounting for taxation

We seek to pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws are unclear, and it can take many years to agree an outcome with a tax authority or through litigation. We estimate our tax on country-by-country and issue-by-issue bases. Our key uncertainties are whether our intra-group trading model will be accepted by a particular tax authority and whether intra-group payments are subject to withholding taxes. We provide for the predicted outcome where an outflow is probable, but the agreed amount can differ materially from our estimates. Approximately 85% 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. £179m (2019/20: £174m) is offset within current tax assets in relation to these uncertainties. Under a downside case an additional amount of £83m could be required. This amount is not provided as we don't consider this outcome to be probable.

	£m
At 1 April 2019	**973**
Charge recognised in the income statement	156
Transfer to deferred tax asset	—
Transfer to current tax	—
Charge recognised in reserves	81
At 1 April 2020	**1,210**
Charge recognised in the income statement	48
Transfer to deferred tax asset	—
Transfer to current tax	—
Credit recognised in reserves	(119)
At 31 March 2021	**1,139**

At 31 March	2021 £m	2020 £m
Tax effect of temporary differences due to:		
Excess capital allowances	1,206	1,144
Share-based payments	(20)	(7)
Other	(47)	73
Total provision for deferred taxation	**1,139**	**1,210**

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

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. The rate change was substantively enacted on 24 May 2021, BT plc estimates that the impact of revaluing existing deferred tax assets and liabilities will be a £370m income statement charge and a £287m credit to other comprehensive income, if the rate change is theoretically applied to the deferred tax balances at 31 March 2021.

15. Reconciliation of movement in other reserves

	Cash flow reserve[a]	Cost of hedging reserve[b]	Capital redemption reserve[c]	Total other reserves
	£m	£m	£m	£m
At 1 April 2019	132	(60)	752	824
Transferred to the income statement	(408)	29	—	(379)
Net fair value gain (loss) on cash flow hedges	820	31	—	851
Tax on items taken directly to equity	(81)	—	—	(81)
At 31 March 2020	**463**	**—**	**752**	**1,215**
Transferred to the income statement	807	46	—	853
Tax on items taken directly to equity	114	—	—	114
Net fair value gain (loss) on cash flow hedges	(1,476)	13	—	(1,463)
At 31 March 2021	**(92)**	**59**	**752**	**719**

[a] The cash flow reserve is used to record the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Amounts recognised in income statement in the year relate to fair value movements on derivatives. The items generating these foreign exchange movements are in designated cash flow hedge relationships.
[b] The cost of hedging reserve reflects the gain or loss on the portion excluded from the designated hedging instrument that relates to the currency basis element of our cross currency swaps. It is initially recognized in other comprehensive income and accounted for similarly to gains or losses in the cash flow reserve.
[c] The capital redemption reserve is not available for distribution.

16. Related party transactions

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

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

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

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

17. Financial commitments and contingent liabilities

Financial commitments were as follows:

	2021	2020
At 31 March	£m	£m
TV programme rights commitments	1,691	2,434
Capital commitments	956	881
Other commitments	19	14
Total	**2,666**	**3,329**

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 10.

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.

17. Financial commitments and contingent liabilities continued

Commitments and guarantees

BDUK

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

Telefónica UK Limited leases

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

Legal and regulatory proceedings

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

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.

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.

18. Retirement benefit plans

Background to BT's pension plans

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

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

18. Retirement benefit plans continued

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.

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

Critical accounting 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.

18. Retirement benefit plans continued

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

	2021			2020		
At 31 March	Assets £m	Liabilities £m	Deficit £m	Assets £m	Liabilities £m	Deficit £m
BTPS	53,172	(57,737)	(4,565)	52,240	(53,010)	(770)
Other plans[a]	119	(184)	(65)	99	(139)	(40)
Retirement Benefit Obligations (gross of tax)	**53,291**	**(57,921)**	**(4,630)**	**52,339**	**(53,149)**	**(810)**
Deferred tax asset			880			154
Retirement Benefit Obligations (net of tax)			**(3,750)**			**(656)**

[a] Included in the present value of liabilities of other plans is £69m (2019/20: £59m) related to unfunded pension arrangements.

