British Telecommunications plc

Annual Report and Financial Statements

Year ended 31 March 2022

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 2022 Annual Report, which does not form part of this report.

How we're organised

Consumer
Serves individuals and households through three brands – EE, BT and Plusnet. Together they mean that BT Group is the UK's largest consumer mobile, fixed, and converged communication provider. We have a relationship with over 45% of UK households, helping them communicate, study, work, learn, play, and be entertained.

Enterprise
Helps businesses of all sizes across the UK and Republic of Ireland reach their digital goals. Our 1.2m customers range from big household names, Government departments and public sector, to small businesses and start-ups. This year Enterprise was reorganised to focus more sharply on small office and home office (SoHo), small and medium enterprises (SMEs), large corporates and public sector, and wholesale customers. And we launched our Division X unit to develop innovative solutions for our business customers.

Global
Serves multinational companies and governments. We have the ability to serve customers in c.180 countries. We integrate, secure, and manage network and cloud infrastructure, and offer security, collaboration, and contact centre solutions to help our customers thrive in an increasingly digital business environment.

Openreach
In line with our regulatory Commitments, Openreach is a customer-facing unit (CFU) but has greater strategic and operational independence. Openreach operates our fixed access network and is building the next generation of full fibre infrastructure. It manages the fixed network connecting homes, mobile masts, schools, shops, banks, hospitals, libraries, governments and businesses to the world. Openreach serves 690 communication providers within the UK who then sell fixed access services to end customers.

Technology units
This year we split our technology units (TUs) into Digital and Networks to give sharper focus on transforming these areas and building a modern BT Group, fit for the future. Our TUs also lead our innovation and R&D activity. Digital is transforming the way we work and building the next generation of customer solutions. Networks builds, maintains, and operates our mobile, core and global networks so customers have the best connectivity experiences.

Corporate units
Our corporate units (CUs) support our CFUs and TUs with centres of excellence and provide group-level management and coordination. They give us efficiencies by sharing common activities and best practices. This includes finance, strategy & business services, human resources, legal, company secretarial & regulatory affairs, and corporate affairs.

Key performance indicators

We use nine KPIs – five operational and four financial. We reconcile adjusted financial measures to the closest IFRS measure on page 137.

Operational

BT 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.

BT Group NPS increased by 2.3 percentage points (FY21: up 7.8 percentage points), a new all-time high supported by strong results in year for Consumer, BT SME and Global.

Total Openreach FTTP connections

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

Almost 1.8m customers were connected to Openreach's FTTP network at 31 March 2022 (FY21: 0.9m). Openreach's full fibre footprint reaches more than 7m homes and businesses - more than our competitors combined - and we're on track to get to 25m premises by the end of 2026.

Total 5G connections

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

Our 5G customer base keeps growing, with 5.3m EE customers able to connect to our 5G network at 31 March 2022 (FY21: 1.6m). We now have 7.2m 5G-ready customers. We continue to expand our 5G network which now covers over half of the UK population.

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 FY17 levels. It's measured by reference to tonnes of CO_2e (carbon dioxide equivalent) per £m value added (adjusted EBITDA[a] plus employee costs).

Against our carbon emission intensity reduction target this year we achieved a 55% reduction from our baseline year (FY17). This was down slightly on last year's result of 57%, as a result of the rebound effect from the pandemic and due to an increase in vehicle emissions to support fibre roll out.

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.

At 31 March 2022 we had helped 14.7m people improve their digital skills (FY21: 10.1m) and we're on track to reach our target of 25m by the end of March 2026.

Financial

Reported revenue

This is our revenue as reported in our income statement.

Reported revenue was £20,850m (FY21: £21,331m). The decrease was primarily due to revenue declines in our Enterprise and Global units offset by growth in Openreach, with revenue in Consumer flat.

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 £7,579m (FY21: £7,419m). Growth was driven by savings from our modernisation programmes, tight cost management and lower indirect commissions, which more than offset revenue decline.

Adjusted[a] EBITDA margin

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

Adjusted[a] EBITDA margin improved 1pp to 36% (FY21: 35%). The increase is mainly driven by improved adjusted[b] EBITDA which more than offset the impact of the decline in revenue.

Reported capital expenditure

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

Reported capital expenditure was £5,286m (FY21: £4,216m). This was primarily driven by investment in spectrum of £479m, and increased full fibre and mobile network investment.

Group performance

Reported revenue was £20,850m, down 2% and adjusted[a] revenue was £20,845m, down 2%. Revenue has grown in Openreach, was flat in Consumer, but declined in Enterprise and Global as a result of challenging market conditions.

Reported profit before tax was £2,086m, up 4% with higher adjusted[a] EBITDA offsetting higher finance expenses

Adjusted[a] EBITDA of £7,579m was up 2%, with revenue decline more than offset by lower costs from our modernisation programmes, tight cost management, and lower indirect commissions.

Alternative performance measures
We assess the performance of the group using various alternative performance measures. As these measures are not defined under IFRS they are termed 'non-GAAP' or 'alternative performance' measures. We reconcile these to the nearest prepared measure in line with IFRS on page 137. The alternative performance measures we use may not be directly comparable with similarly-titled measures used by other companies.

Summarised income statement

	2022 £m	2021 £m
Revenue	20,850	21,331
Operating costs	(13,558)	(14,393)
Depreciation and amortisation	(4,405)	(4,347)
Operating profit	**2,887**	**2,591**
Net finance expense	(801)	(602)
Share of post tax profit (loss) of associates and joint ventures	—	8
Profit before tax	**2,086**	**1,997**
Tax	(689)	(368)
Profit for the year	**1,397**	**1,629**

Revenue
Reported revenue was down 2%, primarily due to declines in legacy products, tougher trading in our Enterprise and Global divisions, handset to SIM migration in Consumer, the impact of prior year divestments and foreign exchange. This was partially offset by higher rental bases in fibre-enabled products, relationship-driven equipment sales in Global and stronger recurring BT Sport revenue as a result of the prior year Covid-19 induced cancellations.

You can find details of revenue by CFU 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.

Operating costs
Reported operating costs were down 4%, primarily due to savings from our modernisation programmes, tight cost control and lower indirect commissions.

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

Adjusted[a] EBITDA
Adjusted[a] EBITDA of £7,579m increased by 2%, with the reduced operating costs more than offsetting revenue decline. You can find details of adjusted[a] EBITDA in Note 4 of the consolidated financial statements.

Profit before tax
Reported profit before tax of £2,086m was up 4%, reflecting increased adjusted[a] EBITDA and despite increased finance expense from pension deficit movements.

Specific items
As we explain on page 137, 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 £728m (FY21: £403m). The main components were a net tax charge on remeasurement of deferred tax of £420m (FY21: £nil) and restructuring charges of £347m (FY21: £421m).

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 33.0% (FY21: 18.4%) on reported profit which mainly reflects the remeasurement of our deferred tax balances following the enactment of the new UK corporation tax rate of 25% from April 2023. The corresponding adjustment comprises a net tax charge of £420m in the income statement and a non-recurring tax credit of £298m in the statement of comprehensive income.

The effective tax rate on adjusted[a] profit was 14.1%. This is lower than FY21 (18.6%) as we expect a large proportion of our capital spend on fibre roll-out to be eligible for the Government's super-deduction regime, which allows for enhanced tax relief on qualifying capital expenditure. The super-deduction regime is available for FY22 and FY23, driving a projected UK tax loss for these periods, with around £5bn of tax losses expected to be carried forward from FY23. A net UK deferred tax charge has been recorded, reflecting the deferred tax liability arising on qualifying capital expenditure, offset in part by a deferred tax asset on the current period tax loss.

We paid income taxes globally of £52m (FY21: £229m). We paid no UK corporation tax (FY21: £229m)), benefiting from the super-deduction noted above. We did not benefit (FY21: £181m) from tax deductions on employees' pension and share schemes.

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

Our tax expense recognised in the income statement before specific items was £349m (FY21: £464m). We also recognised a £430m tax charge (FY21: £1,051m tax credit) in the statement of comprehensive income, mainly relating to our pension scheme.

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

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

Dividends
No dividends were paid in FY22. In FY21 a dividend of £2,000m was paid to the parent company, BT Group Investments Limited. The directors recommend payment of a final dividend in respect of FY22 of £850m (FY21: £nil).

Capital expenditure
Capital expenditure was £5,286m (FY21: £4,216m). The increase was primarily due to investment in spectrum of £479m, along with increased investment in our full fibre and mobile network. Capital expenditure excluding spectrum was £4,807m.

Capital expenditure contracted but not yet spent was £1,596m at 31 March 2022 (FY21: £1,370m).

Cash flow
Net cash inflow from operating activities was down 1% to £5,907m, mainly as a result of working capital movements.

Summarised balance sheet

As at 31 March	2022 £m	2021 £m
Intangible assets	13,817	13,365
Property, plant & equipment	20,599	19,397
Right-of-use assets	4,429	4,863
Derivative financial instruments	1,091	1,235
Cash and cash equivalents	772	997
Investments	13,792	14,675
Trade and other receivables	2,988	3,591
Contract assets	1,915	1,859
Deferred tax assets	289	989
Other current and non-current assets	1,191	923
Total assets	**60,883**	**61,894**
Loans and other borrowings	16,770	17,657
Derivative financial instruments	870	1,283
Trade and other payables	6,735	6,656
Contract liabilities	1,003	1,092
Lease liabilities	5,760	6,152
Provisions	661	715
Retirement benefit obligations	1,143	5,096
Deferred tax liabilities	1,960	1,429
Other current and non-current liabilities	130	121
Total liabilities	**35,032**	**40,201**
Total equity	**25,851**	**21,693**

Pensions

The IAS 19 gross deficit has decreased from £5.1bn at 31 March 2021 to £1.1bn at 31 March 2022. Net of deferred tax, the deficit has decreased from £4.2bn to £1.0bn. The decrease in the gross deficit of £4.0bn since 31 March 2021 mainly reflects an increase in the real discount rate, £1.1bn of deficit contributions paid over the period, lower assumed future life expectancies due to an allowance for the impact of the Covid-19 pandemic and positive asset returns. This has been partially offset by higher inflation over the year than assumed at 31 March 2021.

Our stakeholders

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, CFUs, CUs and TUs, 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 them in lots of different ways – from meetings and conferences to reviews, forums and webcasts. To understand how well we're engaging with different groups, the Board and its committees get regular updates. They use them to make better decisions, and give feedback and constructive challenge on activities, programmes and initiatives. 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 our foundations, and our colleagues are absolutely central to this. Engaging with colleagues is critical to creating a culture where they can be their best and contribute towards our purpose, ambition, strategy and long-term success.

We employ around 98,400 full-time equivalent colleagues in 43 countries. c.79,900 are in the UK. We also engage with c.1,600 colleagues through agencies and just over 68,400 other non-regular colleagues.

Our colleagues need us to:

– share their personal values

– provide flexible and agile ways of working

– provide brilliant training, development and career opportunities

– 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 HR director on our colleagues, how key people strategy initiatives are going, and culture and overall sentiment in the organisation. The pandemic - combined with our ongoing cultural change programme - meant that colleague wellbeing continued to be a priority for the BT Group Board's discussions this year. Given our focus on diversity and inclusion, the BT Group Board also spent time discussing this and how it influences strategy, external targets, commitments and progress.

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

Once a year our colleagues tell us how it feels to work here through our Your Say survey. Around 81% of them took part this year, with the results going to our Executive Committee members and senior leadership. We got a clear picture of how our colleagues were feeling and a good understanding of what more we can do to make BT Group a brilliant place to work. We included questions on the pandemic. 87% felt we were managing the response to it well and 90% said we cared about their personal safety. We're continually reviewing and improving our approach. So this year we also conducted a mid-year pulse survey which went to a quarter of the business.

Our People Networks are colleague-led groups that share thoughts, opinions and opportunities with our leadership team to help make BT Group truly diverse and inclusive. They're supported by an executive sponsor who champions their purpose and work and provide counsel to the network chairs and deputy chairs. As well as listening directly to colleagues, we also hear concerns through more formal engagement channels. In 2021 we renewed our employee relations framework with the CWU. We also established a partnership agreement with Prospect on how we'll work together with recognised trade unions on modernising BT over the coming years. We also continue to formally engage our European Consultative Council and EE employee representatives in the UK.

When we act on colleague feedback, we try to pick things with the biggest impact. Longer term, we inform and shape our strategy based on creating a culture where colleagues can be their best. We focus particularly on skills development, diversity and inclusion, and health, safety and wellbeing.

Diversity and inclusion (D&I)
Diversity, inclusion, accessibility and equality are everyone's business. That's why they're core elements of our people strategy. This year we rolled out mandatory anti-racism training to all colleagues, helping them challenge racism if they discover it anywhere in our business. And the reverse mentoring programme we started in 2020 for our BT Group Executive Committee and senior leaders has helped shape our D&I plans.

We also announced stretching targets to attract, recruit, promote and keep women, people from ethnic minority groups and disabled people. By 2030, we want our workforce (excl. Openreach) to be made up of 50% women, 25% ethnic minority and 17% disabled colleagues. And we are making progress toward these goals. As an example, this year Openreach recruited over 530 female trainee engineers.

As of 31 March 2022, nearly 11% of UK employees said they were of Black, Asian or minority ethnic background[a]. The things we're doing and the targets we're setting show our commitment to making BT Group a fully diverse and inclusive workplace.

Health, safety and wellbeing
Covid-19 continued to have a real impact. We focused most on supporting our colleagues, preventing illness through limiting workplace transmission, communicating with colleagues on managing safety during the pandemic and reinforcing testing and vaccination programmes.

a UK employees include, amongst others, those who had not disclosed, or had responded 'prefer not to say' in respect of their ethnicity pursuant to our self-declaration campaign. None of those employees are counted for the purpose of this statistic as coming from a Black, Asian or minority ethnic background.

Working with the Department for Health and Social Care, we piloted workplace testing and test click and collect schemes, and supported home asymptomatic testing. During the year we distributed c.250,000 rapid lateral flow tests to colleagues, aiming to protect the most vulnerable and safely return things to as normal as possible.

Customers

We want to give all our customers standout experiences by delivering brilliant solutions and outcomes. We have a big and broad customer base. Consumers, small and large businesses, multinationals, the public sector and communications providers (CPs) all want different things. Engaging with them to understand their current and future needs is fundamental to delivering our strategy, ambition and purpose.

Our customers need us to:

– connect them to their digital worlds with reliable, high quality solutions
– give them brilliant experiences and outcomes that match their needs
– provide excellent service, whether in stores, through support teams, via call centres or digital channels
– keep them secure and protect their data
– do all of this at a price that represents brilliant value for money.

How we engage with customers, and the result
We actively engage with our customers all the way from initial product development to ongoing billing and service management. It helps us make sure we're offering the right propositions in the best way to meet their ongoing needs.

Our insight centre of excellence serves all parts of the group to help us understand customers better. It provides research and analysis to give us a deeper knowledge of customer segments and their specific needs.

Across different customers and channels, we use different methodologies and data sources - like focus groups - to understand perceptions, expectations, needs and behaviours. The insights we get influence how we set strategy, design customer-driven improvements, refine solutions and pricing and develop our brands.

We invest a lot of time to understand our customers' perspectives. This year we ran sessions for our senior management team where they listened directly to customers about their experience with BT Group - focusing as much on where we got things wrong as what we did well.

We also have two panels which support our customer engagement and include representation from the BT Group Board. The Customer Inclusion Panel represents different sections of society with different needs (such as customers with physical disabilities) to help us understand and respond to the range of challenges faced by our customers. The Customer Fairness Panel focuses on ensuring we are treating different customer groups fairly. As an example, it supported our Consumer unit's launch of its social tariff - Home Essentials.

The BT Group Global Advisory Board allows us to meet regularly with top executives from large multinational customers. Similarly, the Security Advisory Board invites senior security clients to discuss cyber security risks and challenges. This helps us understand their priorities, needs and challenges so we can design solutions that deliver the outcomes they're looking for.

Openreach makes sure all its customers get equal access to our fixed network. It does that through an industry consultation process that is straightforward and compliant - with strong governance controls. All communication providers also have the opportunity to engage with Openreach confidentially during initial consultation stages.

Our CFUs monitor how they're doing on delivering for our customers. We track and review customer metrics every month, including NPS. The BT Group chief executive, Executive Committee and senior management teams regularly review progress on our customer experience metrics to assess and agree appropriate actions for ongoing improvements.

The BT Group chief executive, Executive Committee and senior leadership also regularly review and discuss complaints directly with customers. The opportunity to actively connect and understand the experiences of our customers helps us to better identify and problem-solve challenges at a high level, benefitting everyone.

Whether it is defining our strategy, approving investment decisions or creating new propositions, the impact on the end customer is always a core consideration to any decisions we make. The BT Group Board are regularly updated on market trends and customer experiences including NPS. There are detailed discussions at the BT Group Board with the CEO of each of the CFUs, including Openreach, on how we are performing and how we can drive improvements for our customers.

The BT Group Board understands the importance of protecting consumers' interests and meeting Government and regulator expectations of a consumer fairness culture, at all levels. The BT Compliance Committee provides Board-level oversight of consumer fairness and discusses this at each of its meetings.

Communities

We're at the heart of the communities we operate in, and help bring them together. We need all the communities we serve to trust us. Without that, we cannot deliver our growth plans - or our purpose to connect 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 and help tackle issues like climate change
– do business ethically and responsibly.

How we engage with communities, and the result
We touch communities across the UK every day through customer interactions at EE/BT retail stores, home visits to set up broadband and mobile services, and through people using our products and services to connect, live, work, learn and play.

To understand what matters most to our communities, we engage with them and use the insights to inform our focus areas, targets and programmes. This year, our Hope United campaign responded to experiences of online hate and our new Here For You website helped people get the additional support they told us they needed as a result of Covid-19. We're also using insights to find ways to build trust in new technology.

The BT Group Manifesto will help us accelerate growth through tech that is responsible, inclusive and sustainable – communities will benefit from this either directly or indirectly as we aim to provide solutions to societal problems. On behalf of the BT Group Board, the Digital Impact & Sustainability Committee had input into the objectives of the draft Manifesto ahead of launch and continues to review our activities and performance under the three pillars of the Manifesto, in line with our commitments to being a responsible, inclusive and sustainable business.

Connectivity opens up opportunities in education, employment and social inclusion, and can transform access to healthcare and vital local services. So we've continued to roll out our networks faster this year and cut the cost of broadband for eligible low-income households.

Boosting digital skills through partnerships and volunteering, and working with charities, demonstrates our investment in communities and society. This year, we helped 4.6m people improve their digital skills, including thousands of small business owners and their employees.

Colleagues voted for Home-Start UK as our new UK charity partner. It tackles the digital divide affecting vulnerable people by helping families improve their digital skills, through fundraising and volunteering. Connectivity opens up opportunities in education, employment and social inclusion, and can transform access to healthcare and vital local services. So we've continued to roll out our networks faster this year and cut the cost of broadband for eligible low-income households.

In response to the Ukraine crisis, we've made mobile and landline calls, data and texts on BT, EE and Plusnet to and from Ukrainian mobiles free. We're also sending thousands of powerbanks to people displaced by the situation, and working closely with relevant government and industry partners. Our international charity partner, UNICEF, is at the forefront of the humanitarian response – colleagues are donating to the children's emergency fund run by UNICEF, who distribute aid to affected children.

We have a group KPI to reach 25m people in the UK with help to improve their digital skills by the end of March 2026. We also measure reputational performance and trust to track how we're perceived across communities.

Suppliers

Good supplier relationships are essential for our success. They help us deliver solutions and propositions that create standout customer experiences. We source from all over the world, with suppliers in nearly 100 countries.

Suppliers need us to:

– pay them in line with our agreed terms
– help them optimise their own supply chains
– act ethically and transparently.

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 launched BT Sourced, a new standalone procurement company based in Dublin which has established itself as a hub for many 'Big Tech' businesses as well as technology start-ups. BT Sourced has been established to challenge the traditional ways of buying goods and services by simplifying processes and introducing new technology and partnership-based approaches to the way we work with suppliers and start-ups.

During the year, we also announced a partnership with GXO Logistics to outsource and transform part of BT Group's supply chain across the UK as part of a new long-term relationship. This new partnership forms part of our ongoing strategy to simplify and modernise our business, which continues to make strong progress. We will be outsourcing our core warehouse and transport capabilities, while ensuring that the group's market-leading next generation network build plans remain on track.

During the year, we have faced significant inflationary headwinds from a range of factors such as a global shortage of chipsets, rising energy prices, and higher shipping costs, which we have worked with our suppliers to mitigate as much as possible. To further strengthen our capacity to deal with such challenges, BT Sourced will also accelerate the adoption of new technology that can challenge some traditional ways of buying and encourage more collaboration.

For example, we have introduced tools that make it easier for suppliers to deal with us and that automatically engage several suppliers simultaneously. These tools are encouraging greater competition within our supplier base which generates more opportunities, particularly for smaller suppliers, while also creating more capacity for human-to-human interaction that can focus on tackling the most important issues across our supply base.

During the year, we joined the Joint Audit Cooperation (JAC) of telecommunications operators, which conducts and share corporate social responsibility audits of suppliers. JAC aims to verify, assess, and develop the implementation of corporate social responsibility across the manufacturing centres of important multinational suppliers to the information communications and technology (ICT) industry. JAC members share resources and best practices to develop long term CSR implementation in the ICT supply chain at an international level. This should make sure BT Group's growth is responsible, inclusive and sustainable.

We also continue to 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.

UK Government

We add over £24bn to the UK economy[a], supporting critical services and working with more than 1,200 public sector focused customers.

Our networks support the functioning of vital public services like welfare, tax, health, social care, police and defence, while protecting citizens' personal data. Our relationship with Government bodies supports our strategic priorities - as well as enabling us to contribute to policies and initiatives that benefit our stakeholders.

Government stakeholders need us to:

– keep investing in our network infrastructure

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

– create fairly-priced products and services, backed by brilliant customer service.

How we engage with the Government, and the result
Our networks are part of 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 Enterprise unit delivers and looks after public sector contracts and services like the Emergency Services Network. We've also continued to support the Government and NHS teams dealing with the Covid-19 pandemic.

Our policy and public affairs team manages our relationships with Government and other politicians. 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 it 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 remit, from infrastructure investment to national security, from regulating online harms to trade and economic policy.

In the past year we have contributed to a range of Government initiatives - for example on wireless infrastructure strategy, supply chain diversification, data strategy, drones and AI. We continue to make good progress in delivering against our shared rural network obligations, supporting this key industry-government initiative and maintaining EE's 4G coverage leadership.

We've also provided input into consultations on key legislation including the Telecommunications (Security) Act 2021, the Product Safety and Telecommunications Infrastructure Bill and the Online Safety Bill. The BT Group Board gets regular updates 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 makes sure rules and standards are consistent in each jurisdiction, which in turn protects consumers and promotes 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 economic and consumer regulatory powers for the sector.

We also engage with other regulatory bodies like the Competition and Markets Authority and the Financial Conduct Authority (FCA).

Ofcom needs 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 Ofcom's ambition for a world-class UK digital infrastructure and allow efficient investment, while keeping the market fair and competitive.

In 2017, we put in place the Commitments. It provides Openreach with a greater degree of strategic and operational independence, in line with objectives set out in Ofcom's Digital Communications Review. In December 2021, Ofcom noted that Openreach continues to operate with a "high degree of independence from BT"band that there were "strong structures and processes" in place at both BT Group and Openreach which helped support compliance.

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

a Based on an independently prepared study by Hatch Urban Solutions in December 2020 study. A new study is due in FY23.

On behalf of the BT Group Board, the BT Compliance Committee monitors our compliance with the Commitments, including our culture and behaviours of our colleagues. Ofcom attended a BT Compliance Committee meeting during the year and discussed feedback on the Commitments and Ofcom's relationship with us. The BT Group Board are also regularly updated on any key meetings between Ofcom and the chairman, chief executive and others.

A responsible, inclusive and sustainable business

Responsible: new tech must earn people's trust and transform lives for the better

Applying responsible tech principles across our value chain

Our responsible tech principles help us think about benefiting people and minimising harm every time we develop, buy, use and sell tech. They're grounded in the UN Guiding Principles on Business and Human Rights and are part of our risk management framework.

We apply the principles right from the start when we design new tech. We've strengthened our privacy impact assessment process with a new online tool that integrates responsible tech and human rights considerations into business decisions.

Our responsible tech steering group oversees the implementation of the principles. The group continued its deep dive into emerging risks and strategic growth areas for BT Group this year, inviting external experts to debate the benefits and risks of topics such as data monetisation and custodianship.

BT Sourced, our new procurement company, has responsible and sustainable criteria embedded in its processes – giving our buyers a clear view of related supplier risks and opportunities. We've upped the weighting of these criteria from 10% to 15% in initially assessing who to buy from.

We've continued working with others to protect privacy and free expression and prevent online harms – from misinformation to online hate. We're currently being assessed against the Global Network Initiative Principles on Freedom of Expression and Privacy. We've also expanded the scope of our global sales due diligence process. This will help us better identify and address the potential human rights impacts of our products and services.

Inclusive: future tech must be diverse and inclusive so that everyone benefits

Championing digital inclusion

We're working to make our networks and tech affordable and accessible to all.

We're helping more low-income households benefit from our networks. Our social tariff BT Home Essentials offers broadband and calls at around half the price of our standard fibre package. It's available to all customers on Universal Credit and other means-tested benefits. And Openreach's Connect the Unconnected initiative waives connection fees for eligible customers on Universal Credit.

More than one in five British adults say unexpected life changes during the pandemic mean they now need extra support. So we've launched our Here for You website – putting all our customer support in one easy-to-navigate place. We've also given extra training to customer service colleagues to support these customers.

Upskilling the nation

High-speed connectivity through our networks will make a huge difference to people and businesses in the UK. But only if they have the skills to make the most of the digital world.