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

	Assets £m	Liabilities £m	Deficit £m
At 1 April 2019	**52,250**	**(58,990)**	**(6,740)**
Service cost (including administration expenses and PPF levy)	(65)	(7)	(72)
Interest on pension deficit	1,221	(1,359)	(138)
Return on plan assets above pensions interest on assets	271	—	271
Actuarial gain arising from changes in financial assumptions	—	3,642	3,642
Actuarial gain arising from changes in demographic assumptions	—	475	475
Actuarial gain arising from experience adjustments	—	354	354
Regular contributions by employer	137	—	137
Deficit contributions by employer	1,251	—	1,251
Contributions by employees	—	—	—
Benefits paid	(2,742)	2,742	—
Other movements[a]	16	(6)	10
At 1 April 2020	**52,339**	**(53,149)**	**(810)**
Service cost (including administration expenses and PPF levy)	(44)	(13)	(57)
Past service cost	—	(1)	(1)
Interest on pension deficit	1,255	(1,268)	(13)
Return on plan assets above pensions interest on assets	1,625	—	1,625
Actuarial loss arising from changes in financial assumptions	—	(8,193)	(8,193)
Actuarial gain arising from changes in demographic assumptions	—	1,751	1,751
Actuarial gain arising from experience adjustments	—	157	157
Regular contributions by employer	5	—	5
Deficit contributions by employer	906	—	906
Contributions by employees	—	—	—
Benefits paid	(2,795)	2,795	—
Other movements[a]	—	—	—
At 31 March 2021	**53,291**	**(57,921)**	**(4,630)**

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

BTPS

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

19. Employees and directors

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

Year ended 31 March	**2021** **000**	2020 000
Average monthly number of employees[a]	37.3	37.8

Year ended 31 March	**2021** **£m**	2020 £m
Wages and salaries	1,605	1,603
Share-based payments	36	42
Social security	150	153
Other pension costs	287	300
	2,078	**2,098**

[a] Includes an average of 10 non-UK employees (2019/20: 20 non-UK employees).

20. Directors' remuneration

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

21. Derivatives

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

Significant accounting policies that apply to derivatives
All of the company's derivative financial instruments are held at fair value on the company's balance sheet.

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

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

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

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

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

21. Derivatives continued

31 March 2021	Current asset £m	Non current asset £m	Current liability £m	Non current liability £m
Designated in a cash flow hedge	56	950	41	1,023
Other	19	215	30	172
Total derivatives	**75**	**1,165**	**71**	**1,195**

At 31 March 2020	Current asset £m	Non current asset £m	Current liability £m	Non current liability £m
Designated in a cash flow hedge	247	1,954	36	740
Other	10	275	10	226
Total derivatives	**257**	**2,229**	**46**	**966**

Instruments designated in a cash flow hedge include interest rate swaps and cross-currency swaps hedging euro and US dollar denominated borrowings. Forward currency contracts are taken out to hedge step-up interest on currency denominated borrowings relating to our 2030 US dollar bond. The hedged cash flows will affect profit or loss as interest and principal amounts are repaid over the remaining term of the borrowings (see note 11).

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

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

22. Post balance sheet events

BT OnePhone acquisition

On 17 April 2021 British Telecommunications plc 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.

Group reorganisation

On 4 May 2021 British Telecommunications plc sold its 100% interest in EE Limited to its wholly owned subsidiary EE Group Investments Limited.

Premier League sports rights

In May 2021 British Telecommunications plc reached an 'in principle' agreement to renew Premier League broadcast rights for a further three years, subject to agreement of detailed contractual terms which are expected to be finalised in the first quarter of 2021/22.

Related undertakings

Subsidiaries

Company name	Group interest in allotted capital[a]	Share class
Held directly		
Bermuda		
Century House, 16 Par-la-Ville Road, Hamilton, HM08, Bermuda		
Communications Global Network Services Limited	100%	ordinary
China		
Building 16, 6th Floor, Room 602-B, No. 269 Wuyi Road, Hi-tech Park, Dalian, 116023, China		
BT Technology (Dalian) Company Limited	100%	registered
Italy		
Via Correggio 5, San Donato Milanese, 20097, Milan, Italy		
Radianz Italia S.r.l.	100%	ordinary
Via Tucidide 56, Torre 7, 20134, Milano, Italy		
BT Italia S.p.A.	99%	ordinary
Jersey		
26 New Street, St Helier, JE2 3RA, Jersey		
Ilford Trustees (Jersey) Limited	100%	ordinary
Luxembourg		
12 rue Eugene Ruppert, L 2453, Luxembourg		
BT Global Services Luxembourg SARL	100%	ordinary
Netherlands		
Herikerbergweg 2, 1101CM, Amsterdam Zuidoost, Netherlands		
BT Nederland N.V.	100%	ordinary
Republic of Ireland		
2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland		
The Faraday Procurement Company Limited	100%	ordinary
United Kingdom		
81 Newgate Street, London, EC1A 7AJ, United Kingdom		
Autumnwindow Limited	100%	ordinary
Autumnwindow No.2 Limited	100%	ordinary
Autumnwindow No.3 Limited	100%	ordinary
BPSLP Limited	100%	ordinary
BT (RRS LP) Limited	100%	ordinary
BT Corporate Trustee Limited	100%	limited by guarantee
BT European Investments Limited	100%	ordinary
BT Holdings Limited	100%	ordinary
BT IoT Networks Limited	100%	ordinary
BT Lancashire Services Limited	100%	ordinary
BT Nominees Limited	100%	ordinary
BT Property Holdings (Aberdeen) Limited	100%	ordinary
BT Property Limited	100%	ordinary
BT SLE Euro Limited	100%	ordinary
BT SLE USD Limited	100%	ordinary
BT Solutions Limited	100%	ordinary
EE Group Investments Limited	100%	ordinary
Pelipod Ltd	100%	ordinary
Radianz Limited	100%	ordinary
Southgate Developments Limited	100%	ordinary
Alexander Bain House, 15 York Street, Glasgow, G2 8LA Scotland		
BT Corporate Limited	100%	ordinary
Holland House (Northern) Limited	100%	ordinary
55 Baker Street, London, W1U 7EU, United Kingdom		
BT Centre Nominee 2 Limited	100%	ordinary
BT Cornwall Limited	100%	ordinary
BT Facilities Services Limited	100%	ordinary
BT Managed Services Limited	100%	ordinary
BT South Tyneside Limited	100%	ordinary
Kelvin House, 123 Judd Street, London, WC1H 9NP, United Kingdom		
Openreach Limited	100%	ordinary
The Balance, 2 Pinfold Street, Sheffield, S1 2GU, United Kingdom		
Plusnet plc	100%	ordinary
Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom		
EE Limited[e]	100%	ordinary
Held via other group companies		
Algeria		
20 Micro zone d'Activités Dar El Madina, Bloc B, Loc N01 Hydra, Alger, 16000, Algeria		
BT Algeria Communications SARL	100%	ordinary
Argentina		
Av. Luis Maria Campos 877, Piso 10, Ciudad Autonoma de, Buenos Aires, C1426, Argentina		
BT Argentina S.R.L.	100%	ordinary
Australia		
Level 1, 76 Berry Street, North Sydney NSW 2060, Australia		
BT Australasia Pty Limited	100%	ordinary
	100%	preference
Austria		
Louis-Häfliger-Gasse 10, 1210, Wien, Austria		
BT Austria GmbH	100%	ordinary
Azerbaijan		
The Landmark III Building, 8th Floor, c/o Deloitte & Touche, 96 Nizami Street, Baku, AZ 1010, Azerbaijan		
BT Azerbaijan Limited, Limited Liability Company	100%	ordinary
Bahrain		
Suite #659, 6th floor, Building No. 247, Road 1704, Diplomat Area 317, Bahrain		
BT Solutions Limited (Bahrain Branch)[b]	100%	–
Bangladesh		
JHK Windcel, Level 4, KA-90 Progoti Sarani, Kuril, Dhaka, Bangladesh, 1229, Bangladesh		
BT Communications Bangladesh Limited	100%	ordinary
Barbados		
3rd Floor, The Goddard Building, Haggatt Hall, St. Michael, BB11059, Barbados		
BT (Barbados) Limited	100%	ordinary
Belarus		
58 Voronyanskogo St, Office 89, Minsk 220007, Belarus		
BT BELRUS Foreign Limited Liability Company	100%	ordinary
Belgium		
Telecomlaan 9, 1831 Diegem, Belgium		
BT Global Services Belgium BV	100%	ordinary
BT Professional Services (Holdings) N.V.	100%	ordinary
Telecomlaan 9, 1830 Diegem, Belgium		
Global Security Europe Limited - Belgian Branch[b]	100%	–
Rue de L'Aêropostale 8, 4460 Grâce-Hollogne, Belgium		
IP Trade SA	100%	ordinary
Bolivia		
Avda. 6 de Agosto N° 2700, Torre Empresarial CADECO, Piso 4, La Paz, Bolivia		
BT Solutions Limited Sucursal Bolivia[b]	100%	–