We've helped 4.6m more people improve their digital skills this year – from small businesses and jobseekers to kids getting their first phone. We've helped 14.7m people since FY15 and we're on track to reach our target of 25m by the end of March 2026.

Together with Google, we've given small businesses free, one-to-one mentoring sessions to help them harness digital skills to grow. We've also run webinars with Small Business Britain and invited entrepreneurs to share advice and practical tips.

This year we reached over 33,000 jobseekers through our Work Ready virtual training sessions and ran a summer Stand Out Skills campaign to help them be more confident when applying for jobs. Our colleagues have mentored 1,000 of the 2,800 18 to 24-year-olds who've completed Avado's FastFutures training programme since it began in 2020.

We've created the UK's first phone licence, to help prepare kids for life online. EE's PhoneSmart Licence is a fun and educational online resource to help young people learn how to stay safe and be kind online. And targeting online hate, our Hope United campaign was led by a diverse team of top footballers, to help give people the digital skills they need to beat online hate and be a good team player on social media.

In India, our partnership with the British Asian Trust has helped bring skills and education to 738,000 young people, and in doing so we've exceeded our target of enabling 100,000 teenage girls to stay in school and develop better resilience and employability skills.

Sustainable: tech must accelerate our journey to net zero emissions and to a circular economy.

Reaching net zero

We've led on climate action for 30 years. And now we're acting faster than ever before, bringing forward our net zero goal by 15 years. That means we'll be a net zero carbon emissions business by the end of March 2031 and a net zero business for our supply chain and customers by the end of March 2041.

Since FY17 we've cut our carbon emissions intensity by 55% – slightly down on last year's 57%, as a result of the rebound effect from the pandemic and an increase in vehicle emissions to support our full fibre rollout.

All of the electricity we consume worldwide is renewably sourced[a]. This has helped us cut our operational carbon emissions by 55% since FY17.

We've continued making our networks more energy efficient and investments in our new offices have all been done with sustainability in mind. Our newly opened Birmingham and London offices are BREEAM[b] Excellent buildings which minimise environmental impact. Our One Braham London HQ alone should save over 3m kWh of energy a year.

a 99.9% of the global electricity BT Group consumes is from renewable sources. The remaining 0.1% is where renewable electricity is not available in the market.
b Building Research Establishment's Environmental Assessment Method, the world's leading sustainability assessment for infrastructure.

Overall, we've cut our global energy consumption by a further 9 GWh this year. We've added 700 more electric vehicles to our commercial fleet (now over 1,000 in total), we've increased the number of charging points at our sites and engineers' homes, and continued to push for policy measures to support the wider transition to electric vehicles. We're aiming to transition the majority of our vehicles to electric or zero carbon emissions by 2030.

We continue to work with suppliers to cut carbon. Since FY17 we've cut our supply chain emissions by 28%, making good progress towards our 42% reduction target by 2031. Our pioneering 'climate clause' commits 10 of our key suppliers to make measurable carbon savings during the life of their contracts with us.

Helping customers cut carbon
This year around £5bn (25%) of our revenue came from carbon-cutting solutions. We've set a new goal to help customers avoid 60m tonnes of CO_2e[a] by 2030 – by adopting new products, services and tech like FTTP, 5G and IoT.

Through our Green Tech Innovation Platform, we're working with tech scale-up partners on solutions to help public sector customers get to net zero. Examples include use of IoT in social housing, and sensors giving local councils real-time data on CO_2 emissions and air pollution.

We're encouraging consumer climate action with campaigns like the BT Big Sofa Summit, BT Sport's Green Routine and 'Not Tomorrow. Today.' Our three-month Smarter Living Challenge with Hubbub found in June 2021 that a series of over 400 tech solutions and small actions could save 1.7 tonnes of CO_2e and potentially over £900 a year in an average household.

Towards a circular BT Group and beyond
We aim to be a circular business by 2030 and part of a circular tech and telco ecosystem by 2040. Our network build activities, and initiatives like EE's phone repair service to extend handset lifecycles, are just the start.

This year, over 1.35m home hubs and set-top boxes have been collected for reuse or recycling, as well as over 170k mobile phones through the EE Trade-In scheme. We recovered or recycled 97% of our operational waste worldwide (99.4% in the UK). We're looking for more ways to reduce waste, repair, refurbish and recycle.

Human rights

Our Human Rights Policy Commitment explains our commitment to respect and champion human rights across BT Group and in our relationships with others. It describes our approach to respecting rights and freedoms, especially in the digital world. And it's supported by our responsible tech principles.

Being a human rights leader and having strong ethical standards builds trust. This is key to us achieving our ambition to be the world's most trusted connector of people, devices and machines.

Our **Human Rights Policy Commitment** can be found at **bt.com/ourpolicies**

Our **Modern Slavery Statement** can be found at **bt.com/modernslavery**

Research and development (R&D) and innovation capabilities

Innovation has always been at the heart of BT Group's business and continues to be vital today. We find new, exciting ways to use technology to improve solutions, processes and networks and better serve our customers.

Openreach innovation helps manage cost and continually improve network quality. R&D investment has revolutionised the technologies, tools and techniques that underpin our multi-billion pound full fibre build. For example, our Cleanfast machine, Marais Trencher and Ground Penetrating Radar enable faster, safer and cheaper civil works which cause less disruption to local residents.

Employing over 10,000 colleagues in our technology units, we spent £604m on R&D this year. Adastral Park is our global R&D centre and has played a pivotal role pushing the boundaries of telecommunications research. We have leading specialist facilities and labs exploring the value of emerging technologies including 5G, IoT and cyber security.

We hold over 5,200 patents and patent applications and have achieved world firsts in areas like quantum-secure communications. We run an extensive, long-standing, joint-research programme and currently work with more than 60 universities. Together we pioneer the future of connectivity and connectivity-related services for our customers.

a Carbon dioxide equivalent emissions.

Section 172 statement

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

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

In discharging its section 172 duties the Company has regard to the factors set out above. The Company also has regard to other factors which consider relevant to the decision being made. Those factors, for example, include the interests and views of its pensioners, Bondholders and its relationship with Ofcom. The Company acknowledges that every decision it makes will not necessarily result in a positive outcome for all of its stakeholders. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Company does, however, aim to make sure that its decisions are consistent and predictable.

As is normal for large companies, the Company delegates authority for day-to-day management of the Company to executives and then engage management in setting, approving and overseeing the execution of the business strategy and related policies. The Company also reviews other areas over the course of the financial year including the Company's financial and operational performance; stakeholder-related matters; diversity and inclusivity; and corporate responsibility matters. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board.

The views and the impact of the Company's activities on the Company's stakeholders (including its workforce, customers and suppliers) are an important consideration for it when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both the stakeholders and the BT Group means that generally 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 it achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details on the some of the engagement that has taken place with the Company's stakeholders so as to help the directors to understand the issues to which they must have regard, and the impact of that feedback on decisions, please see the stakeholders section in the strategic report of BT Group plc's 2022 Annual Report.

During the period the Company received information to help it understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on the Company's financial and operational performance, non-financial KPIs, risk, environmental, social and corporate governance matters and the outcomes of specific pieces of engagement. As a result of this the Company has had an overview of engagement with stakeholders and other relevant factors which allows it to understand the nature of the stakeholders' concerns and to comply with its section 172 duty to promote success of the company.

One example of how the Company has had regard to the matters set out in section 172(1)(a)-(f) when discharging its section 172 duties and the effect of that on decisions taken by it, was the decision to purchase OnePhone UK SP AB's 30% minority stake in BT OnePhone Limited ('BTOP') and make BTOP a wholly-owned subsidiary of the Company. In making this decision the Board considered a range of factors. These included its expected cash flow and financing requirements; the ongoing need for strategic investment in our business and workforce; and the pricing expectations of our customers and suppliers.

Risk Management

Risk management taken seriously and done simply and consistently helps us make the best decisions for our colleagues, customers, shareholders and wider stakeholders in the face of uncertainty.

The Art of Risk Management

Appetite	Rules	Three Lines of Defence
We have a risk Appetite statement setting out the group's attitude to how much risk we are willing to take in each GRC. These are underpinned by appetite metrics with upper and lower boundaries that set tolerances for risk.	We then have a clear and simple set of Rules, which are encoded in the key policies, standards and controls required to manage our risks.	The Three Lines of Defence model establishes the roles and responsibilities of those that own and manage risks in the business (1st line), specialist support and assurance functions (2nd line) and independent assurance providers (3rd line). This clarity and co-ordination helps provide assurance that these risks are managed effectively giving confidence to relevant stakeholders.

Strong foundations built on trust

We've built our business to thrive based on stakeholder trust. This means we must manage risks smartly to achieve our ambition, deliver our strategy, support our business model, and protect our assets while leading the way to a bright sustainable future.

Our approach to risk is simple and consistent: We have our risk mindset and culture, which encapsulates our risk process and activities and is brought together by risk leadership and governance. Collectively, this is our risk management framework.

Risk mindset and culture

We engender a set of behaviours and expectations that drive risk awareness throughout our business activities. It is driven by the tone from the top and supported by our people management systems and promotes timely and sensible risk interventions and actions that improve operational integrity and help make smart choices about risks – being bold without being reckless.

We communicate expected behaviours to every colleague through our code to get risk awareness woven into the fabric of our culture. We have an ongoing programme of training and communication, and defined roles to formalise risk management, while continuing to integrate risk thinking and procedures into key areas of decision making.

Risk process and activities

Our approach to risk management has evolved over the last few years with a focus on making it clear and simple across all business areas, facilitating learning, aggregation, shared responses, consistent and efficient activities; and effective dot-joining.

We divide our risk landscape into group risk categories (GRCs) of our enduring risks – like communications regulation and financial control – that will continue to be important to us over time and can be managed consistently.

We are also constantly aware of and deal with specific risks and uncertainties that arise which are significant and dynamic in nature, our point risks and emerging risks.

For each GRC, we have developed an approach that we call *The ART of Risk Management*. This year we've made good progress in establishing the ART of Risk Management across each GRC, which is driving improved accountability, helping to monitor exposures; delivering assurance over the design and operation of key controls; and providing clarity on actionable steps to take the right decisions at the right times.

Risk leadership and governance

A key factor for great risk management is tone from the top. Our leaders visibly believe in, support and are constantly engaged in risk management throughout their activities, ensuring risk is considered in key business processes and decisions.

There is a BT Group plc Executive Committee sponsor for each GRC. They set out how we measure our exposure to that category of 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 GRC are continuously reviewed and managed. Each GRC and the corresponding Executive Committee sponsorship is group-wide, with the aim of ensuring we join dots across the business and think about our risks in a non-siloed manner.

Each of our units (CFUs, TUs and CUs) also reviews, on a periodic basis, its exposure in all these categories and identifies and manages 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 are managing them at the right times. This promotes robust discussion and prioritisation, the right monitoring, and better decision-making.

Continuous learning and improvement

Whether it's reviewing and adjusting risk appetite, managing new or emerging risks, implementing action plans, working with new stakeholders or managing risks in new programmes and change initiatives, risk management is a continuous process. We're also always evolving, learning, and adapting to help build the right mindset and culture, value-adding process and activities and effective leadership and governance. The goal however remains constant: to help the organisation make smarter decisions to protect BT Group and help drive growth.

How risk aligns to strategy

Risk management forms the foundation of trust which is fundamental to our purpose, ambition and strategy. This is demonstrated by the way the GRCs align with our assets and the strong synergies resulting from aligning risk management to our internal strategic framework and business planning and performance management processes. Strategy and risk management form a strong partnership to ensure information is shared and disseminated through the business in a joined-up way to have the greatest impact, management consideration and engagement while reducing duplication of effort.

Emerging risk hubs

- Geopolitics
- Climate & environment
- Responsible technology
- Policy and regulation
- Disruptive technology

We define emerging risks as uncertainties that have the potential to be materially significant, but whose causes and impacts cannot be fully defined at present. These tend to have more external drivers and may manifest over longer time horizons. Some examples are also shown under each GRC in the next section.

To address the more ambiguous and cross group impacting nature of emerging risks, we've developed a group of small cross-functional teams, or hubs, involving representatives from risk management, strategy, finance, operations, subject matter experts and representatives from relevant CFUs, TUs and CUs. These teams share intelligence, identify potential trade-offs or conflicts, and agree specific actions. Actions could include enhancing our preparedness, monitoring specific developments or investigating information gaps.

Geopolitical uncertainty

The situation is dynamic and fast moving but the Russian invasion of Ukraine poses a serious threat to the global security order and liberal democracy. This raises and intensifies many specific areas of risk including but not limited to:

- the safety and security of our colleagues in the region
- the possibility that retaliatory cyberattacks could affect our networks and data, or those of our customers
- the impact on our direct and indirect supply chain
- the wider economic uncertainty, particularly on inflation and cost of living.

As well as standing up teams to manage the coordination of operational activities and ensure compliance with the new sanctions, the BT Group Executive Committee is meeting regularly to review potential second order and longer term impacts, agree policy positions and consider strategic issues.

Joining the dots

It is essential that risks are owned and managed by those closest to the business operations and there is leadership accountability. As such, each CFU Leadership Team regularly brings together their risks for review, discussion, prioritisation, ownership and action.

These risks are then categorised by GRC to give a line of sight and enable broader themes and trends to be identified. This helps us join the dots and understand the potential overall impact and enable a consistent and coordinated response.

To help facilitate this dot joining, we have rolled out a new digital risk management tool which we call ARTEMIS. This provides real-time access to risk and assurance information and minimises our reporting burden so that we can focus on the right behaviours, have the right conversations and take the right actions.

Principal risks and uncertainties

Our principal risks set out in the following pages align with our GRCs. While these categories are enduring, each contains numerous point and emerging risks, examples of which are noted. GRCs are further categorised as Strategic, Financial, Compliance or Operational.

Strategic

Strategy, technology and competition	Sponsor: Chief financial officer
What this category covers	
Whilst developing and executing a strategy that meets changing customer expectations and grows value for all our stakeholders, we must manage risks around an uncertain economic context, intensifying competition, and rapid technological change.	
Key factors we consider in this category	**Some of the things we do to manage it**
• Changes in the economic context, competitive and technology landscape or in customer needs could impact our market share, revenue, profit, shareholder value and reputation. • Pursuing the wrong strategy or not having the strategy reflected in the business plan would impact our ability to compete in the market. • Not executing against the strategy could limit our ability to transform and create sustainable value over the long term.	• Extensive monitoring, research and analysis of economic, market, competitor and technology trends combined with listening and engaging with customers for meaningful trends and insights. • Ongoing investment in our networks, solutions and customer service to provide the best possible outcomes and experience for our customers. • Frequent Executive Committee and Board reviews of performance against strategic priorities and targets.
Example point risks in this category	**Example emerging risks in this category**
• Drop in consumer and business confidence as a result of the escalating geopolitical situation, pressure on the economy and cost of living and potential resurgence in Covid-19. • Slower than expected recovery in the enterprise and global markets adding pressure on revenue. • Increasing competition, particularly in the fixed infrastructure market.	• New disruptive technologies which substitute our networks/ products. • Significant changes in the market structure which could limit our ability to compete.

Stakeholder management	Sponsor: Corporate affairs director
What this category covers	
Stakeholder management is essential for us to achieve our ambition built on trust. We must listen, and communicate with our key stakeholder groups in a fair and transparent way, to establish and maintain strong, sustainable relationships.	
Key factors we consider in this category	**Some of the things we do to manage it**
• The management of our reputation and perceived trustworthiness is a broad topic, within which certain stakeholder relationships may require additional focus. • Ineffective management of stakeholders' expectations or failure to anticipate potential impacts upon them and the communities we serve might damage their trust in us. • Particularly sensitive topics considered include network plans, customer fairness, net neutrality, responsible use of technology, environment, social and governance factors, human rights and industrial relations.	• Media monitoring, evaluation and tracking our reputation across our main stakeholder groups to inform our plans. • Proactively engaging with key stakeholders to build stronger relationships, better understanding of risks and exploring more positive outcomes for BT Group in a fair and transparent way. • Centralised coordination of media, political and speaking engagements, and press releases and market announcements which are overseen by the Disclosure Committee. • Our Manifesto (see page 9) sets out our priorities and commitment to enabling growth through technology that is responsible, sustainable, and inclusive. This has Board-level governance provided by the Digital Impact & Sustainability Committee.
Example point risks in this category	**Example emerging risks in this category**
• Full fibre build commitments and rural connectivity. • Impact of inflation and cost of living on consumers. • Growing focus on the digital divide and its implications. • Managing the interests of all investors and giving due regard to all stakeholders.	• Climate change agenda and perceptions of our sector's role in carbon emissions. • Misinformation on 5G health concerns.

Financial

Financing	Sponsor: Chief financial officer
What this category covers	
We rely on cash generated by business performance supplemented by capital markets, credit facilities and cash balances to finance operations, pension scheme, dividends and debt repayment.	
Key factors we consider in this category	**Some of the things we do to manage it**
• Financing is the risk that we cannot fund our business cash flows or meet our payment commitments. • This could be caused by not generating enough cash, inability to refinance existing debt, being unable to access capital markets, or a big increase in our pension scheme obligations.	• Regularly reviewing actual and forecast cash flow performance. • Undertaking treasury risk management processes, Board oversight, delegated approvals, and lender relationship management. • Performing regular viability assessments and conducting scenario analyses. • Analysing our pension schemes' funding position and investment performance regularly, negotiating funding valuations and reviewing de-risking opportunities.
Example point risks in this category	**Example emerging risks in this category**
• Market disruption and economic downturn caused by Covid-19 and the geopolitical situation. • Our credit rating being downgraded. • An increase in our pension deficit.	• Review of pension funding legislation and 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	Sponsor: Chief financial officer
What this category covers	
We have in place financial controls to prevent fraud (including misappropriation of assets) and to report accurately; failure to do this could result in material financial losses or cause us to misrepresent our financial position, undermining trust and damaging our reputation.	
Key factors we consider in this category	**Some of the things we do to manage it**
• Our financial controls provide financial planning and budgetary discipline, transaction processing efficiency, and reporting accuracy while reducing the risk of fraud, leakage and errors. • We could fail to apply the correct accounting principles and treatment in producing the income statement, balance sheet and equity statement which could result in financial misstatement, fines, legal disputes and damage our reputation. • Failure to apply appropriate tax processes could result in BT Group missing its tax compliance or reporting obligations and facing challenge and fines from tax authorities.	• Maintaining an internal controls framework with clear accountability and delegations across the three lines of defence. • Performing quarterly control attestations. • Conducting annual testing covering all key controls, including relevant IT general controls. • Tax risk management processes and training. • Continuing to enhance processes, systems, controls, and the operating model, for instance by investing in enterprise-wide platforms to deliver improved and automated accounting and controls.
Example point risks in this category	**Example emerging risks in this category**
• Failing to simplify and modernise our finance processes and operating model could make it harder for us to be agile, proactive and customer centric. • Sophisticated or cumulative low-level fraud schemes could remain undetected. • Impact of complex legacy systems on our internal controls. • Complex and changing international tax regulations and requirements from different tax authorities.	• Changes to controls framework requirements resulting from changes in regulation and legislation. • Opportunities and risks associated with Robotic Process Automation applied to financial controls. • Higher propensity for fraudulent behaviour caused by increasing cost of living.

Compliance

Communications regulation	Sponsor: General counsel, company secretary & director regulatory affairs
What this category covers	
We work with key regulators as they define, clear, predictable, and proportionate regulations that protect customers and society while ensuring service providers can compete fairly. We then must work in compliance with these regulations, maintain trust and strong relationships while delivering on our vision and sustainable value growth.	
Key factors we consider in this category	**Some of the things we do to manage it**
• Areas of non-compliance, or weak controls could result in increased regulatory challenge and formal investigations which could lead to reputational damage, fines and/or loss of licences. • Strained regulatory relationships reduce our ability to influence regulatory decisions which could position BT Group at a disadvantage relative to competitors. • Unsupportive regulation could impact our ability to invest at pace and scale in our full fibre rollout, 5G, and converged connectivity; and restrict our ability to innovate whilst doing so. • Key areas that could result in regulatory scrutiny include billing accuracy, major system resilience, customer complaints, support for vulnerable customers, migration away from legacy services, and effectiveness dealing with major incidents.	• Proactively engaging with our regulators at different levels and on different policy topics. • Ensuring fairness in customer experiences, for example when moving customers on to our new networks and interacting with vulnerable customers. • Maintaining processes so that we follow regulations carefully, building trust and enabling positive future dialogue with policymakers. • Making sure the Commitments are always front of mind for all colleagues, including training those in high-risk roles. • Supplying timely and accurate information to our regulators where required.
Example point risks in this category	**Example emerging risks in this category**
• Inability to demonstrate compliance to new commitments and regulations such as customer fairness. • The regulatory environment shifts to favour or support expansion of new market participants. • Challenges in shutting down our legacy networks.	• Regulation not keeping pace with the changing economics in the value chain affecting our ability to compete.

Data	Sponsor: Chief digital and innovation officer
What this category covers	
Our data strategy seeks to create value and enable efficiency while providing a robust framework for data governance and regulatory compliance. We must ensure the entire organisation follows applicable data regulations while anticipating and adequately preparing for future ones.	
Key factors we consider in this category	**Some of the things we do to manage it**
• We must be vigilant in protecting all types of data including high volumes of sensitive customer data, colleague and personal data. All must all be appropriately risk assessed, classified and managed. • 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 fines and penalties.	• Continuously operating and 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.
Example point risks in this category	**Example emerging risks in 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 regulatory focus on governance and ethics around data propositions and processes.

Legal compliance	Sponsor: General counsel, company secretary & director regulatory affairs
What this category covers	
We seek to remain compliant with all substantive laws. Key areas of compliance activity surround laws relating to anti-bribery and corruption, competition, trade sanctions, export controls and corporate governance obligations.	
Key factors we consider in this category	**Some of the things we do to manage it**
• Serious breaches of legal compliance can take place in many forms and can arise anywhere including but not limited to higher risk regions, countries and transactions as well as on complex matters and those where there is high pressure to deliver. • Serious breaches could lead to prosecution, litigation or to a regulator stepping in, all of which might lead to fines or affect our ability to operate, especially if the breaches were deemed criminal and could adversely impact our reputation. • This means, where appropriate, we take bold, evidenced, and defensible decisions around how we comply to applicable laws while empowering the business to take advantage of commercial opportunities.	• Through our code we foster a culture where colleagues know the standards expected and can speak up if something's not right. • Assessing risks regularly when providing legal or compliance advice on strategic projects, signing new business, and commercial operations. • Scanning the horizon to prepare for legislative changes and developing policies to address them. • Providing training to colleagues so they know where legal and compliance risks come from, and how to handle them or to get expert help to handle them. • Carrying out monitoring and assurance on day-to-day operations, regions, partners, projects, and suppliers. Anomalies are investigated and remedied with learnings shared, where appropriate.
Example point risks in this category	**Example emerging risks in this category**
• Rapidly changing international trade sanctions arising due to Russia's invasion of Ukraine. • New technologies being exploited in multiple countries. • Working with third parties in multiple jurisdictions.	• Changes to existing or potential new laws which may be put in place in response to geopolitical dynamics (for example new trade sanctions) or to address concerns in a particular area of law.

Financial services	Sponsor: CEO, Consumer
What this category covers	
BT Group has had very limited exposure to financial services regulation, but it recently launched, through EE, a mass-market proposition regulated by the FCA. This is expected to scale-up and broaden out in the coming years. As such EE must meet all applicable FCA principles, rules and requirements.	
Key factors we consider in this category	**Some of the things we do to manage it**
• Our products, services and activities including those provided by subsidiaries, local business partners and franchisees could lead to poor outcomes for customers. • Establishing new organisational and operational capabilities that understand, interpret, and manage compliance with regulatory requirements to enable launch of new FCA regulated services. • Operating outside FCA rules, requirements, or permissions could lead to customer harm, fines, loss of FCA permissions, poor adoption of new services and broader reputational damage.	• Operate a second line compliance team to provide support and oversight. • Review and update relevant policies and standards annually with controls implemented into operational procedures. • Mandatory colleague training of relevant FCA and other regulatory requirements aligned to job roles. • Operate a breach reporting process to review, investigate and report events within required timelines. • Undertake new and existing financial services product reviews and financial product promotion reviews as part of the development cycle and annually thereafter. • Horizon scanning and interpretation of new regulatory requirements, maintaining regular communication with the regulator. • Applying a proportionate governance framework to provide clear responsibility, accountability and reporting.
Example point risks in this category	**Example emerging risks in this category**
• Project resources and operational capability to deliver planned rollout of compliant financial service products. • Organisation design to support financial services strategy across BT Group. • Additional operational requirements expected from new FCA requirements around Consumer Duty.	• Potential changes to regulatory perimeter relating to Buy Now Pay Later and short term interest free credit.

Operational

Service interruption	Sponsor: Chief technology officer
What this category covers	
Our aim is to deliver best in class network performance across fixed and mobile networks and IT. This involves managing all risks that could disrupt the services we provide.	
Key factors we consider in this category	**Some of the things we do to manage it**
• Service interruptions may be caused by various external factors such as, but not limited to, adverse weather conditions and accidental or intentional damage to our assets. • The impact of poorly planned or executed maintenance and upgrade changes on our networks and IT can contribute to service interruptions. • Some service interruptions may depend on the reliability of our suppliers and partners, highlighting the importance of selecting the right partners and maintaining effective relationships. • The quality of our incident response and recovery helps us minimise the effect of service interruptions. A risk-based approach is needed to minimise customer impacts (for example prioritising essential services).	• Continuous capacity planning, asset lifecycle management, monitoring of our network, assets and services. • Responding quickly and professionally to incidents and reducing their impact through geographically dispersed emergency response teams while communicating effectively with customers. • Comprehensive testing and change management processes. • Regularly conducting business impact assessments that feed into business continuity and disaster recovery plans which are tested and kept up to date. • Operational planning to improve network and IT resilience, including our ability to mitigate for a greater frequency of more severe weather events.
Example point risks in this category	**Example emerging risks in this category**
• Global shortage of silicon chips and other key components affected by Covid-19 and geopolitics. • Managing service impacts of wider strategic decisions to alter the makeup of vendors (for example adapting to governmental decisions around Huawei). • Ability to transform BT Group and our technology without disrupting service to our customers.	• Longer term climate change causing increased frequency and severity of flooding across the UK, impacting service reliability.