Company name	Group interest in allotted capital[a]	Share class
Bosnia and Herzegovina		
Skenderpasina 33, Sarajevo, 71000, Bosnia and Herzegovina		
BTIH Teleconsult Drustvo sa organicenom odgovornoscu za posredovanje i zastupanje d.o.o. Sarajevo	100%	–
Botswana		
Deloitte House, Plot 64518, Fairgrounds, Gaborone, PO Box 1839, Botswana		
BT Global Services Botswana (Proprietary) Limited	100%	ordinary
Brazil		
Avenida Doutora Ruth Cardoso, nº 4777, 14º andar, parte, Jardim Universidade - Pinheiros, na Cidade de São Paulo- SP- CEP, 05477- 000, Brasil		
BT Global Communications do Brasil Limitada	100%	quotas
Avenida Das Nações Unidas, 4777 - 14 andar, Pinheiros, São Paulo, SP 05477-000, Brazil		
BT Communications do Brasil Limitada	100%	quotas
Bulgaria		
51B Bulgaria Blvd., fl. 4, Sofia, 1404, Bulgaria		
BT Bulgaria EOOD	100%	ordinary
Canada		
Regus Brookfield Place, 161 Bay Street, 26th and 27th Floors, Toronto, Ontario, M5J 2S1, Canada		
BT Canada Inc.	100%	common
Chile		
Rosario Norte 407, Piso 6, Las Condes, Santiago, Chile		
Servicios de Telecomunicaciones BT Global Networks Chile Limitada	100%	ordinary
China		
No. 3 Dong San Huan Bei Lu, Chao Yang District, Beijing, 100027, China		
BT Limited, Beijing Office[b]	100%	–
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%	registered
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
Côte d'Ivoire		
Abidjan Plateau, Rue du commerce, Immeuble Nabil 1er étage, 01 BP 12721 Abidjan 01, Côte d'Ivoire		
BT Côte d'Ivoire	100%	ordinary
Croatia		
Savska Cesta 64, Zagreb, 10000, Croatia		
BT Solutions Limited Podruznica Hrvatska[b]	100%	–
Cyprus		
Hadjianastassiou, Ioannides LLC, DELOITTE LEGAL, Maximos Plaza, Tower 3, 2nd Floor, 213 Arch. Makariou III Avenue, Limassol, 3030, Cyprus		
BT Solutions Limited[b]	100%	–
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. Progresso, 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, 4º 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%	–
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[d]	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%	–

Company name	Group interest in allotted capital[a]	Share class
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. Magyarorszagi Fioktelepe[b]	100%	–
BT Limited Magyarorszagi Fioktelepe[b]	100%	–
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

Company name	Group interest in allotted capital[a]	Share class
Isle of Man		
Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man		
Belmullet Limited	100%	ordinary
Communicator Insurance Company Limited	100%	ordinary
Priestgate Limited	100%	ordinary
Israel		
Beit Oz, 14 Abba Hillel Silver Rd, Ramat Gan, 52506, Israel		
B.T. Communication Israel Ltd	100%	ordinary
Italy		
Strada Santa Margherita, 6 / A, 43123, Parma, Italy		
BT Enìa Telecomunicazioni S.P.A.	99%	ordinary
Via Charles Robert Darwin, no 85, Settimo Milanese, 20019, Milano, Italy		
ERPTech S.p.A.	99%	ordinary
Via Mario Bianchini 15, 00142 Roma, Italy		
BT Global Services Limited[b]	100%	–
Via Pianezza n° 123, Torino, Italy		
Atlanet SpA	99%	ordinary
Via Tucidide 56, Torre 7, 20134, Milano, Italy		
Basictel SpA	99%	ordinary
BT Nederland N.V.[b]	100%	–
Nuova Societa di Telecomunicazioni SpA	99%	ordinary
Jamaica		
26 Beechwood Avenue, Cross Roads, St. Andrew, Kingston 5, Jamaica		
BT Jamaica Limited	100%	ordinary
Japan		
ARK Mori Building, 12-32 Akasaka, 1-Chome, Minato-Ku, Tokyo, 107 - 6024, Japan		
BT Global Japan Corporation	100%	ordinary
BT Japan Corporation	100%	ordinary
Jersey		
PO Box 264, Forum 4, Grenville Street, St Helier, JE4 8TQ, Jersey		
BT Jersey Limited	100%	ordinary
Jordan		
Al Gardens Area (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%	–