Cyber security	Sponsor: Chief technology officer
What this category covers	
Our aim is to protect BT Group, our colleagues and our customers from harm and financial loss caused by cyber security events. We adapt our security posture and controls accordingly to detect and respond robustly to the evolving threat.	
Key factors we consider in this category	**Some of the things we do to manage it**
• As a provider of critical national infrastructure, a cyber-attack could lead to disruption for our customers and the country and data could be compromised. • A poorly managed cyber event could lead to financial loss and reputational harm followed by a sustained loss of market share and could prompt intervention by a regulator who could impose fines or penalties. • Failure to live up to regulatory, customer and other stakeholder expectations related to cyber security could weaken our reputation in the marketplace.	• Implementing best practice security policies, tools and processes to protect our applications, systems and networks. • Monitoring external threats and gathering intelligence on evolving cyber techniques, tactics, and capabilities. • Maintaining a vigilant security posture to quickly detect and respond to cyber risks 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, fostering effective partnerships with industry, government and customers, and empowering our first line of defence to discharge their responsibilities.
Example point risks in this category	**Example emerging risks in this category**
• Cyber-attacks from nation states, including Russia, targeting critical national infrastructure. • Being exposed to suppliers with security vulnerabilities. • Relying on externally hosted cloud services. • Requirement to comply with the Telecommunications (Security) Act 2021.	• AI and machine learning being weaponised as security threats. • Growing numbers of connected home devices need more focus on protecting customers.

Transformation delivery

Sponsor: Chief financial officer

What this category covers

We are accelerating transformation delivery to build a simpler, more efficient and dynamic BT Group through radically modernising and simplifying our IT architecture; simplifying and refining our product portfolio; migrating to next-generation strategic networks; unlocking cost efficiencies by implementing better, more agile ways of working; being customer-obsessed and redefining our digital journeys, automating our processes and using AI capabilities.

Key factors we consider in this category

- Failing to deliver our externally communicated transformation ambitions will adversely impact our efficiency, financial performance, and customer experience while impacting reputation.
- Our challenge is to simplify and modernise our product portfolio, reduce dependence on out-of-date products and deliver smart, differentiated solutions and outcomes.
- Transforming our customer journeys reduces the risk of us being a laggard on customer and colleague experiences, ensuring we are providing outstanding digital channels, services and experiences.
- Delivering automated, digitised and AI driven processes reduces the risk of us not being able to realise efficiencies and reduce the cost base.
- Shutting down legacy IT and migrating customers onto strategic networks allows us to operate on modern digital platforms and be the market leader in FTTP and 5G.

Some of the things we do to manage it

- We are reinvesting in building digital and data capability, to reduce costs and drive revenue growth - ensuring that we have the right resources to deliver change effectively.
- Having a strong governance model with clear ownership by senior leaders of the operational and financial outcomes that need to be delivered.
- Robust tracking and reporting using financial and non-financial measures to make sure we generate value.
- Quarterly performance governance model to ensure funding is being prioritised to those programmes delivering the most strategic value.
- Collaborating across the group in a way that properly reflects our customers' end-to-end journeys.

Example point risks in this category

- Delivery of enablers such as strategic architecture.
- Managing complex interdependencies and the migration of the final customers in order to close legacy IT and networks.
- Delivering the volume of change at pace whilst remaining focussed on reducing the cost base.

Example emerging risks in this category

- Changing external environment impacting the size, scale and speed of transformation required to deliver our strategy.

People

Sponsor: HR director

What this category covers

Our colleagues are central to delivering our ambition and our people strategy aims to enable a culture where everyone can be their best. This means we must manage risk around our organisational structure, skills and capabilities, engagement and culture, wellbeing and the diversity of our workforce.

Key factors we consider in this category

- To attract and retain the right talent in the right places for an organisation as large and complex as BT Group, we need to have effective strategic workforce planning.
- Day-to-day people management activities include managing a high quantum of recruitment, onboarding and terminations, processing payroll and provisioning access to relevant training and development opportunities.
- Failure to engage the workforce, ensure their health and wellbeing, manage industrial relations and create a diverse and inclusive workplace could impact our performance, customer service and transformation ambitions.

Some of the things we do to manage it

- A group people strategy underpinned by a workforce plan.
- Aligned performance goals and performance management review processes cascaded through clear organisation structures, roles, and job descriptions.
- Skills and capabilities assessment, investing in group-wide workforce and talent planning, providing wellbeing support and unlimited training and development, with both role- specific and future skills in mind and a succession planning process.
- A D&I strategy to raise awareness, address bias and promote People Networks and support.
- Listening to colleagues through employee engagement and surveys, town halls or social platforms, and maintaining close relationships with formal employee representative groups and unions.
- Providing fair, competitive, and sustainable remuneration to colleagues that promotes smart risk taking, supports engagement and retention and aligns colleagues' interests with those of shareholders.

Example point risks in this category

- Social disruption and challenges around post-pandemic return to workplaces.
- Skills gaps arising from changes towards a digital organisation.
- Widening gap between cost of living and wage inflation potentially leading to industrial action.

Example emerging risks in this category

- Long-term social and workplace changes.
- Growing colleague activism on social or environmental topics.

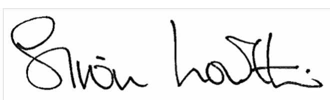
Health, safety and environment	Sponsor: Chief technology officer
What this category covers	
BT Group has diverse operations in various locations and working environments that can pose a health, safety and environment risk to our colleagues, partners, or the public. We have a duty of care to make sure our colleagues and partners are safe and healthy, and perform at their best while managing hazards that could cause harm.	
Key factors we consider in this category	**Some of the things we do to manage it**
• Certain high hazard operations such as occupational road risk, working with high voltage electricity, electro-magnetic fields, lasers, aerial rigging, civil engineering works (road works and construction), highway and railway operations, high pressure pipelines, manual handling and hazardous substances. • Not promoting and embedding suitable safety management and environmental management systems incorporating continual improvement will impact our ability to establish and maintain a safe and compliant business, protecting our colleagues at work. • Ineffective health and safety and environmental standards could result in legal and financial penalties, subsequent reputational and commercial damage with the potential to restrict future enterprise projects.	• Group Policy Statements which are underpinned by minimum standards, and a safety framework, which are reflected in our code. • Training our colleagues and ensuring they are clear on their role and accountabilities with regards to health, safety and environmental practices. • Monitoring our colleagues' health and safety through surveys and focus groups, supported by a dedicated portal. • Using an electronic incident reporting system to monitor and evaluate our performance on health and safety.
Example point risks in this category	**Example emerging risks in this category**
• Covid-19 related risks. • Civil and construction work supporting fibre roll-out. • Inspection and replacement programme for defective telegraph poles. • Keeping our sites clean, tidy and environmentally safe.	• The long-term health effects of lengthy periods of social restriction and limited mobility as we emerge from the pandemic. • Future compliance with developing regulation related to commercial use of drones.

Major customer contracts	Sponsor: Chief executive
What this category covers	
BT Group offers and delivers a diverse mix of major contracts that contribute to our business performance and growth. These include winning and retaining major private and public sector contracts in a highly competitive and dynamic environment, while navigating customer relationships and risk around complex agreements, delivering highly sensitive, critical, or essential services globally.	
Key factors we consider in this category	**Some of the things we do to manage it**
• BT Group's strategy, products, services and target markets must align with the needs of our major customers to pursue and win new customer contracts in a dynamic and fiercely competitive environment. • Customer contractual terms can be onerous and unfavourable if they are challenging to meet, and could lead to delays, penalties, and disputes. This is particularly prevalent in public sector contracts. • Delivery and service failures against obligations and commitments could damage our brand and reputation, particularly if they affected critical infrastructure contracts or security and data protection services. • Failure to effectively manage contract exits, migrations, renewals and disputes can erode profit margins and affect future customer relationships.	• A clear governance framework to assess new business opportunities, manage the bid process, and monitor in-life contract risks. • As part of the bid process, non-standard unfavourable terms and conditions are assessed and mitigations put in place where appropriate. • A cycle of regular contract reviews led by senior management and a separate review team. • Using advanced contract and obligation management tools to support frontline contract managers.
Example point risks in this category	**Example emerging risks in this category**
• Customer investment and procurement delays due to Covid-19, macro-economic and geopolitical conflicts. • Specific project execution especially when involving complex, sensitive, or new technologies.	• Inability to pivot if macroeconomic factors affect government and other customers' IT budgets. • Legislative changes to be made to procurement regulations following Brexit.

Customer service	Sponsor: CEO, Consumer
What this category covers	
Our aim is to provide our customers with stand out service so we can build personal and enduring relationships while taking extra care with our vulnerable customers. We aim to maintain customer satisfaction while continuing to migrate customers from legacy products to newer products and services, while maintaining billing accuracy.	
Key factors we consider in this category	**Some of the things we do to manage it**
• Failing to continuously digitise and improve our customer experience could negatively affect customer satisfaction and retention, colleague pride and advocacy, our group revenues and brand value. • Central to this is being accurate and competitive with our pricing, billing, and collection, managing the lifecycle of all our products and services, managing inventory and supply chain, and operating in compliance with customer obligations and product and service standards. • We must also take particular care for vulnerable customers and handle customer complaints empathetically.	• 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 ongoing relationships and risks (for example 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.
Example point risks in this category	**Example emerging risks in this category**
• Ability to fully migrate from legacy services to new service platforms. • Challenges in retaining and recruiting current and future skill sets.	• Long-term changes in customer needs and expectations.

Supply management	Sponsor: Chief financial officer
What this category covers	
The successful selection, onboarding and in-life management of suppliers is essential to our delivery of quality products and services. We use a large quantum of suppliers and must make decisions on concentration, capability, resilience, security, costs and broader issues that could impact our reputation.	
Key factors we consider in this category	**Some of the things we do to manage it**
• Our reputation is entrusted to our suppliers. We must make sustainable and strategic sourcing decisions that affect the value and quality of the products and services we provide to our customers. • As such, we must select and onboard the right suppliers across a spectrum of decision criteria including financial, operational, security, environmental, ethical, diversity and reputational perspectives. • This risk includes in-life management of complex contracts, performance and obligation delivery, compliance, payments, supplier records and relationship management.	• A sourcing strategy with different approaches by category, standard terms and conditions and controls to ensure purchase decisions are made efficiently and effectively. • Comprehensive supplier due diligence process, contract management, on-boarding and in-life assessment systems. • Supplier risk management, performance monitoring, renewals, and terminations processes. • Demand planning and forecasting, inventory management and stock counts to ensure supplies are available as needed. • Assurance over whether the goods and services we buy are made, delivered, and disposed of in a responsible way including monitoring energy use, labour standards and environmental, social and governance impacts.
Example point risks in this category	**Example emerging risks in this category**
• Inflationary pressure through the entire supply chain. • Disruption due to worldwide shortages of critical supplies driven by Covid-19, geopolitics or other localised events. • Resilience and market power of single-source vendors. • Supplier-related cyber and data security threats.	• Being sure of ethical business practices across our whole supply chain. • Reliance and exposure to China market volatility and geopolitics.

The strategic report was approved by the Board of Directors on 25 May 2022 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 2022. The audited consolidated financial statements are presented on pages 36 to 104 and the audited entity only financial statements are presented on pages 105 to 130.

A statement by the directors of their responsibilities for preparing the financial statements is included in the Statement of directors' responsibilities on page 28.

Principal activity

The Company is the principal trading subsidiary of BT Group plc, which is the ultimate parent company.

BT Group is the UK's leading provider of fixed and mobile telecommunications and related secure digital products, solutions and services. We also provide managed telecommunications, security and network and IT infrastructure services to customers across 180 countries.

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 principal trading subsidiary of BT Group plc, British Telecommunications plc directly or indirectly controls all other trading subsidiaries of the BT Group.

Directors

Neil Harris, Edward Heaton, Simon Lowth and Daniel Rider served as directors throughout the year. Martin Smith was appointed on 13 July 2021. Ulrica Fearn served as a director until her resignation on 15 June 2021.

Critical accounting estimates, key judgements and significant accounting policies

Our critical accounting estimates and key judgements, and significant accounting policies conform with UK-adopted international accounting standards and the requirements of the Companies Act 2006, and are set out on page 42 of the consolidated financial statements and page 107 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 FY22 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

No dividends were paid during FY22 (FY21: £2,000m). The directors recommend payment of a final dividend of £850m (FY21: £nil).

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 23 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 5 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 14 to 23 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 2023, 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 2022, the group had cash and cash equivalents of £0.8bn and current asset investments of £2.7bn. The group also had access to committed borrowing facilities of £2.1bn. These facilities were undrawn at the year-end and are not subject to renewal until March 2027.

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 organisations at BT Group plc's request. The insurance protects the directors and officers directly in circumstances where, by law, BT Group plc cannot provide an indemnity. It also provides BT Group plc, 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 25 May 2022, and throughout FY22, 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, BT Group 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 is simple and consistent, and defines our (1) risk mindset and culture, (2) risk process and activities; and finally (3) governance. 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
- is an integral part of BT Group's annual strategic review cycle.

The framework was designed in accordance with the FRC guidance on risk management, internal control and related financial and business reporting and has been in operation throughout the year and up to the date on which this document was approved. The framework was reviewed in FY22 and deemed effective, with continuous enhancements around supporting smarter decision-making, expansion of emerging risk hubs and further embedding of the framework. More information on our group risk management framework can be found on pages 55 to 57 of the BT Group plc 2022 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 group 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 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 our capital management policy is to target an overall level of debt consistent with our credit rating target while investing in the business, supporting the pension scheme and meeting our distribution policy. In order to meet this objective, the BT Group plc Board may issue or repay debt, issue new shares, repurchase shares, or adjust the amount of dividends paid to shareholders. The BT Group plc Board manage the capital structure and make adjustments to it accordingly to reflect changes in economic conditions and the risk characteristics of the group. The BT Group Board regularly reviews the capital structure. No changes were made to these objectives and processes during FY22.

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 23 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 18 to the consolidated financial statements.

Apart from the information disclosed in note 18 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 18, 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.

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 significantly broader than the sense in which these words are ordinarily used. The 2006 Act's remit could cover making members of Parliament and others in the political world aware of key industry issues and matters affecting the Company, and enhancing their understanding of BT.

During FY22, British Telecommunications plc paid the costs of colleagues joining corporate days at (i) the Labour party conference; (ii) the Conservative party conference; and (iii) the Welsh Labour party conference. These costs totalled £6,205 (FY21: £922) which were greater than last year, as events were attended in person rather than 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 131-136.

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 31 March 2022 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 2022 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 3-23)
- An indication of our research and development activities (page 12)
- 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 11 to 12)

By order of the Board

K Zielinski

Kathryn Zielinski

Secretary

25 May 2022

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 UK-adopted international accounting standards and and with the requirements of the Companies Act 2006.

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;
- state whether the group financial statements have been prepared in accordance with international accounting standards, as adopted by the UK
- state whether applicable UK accounting standards have been followed with regards to the parent company financial statements, subject to any material departures disclosed and explained in the parent company financial statements
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy, at any time, the financial position of the parent company, and enable them to ensure that its financial statements comply with the 2006 Act. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and a directors' report 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.

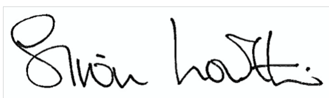
Responsibility statement of the directors in respect of the annual financial report

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 group 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 25 May 2022 and signed on its behalf by:



Simon Lowth

Director

25 May 2022

Independent auditor's report to the members of BT plc

1. Our opinion is unmodified

We have audited the financial statements of British Telecommunications Plc ("the Company") for the year ended 31 March 2022 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 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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.

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 four financial years ended 31 March 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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

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

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

Certain unquoted investments in the BTPS: included within unquoted BTPS plan assets of £18.6 billion (2021: £17.9 billion)
Parent company balance sheet only £20.0 billion (2021: £17.9 billion)

Risk vs 2021: Decrease
Refer to page 72 (note 19 accounting policy Retirement benefit plans) and pages 72 to 84 (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 to determine the value of a portion of these unquoted investments, which are valued based on inputs that are not directly observable. Furthermore, the geo-political events in 2022, which directly affect market conditions, have resulted in some risk of volatility in asset valuation. Notwithstanding this, the overall risk has decreased in the current year compared to the prior period.

The key unobservable inputs used to determine the fair value of these plan assets includes estimated rental value for the UK and overseas property, discount rates and comparable transactions 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 as part of sensitivities of growth assets the key sensitivities of key assumptions for the valuation of unquoted plan assets.

Parent company balance sheet only:
The parent company financial statements of British Telecommunications Plc have an additional unquoted plan asset, the asset backed funding arrangement for which the key unobservable inputs used to determine the fair value include the discount rate and the probability of payment of each future cash flow, which depends on the future funding position of the BTPS.

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: Developing, with the support of our own valuation specialists, 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.

Parent company balance sheet only: Asset backed funding arrangement:
Along with assessing the valuer's credentials and assessing the transparency of disclosures we performed the following additional procedures

Comparing valuations: Challenging, with the support of our valuation specialists, the fair value of the asset back funding arrangement by comparing it to an independently developed fair value using assumptions, such as the discount rate, based on external data and projected future cash flows based on a replication of management's models of the probability of future cash flows.

Our results
We consider the valuation of the BTPS unquoted plan assets to be acceptable (2021: acceptable).

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

Group balance sheet: BTPS obligation: £54.3 billion (2021: £57.7 billion)

Parent company balance sheet: BTPS obligation: £54.3 billion (2021: £57.7 billion)

Risk vs 2021: increase
Refer to page 72 (note 19 accounting policy Retirement benefits) and pages 72 to 84 (disclosures note 19 Retirement benefit plans).

The risk
Subjective estimate:
The valuation of the BTPS defined benefit obligation is complex and requires significant judgements and assumptions. A change in the methodology applied or small changes in the key actuarial assumptions over the life expectancy of members, price inflation, and discount rates can significantly impact the valuation of the BTPS defined benefit obligation in the financial statements.

The impacts of the Covid pandemic and the recent geo-political events have resulted in an increased level of uncertainty across various indices, thus impacting the assumptions and methodologies used in forecasting the inflation and life expectancy of members for future years.

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 (2021: acceptable).

Accuracy of revenue due to the complexity of the billing systems

Certain revenue streams: included within total revenue of £20.9billion (2021: £21.3 billion)

Risk vs 2021: unchanged
Refer to pages 47 to 50 (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 of the Group.

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 (2021: acceptable).

We continue to perform procedures over the Recoverability of parent company investment in subsidiaries and loans to group undertakings. However, following our revision of our risk assessment which considered the impairment indicators of the parent company investment in subsidiaries and loans to group undertakings, the net asset value of the subsidiaries and the level of headroom available, we have not assessed this as one of the most significant risks in our current year audit as we no longer believe it has a significant impact on our audit of the Company Balance sheet 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 £85 million (2021: £105 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 £2,512 million (2021: benchmark of group profit before tax from continuing operations of £2,663 million), of which it represents 3.4% (2021: 4.0%).

Materiality for the parent company financial statements as a whole was set at £85 million (2021: £90 million), determined with reference to a benchmark of total net assets, of which it represents 0.59% (2021: 0.54%), 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% (2021: 65%) of materiality for the financial statements as a whole, which equates to £55 million (2021: £68 million) for the Group and £55 million (2021: £58.5 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 years.

We agreed to report the Audit Committee any corrected or uncorrected identified misstatements exceeding £5 million (2021: £5.25 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Consistent with prior year, we define components of the Group based on legal entity and have determined our audit scope predominately on the same basis. Of the Group's 234 (2021: 233) reporting components, we subjected 5 (2021: 4) 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	90%	83%	97%
2021	87%	78%	95%

The remaining 10% (2021: 13%) of total Group revenue, 17% (2021: 22%) of Group profit before tax and 3% (2021: 5%) of total Group assets is represented by 229 (2021: 229) reporting components, none of which individually represented more than 6% (2021: 6%) 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 £20 million to £85 million (2021: £25 million to £90 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 component auditors, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

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 prolonged stagflation driven by geo-political factors and Covid-19 persistence;
- The impact of an industrial action and international trade sanctions;
- The impact of a significant supply chain disruptions driven by the geo-political factors;
- The impact of an increased level of financial market volatility and deterioration of BT's covenant triggers on the funding obligation of BT Pension Scheme;

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

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

We also assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we found the going concern disclosure 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 performed 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;
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias;
- evaluating the business purpose for significant unusual transactions.

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 Group'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 licence 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 and the part of the directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 28, 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 2022

Group income statement

Year ended 31 March 2022

	Notes	Before specific items ('Adjusted') £m	Specific items[a] £m	Total (Reported) £m
Revenue	4, 5	20,845	5	20,850
Operating costs	6	(17,671)	(292)	(17,963)
Operating profit (loss)	4	**3,174**	**(287)**	**2,887**
Finance expense	25	(837)	(101)	(938)
Finance income		137	—	137
Net finance expense		**(700)**	**(101)**	**(801)**
Share of post tax profit (loss) of associates and joint ventures		—	—	—
Profit (loss) before taxation		**2,474**	**(388)**	**2,086**
Taxation	10	(349)	(340)	(689)
Profit (loss) for the year		**2,125**	**(728)**	**1,397**

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		207	—	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**

[a] For a definition of specific items, see page 137. An analysis of specific items is provided in note 9.

Group statement of comprehensive income

Year ended 31 March

	Notes	2022 £m	2021 £m
Profit for the year		**1,397**	**1,629**
Other comprehensive income (loss)			
Items that will not be reclassified to the income statement			
Remeasurements of the net pension obligation	19	2,865	(4,856)
Tax on pension remeasurements	10	(399)	918
Items that have been or may be reclassified to the income statement			
Exchange differences on translation of foreign operations	27	65	(189)
Fair value movements on assets at fair value through other comprehensive income	27	6	—
Movements in relation to cash flow hedges:			
– net fair value gains (losses)	27	204	(1,468)
– recognised in income and expense	27	(54)	850
Tax on components of other comprehensive income that have been or may be reclassified	10, 27	(31)	133
Other comprehensive income (loss) for the year, net of tax		**2,656**	**(4,612)**
Total comprehensive income (loss) for the year		**4,053**	**(2,983)**

Group balance sheet

At 31 March

	Notes	2022 £m	2021 £m
Non-current assets			
Intangible assets	12	13,817	13,365
Property, plant and equipment	13	20,599	19,397
Right-of-use assets	14	4,429	4,863
Derivative financial instruments	26	1,003	1,165
Investments	21	11,113	11,023
Associates and joint ventures		5	17
Trade and other receivables	16	337	314
Contract assets	5	361	344
Deferred tax assets	10	289	989
		51,953	**51,477**
Current assets			
Programme rights	15	310	328
Inventories		300	297
Trade and other receivables	16	2,651	3,277
Contract assets	5	1,554	1,515
Assets classified as held for sale	23	80	—
Current tax receivable		496	281
Derivative financial instruments	26	88	70
Investments	21	2,679	3,652
Cash and cash equivalents	22	772	997
		8,930	**10,417**
Current liabilities			
Loans and other borrowings	24	873	912
Derivative financial instruments	26	51	88
Trade and other payables	17	6,137	5,974
Contract liabilities	5	833	925
Lease liabilities	14	795	730
Liabilities classified as held for sale	23	40	—
Current tax liabilities		90	121
Provisions	18	222	288
		9,041	**9,038**
Total assets less current liabilities		**51,842**	**52,856**
Non-current liabilities			
Loans and other borrowings	24	15,897	16,745
Derivative financial instruments	26	819	1,195
Contract liabilities	5	170	167
Lease liabilities	14	4,965	5,422
Retirement benefit obligations	19	1,143	5,096
Other payables	17	598	682
Deferred tax liabilities	10	1,960	1,429
Provisions	18	439	427
		25,991	**31,163**
Equity			
Ordinary shares		2,172	2,172
Share premium		8,000	8,000
Other reserves	27	1,326	1,143
Retained earnings		14,353	10,378
Total shareholders' equity		**25,851**	**21,693**
		51,842	**52,856**

The consolidated financial statements on pages 36 to 104 were approved by the Board of Directors on 25 May 2022 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 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**
Profit for the year		—	—		1,397	1,397
Other comprehensive income (loss) – before tax		—	—	275	2,865	3,140
Tax on other comprehensive income (loss)	10	—	—	(31)	(399)	(430)
Transferred to the income statement		—	—	(54)	—	(54)
Total comprehensive income (loss) for the year		—	—	190	3,863	4,053
Share-based payments	20	—	—	—	105	105
Tax on share-based payments	10	—	—	—	11	11
Dividends to parent company	11	—	—	—	—	—
Transfer to realised profit		—	—	(7)	7	—
Other movements[d]		—	—	—	(11)	(11)
At 31 March 2022		**2,172**	**8,000**	**1,326**	**14,353**	**25,851**

a The allotted, called up, and fully paid ordinary share capital of the company at 31 March 2022 was £2,172m comprising 8,689,755,905 ordinary shares of 25p each.
b The share premium account, comprising the premium on allotment of shares, is not available for distribution.
c For further analysis of other reserves, see note 27.
d In June 2021, BT exercised an option to purchase the minority shareholding in a subsidiary (BT Communications South Africa). The obligation to purchase the subsidiary's equity instruments is accounted for as a financial liability with a corresponding debit to equity. Non-controlling interests are not material to the Group so are not accounted for separately.

Group cash flow statement

Year ended 31 March

	Notes	2022 £m	2021 £m
Cash flow from operating activities			
Profit before taxation		2,086	1,997
Share of post tax (profit) loss of associates and joint ventures		—	(8)
Net finance expense		801	602
Operating profit		2,887	2,591
Other non-cash charges		73	267
(Profit) loss on disposal of businesses		(37)	(65)
Profit on disposal of property, plant and equipment and intangible assets		—	(66)
Depreciation and amortisation		4,405	4,347
(Increase) decrease in inventories		(3)	2
(Increase) decrease in programme rights		(17)	13
(Increase) decrease in trade and other receivables		(53)	327
(Increase) decrease in contract assets		(51)	(141)
Increase (decrease) in trade and other payables		97	(48)
(Decrease) increase in contract liabilities		(93)	(48)
(Decrease) increase in other liabilities[a]		(1,169)	(927)
(Decrease) increase in provisions		(80)	(2)
Cash generated from operations		**5,959**	**6,250**
Income taxes paid		(52)	(288)
Net cash inflow from operating activities		**5,907**	**5,962**
Cash flow from investing activities			
Interest received		6	6
Dividends received from associates and joint ventures		1	5
Acquisition of subsidiaries		—	(7)
Proceeds on disposal of subsidiaries, associates and joint ventures		76	164
Outflow on non-current amounts owed by ultimate parent company		(398)	(13)
Proceeds on disposal of current financial assets[b]		13,402	13,506
Purchases of current financial assets[b]		(12,432)	(12,085)
Net (purchase) disposal of non-current asset investments[c]		(8)	(11)
Proceeds on disposal of property, plant and equipment and intangible assets		2	85
Purchases of property, plant and equipment and intangible assets[d]		(4,607)	(4,903)
Net cash outflow from investing activities		(3,958)	**(3,253)**
Cash flow from financing activities			
Interest paid		(755)	(770)
Repayment of borrowings[e]		(1,374)	(1,162)
Proceeds from bank loans and bonds		744	—
Payment of lease liabilities		(659)	(782)
Cash flows from collateral received		(29)	(490)
Changes in ownership interests in subsidiaries[f]		(86)	—
Net cash (outflow) inflow from financing activities		**(2,159)**	**(3,204)**
Net decrease in cash and cash equivalents		**(210)**	**(495)**
Opening cash and cash equivalents[g]		893	1,405
Net decrease in cash and cash equivalents		(210)	(495)
Effect of exchange rate changes		4	(17)
Closing cash and cash equivalents[g]	22	**687**	**893**

a Includes pension deficit payments of £1,121m (FY21: £955m).
b Primarily consists of investment in and redemption of amounts held in liquidity funds.
c Relates to (purchase) disposal of fair value through equity investments.
d Consists of additions to property, plant and equipment and software of £4,807m, movements in capital accruals of £23m and prepayments of £223m in respect of spectrum which will be recognised as an asset in FY23.
e Repayment of borrowings includes the impact of hedging.
f Relates to the acquisition of the remaining 30% of the share capital of BT OnePhone Limited. As part of the accounting for the acquisition, we revisited our original assessment of control under IFRS 10 and concluded that it should have been classified as a subsidiary instead of a joint venture. The current period accounting reflects this assessment
g Net of bank overdrafts of £85m (FY21: £104m).

Notes to the consolidated financial statements

1. Basis of preparation

Preparation of the financial statements
The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006.

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 2023, 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 Telecommunications plc.

These financial statements cover the financial year from 1 April 2021 to 31 March 2022 ('FY22'), with comparative figures for the financial year from 1 April 2020 to 31 March 2021 ('FY21').

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

- Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Covid-19-Related Rent Concessions (Amendment to IFRS 16)

Software as a Service
We previously capitalised certain configuration and customisation costs associated with software as a service arrangements as intangible assets. In its April 2021 agenda decision, the IFRS Interpretations Committee (IFRIC) clarified that such costs should be expensed where the entity does not control the software being configured. We have adopted the treatment set out by the IFRIC in its agenda decision. The impact of this on the group was not material.

Interest Rate Benchmark Reform
The replacement of Interbank Offered Rates (IBORs) with Alternative Reference Rates (ARRs) began from December 2021. Where floating interest bearing receivables and payables exist, and where IBOR was previously applicable, the Group began applying suitable replacement benchmark rates and now 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 ARRs will not have a material financial impact. The implications on the trading results of our segments from the IBOR reform have also been assessed and the expected impact is not material. The Group will move to the new benchmark rates in accordance with timelines as per the regulatory guidelines.

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:

Amendments to IAS 37 for onerous contracts
The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. For BT this will be from next financial year. At the date of initial application, the cumulative effect of applying the amendments will be recognised as an opening balance adjustment to retained earnings as at 1 April 2022. The comparatives will not be restated. The Group is in the process of finalising the impact of the standard. We do not expect the impact on adoption to be material.

IFRS 17 'Insurance Contracts'
We are in the process of assessing the impact of adopting this standard which is effective for BT from 1 April 2023.

Other
The following are not expected to have a significant impact on the consolidated financial statements:

- Disclosure of Accounting Policies (amendments to IAS 1 and IFRS practice statement 2)
- Definition of Accounting Estimate (amendments to IAS 8)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (amendments to IAS 12 Income Taxes)
- Classification of liabilities as current or non-current (Amendments to IAS 1)

1. Basis of preparation continued

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 which meet the above definition include acquisitions or disposals of businesses and investments, historical regulatory penalties or litigation claims, business restructuring programmes including our current group-wide modernisation programme, asset impairment charges, property rationalisation programmes including our Better Workplace programme, 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.

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. Contingent liabilities associated with litigation	✓		✓
18. 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 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 the rates prevailing on the transaction dates (unless it is not a reasonable approximation of the cumulative effects, in which case income and expenses are translated at average rates of exchange for the year). 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 CFUs are supported by technology units (TUs) comprising Digital and Networks; and corporate units (CUs) including procurement and property management.

The CFUs are our reportable segments and generate substantially all of our revenue. TUs and CUs 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 TU costs and our CUs.

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 CFU 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 TUs and CUs are recharged to the CFUs to reflect the services it provides to them. Depreciation and amortisation incurred by TUs in relation to the networks and systems they manage and operate on behalf of the CFUs is allocated to the CFUs based on their respective utilisation. Capital expenditure incurred by TUs for specific projects undertaken on behalf of the CFUs is allocated based on the value of the directly attributable expenditure incurred. Where projects are not directly attributable to a particular CFU, 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 CFUs 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 CFUs, including the use of BT Ireland's network. This occurs both directly, and also indirectly, through TUs which are included within the 'Other' segment. Enterprise internal revenue arises from Consumer for mobile Ethernet access and TUs 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 CFUs and therefore the profitability of CFUs 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 2022	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Segment revenue	9,858	5,157	3,362	5,441	27	23,845
Internal revenue	(83)	(105)	—	(2,812)	—	(3,000)
Revenue from external customers[a]	**9,775**	**5,052**	**3,362**	**2,629**	**27**	**20,845**
Adjusted EBITDA[b]	2,262	1,636	456	3,179	46	7,579
Depreciation and amortisation[a]	(1,421)	(724)	(355)	(1,876)	(29)	(4,405)
Operating profit (loss)[a]	**841**	**912**	**101**	**1,303**	**17**	**3,174**
Specific items (note 9)						(287)
Operating profit						**2,887**
Net finance expense[c]						(801)
Share of post tax profit (loss) of associates and joint						—
Profit before tax						**2,086**

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**

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 £101m (FY21: £18m). See note 9.

Internal revenue and costs

	Internal cost recorded by					
Year ended 31 March 2022	**Consumer £m**	**Enterprise £m**	**Global £m**	**Openreach £m**	**Other £m**	**Total £m**
Internal revenue recorded by						
Consumer	—	47	18	—	18	**83**
Enterprise	19	—	26	—	60	**105**
Global	—	—	—	—	—	**—**
Openreach	1,649	937	212	—	14	**2,812**
Total	**1,668**	**984**	**256**	**—**	**92**	**3,000**

	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**

4. Segment information continued

Capital expenditure

Year ended 31 March 2022	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Intangible assets[a]	444	249	82	99	70	944
Property, plant and equipment[b]	754	320	119	2,449	221	3,863
Capital expenditure excluding spectrum	**1,198**	**569**	**201**	**2,548**	**291**	**4,807**
Purchase of spectrum[a]	388	91	—	—	—	479
Capital expenditure	**1,586**	**660**	**201**	**2,548**	**291**	**5,286**

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**

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.

Geographic segmentation
Revenue from external customers

Year ended 31 March	2022 £m	2021 £m
UK	18,470	18,524
Europe, Middle East and Africa, excluding the UK	1,315	1,599
Americas	620	739
Asia Pacific	440	508
Revenue[a]	**20,845**	**21,370**

a Before specific items.

Non-current assets

Year ended 31 March	2022 £m	2021 (Restated)[a] £m
UK	38,386	37,004
Europe, Middle East and Africa, excluding the UK	741	858
Americas	269	277
Asia Pacific	152	161
Non-current assets[b]	**39,548**	**38,300**

a Prior year comparatives have been restated to reclassify a £1.3bn impairment of goodwill to more accurately reflect the region of the entity that the charge relates to. As a result the carrying amount of assets recorded in the UK region in the 2021 comparative has increased by £1.3bn, with an equal and opposite decrease in the Europe, Middle East and Africa region. This adjustment relates to the regional segmentation only and there is no impact on the initial measurement of the impairment charge or on amounts historically disclosed in note 12 Intangible Assets in respect of goodwill.
b 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 2022 that contain unsatisfied performance obligations.

Service line	Performance obligations	Revenue recognition policy
Information and communications technology (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 materials 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 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 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 are 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

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 Openreach's fixed-network telecommunications infrastructure meet the definition of operating leases under IFRS 16.

At inception of a contract, we determine whether the contract is, or contains a lease following the accounting policy set out in note 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 2022	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
ICT and managed networks	—	1,715	1,672	—	—	3,387
Fixed access subscriptions	3,991	1,696	268	2,564	—	8,519
Mobile subscriptions	3,247	1,176	87	—	—	4,510
Equipment and other services	2,537	465	1,335	65	27	4,429
Revenue before specific items	**9,775**	**5,052**	**3,362**	**2,629**	**27**	**20,845**
Specific items[a] (note 9)						5
Revenue						**20,850**

5. Revenue continued

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[a] (note 9)						(39)
Revenue						**21,331**

a 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 2022 is £13,502m (FY21: £13,317m). Of this, £7,108m (FY21: £7,415m) 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 £6,394m (FY21: £5,902m) 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 £2,745m (FY21: £2,496m) 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 £33m (FY21: £36m) 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.

We did not enter into any material finance lease arrangements during the year. In FY21 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. As no further amounts were due, 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 are as follows:

Year ended 31 March	2022 £m	2021 £m
Contract assets		
Current	1,554	1,515
Non-current	361	344
	1,915	**1,859**
Contract liabilities		
Current	833	925
Non-current	170	167
	1,003	**1,092**

5. Revenue continued

£880m of the contract liability at 31 March 2021 was recognised as revenue during the year (FY21: £886m). Impairment losses of £48m were recognised on contract assets during the year (FY21: £47m).

The expected credit loss provisions recognised against contract assets vary across the group due to the nature of our customers; the expected loss rate at 31 March 2022 was 3% (FY21: 4%).

6. Operating costs

Year ended 31 March	Notes	2022 £m	2021 £m
Operating costs by nature			
Staff costs:			
Wages and salaries		3,740	4,090
Social security costs		399	403
Other pension costs	19	591	591
Share-based payment expense	20	105	72
Total staff costs		**4,835**	**5,156**
Own work capitalised		(989)	(895)
Net staff costs		**3,846**	**4,261**
Net indirect labour costs[a]		354	294
Net labour costs		**4,200**	**4,555**
Product costs[b]		3,166	3,387
Sales commissions[b]		628	683
Payments to telecommunications operators		1,346	1,517
Property and energy costs		1,028	1,025
Network operating and IT costs		904	916
TV programme rights charges		879	786
Provision and installation		678	558
Marketing and sales		312	255
Net impairment losses on trade receivables and contract assets[c]		102	150
Other operating costs		264	345
Other operating income		(241)	(226)
Depreciation and amortisation[d]			
Property, plant and equipment	13	2,669	2,460
Right-of-use assets	14	688	690
Intangible assets	12	1,048	1,197
Total operating costs before specific items		**17,671**	**18,298**
Specific items	9	292	442
Total operating costs		**17,963**	**18,740**
Operating costs before specific items include the following:			
Leaver costs[e]		15	11
Research and development expenditure[f]		604	720
Foreign currency losses/(gains)		3	(9)
Inventories recognised as an expense		2,297	2,315

a Net of capitalised indirect labour costs of £871m (FY21: £748m).
b Product costs and sales commissions now presented as separate line items having historically been combined. FY21 comparatives have been re-presented for consistency
c Consists of net impairment losses on trade receivables and contract assets in Consumer of £86m (FY21: £115m), in Enterprise of £5m (FY21: £33m), in Global of £7m FY21: £nil), in Openreach of £3m (FY21: £2m) and in Other of £1m (FY21: £nil).
d FY22 depreciation and amortisation charges are include impairment of £13m on intangible assets, £11m on owned assets and £12m on right-of-use assets.
e Leaver costs are included within wages and salaries, except for leaver costs of £170m (FY21: £270m) associated with restructuring, which have been recorded as specific items.
f Research and development expenditure includes amortisation of £543m (FY21: £650m) in respect of capitalised development costs and operating expenses of £61m (FY21: £69m). In addition, the group capitalised software development costs of £601m (FY21: £519m).

During the year we implemented a new accounting system along with a new chart of accounts that has provided improved visibility of the group's cost base. As a result we have refined the classification of costs within the operating costs disclosure for FY22. Improved data has allowed us to better allocate subcontractor costs to indirect labour costs, and allocate more costs to named cost categories as opposed to within other operating costs. Following detailed analysis of the underlying causes of reallocations we have concluded they are not indicative of material errors in previously published financial data including the FY21 comparatives.

6. Operating costs continued

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	2022 £m	2021 £m
Short-term employee benefits	19.2	10.8
Post employment benefits	0.8	1.0
Share-based payments	7.3	5.4
Termination benefits	—	0.2
	27.3	**17.4**

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

7. Employees

	2022		2021	
Number of employees in the group[a]	Year end 000	Average 000	Year end 000	Average 000
UK	79.9	80.2	80.4	81.3
Non-UK	18.5	18.8	19.3	20.9
Total employees	**98.4**	**99.0**	**99.7**	**102.2**

	2022		2021	
Number of employees in the group[a]	Year end 000	Average 000	Year end 000	Average 000
Consumer	16.6	17.2	18.5	19.2
Enterprise[b]	11.5	11.4	11.3	11.4
Global	13.2	13.8	12.8	14.4
Openreach[b]	37.3	36.4	35.4	34.8
Other	19.8	20.2	21.7	22.4
Total employees	**98.4**	**99.0**	**99.7**	**102.2**

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

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 2022 and 2021.

Year ended 31 March	2022 £000	2021 £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	11,352	10,435
The audit of the company's subsidiaries	5,996	6,268
	17,348	**16,703**
Audit-related assurance services[b]	**3,169**	**1,993**
Other non-audit services		
All other assurance services	127	155
Total services	**20,644**	**18,851**

a Services in relation to the audit of the parent company and the consolidated financial statements. 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 £22,000 (FY21: £21,000).

b Includes services that are required by law or regulation to be carried out by an appointed auditor and services that support us to fulfil obligations required by law or regulation. This includes fees for the review of interim results and the accrued fee for the audit of the group's regulatory financial statements. In FY22 this included fees of £789,000 to support divestment transactions (FY21: £nil).

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

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 2022 KPMG LLP received total fees from the BT Pension Scheme of £1.6m (FY21: £1.5m) in respect of the following services:

Year ended 31 March	2022 £000	2021 £000
Audit of financial statements of associates	1,602	1,494
Audit-related assurance services	16	9
Other non-audit services		0
Total services	**1,618**	**1,503**

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 BT Group Board and the BT Group 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 business restructuring programmes, acquisitions and disposals of businesses and investments, charges or credits relating to retrospective regulatory matters, property rationalisation programmes, significant out of period contract settlements, net interest on our pension obligation, and the impact of remeasuring deferred tax balances. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. Any releases to provisions originally booked as a specific item are also classified as specific.

In FY20 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 FY21 and FY22. 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	2022 £m	2021 £m
Revenue		
Retrospective regulatory matters	(5)	39
	(5)	**39**
Operating costs		
Restructuring charges	347	421
Divestment-related items	(36)	(60)
Covid-19	(19)	(17)
Retrospective regulatory matters	—	(4)
Settlement with Dixons Carphone	—	149
Sale of spectrum	—	(66)
Property rationalisation	—	19
	292	**442**
Operating loss	**287**	**481**
Net finance expense		
Divestment-related items	8	—
Interest expense on retirement benefit obligation	93	18
	101	**18**
Associates and joint ventures	—	—
Net specific items charge before tax	**388**	**499**
Taxation		
Tax credit on specific items above	(80)	(96)
Tax charge on re-measurement of deferred tax	420	—
	340	**(96)**
Net specific items charge after tax	**728**	**403**

9. Specific items continued

Retrospective regulatory matters
We have recognised a net credit of £5m (FY21: net charge of £35m) in relation to historical regulatory matters, recognised in revenue. This reflects the movement in provisions relating to various matters.

Restructuring charges
In the year we incurred charges of £347m (FY21: £421m), primarily relating to leaver costs, staff costs where colleagues are working exclusively on transformation programmes, and consultancy costs. These costs reflect projects within our Group-wide modernisation programme, first announced in May 2020, which will deliver annualised cost benefits of £2.5bn by FY25, at an expected cost of £1.3bn. £0.8bn costs have been incurred to date.

Divestment-related items
We recognised a credit of £36m (FY21: £60m). This primarily relates to a gain on disposal of £43m relating to the sale of Diamond IP, a non-core software business in America. This was offset by an £8m loss on disposal of business units in Italy serving customers in the public administration and SME sectors. There were also some small true-up charges on previous transactions and costs relating to ongoing divestment projects. A charge of £8m (FY21: £nil) was also recognised in finance expense relating to a hedge which became ineffective due to divestment activity.

In FY21 we completed the sale of our domestic operations in Spain and recorded a net gain of £80m. We also incurred net losses on the disposal of our domestic operations in Latin America and France of £11m and recognised £9m of other divestment related costs, including an additional £4m loss on disposal of a number of other businesses.

Covid-19
In FY20 we recognised one-off charges of £95m relating to the impact of Covid-19 on various balance sheet items. Any releases of this provision have also been booked as a specific item. During FY22 we released £19m (FY21: £17m) of these provisions which were not needed. At 31 March 2022 we retained £12m (31 March 2021: £55m) of provisions related to Covid-19.

Settlement with Dixons Carphone
In FY21, following the expiry of the retail agreement between Dixons Carphone and EE Limited, 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 was treated as a specific item in the FY21 results. The associated cash payment was made in April 2021.

Sale of spectrum
In FY21 we sold 25 MHz of unpaired 2.6 GHz spectrum and recognised a gain on disposal of £66m as a specific item.

Property rationalisation costs
In FY21, we recognised costs of £19m relating to rationalisation of our property portfolio under our Better Workplace programme. In FY22, property rationalisation costs have been classified as restructuring charges where they fall under the previously announced transformation programme.

Interest expense on retirement benefit obligation
During the year we incurred £93m (FY21: £18m) of interest costs in relation to our defined benefit pension obligations.

Tax on specific items
A tax credit of £80m (FY21: £96m) was recognised in relation to specific items.

Remeasurement of deferred tax balances
We have remeasured our deferred tax balances following the enactment of the new UK corporation tax rate of 25% from April 2023. The corresponding adjustment comprises a net tax charge of £420m in the income statement and a non-recurring tax credit of £298m in the statement of comprehensive income. This is classified as a specific item due to its size and the out of period nature of this charge.

10. Taxation

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

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

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

10. Taxation continued

Critical accounting estimates and significant judgements made in accounting for taxation
We seek to pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws are unclear, and it can take many years to agree an outcome with a tax authority or through litigation. We estimate our tax on country-by-country and issue-by-issue bases. Our key uncertainties are whether EE's tax losses will be available to us, whether our intra-group trading model will be accepted by a particular tax authority and whether intra-group payments are subject to withholding taxes. We provide for the predicted outcome where an outflow is probable, but the agreed amount can differ materially from our estimates. Approximately 81% 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. £194m (FY21 £200m) is included in current tax liabilities or offset against current tax assets where netting is appropriate.

Under a downside case an additional amount of £543m could be required to be paid, of which £444m 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. 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	2022 £m	2021 £m
United Kingdom		
Corporation tax at 19% (FY21: 19%)	—	(336)
Adjustments in respect of earlier years[a]	223	6
Non-UK taxation		
Current	(78)	(65)
Adjustments in respect of earlier years	7	6
Total current tax expense	**152**	**(389)**
Deferred taxation		
Origination and reversal of temporary differences	(102)	6
Adjustments in respect of earlier years[a]	(190)	12
Impact of change in UK corporation tax rate to 25% (FY21: 19%)	(420)	—
Remeasurement of temporary differences	(129)	3
Total deferred taxation expense (credit)	**(841)**	**21**
Total taxation expense	**(689)**	**(368)**

a During the period certain prior period tax issues were resolved at a net tax cost of £69m, comprising a £263m deferred tax charge and a £194m current tax credit.

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	2022 £m	2021 £m
Profit before taxation	**2,086**	**1,997**
Expected taxation expense at UK rate of 19% (FY21: 19%)	(396)	(380)
Effects of:		
(Higher) lower taxes on non-UK profits	(4)	15
Net permanent differences between tax and accounting[a]	202	(33)
Adjustments in respect of earlier years[b]	40	24
Prior year non-UK losses used against current year profits	20	12
Non-UK losses not recognised[c]	(2)	(9)
Re-measurement of deferred tax balances	(549)	3
Total taxation expense	**(689)**	**(368)**
Exclude specific items (note 9)	340	(96)
Total taxation expense before specific items	**(349)**	**(464)**

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 and super-deduction on capital expenditure. The most significant element of this amount is the benefit from the super-deduction (£172m).

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	2022 Tax credit (expense) £m	2021 Tax credit (expense) £m
Tax on items that will not be reclassified to the income statement		
Pension remeasurements	(399)	918
Tax on items that have been or may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	—	22
Fair value movements on cash flow hedges		
– net fair value gains or losses	(31)	111
– recognised in income and expense	—	—
	(430)	**1,051**
Current tax credit[a]	8	203
Deferred tax (expense) credit	(438)	848
	(430)	**1,051**

[a] Includes £nil (FY21: £181m) relating to cash contributions made to reduce retirement benefit obligations.

Tax (expense) credit recognised directly in equity

Year ended 31 March	2022 £m	2021 £m
Tax (expense) credit relating to share-based payments	**11**	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 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 (restated)	—	(737)	—	—	(111)	—	(848)
Exchange differences	—	—	(5)	—	—	—	(5)
Transfer to held for sale	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**
Expense (credit) recognised in the income statement	1,326	(33)	(5)	(434)	(13)	—	841
Expense (credit) recognised in other comprehensive income	—	764	—	(354)	28	—	438
Expense (credit) recognised in equity	—	—	(11)	—	—	—	(11)
Acquisition of subsidiary	—	—	—	(3)	—	—	(3)
Transfer from current tax	—	—	—	—	(34)	—	(34)
At 31 March 2022	**2,913**	**(195)**	**(36)**	**(857)**	**(154)**	**—**	**1,671**
Non-current							
Deferred tax asset	—	(195)	(36)	(857)	(154)	953	(289)
Deferred tax liability	2,913	—	—	—	—	(953)	1,960
At 31 March 2022	**2,913**	**(195)**	**(36)**	**(857)**	**(154)**	**—**	**1,671**

[a] Includes a deferred tax asset of £5m (FY21: £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?

We expect a large proportion of our capital spend on fibre roll-out to be eligible for the Government's super-deduction regime, which allows for enhanced and accelerated tax relief for qualifying capital expenditure. These enhanced deductions are available for FY22 and FY23, driving a projected UK tax loss and no UK tax payments for these periods. These deductions together with accelerated deductions relating to pension contributions result in c.£5bn of tax losses expected to be carried forward from FY23.

What are our unrecognised tax losses and other temporary differences?

At 31 March 2022 we had operating losses and other temporary differences carried forward in respect of which no deferred tax assets were recognised amounting to £3.8bn (FY21: £4.1bn). 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	368	2022 - 2045
Other	3	2022 - 2030
Total restricted losses	**372**	
Unrestricted operating losses	**3,095**	**No expiry**
Other temporary differences	**313**	**No expiry**
Total	**3,780**	

At 31 March 2022 we had UK capital losses carried forward in respect of which no deferred tax assets were recognised amounting to £16.8bn (FY21: £16.8bn). These losses have no expiry date, but we consider the future utilisation of these losses to be remote.

At 31 March 2022 the undistributed earnings of non-UK subsidiaries were £1.9bn (FY21: £1.8bn). 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 £35m (FY21: £43m) would arise if these earnings were to be repatriated to the UK.

11. Dividends

What dividends have been paid and proposed for the year?

No dividends were paid in FY22. In FY21 a dividend of £2,000m was paid to the parent company, BT Group Investments Limited. The directors recommend payment of a final dividend in respect of FY22 of £850m (FY21: £nil.)