Company name	Group interest in allotted capital[a]	Share class
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 atbildibu	100%	ordinary
Lebanon		
Abou Hamad, Merheb, Nohra & Chedid Law Firm, Chbaro Street, 22nd Achrafieh Warde Building, 1st Floor, Beirut, P.O.BOX 165126, Lebanon		
BT Lebanon S.A.L.	100%	ordinary
Lithuania		
Aludariu str 2-33, LT-01113 Vilnius, Lithuania		
UAB BTH Vilnius	100%	ordinary
Luxembourg		
12 rue Eugene Ruppert, L 2453, Luxembourg		
BT Professional Services (Luxembourg) S.A.	100%	ordinary
BT Broadband Luxembourg 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		

Company name	Group interest in allotted capital[a]	Share class
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%	–
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, Ausspann Plaza, Dr Agostinho Neto Road, Ausspannplatz, 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 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
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. Brasilia N° 767 casi Siria, Asunción, Paraguay		
BT Paraguay S.R.L.	100%	quotas
Peru		
Urb. Jardin 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%	–
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
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 Starike 20, Belgrade, 11070, Serbia		
BT Belgrade d.o.o	100%	ordinary
Sierra Leone		
84 Dundas Street, Freetown, Sierra Leone		
BT (SL) Limited	100%	ordinary
Singapore		
Level 3, #03-01/02 & #03-04, Block B, Alexandra Technopark, 438B Alexandra Road, Singapore, 119968		
BT (India) Private Limited Singapore Branch[b]	100%	–
BT Global Services Technologies Pte. Ltd.	100%	ordinary
BT Global Solutions Pte. Ltd.	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
BT Singapore Pte. Ltd.	100%	ordinary
Slovakia		
Dvorakovo nabrezie 4, 811 02, Bratislava, Slovakia		
BT Slovakia s.r.o.	100%	ordinary
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, Johannesburg, 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
Trinidad and Tobago		
2nd Floor CIC Building, 122-124 Frederick Street, Port of Spain, Trinidad and Tobago		
BT Solutions Limited[b]	100%	–
Tunisia		
Road Lac de Constance, Carthage Center Building, Block A-2nd floor-Les berges du Lac, Tunis, 1053, Tunisia		
BT Tunisia S.A.R.L	100%	ordinary
Turkey		
Acıbadem Mahallesi Çeçen Sk. Akasya A , Kule Kent Etabı Apt. No: 25 A/28- Üsküdar/ İstanbul, Turkey		
BT Bilisim Hizmetleri Anonim Şirketi	100%	ordinary
BT Telekom Hizmetleri Anonim Şirketi	100%	common
Uganda		
Engoru, Mutebi Advocates, Ground Floor, Rwenzori House, 1 Lumumba Avenue, Kampala, 22510, Uganda		
BT Solutions Limited[b]	100%	–
Ukraine		
Office 702, 34 Lesi Ukrainky Boulevard, Kyiv 01042, Ukraine		
BT Ukraine Limited Liability Company	100%	stakes
United Arab Emirates		
Office No G03, Ground Floor, EIB Building No 04, Dubai, United Arab Emirates		
BT MEA FZ-LLC	100%	ordinary
Office no.206 BLOCK B, Diamond Business Center 1, Al Barsha South Third, Dubai, P.O. BOX 25205, United Arab Emirates		
BT UAE Limited - Dubai Branch (1)[b]	100%	–
BT UAE Limited - Dubai Branch (2)[b]	100%	–
United Kingdom		
81 Newgate Street, London, EC1A 7AJ, United Kingdom		
Belmullet (IoM) Limited[b]	100%	–
Bruning Limited	100%	ordinary
BT (International) Holdings Limited	100%	ordinary
BT Communications Ireland Group Limited - UK Branch[b]	100%	–
BT Fifty-One	100%	ordinary
BT Fifty-Three Limited	100%	ordinary
BT Global Security Services Limited	100%	ordinary
BT Global Services Limited	100%	ordinary
BT Limited	100%	ordinary
BT Sixty-Four Limited	100%	ordinary
BT UAE Limited	100%	ordinary
Communications Global Network Services Limited - UK Branch[b]	100%	–
Communications Networking Services (UK)	100%	ordinary
ESAT Telecommunications (UK) Limited	100%	ordinary
Extraclick Limited	100%	ordinary
Global Security Europe Limited	100%	ordinary
Newgate Street Secretaries Limited	100%	ordinary
Numberrapid Limited	100%	ordinary
Tudor Minstrel	100%	ordinary
55 Baker Street, London, W1U 7EU, United Kingdom		
BT LGS Limited	100%	ordinary
EE Finance Limited	100%	ordinary
groupBT Limited	100%	ordinary
Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom		
EE (Group) Limited	100%	ordinary
EE Pension Trustee Limited	100%	ordinary
Mainline Communications Group Limited	100%	ordinary
Mainline Digital Communications Limited	100%	ordinary
Orange Furbs Trustees Limited	100%	ordinary
Orange Home UK Limited	100%	ordinary
Orange Personal Communications Services Limited	100%	ordinary
United States		
c/o Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808, United States		
BT Americas Holdings Inc.	100%	common
BT Americas Inc.	100%	common
BT Communications Sales LLC	100%	units
BT Federal Inc.	100%	common
BT Procure L.L.C.	100%	units
BT United States L.L.C.	100%	units
Infonet Services Corporation	100%	common
Radianz Americas Inc.	100%	common
Uruguay		
Rincón 487 Piso 11, Montevideo, ZIP CODE 11.000, Uruguay		
BT Solutions Limited Sucursal Uruguay[b]	100%	–
Venezuela		