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	Customer relationships and brands[a]	Telecoms licences and other[b]	Internally developed software[c]	Purchased software[c]	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2020	**7,953**	**3,397**	**3,032**	**4,354**	**1,118**	**19,854**
Additions	—	—	—	596	187	783
Disposals and adjustments[d]	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**
Additions[e]	—	—	479	793	151	1,423
Acquisitions	94	—	—	—	2	96
Disposals and adjustments[d]	(7)	—	(3)	(239)	(272)	(521)
Transfers	—	—	1	45	(44)	2
Exchange differences	43	—	—	1	(1)	43
Transfer to assets held for sale[f]	(51)	—	—	(7)	—	(58)
At 31 March 2022	**7,925**	**3,383**	**3,490**	**5,346**	**971**	**21,115**
Accumulated amortisation						
At 1 April 2020	**—**	**1,930**	**574**	**2,951**	**502**	**5,957**
Charge for the year	—	322	162	593	120	1,197
Disposals and adjustments[d]	—	—	(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**
Charge for the year[g]	—	231	179	529	109	1,048
Disposals and adjustments[d]	—	—	(5)	(229)	(278)	(512)
Transfers	—	—	—	(2)	2	—
Exchange differences	—	—	—	1	(1)	—
Transfer to assets held for sale[f]	—	—	—	(3)	—	(3)
At 31 March 2022	**—**	**2,469**	**908**	**3,595**	**326**	**7,298**
Carrying amount						
At 31 March 2021	**7,846**	**1,145**	**2,279**	**1,454**	**641**	**13,365**
At 31 March 2022	**7,925**	**914**	**2,582**	**1,751**	**645**	**13,817**

a The remaining unamortised balance of customer relationships and brands relates to customer relationships recognised on acquisition of EE.
b Telecoms licences and other primarily represents spectrum licences. These include 2100 MHz licence with book value of £693m (FY21: £744m), 1800 MHz with book value of £636m (FY21: £682m), 700Mhz with book value of £297m (FY21: £nil), 3400 MHz with book value of £258m (FY21: £274m) and 2600 MHz with book value of £227m (FY21: £247m). Spectrum licences are being amortised over a period between 14 and 20 years.
c Includes a carrying amount of £1,046m (FY21: £608m) in respect of assets under construction, which are not yet amortised.
d Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £0.4bn (FY21: £0.3bn).
e Additions to telecoms licences and other assets include £479m recognised in relation to spectrum which represents the amount paid to Ofcom to secure the spectrum bands together with the related interference mitigation provision.
f Assets transferred to held for sale during FY22 relate to our BT Sport operations. See note 23.
g Amortisation charge for FY22 includes impairment charges of £13m.

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 Consumer, 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. During the year we have reviewed our CGUs and have brought together the Legacy BT Consumer and Legacy EE CGUs into a combined 'Consumer' CGU, aligning our CGUs to our CFUs, due to increased convergence between the prior CGUs such that cash inflows are no longer independent.

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 2022. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment and sensitivities are disclosed below.

Cost	Consumer £m	Legacy BT Consumer £m	Legacy EE £m	Enterprise £m	Global £m	Total £m
At 1 April 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**
Transfer	3,951	(1,183)	(2,768)	—	—	—
Exchange differences	—	—	—	4	39	43
Acquisitions and disposals	—	—	—	94	(7)	87
Transfer to assets held for sale[a]	(51)	—	—	—	—	(51)
At 31 March 2022	**3,900**	**—**	**—**	**3,573**	**452**	**7,925**

a Assets transferred to held for sale during FY22 relate to our BT Sport operations. See note 23.

The increase in goodwill is driven primarily by the acquisition of the remaining 30% of the share capital of BT OnePhone Limited.

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 FY22 was 7.6% (FY21: 8.1%). We have used the same discount rate for all CGUs except Global where we have used 7.9% (FY21: 8.5%) 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% (FY21: 2.3%) for Global and 2.0% (FY21: 2.0%) for Enterprise and Consumer.

What sensitivities have we applied?

There is significant headroom in all of our CGUs, such that at this point in time there are no reasonably possible changes to key assumptions that would result in an impairment.

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 10 years
– Computers and office equipment	3 to 7 years

Residual values and useful lives are reassessed annually and, if necessary, changes are recognised prospectively. In FY22 we have updated the useful lives of motor vehicles from 2-9 to 2-10 years following a review of our specialised vehicle fleet.

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

Impairment of property, plant and equipment
We test property, plant and equipment for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, we assess the recoverable amount by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant asset and the fair value less costs to dispose. If it is not possible to determine the recoverable amount for the individual asset then we assess impairment by reference to the relevant cash generating unit as described in note 12.

Building Digital UK (BDUK) government grants
We receive government grants in relation to BDUK 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 17.

13. Property, plant and equipment continued

	Land and buildings £m	Network infrastructure Held by Openreach £m	Network infrastructure Held by other units £m	Other[a] £m	Assets under construction £m	Total £m
Cost						
At 1 April 2020	**945**	**27,152**	**26,741**	**1,662**	**916**	**57,416**
Additions[b]	10	(179)	114	69	3,401	3,415
Transfers	32	2,151	972	141	(3,305)	(9)
Disposals and adjustments[c]	(19)	(16)	(2,193)	(333)	(21)	(2,582)
Exchange differences	(22)	—	(146)	(19)	(1)	(188)
At 31 March 2021	**946**	**29,108**	**25,488**	**1,520**	**990**	**58,052**
Additions[b]	87	—	111	89	3,548	3,835
Transfers	18	2,128	813	156	(3,117)	(2)
Disposals and adjustments[c]	(28)	40	(1,974)	(271)	29	(2,204)
Transfer to assets held for sale[d]	—	—	—	(50)	(4)	(54)
Exchange differences	(1)	—	1	—	—	—
At 31 March 2022	**1,022**	**31,276**	**24,439**	**1,444**	**1,446**	**59,627**
Accumulated depreciation						
At 1 April 2020	**610**	**14,867**	**22,213**	**1,350**	**—**	**39,040**
Charge for the year	41	1,232	1,050	137	—	2,460
Transfers	(1)	—	2	(1)	—	—
Disposals and adjustments[c]	(20)	(23)	(2,186)	(332)	—	(2,561)
Exchange differences	(18)	—	(133)	(17)	—	(168)
At 31 March 2021	**612**	**16,076**	**20,946**	**1,137**	**—**	**38,771**
Charge for the year[e]	37	1,372	1,092	168	—	2,669
Transfers	—	—	(1)	1	—	—
Disposals and adjustments[c]	(28)	28	(1,985)	(240)	—	(2,225)
Transfer to assets held for sale[d]	—	—	—	(41)	—	(41)
Exchange differences	—	—	(2)	—	—	(2)
At 31 March 2022	**621**	**17,476**	**20,050**	**1,025**	**—**	**39,172**
Carrying amount						
At 31 March 2021	**334**	**13,032**	**4,542**	**383**	**990**	**19,281**
Engineering stores	—	—	—	—	116	116
Total at 31 March 2021	**334**	**13,032**	**4,542**	**383**	**1,106**	**19,397**
At 31 March 2022	**401**	**13,800**	**4,389**	**419**	**1,446**	**20,455**
Engineering stores	—	—	—	—	144	144
At 31 March 2022	**401**	**13,800**	**4,389**	**419**	**1,590**	**20,599**

a Other mainly comprises motor vehicles, computers and fixtures and fittings.
b Net of government grants of £78m (FY21: £21m).
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 £2.0bn (FY21: £2.3bn). 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 the year relate to our BT Sport operations. See note 23.
e Depreciation charge for FY22 includes impairment charges of £11m.

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:

- £13,800m (FY21: £13,032m) 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. Network infrastructure held by Openreach is presented separately in the table above however it is not practicable to separate out infrastructure not used in operating lease arrangements.
- Other assets includes devices with a carrying amount of £169m (FY21: £128m) that are made available to retail customers under arrangements that contain operating leases. These are not presented separately in the table above as they are not material relative to the group's overall asset base.

13. Property, plant and equipment continued

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

At 31 March	2022 £m	2021 £m
Freehold	92	123
Leasehold	309	211
Total land and buildings	**401**	**334**

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 £562m (FY21: £625m) and is recorded within network infrastructure. Included within this is £73m (FY21: £95m), 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 (FY21: £9.8bn) which have useful economic lives of more than 18 years. The prior year comparative has been restated from £10.3bn to exclude intangible licences associated with our network infrastructure.

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.

14. Leases continued

Significant accounting policies that apply to leases continued

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.

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.

Key judgements exercised in setting the lease term
The quantum of the lease liability and right-of-use asset currently recognised on our balance sheet is most significantly affected by the judgement exercised in setting the lease term for the arrangement under which the bulk of our operational UK property estate is held. Setting the lease term for our leased cell sites has also involved the use of judgement albeit to a lesser degree.

UK operational property portfolio
Substantially all of our leased property estate is held under an arrangement which can be terminated in 2031, at which point we may either vacate some or all properties; or purchase the entire estate. If neither option is taken the lease continues to the next unilaterally available break point in 2041. 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 the termination option or that we would exercise the purchase option. 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 for any properties we will continue to occupy, or the cost of purchasing the estate.

On remeasurement there would be an adjustment to both the lease liability and right-of-use asset, with no overall impact on net assets.

- Exercising the purchase option would lead to an estimated increase in the lease liability and right-of-use asset of between £3bn and £5bn
- Continuing to lease the estate beyond 2031 until the next available break in 2041 would lead to an estimated increase in the lease liability and right-of-use asset of between £1bn and £2bn

Our assessment will be directly linked to future strategic decisions, which will be resolved at some time prior to 2031, around the development of the fixed network and the associated rationalisation of our exchange estate. The breadth of the ranges reflects the significant uncertainty around key variables used to determine cash outflows, especially future inflation and which properties the group will be able to exit prior to or in 2031.

Estimates are based on discounted cash outflows and do not reflect the likely and significant impact of cash inflows generated from the disposal, repurposing or subleasing of properties retained post-2031.

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.

14. Leases continued

Significant judgements made in accounting for leases continued

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. Where the arrangements offer extension options we have been required to conclude whether the options are reasonably certain to be exercised. Although the balance sheet could be materially affected by the conclusion reached in regard to these options, we have not been required to exercise a significant degree of judgement in arriving at the lease term having regard to the period of time covered by the options, the difficulty in predicting the group's long-term network requirements, and the relatively high threshold that 'reasonably certain' represents.

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.

Although significant judgement has been exercised in determining the lease term, reaching an alternative conclusion would not have a material impact on the balance sheet having regard to the most feasible alternative lease terms.

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

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

	Land and buildings £m	Network infrastructure £m	Motor vehicles £m	Other £m	Total £m
At 1 April 2020	**4,829**	**179**	**377**	**6**	**5,391**
Additions[a]	361	6	116	11	494
Depreciation charge for the year	(546)	(30)	(110)	(4)	(690)
Other movements[b,c]	(312)	(10)	(8)	(2)	(332)
At 31 March 2021	**4,332**	**145**	**375**	**11**	**4,863**
Additions[a]	249	13	110	1	373
Depreciation charge for the year[d]	(532)	(37)	(115)	(4)	(688)
Transfers to assets held for sale[e]	(2)	—	—	—	(2)
Other movements[b]	(106)	(11)	(1)	1	(117)
At 31 March 2022	**3,941**	**110**	**369**	**9**	**4,429**

a 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.
b 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.
c Other movements in FY21 include derecognition of right-of-use assets with a carrying amount of £208m associated with a finance sub-lease arrangement, see note 5.
d Depreciation charge for FY22 includes impairment charges of £12m.
e Assets transferred to held for sale during the year relate to our BT Sport operations, see note 23.

Lease liabilities
Lease liabilities recognised are as follows

Year ended 31 March	2022 £m	2021 £m
Current	795	730
Non-current	4,965	5,422
	5,760	**6,152**

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

– Interest expense of £133m (FY21: £142m) accrued on lease liabilities.
– Variable lease payments of £24m (FY21: £27m) 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.

14. Leases continued

The total cash outflow for leases in the year was £792m (FY21: £924m). Our cash flow statement and normalised free cash flow reconciliation present £659m (FY21: £782m) of the cash outflow as relating to the principal element of lease liability payments, with the remaining balance of £133m (FY21: £142m) 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

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 2022.

At 31 March 2022 the group was committed to future minimum lease payments of £39m in respect of leases which have not yet commenced and for which no lease liability has been recognised (31 March 2021: £4m).

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

At 31 March 2022	To be recognised as revenue (note 5) £m	To be recognised as other operating income (note 6) £m	Total £m
Less than one year	446	20	466
One to two years	148	13	161
Two to three years	40	12	52
Three to four years	3	12	15
Four to five years	3	12	15
More than five years	—	24	24
Total undiscounted lease payments	**640**	**93**	**733**

At 31 March 2021 (re-presented[a])	To be recognised as revenue (note 5) £m	To be recognised as other operating income (note 6) £m	Total £m
Less than one year	336	27	363
One to two years	144	13	157
Two to three years	37	10	47
Three to four years	1	10	11
Four to five years	1	10	11
More than five years	—	30	30
Total undiscounted lease payments	**519**	**100**	**619**

a From FY22 this disclosure includes only outstanding and future cash payments to be received across the remaining term of operating lease arrangements, and excludes future revenue to be recognised on deferred income balances. This is considered to better align with the purpose of the disclosure and provides a clearer view of the group's liquidity risk disclosure. FY21 comparatives have been re-presented to exclude a total of £163m deferred connection fees on Openreach's 'last mile' products.

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 accounted for as inventory and held at the lower of cost and net realisable value. They are initially recognised at cost and are consumed 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.

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 2020	**310**
Additions	903
Credits received on prepaid programme rights[a]	(99)
Release	(786)
At 1 April 2021	**328**
Additions	861
Release	(879)
At 31 March 2022	**310**

a Credits received in FY21 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. Allowances are calculated by individual CFUs in order to reflect the specific nature of the customers relevant to that CFU.

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	2022 £m	2021 £m
Current		
Trade receivables	1,339	1,209
Amounts owed by ultimate parent company	27	20
Prepayments[a]	523	1,357
Accrued income	150	130
Deferred contract costs	336	348
Other receivables	276	213
	2,651	**3,277**

At 31 March	2022 £m	2021 £m
Non-current		
Other assets[b]	111	103
Deferred contract costs	226	211
	337	**314**

a Prepayments in FY21 included £702m relating to funds prepaid to Ofcom for the recent Spectrum auction.
b Other assets comprise prepayments and leasing debtors.

16. Trade and other receivables continued

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

	2022 £m	2021 £m
At 1 April (restated[a])	378	423
Expense	35	95
Utilised	(189)	(131)
Exchange differences	(1)	(9)
At 31 March (restated[a])	**223**	**378**

a The opening bad debt allowance at 1 April 2020 has been restated to include £94m bad debt provision recognised by EE Limited at the time of acquisition by the group but excluded from this disclosure in error in FY16 with a follow-on impact on subsequent years' opening and closing balances. This affects the bad debt disclosure in isolation and the trade receivables balance presented in the FY16 financial statements was accurately stated net of the acquired £94m provision.

Included within the movements above are certain items which have been classified as a specific item (see note 9). In FY22, £19m of expected credit loss provisions recognised as a specific item were released (FY21: £7m release) reflecting lower than expected credit losses.

Note 26 provides further disclosure regarding the credit quality of our gross trade receivables.

Trade receivables are due as follows:

			Past due and not specifically impaired				
At 31 March	Not past due £m	Trade receivables specifically impaired net of provision £m	Between 0 and 3 months £m	Between 3 and 6 months £m	Between 6 and 12 months £m	Over 12 months £m	Total £m
2022	938	3	246	48	47	57	**1,339**
2021	845	36	205	40	51	32	**1,209**

Gross trade receivables which have been specifically impaired amounted to £20m (FY21: £51m).

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

			Past due and not specifically impaired				
At 31 March	Not past due £m	Trade receivables specifically impaired net of provision £m	Between 0 and 3 months £m	Between 3 and 6 months £m	Between 6 and 12 months £m	Over 12 months £m	Total £m
2022							
Expected loss rate %	1%	84%	12%	24%	33%	69%	14%
Gross carrying amount	946	20	280	63	70	183	1,562
Loss allowance	(8)	(17)	(34)	(15)	(23)	(126)	(223)
Net carrying amount	938	3	246	48	47	57	1,339
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

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

	Trade receivables not past due		Accrued income	
At 31 March	2022 £m	2021 £m	2022 £m	2021 £m
Consumer	324	319	76	50
Enterprise	168	144	—	—
Global	446	380	—	—
Openreach	—	—	71	78
Other	—	2	3	2
Total	**938**	**845**	**150**	**130**

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.

16. Trade and other receivables continued

Deferred contract costs

Significant accounting policies that apply to deferred contract costs
We capitalise certain costs associated with the acquisition and fulfilment of contracts with customers and amortise them over the period that we transfer the associated services.

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

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

The following table shows the movement on deferred costs:

	Deferred connection costs £m	Deferred contract acquisition costs - commissions £m	Deferred contract acquisition costs - dealer incentives £m	Transition and transformation £m	Total £m
At 1 April 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**
Additions	17	98	291	50	456
Amortisation	(14)	(78)	(308)	(33)	(433)
Impairment	(1)	(5)	(10)	(11)	(27)
Other	(10)	15	3	(1)	7
At 31 March 2022	**24**	**124**	**324**	**90**	**562**

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	2022 £m	2021 £m
Current		
Trade payables	4,143	4,024
Amounts owed to ultimate parent company	11	10
Other taxation and social security	573	491
Other payables	516	479
Accrued expenses	549	634
Deferred income[a]	345	336
	6,137	**5,974**

At 31 March	2022 £m	2021 £m
Non-current		
Other payables	4	12
Deferred income[a]	594	670
	598	**682**

a Deferred income includes £96m (FY21: £96m) current and £392m (FY21: £472m) 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 2022 include £89m of trade payables that have been factored by suppliers in a supply chain financing programme (31 March 2021: £45m). 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 & contingent liabilities

Our provisions principally relate to obligations arising from property rationalisation programmes, restructuring programmes, asset retirement obligations, network assets, insurance claims, litigation and regulatory risks. Contingent liabilities primarily arise from litigation and regulatory matters that are not sufficiently certain to meet the criteria for recognition as provisions.

Significant accounting policies that apply to provisions & contingent liabilities
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.

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

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

Critical accounting estimates applied in accounting for contingent liabilities
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 relation to specific matters in the 'contingent liabilities' section below.

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

Property provisions relate to obligations arising in relation to our property portfolio, in particular costs to restore leased properties on vacation where this is required under the lease agreement. In measuring property provisions, we have made estimates of the costs association with the restoration of properties by reference to any relevant guidance such as rate cards. Cash outflows occur as and when properties are vacated and the obligations are settled.

Asset retirement obligations (AROs) relate to obligations to dismantle equipment and restore network sites on vacation of the site. The provision represents the group's best estimate of the costs to dismantle equipment and restore the sites. Obligations are settled as and when sites are vacated and the timing is largely influenced by the group's network strategy.

Network share 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. 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.

Litigation provisions represent the best estimate to settle present obligations recognised in respect of claims brought against the group. The estimate reflects the specific facts and circumstances of each individual matter and any relevant external advice received. Provisions recognised are inherently judgemental and could change over time as matters progress.

Our insurance provision is based on our gross exposure to latent disease claims from former colleagues. A third party reviews our exposure and provides an estimate of the most likely outcome.

Other provisions do not include any individually material provisions.

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

18. Provisions & contingent liabilities continued

	Property[a] £m	Network ARO[a] £m	Network share £m	Regulatory £m	Litigation £m	Insurance £m	Other £m	Total £m
At 1 April 2020	**144**	**179**	**12**	**79**	**88**	**89**	**128**	**719**
Additions	9	—	1	32	17	7	50	116
Unwind of discount	1	—	—	—	—	—	—	1
Utilised	(7)	(4)	(1)	(15)	—	(5)	(7)	(39)
Released	(9)	(17)	—	—	—	—	(56)	(82)
Transfers	—	—	—	—	4	—	(4)	—
At 31 March 2021	**138**	**158**	**12**	**96**	**109**	**91**	**111**	**715**
Additions	17	25	7	14	7	6	15	91
Unwind of discount	—	1	—	—	—	—	—	1
Utilised	(9)	(3)	(6)	(26)	—	(5)	(5)	(54)
Released	(2)	—	(8)	(18)	(31)	—	(30)	(89)
Transfers[b]	(2)	—	—	(1)	—	—	—	(3)
At 31 March 2022	**142**	**181**	**5**	**65**	**85**	**92**	**91**	**661**

a Timing of expected cash flows associated with property and network ARO provisions varies depending on the exit dates of individual properties and sites. During FY22 there has been no material change in the judgements or assumptions applied in the existing obligations.
b Transfers in FY22 are due to reclassification to other payables during the period.

At 31 March	2022 £m	2021 £m
Analysed as:		
Current	222	288
Non-current	439	427
	661	**715**

Included within 'Other' provisions are contract loss provisions of £1m (FY21: £2m) relating to the anticipated total losses in respect of certain contracts.

Contingent liabilities

In the ordinary course of business, we are periodically notified of actual or threatened litigation, and 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 are reflected in the table above.

Where an outflow is not probable but is possible a contingent liability exists. 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 they estimated at £608m (inclusive of compound interest) or £589m (inclusive of simple interest) on behalf of our landline customers alleging anti-competitive behaviour through excessive pricing by BT to customers with certain residential landline services. Ofcom considered this topic more than four 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. In September 2021 the Competition Appeal Tribunal certified the claim to proceed to a substantive trial on an opt-out basis (class members are automatically included in the claim unless they choose to opt-out). We appealed the opt-out nature of that decision and in May 2022 the Court of Appeal determined that the claim should proceed on an opt-out basis. A trial date is due to be listed for early 2024. BT intends to defend itself vigorously.

18. Provisions & contingent liabilities continued

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

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

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

Phones 4U
Since 2015 the administrators of Phones 4U Limited have made allegations that EE and other mobile network operators colluded to procure Phones 4U's insolvency. Legal proceedings for an unquantified amount were issued in December 2018 by the administrators and in April 2019 we submitted our defence to this claim. The first trial, on the question of breach, started on 16 May 2022, and the second trial, on quantum (if necessary), would be listed after that. We continue to dispute these allegations vigorously.

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 future benefit accrual in 2018 for over 99% of the active membership at the time. The BT Hybrid Scheme (BTHS), which combines elements of both defined benefit and defined contribution plans, was set up for non-management employees impacted by the closure of the BTPS and was closed to new entrants in 2019.

New entrants to BT in the UK are eligible to join a defined contribution plan, currently the BT Retirement Saving Scheme (BTRSS), a contract-based arrangement operated by Standard Life.

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.

The group also has 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 net defined benefit liability, or deficit, in respect of the defined benefit plans is 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 (also known as the Defined Benefit Obligation (DBO) or liabilities) less the fair value of the plan assets.

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

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

Remeasurements of the net defined benefit liability 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 balance sheet date, and demographic assumptions, such as life expectancy, compared with those adopted at the start of the year;
- The impact on the liabilities of actual experience over the year being different compared to the assumptions made at the start of the year, for example, from members choosing different benefit options at retirement or actual pension 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 expense.

Defined contribution plans

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

19. Retirement benefit plans continued

Amounts in the financial statements

Group income statement

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

Year ended 31 March	2022 £m	2021 £m
Recognised in the income statement before specific items (note 6)		
– Service cost (including administration expenses and PPF levy):		
– defined benefit plans	67	63
– defined contribution plans	525	527
– Past service cost	(1)	1
Subtotal	**591**	**591**
Recognised in the income statement as specific items (note 9)		
– Costs to close BTPS and provide transition payments[a] for affected employees	14	21
– Interest on pensions deficit	93	18
Subtotal	**107**	**39**
Total recognised in the income statement	**698**	**630**

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.

Group balance sheet

The net defined benefit liability in respect of defined benefit plans reported in the group balance sheet are set out below.

	2022			2021		
At 31 March	Assets £m	Liabilities £m	Deficit[a] £m	Assets £m	Liabilities £m	Deficit[a] £m
BTPS	53,465	(54,309)	(844)	53,172	(57,737)	(4,565)
EEPS	1,004	(1,017)	(13)	934	(1,127)	(193)
Other plans[b]	468	(754)	(286)	506	(844)	(338)
Total (gross of tax)	**54,937**	**(56,080)**	**(1,143)**	**54,612**	**(59,708)**	**(5,096)**
Deferred tax asset			190			925
Total (net of tax)			**(953)**			**(4,171)**

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. In particular, a refund of surplus is available following the gradual settlement of the liabilities over time until there are no members remaining in the BTPS or EEPS.

b Included in the liabilities of other plans is £115m (FY21: £146m) related to unfunded pension arrangements.

19. Retirement benefit plans continued

Movements in defined benefit plan assets and liabilities

The table below shows the movements in the defined benefit plan assets and liabilities and shows where they are reflected in the financial statements.

	Assets £m	Liabilities £m	Deficit £m
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)**
Service cost (including administration expenses and PPF levy)	(47)	(20)	(67)
Past service credit	—	1	1
Interest on pension deficit	1,095	(1,188)	(93)
Included in the group income statement			**(159)**
Return on plan assets above the amount included in the group income statement	780	—	780
Actuarial gain arising from changes in financial assumptions	—	2,932	2,932
Actuarial gain arising from changes in demographic assumptions	—	804	804
Actuarial (loss) arising from experience adjustments [a]	—	(1,651)	(1,651)
Included in the group statement of comprehensive income			**2,865**
Regular contributions by employer	114	—	114
Deficit contributions by employer	1,121	—	1,121
Included in the group cash flow statement			**1,235**
Contributions by employees	1	(1)	—
Benefits paid	(2,748)	2,748	—
Other (e.g. foreign exchange)	9	3	12
Other movements			**12**
At 31 March 2022	**54,937**	**(56,080)**	**(1,143)**

a Primarily reflects the impact on the liabilities of actual inflation being higher than assumed at the prior reporting date. There has been a broadly equivalent benefit to inflation-linked assets from higher inflation.

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.

For Section A members, benefits earned for pensionable service up to 30 June 2018 are all based upon a member's final salary and a normal pensionable age of 60.

19. Retirement benefit plans continued

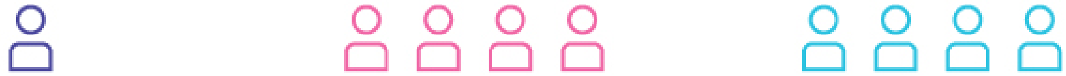
Under the BTPS rules, increases for the majority of benefits are linked to either the Retail Price Index (RPI) or the Consumer Price Index (CPI) as summarised in the table below.

	Before retirement	After retirement
Sections A & B[a]	Preserved benefits increase before retirement based on CPI	Increases to benefits in payment are currently based on CPI
Section C		Increases to benefits in payment are currently based on RPI up to a maximum of 5%

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

How is the BTPS governed and managed?
BT Pension Scheme Trustees Limited (the Trustee) has been appointed by BT as an independent trustee to administer and manage the BTPS on behalf of the members in accordance with the terms of the BTPS Trust Deed and Rules and relevant legislation (principally the Pensions Acts of 1993, 1995, 2004 and 2021).

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



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

Member nominated Trustee directors
Appointed by BT based on nominations by trade unions.

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

BTPS IAS 19 assets

Critical accounting estimates and significant judgements made when valuing our pension assets
Under IAS 19, plan assets should be measured at fair value at the balance sheet date.

The 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 £5.6bn of these unquoted investments are formally valued periodically by the investment manager and the latest valuation precedes the balance sheet date. These valuations have been adjusted for cash movements between the previous valuation date and 31 March 2022. The valuation approach and inputs for these investments would only be approximately updated where there were indications of significant market movements, which was not the case at 31 March 2022 or in 2021. The BTPS exposure to Russian assets is less than 0.1% of the BTPS assets.

The asset-backed funding arrangement, issued to the BTPS in May 2021, which has a fair value of £1.4bn at 31 March 2022, is not recognised as a pension asset when measuring the group's IAS 19 net defined benefit liability as it is a non-transferable financial instrument issued by the reporting entity.

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 International Private Equity and Venture Capital (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 using RICS guidelines. The significant assumptions used in the valuation are rental yields and occupancy rates.
- Bonds, including those issued by BT, 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 cash flows discounted at market rates. The significant assumptions used in the valuation are the yield curves and cost of carry.
- Holdings in investment funds are typically valued at 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, or at the price of recent market transactions if they represent fair value. Where a discounted cash flow model is used, 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

How are the BTPS assets invested?

The Trustee regularly reviews the allocation of assets between different investment classes, taking into account current market conditions and trends. 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.

The table below shows the fair value of the BTPS assets analysed by asset category, subdivided by valuations based on a quoted market price in an active market, and those that are not (such as investment funds).

		2022[a]			2021[a]		
At 31 March		Total assets £bn	of which quoted[b] £bn	Total %	Total assets £bn	of which quoted[b] £bn	Total %
Growth							
Equities	UK	0.3	0.2	1	0.3	0.3	1
	Overseas developed	6.5	5.6	12	7.0	6.5	13
	Emerging markets	1.0	0.9	2	1.3	1.3	2
Private Equity		1.2	—	2	1.6	—	3
Property	UK	3.4	—	6	2.9	—	5
	Overseas	0.8	—	2	0.8	—	2
Other growth assets	Absolute Return[c]	1.0	—	2	1.1	—	2
	Non Core Credit[d]	4.7	1.4	9	4.3	1.4	8
	Infrastructure	1.4	—	3	1.3	—	2
Liability matching							
Government bonds	UK	15.1	15.1	28	14.3	14.3	27
Investment grade credit	Global	13.9	11.7	26	14.1	11.5	27
Secure income assets[e]		2.6	—	5	2.1	—	4
Cash, derivatives and other							
Cash balances		2.9	—	5	1.4	—	3
Longevity insurance contract[f]		(1.0)	—	(2)	(0.8)	—	(2)
Other[g]		(0.3)	—	(1)	1.5	—	3
Total		**53.5**	**34.9**	**100**	**53.2**	**35.3**	**100**

a. At 31 March 2022, the BTPS did not hold any equity issued by the group (FY21: nil). The BTPS held £1,930m (FY21: £2,216m) 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 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 This allocation includes property, infrastructure and credit investments which provide a stable income to the BTPS.
f The Trustee has hedged some of the BTPS'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 BTPS's liabilities over the same period.
g Includes collateral posted in relation to derivatives held by the BTPS.

BTPS IAS 19 Liabilities

Critical accounting estimates and significant judgements made when valuing our pension liabilities
The measurement of the service cost and the liabilities involves judgement about uncertain events including the life expectancy of members, price inflation and the discount rate 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, actuarial advice and our judgement regarding future expectations at the balance sheet date.

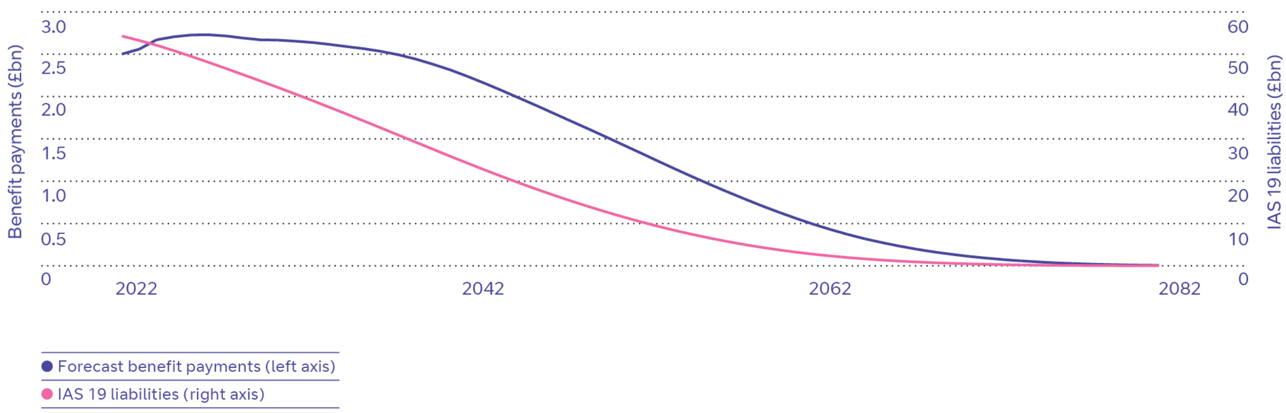
What are the forecast benefits payable from the BTPS?
There were 274,000 members in the BTPS at 30 June 2021, the date of the membership data used to value the IAS 19 liabilities. Members belong to one of three sections depending upon the date they first joined the BTPS, which impacts the benefits they 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 expected 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.

Forecast benefits payable by BTPS at 31 March 2022 (unaudited)



The estimated duration of the BTPS liabilities, which is an indicator of the weighted average term of the liabilities, is 14 years using the IAS 19 assumptions.

What is the breakdown of the membership and IAS 19 liabilities?

	Active members	Deferred members	Pensioners	Total
Sections A and B liabilities (£bn)	—	5.5	30.7	36.2
Section C liabilities (£bn)	—	12.4	5.7	18.1
Total IAS 19 liabilities (£bn)	**—**	**17.9**	**36.4**	**54.3**
Total number of members (000's)	**—**	**67**	**207**	**274**

What are the key assumptions and how have they been set?
The key financial assumptions used to measure the IAS 19 liabilities of the BTPS, where the nominal rates have been rounded to the nearest 0.05%, are shown below.

	Nominal rates (per year)		Real rates (per year)[a]	
At 31 March	**2022**	2021	**2022**	2021
Discount rate	2.75 %	2.05 %	(0.92)%	(1.11)%
Inflation – average increase in RPI	3.70 %	3.20 %	-	-
Inflation – average increase in CPI	3.25 %	2.75 %	(0.43)%	(0.44)%

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%).

The key demographic assumptions used to measure the IAS 19 liabilities of the BTPS relate to how long members are expected to live. Based on these assumptions, the forecast life expectancies for BTPS members aged 60 are as follows:

	2022	2021
At 31 March	**Number of years**	Number of years
Male in lower pension bracket (below £20,300 p.a.)	25.2	25.5
Male in higher pension bracket (above £20,300 p.a.)	27.3	27.6
Female	27.8	27.9
Average additional life expectancy for a male member retiring at age 60 in 10 years' time	0.4	0.4

19. Retirement benefit plans continued

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

	Detail
Discount rate	IAS 19 requires that the discount rate is determined by reference to market yields at the balance sheet date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension liabilities. 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 increase in the discount rate over the year reflects changes in the market yield of corporate bonds.
RPI and CPI inflation	The RPI inflation assumption is calculated by applying the projected BTPS benefit cash flows to an inflation curve derived from market yields on government bonds, and making an adjustment for an inflation risk premium (to reflect the extra premium paid by investors for inflation linked assets). The CPI inflation assumption is calculated with reference to the RPI inflation assumption 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. Therefore, CPI inflation is assumed to be in line with RPI inflation after 2030, as historically CPI and CPIH inflation have been broadly comparable. Before 2030, CPI inflation is assumed to be 1% lower than RPI inflation, reflecting the latest published inflation forecasts. At the prior reporting date CPI inflation was assumed to be 0.9% lower than RPI inflation before 2030. This change reduced the BTPS IAS 19 liabilities by £0.2bn.
Pension increases	Benefits are assumed to increase in line with the RPI or CPI inflation assumptions, based on the relevant index for increasing benefits, as prescribed by the rules of the BTPS and summarised above.
Longevity	The longevity assumption takes into account: – the actual mortality experience of the BTPS pensioners, based on a formal review conducted at the 2020 triennial funding valuation – future improvements in longevity based on a model published by the UK actuarial profession's Continuous Mortality Investigation (CMI) (updating to use the CMI 2020 Mortality Projections model, with a long-term improvement parameter of 1% per year). There is significant uncertainty on the impact of the Covid-19 pandemic on mortality. The default CMI 2020 model makes no allowance for deaths in 2020, when there were higher deaths due to the Covid-19 pandemic, but provides an additional parameter to allow users to make their own judgement of the extent to which deaths in 2020 will impact future improvements. We have assumed a short-term slow down in life expectancy improvements, with a neutral impact over the longer-term. Based on analysis carried out by the CMI, this scenario is equivalent to applying a 15% weighting on 2020 data and has reduced the BTPS IAS 19 liabilities by £0.7bn.

19. Retirement benefit plans continued

Risks underlying the BTPS deficit

Background

A large increase in our pension scheme obligations could stop us from being able to fund our business cash flows or meet our payment commitments. 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 to BT.

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

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

Changes in government bond yields	A fall in government bond yields will lead to: • a fall in corporate bond yields (assuming no changes in credit spreads), and therefore the IAS 19 discount rate. A fall in the IAS 19 discount rate will increase the IAS 19 liabilities • an increase in the value of government bonds, interest rate derivatives, and corporate bonds held by the BTPS. We estimate the change in the BTPS assets will more than offset the increase in the IAS 19 liabilities, but only partially offset an increase in the funding liabilities.
Changes in credit spreads	A fall in credit spreads will lead to a fall in corporate bond yields, and therefore an increase in the IAS 19 liabilities and a corresponding increase in asset values.
Changes in inflation expectations	A significant proportion of the benefits paid to members are currently increased in line with RPI or CPI inflation. **Changes in average inflation expectations over the lifetime of the plan** An increase in average inflation expectations will lead to: • an increase in the IAS 19 liabilities • an increase in the value of index-linked bonds and other inflation linked assets held by the BTPS We estimate the change in BTPS assets will more than offset the increase in the IAS 19 liabilities, but only partly offset an increase in the funding liabilities. **Changes in inflation over the next year** If inflation over the next year is lower or higher than assumed, it would lead to a fall or increase in the IAS 19 liabilities. We estimate the change in asset values will broadly offset the movement in the IAS 19 liabilities.
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 net defined benefit liability.
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: 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.

IAS 19 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	
	2022	2021
1. Fall in bond yields[a]	0.8 %	1.1 %
2. Increase in credit spreads[b]	0.7 %	0.7 %
3. Increase to average inflation expectations over the lifetime of the plan[c]	0.6 %	0.7 %
4. Fall in growth assets [d]	20.0 %	20.0 %
5. Increase to life expectancy	1.00 years	1.00 years

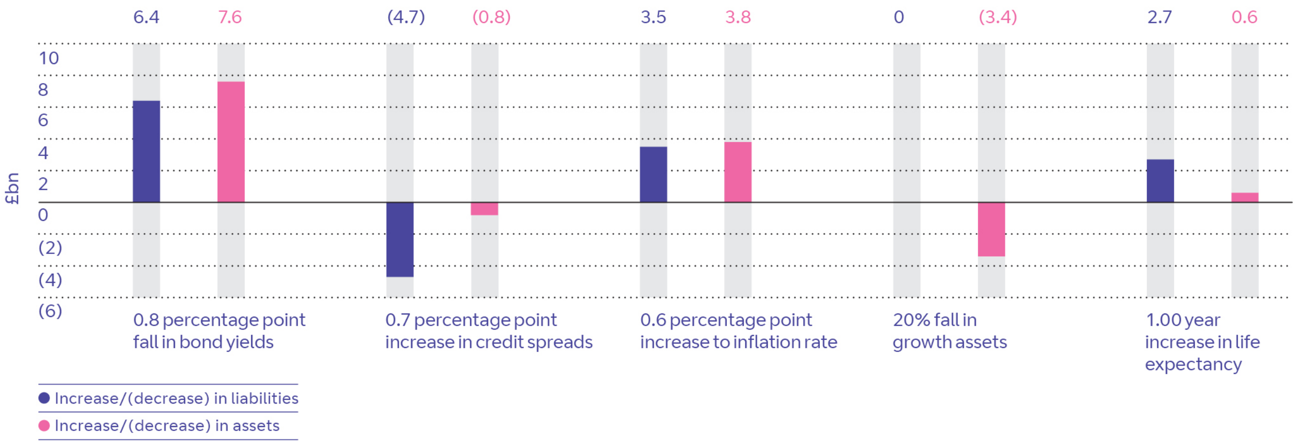
a Scenario assumes a fall in the yields on both government and corporate bonds.
b Scenario assumes an increase in the yield on corporate bonds, with no change to yield on government bonds.
c Scenario assumes average RPI and CPI inflation expectations over the lifetime of the plan increase by the same amount.
d Impact includes the potential impact of temporary equity hedges held by the BTPS. Scenario considers combinations of changes to the key inputs used to value the growth assets, leading to a 20% fall in the aggregate value of the growth assets prior to temporary hedges held by the BTPS.

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

Scenario analysis – IAS 19 position at 31 March 2022



The sensitivities have been prepared using the same approach as FY21 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, such as the 2004 Pensions Act, and uses a prudent approach overall.

This differs from the IAS 19 valuation, which is used for deriving the balance sheet and P&L figures in the Group accounts with principles being set out in the IFRS standards, and uses a best-estimate approach overall (with the exception of the discount rate, which IAS 19 requires to be based on the yields on high quality corporate bonds regardless of the investment held by the BTPS).

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 funding 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 the 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 BTPS to 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 risk-free yield curve in 2020, trending down to 0.8% per year above the risk-free yield curve from 2035. The assumption was equivalent to using a flat discount rate of 0.9% per year above the risk-free yield curve at 30 June 2020.

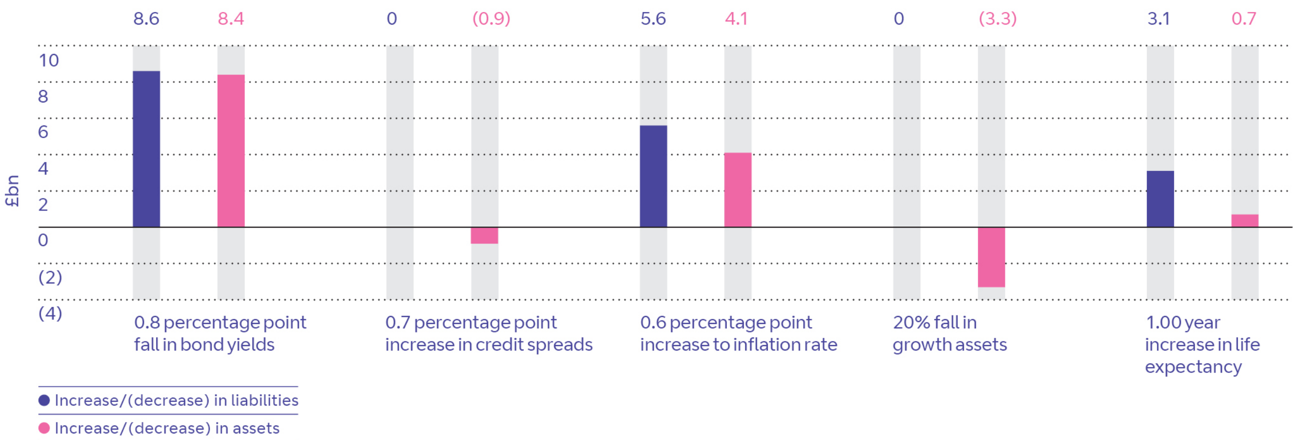
The average life expectancy assumptions at the funding valuation dates, for members 60 years of age, are as follows.

Number of years from valuation date	June 2020 assumptions	June 2017 assumptions
Male in lower pension bracket (below £20,300 p.a.)	25.8	25.9 to 27.2
Male in higher pension bracket (above £20,300 p.a.)	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 Scheme Actuary has carried out an interim assessment as at 30 June 2021, estimating the BTPS's funding position to have improved from a funding deficit of £8.0bn to £4.1bn. BT and the Trustee will agree cash contributions in the usual way at the next full triennial funding valuation, scheduled to take place as at 30 June 2023.

Changes in market conditions can have a different impact on the funding liabilities and the IAS 19 liabilities. For example, the funding liabilities use a discount rate linked to a risk-free rate, whereas the IAS 19 liabilities use a discount rate based on corporate bond yields (and so are affected by changes in credit spreads). The estimated impact of the scenarios illustrated on page 79 on the 30 June 2021 interim assessment of the funding position are shown in the table below.

Scenario analysis – Funding position at 30 June 2021



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 £8.0bn. The funding deficit was agreed to be met as follows:

- £2bn met through an Asset Backed Funding arrangement (ABF) which is structured as a Scottish Limited Partnership (SLP) with BT and BTPS as limited partners, and BT Corporate Limited as general partner. The underlying asset is a loan note issued by EE Group Investments Limited, with an initial face value of £1.9bn. The BTPS has an entitlement to the full value of the loan note in the event of an insolvency of BT.

  The loan note had a term of approximately 13 years. On or before 30 June each year (with a final payment in June 2033), the ABF will distribute capital and interest amounting to £180m to the BTPS, provided that the BTPS was in deficit on a funding basis as at 30 June of the preceding year. If the BTPS reaches full funding at any 30 June, the payments to the BTPS will cease. The stream of payments are financed through distributions from EE Limited and shares in EE Limited provide security over the payment stream. No impact is expected on the day-to-day operations of BT or EE as a result. The fair value of the BTPS investment in the ABF at the date of investment was £1.66bn, with BT receiving tax relief on that amount spread over four years. This is calculated as the net present value of the annual capital and interest payments, and is less than the face value of the underlying loan note reflecting the probability of the BTPS becoming fully funded, and therefore the annual capital and interest payments to the BTPS ending before the underlying loan note matures. Following receipt of the first £180m capital and interest payment, the fair value of the BTPS investment in the ABF as at 31 March 2022 was £1.4bn.

  The ABF has no impact on the gross IAS 19 deficit in the BT Group plc consolidated accounts initially, but has reduced the deferred tax asset recognised, as some tax relief has been received up-front. Annual capital and interest payments will reduce the IAS 19 net defined benefit liability.
- Cash contributions over the 10 years to 30 June 2030.

19. Retirement benefit plans continued

Co-investment vehicle
BT and the Trustee agreed a co-investment vehicle at the 30 June 2020 valuation which provides BT with some protection against the risk of overfunding by allowing money to be returned to BT if not needed by the BTPS, 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 ABF), which will be invested as if part of the overall BTPS investment strategy. The value of the assets held in the vehicle are included in the assets of the BTPS for the purposes of calculating both the funding deficit and the IAS 19 net defined benefit liability.

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 BTPS has subsequently moved into funding deficit or the Trustee, acting prudently but reasonably, decides to defer or reduce these payments.

At 31 March 2022, there were less than £1m of assets in the co-investment vehicle.

Future funding commitment
At the 2020 valuation, BT agreed additional contributions will be automatically payable in the event the deficit repair plan is no longer sufficient to meet the funding deficit.

Should an annual update of the funding position reveal that the BTPS has fallen more than £1bn behind plan, BT will commence additional payments of between £150m to £200m per year. 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 funding deficit. Payments can switch-on again if the funding deficit position subsequently deteriorates.

The first annual test was carried out as at 30 June 2021. This showed that the deficit repair plan was still sufficient to meet the funding deficit, and hence no additional contributions were required. The next annual test will be carried out as at 30 June 2022.

Any additional contributions under this agreement cease by 30 June 2034.

These payments are set out in the table below.

Year to 31 March	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Cash provided by BT	800[a]	610[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
Total	980	790	780	780	780	780	780	780	680	180	180	180

a £400m 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

19. Retirement benefit plans continued

Other protections
BT has agreed 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, (Protections Deficit) has reduced below £2bn. A £2bn deficit on this measure is currently broadly equivalent to a nil funding deficit. The protections include:

Feature	Detail
Shareholder distributions	BT will provide additional payments to the BTPS by the amount that shareholder distributions exceed a threshold. For the three years following the 2020 valuation, 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; • it considers making any shareholder distributions in any of the next 3 years if annual normalised free cash flow 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; • it considers making disposals of more than £1.0bn; • it considers making a Class 1 transaction (acquisition or disposal); • 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 BTPS, 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 PPF which is the fund responsible for paying compensation in schemes where the employer becomes insolvent.

Other benefit plans

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 £1.0bn, and a defined contribution section with around 8,000 members.

At 31 March 2022, the defined benefit section's assets are invested across a number of asset classes including global equities (26%), property & illiquid alternatives (31%), an absolute return portfolio (17%) and a liability driven investment portfolio (26%).

A triennial valuation of the defined benefit section as at 31 December 2021 is currently underway. The previous triennial valuation 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 2022, £469m of contributions were payable by the group to the BTRSS.

BTHS
The BTHS combines elements of both defined benefit and defined contribution pension plans. At 31 March 2022 it had IAS 19 liabilities of around £45m and £9.9m of contributions were payable by the group to the BTHS.

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.

Year ended 31 March	**2022** **£m**	2021 £m
Employee Saveshare Plans	29	38
Executive Share Plans:		
Incentive Share Plan (ISP)	13	(8)
Deferred Bonus Plan (DBP)	10	10
Retention Share Plan (RSP)	25	14
Yourshare	28	18
	105	**72**

20. Share-based payments continued

What share incentive arrangements do we have?

Our plans include savings-related share option plans for employees and those of participating subsidiaries and several share plans for executives. All share-based payment plans are equity-settled. Details of these plans are set out below.

Employee Saveshare Plans
Under an HMRC-approved savings-related share option plan, employees save on a monthly basis, over a three or five-year period, towards the purchase of shares at a fixed price determined when the option is granted. This price is set at a 20% discount to the market price for five-year plans and 10% for three-year plans. The options must be exercised within six months of maturity of the savings contract, otherwise they lapse. Similar plans operate for our overseas employees. The scheme did not operate in FY22.

Incentive Share Plan (ISP)
Participants are entitled to shares under the ISP in full at the end of a three-year period only if the group has met the relevant pre-determined corporate performance measures and if the participants are still employed by the group. The last ISP award was granted in 2019. For this award, 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.

The cash flow and revenue targets under the 2019 ISP were adjusted in FY22 to reflect acquisitions and divestments during the three-year period to ensure performance is being measured on a like-for-like basis. This resulted in a charge of £13m for the year (FY21: credit of £8m)

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.

Yourshare
In June 2021, all eligible employees of the group were awarded £500 of BT shares (FY21: £500). 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 overseas employees.

Under the terms of Yourshare and the executive share plans, dividends are reinvested in shares that are added to the relevant share awards.

Movements in Employee Saveshare options are shown below.

	Number of share options		Weighted average exercise price	
	2022	2021	**2022**	2021
Year ended 31 March	**millions**	millions	**pence**	pence
Outstanding at 1 April	414	214	121	202
Granted	—	283	—	85
Forfeited	(41)	(59)	127	175
Exercised	(9)	—	152	85
Expired	(22)	(24)	229	277
Outstanding at 31 March	**342**	**414**	**113**	**121**
Exercisable at 31 March	—	—	—	282

The weighted average share price for all options exercised during FY22 was 185p (FY21: 134p).

The following table summarises information relating to options outstanding and exercisable under Employee Saveshare plans at 31 March 2022.

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
2022	164p – 243p	201p	36	10 months
2023	82p – 170p	108p	102	22 months
2024	164p	164p	44	34 months
2025	82p	82p	160	46 months
Total		**113p**	**342**	**34 months**

20. Share-based payments continued

Executive share plans

Movements in executive share plan awards during FY22 are shown below:

	Number of shares (millions)			
	ISP	DBP	RSP	Total
At 1 April 2020	83	12	13	108
Awards granted	—	8	38	46
Awards vested	—	(2)	(6)	(8)
Awards lapsed	(24)	—	(1)	(25)
At 31 March 2021	59	18	44	121
Awards granted	—	6	21	27
Awards vested	—	(4)	(7)	(11)
Awards lapsed	(32)	(1)	(6)	(39)
Dividend shares reinvested	—	—	1	1
At 31 March 2022	**27**	**19**	**53**	**99**

Fair values

The following table summarises the fair values and key assumptions used for valuing grants made under the Employee Saveshare plans in FY21. There were no grants under Employee Saveshare in FY22.