Company name	Group interest in allotted capital[a]	Share class
Edificio Parque Cristal, Torre Oeste, Piso 5, Oficina 5, Avenida Francisco de Miranda, Urbanización Los Palos Grandes, Caracas 1060, Venezuela		
BT LatAm Venezuela, S.A.	100%	ordinary
BT Global (Venezuela) S.A.	100%	ordinary
Vietnam		
16th Floor Saigon Tower, 29 Le Duan Road, District 1, Ho Chi Minh City, 710000, Socialist Republic of Vietnam		
BT (Vietnam) Co. Ltd.	100%	ordinary
Zambia		
Plot No. 11058, Haile Selassie Avenue, Zimbabwe, Lusaka, Lusaka Province, 34972, Zambia		
BT Solutions Limited[b]	100%	–
Zimbabwe		
3 Baines Avenue, Box 334, Harare, Zimbabwe		
Numberrapid Limited[b]	100%	–

Associates

Company name	Group interest in allotted capital[a]	Share class
Held via other group companies		
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 directly		
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%	ordinary
10 Lower Thames Street, Third Floor, London, EC3R 6YT, United Kingdom		
Youview TV Limited	14%	voting
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		
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%	-

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 31.
d BT (Germany) GmbH & Co. oHG is making use of disclosure exemption under the German Commercial Code Paragraph 264.
e On 4 May 2021 British Telecommunications plc sold its 100% interest in EE Limited to its wholly owned subsidiary EE Group Investments Limited. See note 22.

Additional Information

Alternative performance measures

Introduction

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

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

Specific items

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.

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

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

Details of items meeting the definition of specific items in the current and prior year are set out in note 9.

Reported revenue, reported operating costs, reported operating profit, reported net finance expense and reported profit before tax are the equivalent IFRS measures. A reconciliation from these can be seen in the Group income statement on page 33.

Adjusted EBITDA

In addition to measuring financial performance of the group and customer-facing units based on operating profit, we also measure performance based on EBITDA and adjusted EBITDA. EBITDA is defined as the group profit or loss before interest, taxation, depreciation and amortisation. Adjusted EBITDA is defined as EBITDA before specific items, net non-interest related finance expense, and share of post-tax profits or losses of associates and joint ventures. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies, particularly in the telecommunications sector.

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

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

Year ended 31 March	2021 £m	2020 £m
Reported profit for the period	**1,629**	**1,929**
Tax	368	665
Reported profit before tax	**1,997**	**2,594**
Net interest related finance expense	584	512
Depreciation and amortisation	4,347	4,274
EBITDA	**6,928**	**7,380**
EBITDA specific items	481	350
Net other finance expense	18	147
Share of post tax losses (profits) of associates and joint ventures	(8)	33
Adjusted EBITDA	**7,419**	**7,910**