	2021
Year ended 31 March	Employee Saveshare
Weighted average fair value	23p
Weighted average share price	114p
Weighted average exercise price of options	85p
Expected dividend yield	5.19% – 6.49%
Risk free rates	-0.001% – 0.11%
Expected volatility	28.33% – 28.39%

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. There were no ISP awards granted in FY21 or FY22.

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 FY22 was 203p (FY21: 117p) and for RSP awards granted in FY22 201p (FY21: 103p).

21. Investments

Significant accounting policies that apply to investments
Investments classified as amortised cost
These investments are measured at amortised cost. The carrying amount of these balances approximates to fair value. 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.

At 31 March	2022 £m	2021 £m
Non-current assets		
Fair value through other comprehensive income	34	20
Amounts owed by parent company	11,079	10,992
Fair value through profit or loss	—	11
Total	**11,113**	**11,023**
Current assets		
Investments held at amortised cost	2,679	3,652
Total	**2,679**	**3,652**

Investments held at amortised cost relate to money market investments denominated in sterling of £2,225m (FY21: £3,171m), in euros of £436m (FY21:£456m), in US dollars of £18m (FY21: £25m). Within these amounts are investments in liquidity funds of £1,912m (FY21: £3,570m), £67m collateral paid on swaps (FY21 :£82m) and repurchase agreements £700m (FY21: £nil).

Fair value estimation

Fair value hierarchy At 31 March 2022	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	4	—	30	34
Total	**4**	**—**	**30**	**34**

At 31 March 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Available-for-sale	—	—	20	20
Fair value through profit or loss	11	—	—	11
Total	**11**	**—**	**20**	**31**

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 £30m (FY21: £20m) which represent investments in a number of private companies. If specific market data is not available, 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, 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	2022 £m	2021 £m
Cash at bank and in hand	319	368
Cash equivalents		
UK deposits	353	601
Indian rupee deposits	90	23
Other deposits	10	5
Total cash equivalents	**453**	**629**
Total cash and cash equivalents	**772**	**997**
Bank overdrafts (note 24)	(85)	(104)
Cash and cash equivalents per the cash flow statement	**687**	**893**

Cash and cash equivalents include restricted cash of £24m (FY21: £38m), of which £22m (FY21: £29m) was held in countries where local capital or exchange controls currently prevent us from accessing cash balances. The remaining balance of £2m (FY21: £9m) 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 disposals of Diamond IP, a non-core software business in America, and certain business units in Italy serving customers in the public administration and SME sectors, recording a combined net gain of £35m.

In FY21 we recorded a net gain of £80m on disposal of our domestic operations in Spain, a combined net loss of £11m on the disposals of our domestic operations in France and Latin America, and a net loss of £4m relating to the disposal of a number of other businesses.

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:

	2022 £m	2021 £m
Intangible assets (including goodwill)	12	37
Property, plant and equipment	6	39
Right-of-use assets	1	38
Other non-current assets	1	3
Current assets	26	159
Liabilities	(15)	(199)
Net assets of operations disposed[a]	**31**	**77**
Less: recycling from translation reserve[b]	(1)	(23)
Net impact on the consolidated balance sheet	**30**	**54**
Profit/(loss) on disposal[c]	41	65
Net consideration	**71**	**119**
Satisfied by		
Proceeds received in the year per the cash flow statement	**76**	**164**
Adjustments to consideration for expected future payments (to)/from the purchaser[d]	(2)	(25)
Costs of disposal[e]	(3)	(20)
Net consideration	**71**	**119**

a FY21 assets are stated after impairment charge booked on held for sale classification in FY20 on the France and Latin America divestments.
b Cumulative translation differences previously held in equity and recycled to the income statement on disposal of foreign operations.
c FY22 profit on disposal includes true-ups on divestments completed in prior years. The net gain is fully recognised as specific items, see note 9.
d 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 were ongoing at the end of the year.
e £1m (FY21: £13m) disposal costs have been paid and are included within cash flows from operating activities in the cash flow statement. The remaining £2m (FY21: £7m) costs were accrued for at the end of the year.

Assets and liabilities held for sale

At 31 March 2022, the group had one disposal group held for sale, BT Sport, which was previously held within the Consumer segment. No other disposal groups were classified as held for sale during FY21 or FY22.

BT Sport

In May 2022 we reached an agreement with Warner Bros. Discovery (Discovery) to create a sports joint venture (JV) combining BT Sport and Discovery's Eurosport UK business into a separate legal entity with both BT and Discovery each holding a 50% interest and equal voting rights. The production and operational assets of BT Sport will transfer to, and become a wholly owned subsidiary of, Discovery who will manage and operate the production of the sport content.

Discovery will have the option to acquire BT's 50% interest in the JV at specified points during the first four years of the JV. The price payable under the Call Option will be 50% of the JV, at a price to be determined at the time, plus any unpaid fixed consideration and remaining earn-out as described below. If the Call Option is not exercised, BT will have the ability to exit its shareholding in the JV either through a sale or IPO.

At completion of the transaction, BT is expected to lose control of the BT Sport operations and the group's interest in the combined business is expected to be classified as a Joint Venture under IFRS 11 based on the assessment of ownership and joint control over the key decisions of the JV (50/50 with Discovery) established through the joint venture agreement. BT will enter into a distribution agreement with the JV to procure the sport content required to continue to supply our existing broadband, TV and mobile customers. BT's agreement with the JV will extend beyond 2030 and for the first four years includes a minimum revenue guarantee of approximately £500m per annum, after which the agreement will change to a fully variable arrangement.

BT Sport's distribution agreement with Virgin Media will transfer into the JV, and the JV will also enter into a new agreement with Sky extending beyond 2030 to provide for its distribution of the JV's combined sports content. BT will also enter into a distribution agreement with Discovery to provide discovery+, the non-fiction entertainment streaming service to its direct BT TV and BT Sport customers.

The transaction is subject to regulatory approval, but it is expected to conclude by the end of 2022 and meets the held for sale criteria per IFRS 5. Accordingly, the asset and liabilities of the BT Sport disposal group have been classified as held for sale at 31 March 2022.

The assets of the disposal group have been tested for impairment under existing relevant standards immediately prior to classification as held for sale with no impairment recognised.

As the estimated fair value from the joint venture transaction, net of any costs incurred or liabilities recognised, is higher than the carrying value of the disposal group, no impairment has been recognised subsequent to classification as held for sale. We used the discounted cash flows due to BT from fixed consideration of £93m payable in four instalments over the next three years and variable consideration whereby BT will be issued with redeemable preferred shares in the JV which will entitle BT to receive an earn out from the JV of up to approximately £540m over the first four years post completion subject to certain conditions being met, plus a potential exit value from the sale of the group's 50% interest, as total gross consideration. BT's obligation under the minimum revenue guarantee in

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

the distribution agreement has been treated as a reduction to the fair value of the consideration in the impairment test. The inputs into the fair value calculation are classified as Level 3 on the fair value hierarchy and supported by internal valuation models over which we have applied sensitivities on the future cash flows from the JV and the trading multiples for the exit valuation.

BT Sport has not been reclassified as a discontinued operation as it does not meet our definition of a separate major line of business.

The BT Sport disposal group comprises the following assets and liabilities:

At 31 March	2022 £m
Assets	
Intangible assets[a]	55
Property, plant and equipment	13
Right-of-use assets	2
Trade and other receivables	10
Assets held for sale[b]	**80**
Liabilities	
Trade and other payables	38
Lease liabilities	2
Liabilities held for sale	**40**

a Intangible assets includes goodwill of £51m that has been allocated to the disposal group on a relative value approach as per IAS 36
b £310m of programme rights relating to sports broadcasting rights acquired for the BT Sport operations have not been reclassified to held for sale as the carrying amount of these assets is expected to be recovered principally through continuing use before completion of the transaction

24. Loans and other borrowings

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

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

The table below shows the key components of external gross debt and of the decrease of £991m (FY21: increase of £2,197m).

	At 31 March 2021	Cash flows	Net lease additions[a]	Foreign exchange	Transfer to within one year	Other movements[d]	At 31 March 2022
	£m	£m	£m	£m	£m	£m	£m
Loans and other borrowings due within one year[b]	911	(1,421)	—	59	1,341	(17)	873
Lease liabilities due within one year	730	(792)	—	—	857	—	795
Loans and other borrowings due after one year	15,774	743	—	71	(1,341)	65	15,312
Lease liabilities due after one year	5,422	—	397	3	(857)	—	4,965
Liabilities classified as held for sale	—					2	2
Impact of cross-currency swaps[c]	(142)	—	—	(92)	—	—	(234)
Removal of the accrued interest and fair value adjustments[d]	(242)	—	—	—	—	(9)	(251)
External gross debt	**22,453**	**(1,470)**	**397**	**41**	**—**	**41**	**21,462**

	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	(1,731)	—	(179)	—	(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)	—	—	907	—	—	(142)
Removal of the accrued interest and fair value adjustments	(257)	—	—	—	—	15	(242)
External gross debt	**24,650**	**(2,655)**	**543**	**(41)**	**—**	**(44)**	**22,453**

[a] Net lease additions are net non-cash movements in lease liabilities during the period, and primarily comprise 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	2022 £m	2021 £m
0.5% €575m bond due June 2022[a,e]	—	491
1.125% €1,100m bond due March 2023[a,e]	—	936
0.875% €500m bond due September 2023[a]	423	426
4.5% US$675m bond due December 2023[a]	520	496
1% €575m bond due June 2024[a]	489	493
1% €1,100m bond due November 2024[a]	929	935
3.50% £250m index linked bond due April 2025	468	449
0.5% €650m bond due September 2025[a]	549	553
1.75% €1,300m bond due March 2026[a]	1,098	1,106
1.5% €1,150m bond due June 2027[a]	977	984
2.125% €500m bond due September 2028[a]	425	428
5.125% US$700m bond due December 2028[a]	537	512
5.75% £600m bond due December 2028	680	690
1.125% €750m bond due September 2029[a]	631	635
3.25% $1,000m bond due November 2029[a]	762	726
9.625% US$2,670m bond due December 2030[a] (minimum 8.625%[b])	2,077	1,981
3.125% £500m bond due November 2031	503	503
3.64% £330m bond due June 2033	339	339
1.613% £330m index linked bond due June 2033	362	347
6.375% £500m bond due June 2037[a]	523	522
3.883% £330m bond due June 2039	340	340
1.739% £330m index linked bond due June 2039	363	348
3.924% £340m bond due June 2042	350	350
1.774% £340m index linked bond due June 2042	374	358
3.625% £250m bond due November 2047	250	250
4.25% $500m bond due November 2049[a]	383	366
1.874% €500m bond due August 2080[a,c]	426	429
4.250% $500m Hybrid bond due November 2081[a,c]	383	—
4.875% $500m Hybrid bond due November 2081[a,c]	384	—
Total listed bonds	**15,545**	**15,993**
Other loans	555	588
Bank overdrafts (note 22)	85	104
Amounts due to ultimate parent company[d]	585	972
Total other loans and borrowings	**1,225**	**1,664**
Total loans and borrowings	**16,770**	**17,657**

[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 call options between 3.5 years and 9.5 years
[d] Amounts due to ultimate parent company are denominated in sterling and incur a floating rate of interest based on Sonia, their carrying amount equates to fair value (Level 3).
[e] Bond redeemed in March 2022

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 £16,750m (FY21: £18,554m).

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 have 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	2022 £m	2021 £m
Current liabilities		
Listed bonds	233	219
Other loans and bank overdrafts[a]	640	692
Amounts due to ultimate parent company	—	1
Total current liabilities	**873**	**912**
Non-current liabilities		
Listed bonds	15,312	15,774
Amounts due to ultimate parent company	585	971
Total non-current liabilities	**15,897**	**16,745**
Total	**16,770**	**17,657**

[a] Includes collateral received on swaps of £555m (FY21: £588m).

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 2022 were unsecured.

The principal repayments of loans and borrowings at hedged rates amounted to £16,280m (FY21: £17,272m) and repayments fall due as follows:

	2022			2021		
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	**873**	**(233)**	**640**	**912**	**(220)**	**692**
Between one and two years	935	43	978	1,427	(69)	1,358
Between two and three years	1,415	76	1,491	915	63	978
Between three and four years	3,117	(64)	3,053	1,427	65	1,492
Between four and five years	379	(8)	371	3,500	(77)	3,423
After five years	10,041	(294)	9,747	9,463	(134)	9,329
Total due for repayment after more than one year	**15,887**	**(247)**	**15,640**	**16,732**	**(152)**	**16,580**
Total repayments	**16,760**	**(480)**	**16,280**	**17,644**	**(372)**	**17,272**
Fair value adjustments	10			13		
Total loans and other borrowings	**16,770**			**17,657**		

25. Finance expense

Year ended 31 March	2022 £m	2021 £m
Finance expense		
Interest on:		
Financial liabilities at amortised cost and associated derivatives	628	572
Lease liabilities	133	142
Derivatives	4	—
Fair value movements on derivatives not in a designated hedge relationship	4	(1)
Reclassification of cash flow hedge from other comprehensive income	64	72
Interest payable on ultimate parent company borrowings	4	6
Total finance expense before specific items	**837**	**791**
Specific items (note 9)	101	18
Total finance expense	**938**	**809**

25. Finance expense continued

Year ended 31 March	2022 £m	2021 £m
Finance income		
Interest on investments held at amortised cost	12	12
Interest income on loans to immediate and ultimate parent company	125	195
Total finance income before specific items	**137**	**207**
Total finance income	**137**	**207**

Year ended 31 March	2022 £m	2021 £m
Net finance expense before specific items	700	584
Specific items (note 9)	101	18
Net finance expense	**801**	**602**

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 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 of BT Group plc.

There has been no change in the nature of our risk profile between 31 March 2022 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 chief financial officer, the group director tax, treasury, insurance and pensions or the group treasury director of BT Group plc 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, however, BT has varied some terms on a bilateral basis to apply five-day lookback without observational shift. 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 chief financial officer, the group director tax, treasury, insurance and pensions or the group treasury director of BT Group plc.

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 Indian rupees. 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.

	2022			2021		
At 31 March	**Fixed rate interest £m**	**Floating rate interest £m**	**Total £m**	Fixed rate interest £m	Floating rate interest £m	Total £m
Sterling	13,515	2,326	15,841	14,129	2,659	16,788
Euro	—	436	436	—	464	464
USD	—	3	3	—	20	20
Total	**13,515**	**2,765**	**16,280**	**14,129**	**3,143**	**17,272**
Ratio of fixed to floating	83 %	17 %	100 %	82 %	18 %	100 %
Weighted average effective fixed interest rate – sterling	3.9 %			3.8 %		

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 have 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	**2022 £m Increase (reduce)**	2021 £m Increase (reduce)
Sterling interest rates	666	816
US dollar interest rates	(429)	(438)
Euro interest rates	(247)	(349)
Sterling strengthening	(203)	(255)

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 £93m (FY21: £99m). Our exposure to foreign exchange volatility in the income statement, after hedging, (excluding translation exposures) would not have been material in FY22 and FY21.

Credit ratings

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

26. Financial instruments and risk management continued

Our December 2030 bond contains terms that require us to pay higher rates of interest when BT Group plc's credit ratings are 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 £2bn at 31 March 2022, 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.

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

	2022		2021	
At 31 March	Rating	Outlook	Rating	Outlook
Rating agency				
Fitch	BBB	Stable	BBB	Stable
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 2022 is disclosed in note 24. We have no term debt maturities in FY23.

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 2022 we had undrawn committed borrowing facilities of £2.1bn (FY21: £2.1bn) maturing in March 2027.

In the UK, BT Group plc has arranged for funders to offer a supplier financing scheme to the group's suppliers. This enables suppliers who sign up to the arrangements to sell their invoices to the funders and to be paid earlier than the invoice due date. The group assesses the arrangement against indicators to assess if debts which vendors have sold to the funder under the supplier financing scheme continue to meet the definition of trade payables or should be classified as borrowings. At 31 March 2022 the payables met the criteria of trade payables.

Interest Rate Benchmark reform

The group's syndicated Revolving Credit Facility (undrawn at 31st March 2022), previously referring to IBOR rates, has been updated to reference alternative benchmark rates for sterling (Sonia) and US dollars (SOFR). Notional cash pooling arrangements and overdraft arrangements have transitioned onto ARRs where applicable. Any outstanding group contracts with reference to LIBOR benchmarks include provisions for calculation of interest based on alternative benchmark rates.

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 2022	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Lease liabilities £m	Total £m
Due within one year	635	573	5,219	4	788	7,219
Between one and two years	935	568	—	4	784	2,291
Between two and three years	1,415	542	—	3	729	2,689
Between three and four years	3,117	515	—	—	626	4,258
Between four and five years	379	477	—	—	589	1,445
After five years	10,041	2,809	—	—	2,983	15,833
	16,522	**5,484**	**5,219**	**11**	**6,499**	**33,735**
Interest payments not yet accrued	—	(5,246)	—	—	—	(5,246)
Fair value adjustment	10	—	—	—	—	10
Impact of discounting	—	—	—	—	(739)	(739)
Carrying value on the balance sheet[a,b]	**16,532**	**238**	**5,219**	**11**	**5,760**	**27,760**

Non-derivative financial liabilities At 31 March 2021	Loans and other borrowings £m	Interest on loans and other borrowings £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**

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 interest or indexation rates at the relevant balance sheet date.

b The carrying amount of trade receivables and other payables excludes £598m (FY21: £682m) of non-current trade and other payables which relates to non-financial liabilities and £918m (FY21: £827m) of other taxation and social security and deferred income.

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 2022	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Due within one year	300	940	(873)	367	77	940	(873)	144
Between one and two years	247	1,615	(1,508)	354	77	1,615	(1,508)	184
Between two and three years	18	1,679	(1,566)	131	77	1,679	(1,566)	190
Between three and four years	17	736	(685)	68	77	736	(685)	128
Between four and five years	17	511	(513)	15	77	511	(513)	75
After five years	65	4,789	(4,725)	129	279	4,789	(4,725)	343
Total[b]	**664**	**10,270**	**(9,870)**	**1,064**	**664**	**10,270**	**(9,870)**	**1,064**

	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**

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

How do we manage credit risk?

Management policy

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

For treasury-related balances, the BT Group plc Board's defined policy restricts exposure to any one counterparty by setting credit limits based on the credit quality as defined by Moody's and Standard & 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 (CFUs) 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	2022 £m	2021 £m
Derivative financial assets		1,091	1,235
Investments	21	13,792	14,675
Trade and other receivables[a]	16	1,516	1,359
Contract assets	5	1,915	1,859
Cash and cash equivalents	22	772	997
Total		**19,086**	**20,125**

[a] The carrying amount excludes £337m (FY21: £314m) of non-current trade and other receivables which relate to non-financial assets, and £1,135m (FY21 £1,918m) of prepayments, deferred contract costs and other receivables.

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

Moody's/S&P credit rating of counterparty	2022 £m	2021 £m
Aa2/AA and above	1,946	3,571
Aa3/AA–	1,118	656
A1/A+	768	775
A2/A	269	334
A3/A–	122	115
Baa1/BBB+	—	65
Baa2/BBB and below	—	—
Total[b]	**4,223**	**5,516**

a We hold cash collateral of £555m (FY21: £588m) 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 CFU. 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.

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 2022**	**Amounts presented in the balance sheet £m**	**Right of set off with derivative counterparties £m**	**Cash collateral £m**	**Net amount £m**
Derivative financial assets	1,091	(431)	(555)	105
Derivative financial liabilities	(870)	431	67	(372)
Total	**221**	**—**	**(488)**	**(267)**

		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)**

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

Significant accounting policies that apply to derivatives and hedge accounting

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

Derivatives designated in a cash flow hedge

The group designates certain derivatives in a cash flow hedge relationship. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge. To qualify for hedge accounting, hedge documentation must be prepared at inception, the hedge must be in line with BT Group plc'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 plc's risk management strategy or if it no longer qualifies for hedge accounting.

BT Group plc targets a one-to-one hedge ratio. The economic relationship between the hedged item and the hedging instrument is assessed on an ongoing basis. Ineffectiveness can arise from subsequent change in the forecast transactions as a result of altered timing, cash flows or value.

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

Other derivatives

BT Group 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 2022	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
Designated in a cash flow hedge	77	878	25	712
Other	11	125	26	107
Total derivatives	**88**	**1,003**	**51**	**819**

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**

26. Financial instruments and risk management continued

All derivative financial instruments are categorised at Level 2, with the exception of the energy contracts which are categorised at Level 3 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 Indian rupees 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 2022	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]	11,688	889	(731)	(26)	(83)	61
Step up interest on the 2030 US dollar bond[b]	122	5	—	(29)	(6)	3
Foreign currency purchases, principally denominated in US dollar, euro and Indian rupees[c]	946	30	(3)	(21)	(51)	(10)
Energy contracts[d]		31	(3)	(28)	(64)	—
Total cash flow hedges	**12,756**	**955**	**(737)**	**(104)**	**(204)**	**54**
Deferred tax		—	—	16		
Derivatives not in a designated hedge relationship		136	(133)	—		
Carrying value on the balance sheet		**1,091**	**(870)**	**(88)**		

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 Indian rupees[c]	2,145	7	(64)	40	88	9
Energy contracts[d]		—	(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**		

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 Step up interest on US dollar 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 Indian rupees are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within cost of sales, operating costs or fixed assets, in line with the underlying hedged item.
d Energy contracts are hedged using contracts for difference and virtual power purchase agreements in order to provide long term power cost certainty. Amounts recycled to profit and loss are presented within operating costs.

With the exception of one hedge which became ineffective due to divestment activity (see note 9), all cash flow hedges were fully effective in the period.

27. Other reserves

	Other comprehensive income					
	Cash flow reserve[a] £m	Fair value reserve £m	Cost of hedging reserve[c] £m	Translation reserve[d,g] £m	Merger and other reserves £m	Total £m
At 1 April 2020	**476**	**—**	**—**	**492**	**858**	**1,826**
Exchange differences[e]	—	—	—	(189)	—	(189)
Net fair value gain 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**
Exchange differences[e]	—	—	—	65	—	65
Net fair value loss on cash flow hedges	59	—	145	—	—	204
Movements in relation to cash flow hedges recognised in income and expense[f]	(86)	—	32	—	—	(54)
Fair value movement on assets at fair value through other comprehensive income	—	6	—	—	—	6
Tax recognised in other comprehensive income	(31)	—	—	—	—	(31)
Transfer to realised profit[b]	—	(7)	—	—	—	(7)
At 31 March 2022	**(148)**	**(1)**	**236**	**381**	**858**	**1,326**

[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] Realised profit includes profit on disposal of investments held at fair value through other comprehensive income.
[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 and forward points on certain foreign exchange contracts. 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 £1m (FY21: £(1)m) of exchange differences in relation to retained earnings attributed to non-controlling interests.
[f] Movements in cash flow hedge related reserves recognised in income and expense include a net charge to other comprehensive income of £126m (FY21: restated credit of £778m) which have been reclassified to operating costs, and a net credit to the cash flow reserve of £72m (FY21: credit of £72m) which have been reclassified to finance expense (see note 25).
[g] Included within the £65m movement in the translation reserve is £1m (FY21: £23m) which relate to disposals (see note 23).

28. Directors' emoluments and pensions

Neil Harris, Edward Heaton, Daniel Rider and Simon Lowth served as directors throughout the year. Martin Smith was appointed on 13 July 2021. Ulrica Fearn served as a director until her resignation on 15 June 2021.

For the year ended 31 March 2022 the aggregate emoluments of the directors excluding deferred bonuses of £623,000 (FY21: £1,044,000) was £3,176,000 (FY21: £2,313,000). 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 (FY21: none) under a money purchase scheme.

During the year one director exercised options (FY21: none) under BT Group share option plans. Five directors who held office for the whole or part of the year (FY21: 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 £698,000 (FY21: £164,000).

The emoluments of the highest paid director excluding his deferred bonus of £883,000 (FY21: £883,000) were £868,000 (FY21: £905,000). He is entitled to receive 4,606,249 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 and joint ventures are shown below:

At 31 March	2022 £m	2021 £m
Sales of services to associates and joint ventures	5	9
Purchases from associates and joint ventures	44	51
Amounts receivable from associates and joint ventures	2	3
Amounts payable to associates and joint ventures	1	5

Other related party transactions include the purchase of energy from an entity owned by the BT Pension Scheme. Total purchases during the year were £12m (FY21: £13m). £1m was due to the other party as at 31 March 2022 (FY21: £2m). The balance is unsecured and no guarantees have been given.

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 intermediate holding company, BT Group Investments Limited, between BT Group plc and British Telecommunications plc. This intermediate company held an investment of £18.5bn in British Telecommunications plc which was funded by an intercompany loan facility with British Telecommunications plc.

During FY22, no dividend (FY21: £2,000m) was settled with the parent company in respect of the year ended 31 March 2021. The directors recommended payment of a final dividend in respect of FY22 of £850m . See note 11 and the group statement of changes in equity.

During FY21 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 2021 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. As at 31 March 2022, there was only one balance between BT plc and the ultimate parent, which accrued interest at a margin of 37.5bp.

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.

In case of certain currencies LIBOR will be replaced with risk free rates. The daily rate will be the sum of the Risk Free Rate (RFR) plus Baseline Credit Adjustment Spread (CAS) plus 37.5bp or 97.5bp, and interest will be capitalised daily. We have started the interest model transition from 1 April 2022. We do not consider that these changes will have a material commercial impact on the parties.

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:

		2022		2021	
	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	11,079	125	10,992	195
Loan facility - current asset investments	21	—	n/a	—	n/a
Trade and other payables	17	—	n/a	—	n/a
Amounts owed by (to) ultimate parent company					
Non-current assets investments	21,25	—	—	—	—
Non-current liabilities loans	24,25	(585)	(4)	(971)	(6)
Trade and other receivables	16	27	n/a	20	n/a
Trade and other payables	17	(11)	n/a	(10)	n/a
Current asset investments	21	—	n/a	—	n/a
Current liabilities loans	24	—	n/a	(1)	n/a

30. Financial commitments and contingent liabilities

Financial commitments were as follows:

At 31 March	2022 £m	2021 £m
TV programme rights commitments	997	1,691
Capital commitments	1,596	1,370
Other commitments	295	263
Total	**2,888**	**3,324**

TV programme rights commitments, mainly relating to football broadcast rights, are those for which the licence period has not yet started. A sale of our BT Sport operations to which these commitments relate is considered highly probable. The group is contractually committed to future rights payments until the sale completes at which point the commitment will transfer to the new established joint venture. Further details on the transaction and held for sale assets and liabilities are included in note 23.

Other than as disclosed in note 18 in respect of legal and regulatory proceedings, there were no contingent liabilities or guarantees at 31 March 2022 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.

31. Post balance sheet events

BT Sport

In May 2022, we reached an agreement with Warner Bros. Discovery (Discovery) to create a sports joint venture (JV) combining BT Sport and Discovery's Eurosport UK business into a separate legal entity with both BT and Discovery each holding a 50% interest and equal voting rights. The production and operational assets of BT Sport will transfer to, and become a wholly owned subsidiary of, Discovery who will manage and operate the production and distribution of the sport content. Discovery will have the option to acquire BT's 50% interest in the JV at specified points during the first four years of the JV. At completion of the transaction, BT is expected to lose control of the BT Sport operations and the group's interest in the combined business is expected to be classified as a Joint Venture. BT will enter into a distribution agreement with the JV to procure the sport content required to continue to supply our existing broadband, TV and mobile customers. BT's agreement with the JV will extend beyond 2030, and for the first four years includes a minimum revenue guarantee of approximately £500m per annum, after which the agreement will change to a fully variable arrangement.

The transaction is subject to regulatory approval, but it is expected to conclude by the end of 2022. The transaction meets the held for sale criteria per IFRS 5 and accordingly the assets and liabilities of the BT Sport disposal group have been classified as held for sale at 31 March 2022. Further details are provided in note 23.

Financial Statements of British Telecommunications plc

British Telecommunications plc parent company balance sheet
Registered number 01800000

At 31 March	Notes	2022 £m	2021 £m
Non-current assets			
Intangible assets	4	2,283	2,081
Property, plant and equipment	5	17,968	16,650
Right-of-use assets	6	3,116	3,375
Derivative financial instruments	21	1,217	1,165
Investments in subsidiary undertakings, associates and joint ventures	7	16,685	18,514
Other investments	8	12,240	12,180
Trade and other receivables	10	177	152
Contract assets		27	20
Retirement benefit surplus	18	609	—
Deferred tax assets		178	881
		54,500	**55,018**
Current assets			
Programme rights	9	310	328
Inventories		116	114
Trade and other receivables	10	1,639	1,562
Contract assets		215	219
Assets classified as held for sale	22	29	—
Current tax receivables		650	624
Derivative financial instruments	21	88	75
Other investments	8	3,356	5,054
Cash and cash equivalents[a]		546	847
		6,949	**8,823**
Current liabilities			
Loans and other borrowings	11	15,493	14,329
Derivative financial instruments	21	52	71
Trade and other payables	12	4,295	4,029
Contract liabilities		521	550
Liabilities classified as held for sale	22	40	—
Lease liabilities	6	490	416
Provisions	14	103	171
		20,994	**19,566**
Total assets less current liabilities		**40,455**	**44,275**
Non-current liabilities			
Loans and other borrowings	11	15,897	17,531
Derivative financial instruments	21	819	1,195
Contract liabilities		94	68
Lease liabilities	6	3,863	4,125
Retirement benefit obligations	18	68	4,630
Other payables	13	1,251	1,249
Deferred taxation	14	1,313	1,139
Provisions	14	159	163
		23,464	**30,100**
Equity			
Ordinary shares		2,172	2,172
Share premium		8,000	8,000
Other reserves	15	844	719
Retained earnings[b]		5,975	3,284
Equity shareholder's funds		**16,991**	**14,175**
		40,455	**44,275**

[a] Includes cash of £193m (FY21: £246m) and cash equivalents of £353m (FY21: £601m).
[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 £352m (FY21: £584m) before dividends paid of £nil (FY21: £2,000m).

The financial statements of the company on pages 105 to 130 were approved by the Board of Directors on 25 May 2022 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 2020		**2,172**	**8,000**	**1,215**	**8,405**	**19,792**
Profit for the year[d]		—	—	—	584	584
Actuarial loss	18	—	—	—	(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	15	—	—	114	—	114
Net fair value loss on cash flow hedges	15	—	—	(1,463)	—	(1,463)
Dividends[d]		—	—	—	(2,000)	(2,000)
Transferred to the income statement	15	—	—	853	—	853
At 31 March 2021		**2,172**	**8,000**	**719**	**3,284**	**14,175**
Profit for the year[d]		—	—	—	352	352
Actuarial gain	18	—	—	—	2,624	2,624
Tax on actuarial gain		—	—	—	(377)	(377)
Share-based payments		—	—	—	80	80
Tax on share-based payments		—	—	—	12	12
Tax on items taken directly to equity	15	—	—	(30)	—	(30)
Net fair value gain on cash flow hedges	15	—	—	205	—	205
Transferred to the income statement	15	—	—	(56)	—	(56)
Fair value movement on assets at fair value through other comprehensive income	15	—	—	6	—	6
At 31 March 2022		**2,172**	**8,000**	**844**	**5,975**	**16,991**

a The allotted, called up and fully paid ordinary share capital of the company at 31 March 2022 and 31 March 2021 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 £352m (FY21: £584m) before dividends paid of £nil (FY21: £2,000m).

British Telecommunications plc parent company accounting policies

1. Basis of preparation

Preparation of the financial statements

The term 'company' refers to British Telecommunications plc. The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006. 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.

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.

2. Critical & key accounting estimates and significant judgements continued

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. Loans to group and parent undertakings		✓	✓
14. Contingent liabilities associated with litigation	✓		✓
14. Other 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 BDUK 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.

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.

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

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 Consumer, 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 customer relationships or brands acquired through business combinations, which are recorded at fair value at date of acquisition and subsequently carried at amortised cost, and website development costs and other licences which 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.

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 2022. 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 2021	5,276	530	23	5,829
Additions	740	—	—	740
Disposals and adjustments[b]	(313)	—	—	(313)
Transfer to assets held for sale[c]	(7)	—	—	(7)
At 31 March 2022	**5,696**	**530**	**23**	**6,249**
Accumulated amortisation				
At 1 April 2021	3,748	—	—	3,748
Charge for the year	512	—	13	525
Disposals and adjustments[b]	(304)	—	—	(304)
Transfer to assets held for sale[c]	(3)	—	—	(3)
At 31 March 2022	**3,953**	**—**	**13**	**3,966**
Net book value				
At 31 March 2022	**1,743**	**530**	**10**	**2,283**
At 31 March 2021	**1,528**	**530**	**23**	**2,081**

[a] Includes a carrying amount of £662m (FY21: £481m) 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 £0.3bn (FY21: £0.1bn).
[c] Assets transferred to held for sale during FY22 relate to our BT Sport operations. See note 22.

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 FY22 was 7.6% (FY21: 8.1%).

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% (FY21: 2.3%) for Global and 2.0% (FY21: 2.0%) for other CGUs.

5. Property, plant and equipment

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

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

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

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

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

Residual values and useful lives are reassessed annually and, if necessary, changes are recognised prospectively. In FY22 we have updated the useful lives of motor vehicles from 2-9 to 2-10 years following a review of our specialised vehicle fleet.

Impairment of property, plant and equipment
We test property, plant and equipment for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, we assess the recoverable amount by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant asset and the fair value less costs to dispose. If it is not possible to determine the recoverable amount for the individual asset then we assess impairment by reference to the relevant cash generating unit as described in note 4.

Building Digital UK (BDUK) government grants
We receive government grants in relation to BDUK 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 12.

5. Property, plant and equipment continued

	Land and buildings £m	Network infrastructure[a] Held by Openreach £m	Held by other units £m	Other[b] £m	Assets under construction £m	Total £m
Cost						
At 31 March 2021	513	29,108	18,884	1,137	478	50,120
Additions	80	—	47	79	2,921	3,127
Transfers	18	2,128	172	163	(2,483)	(2)
Disposals and adjustments[c]	—	40	(1,450)	(184)	189	(1,405)
Transfer to assets held for sale[d]	—	—	—	(50)	(4)	(54)
At 31 March 2022	**611**	**31,276**	**17,653**	**1,145**	**1,101**	**51,786**
Depreciation						
At 31 March 2021	308	16,076	16,389	813	—	33,586
Charge for the year	20	1,372	376	142	—	1,910
Disposals and adjustments[c]	(1)	28	(1,356)	(164)	—	(1,493)
Transfer to assets held for sale[d]	—	—	—	(41)	—	(41)
31 March 2022	**327**	**17,476**	**15,409**	**750**	**—**	**33,962**
Net book value						
At 31 March 2022	**284**	**13,800**	**2,244**	**395**	**1,101**	**17,824**
Engineering stores	—	—	—	—	144	144
Total	**284**	**13,800**	**2,244**	**395**	**1,245**	**17,968**
At 31 March 2021	205	13,032	2,495	324	478	16,534
Engineering stores	—	—	—	—	116	116
Total	**205**	**13,032**	**2,495**	**324**	**594**	**16,650**

a Within network infrastructure are assets with net book value of £9.8bn (FY21: £9.4bn) 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 £1.5bn (FY21: £2.0bn).
d Transfers to assets held for sale during the year relate to our BT Sport operations, see note 22.

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

– £13,800m (FY21: £13,032m) 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. Network infrastructure held by Openreach is presented separately in the table above however it is not practicable to separate out infrastructure not used in operating lease arrangements.
– Other assets include devices with a carrying amount of £169m (FY21: £128m) that are made available to retail customers under arrangements that contain operating leases. These are not presented separately in the table above as they are not material relative to the group's overall asset base.

The net book value of land and buildings comprised:

At 31 March	2022 £m	2021 £m
Freehold	52	80
Leasehold	232	125
Total net book value of land and buildings	**284**	**205**

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 company, or the company's customers) has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The lessee has the right to direct the use of the asset, in other words, has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

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

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

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

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 company'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.

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.

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.

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 company acts as lessee; and the deferral period for any upfront connection charges where the company acts as lessor. Determining the lease term requires judgement to evaluate whether 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.

Key judgements exercised in setting the lease term
The quantum of the lease liability and right-of-use asset currently recognised on our balance sheet is most significantly affected by the judgement exercised in setting the lease term for the arrangement under which the bulk of our operational UK property estate is held.

UK operational property portfolio
Substantially all of our leased property estate is held under an arrangement which can be terminated in 2031, at which point we may either vacate some or all properties; or purchase the entire estate. If neither option is taken the lease continues to the next unilaterally available break point in 2041. 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 the termination option or that we would exercise the purchase option. 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 for any properties we will continue to occupy, or the cost of purchasing the estate.

On remeasurement there would be an adjustment to both the lease liability and right-of-use asset, with no overall impact on net assets.

- Exercising the purchase option would lead to an estimated increase in the lease liability and right-of-use asset of between £3bn and £5bn.
- Continuing to lease the estate beyond 2031 until the next available break in 2041 would lead to an estimated increase in the lease liability and right-of-use asset of between £1bn and £2bn.

Our assessment will be directly linked to future strategic decisions, which will be resolved at some time prior to 2031, around the development of the fixed network and the associated rationalisation of our exchange estate. The breadth of the ranges reflects the significant uncertainty around key variables used to determine cash outflows, especially future inflation and which properties the company will be able to exit prior to or in 2031.

Estimates are based on discounted cash outflows and do not reflect the likely and significant impact of cash inflows generated from the disposal, repurposing or subleasing of properties retained post-2031.

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.

6. Leases continued

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 £m	Other £m	Total £m
At 1 April 2020	**3,253**	**95**	**360**	**—**	**3,708**
Additions[a]	254	3	105	2	364
Depreciation charge for the year	(301)	(33)	(100)	—	(434)
Other movements[b,c]	(255)	(2)	(5)	(1)	(263)
At 1 April 2021	**2,951**	**63**	**360**	**1**	**3,375**
Additions[a]	113	6	100	1	220
Depreciation charge for the year	(292)	(25)	(105)	—	(422)
Transfer to assets held for sale[d]	(2)	—	—	—	(2)
Other movements[b]	(47)	(6)	(1)	(1)	(55)
At 31 March 2022	**2,723**	**38**	**354**	**1**	**3,116**

a 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.
b 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.
c Other movements in FY21 include derecognition of right-of-use assets with a carrying amount of £208m associated with a finance sub-lease arrangement.
d Assets transferred to held for sale during the year relate to our BT Sport operations, see note 22.

Lease liabilities

Lease liabilities recognised are as follows:

Year ended 31 March	2022 £m	2021 £m
Current	490	416
Non-current	3,863	4,125
	4,353	**4,541**

Note 11 presents a maturity analysis of the payments due over the remaining lease term for these liabilities.

At 31 March 2022 the company was committed to future minimum lease payments of £31m in respect of leases which have not yet commenced and for which no lease liability has been recognised (31 March 2021: £2m).

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[a]	2022 £m	2021 (re-presented[a]) £m
Less than one year	444	335
One to two years	147	145
Two to three years	42	39
Three to four years	5	6
Four to five years	5	6
More than five years	18	20
Total undiscounted lease payments	**661**	**551**

a From FY22 this disclosure includes only outstanding and future cash payments to be received across the remaining term of operating lease arrangements, and excludes future revenue to be recognised on deferred income balances. This is considered to better align with the purpose of the disclosure and provides a clearer view of the group's liquidity risk disclosure. FY21 comparatives have been re-presented to exclude a total of £163m deferred connection fees on Openreach's 'last mile' products.

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

7. Investments in subsidiary undertakings, associates and joint ventures

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

	Subsidiary undertakings £m	Associates and joint ventures £m	Total £m
Cost			
At 31 March 2021	**36,368**	**57**	**36,425**
Additions[a]	99	—	99
Transfers[a]	17	(17)	—
Disposals[b]	(1,988)	—	(1,988)
At 31 March 2022	**34,496**	**40**	**34,536**
Provisions and amounts written off			
At 31 March 2021	**17,872**	**39**	**17,911**
Disposals[b]	(60)	—	(60)
At 31 March 2022	**17,812**	**39**	**17,851**
Net book value at 31 March 2022	**16,684**	**1**	**16,685**
Net book value at 31 March 2021	**18,496**	**18**	**18,514**

a Additions and transfers include the acquisition of the remaining 30% of the share capital of BT OnePhone Limited ("BTOP") in April 2021. Following the acquisition the Company owns the entire share capital and has transferred the original investment from joint ventures to subsidiary undertakings.
b Disposals has principally arisen to the sale of the Company's 100% interest in EE Limited to its wholly owned subsidiary, EE Group Investments Limited. Also included are transactions undertaken to simplify our legal entity hierarchy.

Details of the company's subsidiary undertakings are set out on pages 131 to 137.

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.

Key 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 £144m is held against these loans.

At 31 March	2022 £m	2021 £m
Non-current assets		
Fair value through other comprehensive income	21	1
Loans to group undertakings	1,140	1,187
Loans to parent undertakings	11,079	10,992
Total non-current investments	**12,240**	**12,180**
Current assets		
Investments held at amortised cost	2,679	3,652
Loans to group undertakings	677	1,402
Total current investments	**3,356**	**5,054**

8. Other investments continued

Investments held at amortised cost relate to money market investments denominated in sterling of £2,225m (FY21: £3,171m), in euros of £436m (FY21: £456m) and in US dollars of £18m (FY21: £25m). Within these amounts are investments in liquidity funds of £1,912m (FY21: £3,570m), £67m collateral paid on swaps (FY21: £82m) and repurchase agreements £700m (FY21: £nil).

Loans to group and parent undertakings total £12,896m (FY21: £13,581m). These consist of amounts denominated in sterling of £11,785m (FY21 restated: £12,403m), euros of £729m (FY21 restated: £756m), US dollars of £8m (FY21 restated: £8m) and other currencies of £374m (FY21 restated: £414m). During the year we performed a review of our disclosures and noted an error in the split of loans to group and parent undertakings by currency. These have been restated for better comparability.

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 accounted for as inventory and held at the lower of cost and net realisable value. They are initially recognised at cost and are consumed 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.

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 2020	**310**
Additions	903
Credits received on prepaid programme rights[a]	(99)
Release	(786)
At 1 April 2021	**328**
Additions	861
Release	(879)
At 31 March 2022	**310**

a Credits received in FY21 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	**2022 £m**	2021 £m
Current receivables		
Trade receivables	645	495
Amount owed by group undertakings	343	334
Amount owed by parent undertakings	27	20
Other receivables	180	132
Accrued income	73	79
Deferred contract costs	118	112
Prepayments	253	390
Total current receivables	**1,639**	**1,562**
Non-current trade and other receivables[a]	40	25
Deferred contract costs	137	127
Total receivables	**1,816**	**1,714**

[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	2022 £m	2021 £m
0.5% €575m bond due June 2022[a,e]	—	491
1.125% €1,100m bond due March 2023[a,e]	—	936
0.875% €500m bond due September 2023[a]	423	426
4.5% US$675m bond due December 2023[a]	520	496
1% €575m bond due June 2024[a]	489	493
1% €1,100m bond due November 2024[a]	929	935
3.50% £250m index linked bond due April 2025	468	449
0.5% €650m bond due September 2025[a]	549	553
1.75% €1,300m bond due March 2026[a]	1,098	1,106
1.5% €1,150m bond due June 2027[a]	977	984
2.125% €500m bond due September 2028[a]	425	428
5.125% US$700m bond due December 2028[a]	537	512
5.75% £600m bond due December 2028	680	690
1.125% €750m bond due September 2029[a]	631	635
3.25% US$1,000m bond due November 2029[a]	762	726
9.625% US$2,670m bond due December 2030[a] (minimum 8.625%[b])	2,077	1,981
3.125% £500m bond due November 2031	503	503
3.64% £330m bond due June 2033	339	339
1.613% £330m index linked bond due June 2033	362	347
6.375% £500m bond due June 2037[a]	523	522
3.883% £330m bond due June 2039	340	340
1.739% £330m index linked bond due June 2039	363	348
3.924% £340m bond due June 2042	350	350
1.774% £340m index linked bond due June 2042	374	358
3.625% £250m bond due November 2047	250	250
4.25% US$500m bond due November 2049[a]	383	366
1.874% €500m hybrid bond due August 2080[a,c]	426	429
4.250% $500m hybrid bond due November 2081[a,c]	383	—
4.875% $500m hybrid bond due November 2081[a,c]	384	—
Total listed bonds	**15,545**	**15,993**
Loans from group undertakings[d]	15,205	15,176
Other loans	555	588
Bank overdrafts	85	103
Total other loans and borrowings	**15,845**	**15,867**
Total loans and borrowings	**31,390**	**31,860**

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 call options between 3.5 years and 9.5 years.
d Loans from group undertakings are £15,205m (FY21: £15,176m). These consist of £12,582m (FY21: £12,704m) denominated in sterling, £1,171m (FY21: £1,000m) denominated in euros, £744m (FY21: £645m) denominated in US dollars and £708m (FY21: £827m) denominated in other currencies. Included within these balances are fixed interest bonds to group undertakings amounting £nil (FY21: £1,268m) denominated in sterling and £nil (FY21: £15m) denominated in euros which were repaid in September 2021.
e Bond redeemed in March 2022

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 £16,750m (FY21: £18,554m).

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	2022 £m	2021 £m
Current liabilities		
Listed bonds	233	219
Loans from group undertakings	14,620	13,419
Other loans and bank overdrafts	640	691
Total current liabilities	**15,493**	**14,329**
Non-current liabilities		
Listed bonds	15,312	15,774
Loans from group undertakings	585	1,757
Total non-current liabilities	**15,897**	**17,531**
Total	**31,390**	**31,860**

At 31 March 2022	Lease liabilities £m	Loans and other borrowings £m	Total £m
Repayments falling due as follows:			
Within one year, or on demand	**490**	**15,493**	**15,983**
Between one and two years	506	935	1,441
Between two and three years	484	1,415	1,899
Between three and four years	477	3,117	3,594
Between four and five years	467	379	846
After five years	2,547	10,041	12,588
Total due for repayment after more than one year	**4,481**	**15,887**	**20,368**
Total repayments	**4,971**	**31,380**	**36,351**
Fair value adjustments	—	10	10
Impact of discounting	(618)	—	(618)
Total	**4,353**	**31,390**	**35,743**

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	**416**	**14,329**	**14,744**
Between one and two years	491	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	—	13	13
Impact of discounting	(694)	—	(694)
Total	**4,541**	**31,860**	**36,401**

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	2022 £m	2021 £m
Trade payables	2,266	2,077
Amounts owed to group undertakings	683	688
Amounts owed to ultimate parent company	11	11
Other taxation and social security	233	187
Other payables	451	407
Accrued expenses	287	312
Deferred income[a]	364	347
Total	**4,295**	**4,029**

[a] Deferred income includes £96m (FY21: £96m) 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	2022 £m	2021 £m
Other payables	2	5
Deferred income[a]	1,249	1,244
Total	**1,251**	**1,249**

[a] Deferred income includes £392m (FY21: £472m) 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 & contingent liabilities

Our provisions principally relate to obligations arising from property rationalisation programmes, restructuring programmes, insurance claims, litigation and regulatory risks. Contingent liabilities primarily arise from litigation and regulatory matters that are not sufficiently certain to meet the criteria for recognition as provisions.

Significant accounting policies that apply to provisions & contingent liabilities
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.

Where these criteria are not met we disclose a contingent liability if the company has a possible obligation, or has a present obligation with an outflow that is not probable or which cannot 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.

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

Critical accounting estimates applied in accounting for contingent liabilities
Establishing contingent liabilities associated with litigation brought against the company 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 relation to specific matters in the 'contingent liabilities' section below.

Key accounting estimates applied in accounting for provisions & contingent liabilities
Other provisions may involve the use of key (but not critical) estimates as explained below.

Property provisions relate to obligations arising in relation to our property portfolio, in particular costs to restore leased properties on vacation where this is required under the lease agreement. In measuring property provisions, we have made estimates of the costs association with the restoration of properties by reference to any relevant guidance such as rate cards. Cash outflows occur as and when properties are vacated and the obligations are settled.

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. 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.

Litigation provisions represent the best estimate to settle present obligations recognised in respect of claims brought against the company. The estimate reflects the specific facts and circumstances of each individual matter and any relevant external advice received. Provisions recognised are inherently judgemental and could change over time as matters progress.

Our insurance provision is based on our gross exposure to latent disease claims from former colleagues. A third party reviews our exposure and provides an estimate of the most likely outcome.

Other provisions do not include any individually material provisions.

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

14. Provisions & contingent liabilities continued

	Property[a] £m	Regulatory £m	Litigation £m	Insurance £m	Other £m	Total £m
At 1 April 2020	**77**	**79**	**42**	**59**	**71**	**328**
Additions	6	32	6	—	31	75
Unwind of discount	—	—	—	—	—	—
Utilised	(6)	(15)	—	(5)	(2)	(28)
Released	—	—	—	—	(40)	(40)
Transfers	—	—	—	—	(1)	(1)
At 1 April 2021	**77**	**96**	**48**	**54**	**59**	**334**
Additions	3	14	—	—	3	20
Unwind of discount	—	—	—	—	—	—
Utilised	(2)	(26)	—	(5)	(1)	(34)
Released	—	(18)	(22)	—	(18)	(58)
Transfers	—	(1)	—	—	1	—
At 31 March 2022	**78**	**65**	**26**	**49**	**44**	**262**

[a] Timing of expected cash flows associated with property provisions varies depending on the exit dates of individual properties. During FY22 there has been no material change in the judgements or assumptions applied in the measurement of our existing obligations.

At 31 March	2022 £m	2021 £m
Analysed as:		
Current	103	171
Non-current	159	163
	262	**334**

Included within 'Other' are contract loss provisions of £1m (FY21: £2m) relating to the anticipated total losses in respect of certain contracts.

Contingent liabilities

In the ordinary course of business, we are periodically notified of actual or threatened litigation, and 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 are reflected in the table above. Where an outflow is not probable but is possible a contingent liability exists. Save as disclosed below, the company 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 company. 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 they estimated at £608m (inclusive of compound interest) or £589m (inclusive of simple interest) on behalf of our landline customers alleging anti-competitive behaviour through excessive pricing by BT to customers with certain residential landline services. Ofcom considered this topic more than four 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. In September 2021 the Competition Appeal Tribunal certified the claim to proceed to a substantive trial on an opt-out basis (class members are automatically included in the claim unless they choose to opt-out). We appealed the opt-out nature of that decision and in May 2022 the Court of Appeal determined that the claim should proceed on an opt-out basis. A trial date is due to be listed for early 2024. BT intends to defend itself vigorously.

14. Provisions & contingent liabilities continued

Taxation

The value of the company's income tax asset is disclosed on the company balance sheet on page 105. 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. We have remeasured our deferred tax balances following the enactment of the new UK corporation tax rate of 25% from April 2023.

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 93% 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. £168m (FY21: £179m) is offset within current tax assets in relation to these uncertainties. Under a downside case an additional amount of £99m could be required. This amount is not provided as we don't consider this outcome to be probable.

	£m
At 1 April 2020	**1,210**
Charge recognised in the income statement	48
Transfer to deferred tax asset	—
Transfer to current tax	—
Charge recognised in reserves	(119)
At 1 April 2021	**1,139**
Charge recognised in the income statement	515
Transfer to deferred tax asset	—
Transfer to current tax	(33)
Credit recognised in reserves	(308)
At 31 March 2022	**1,313**

At 31 March	2022 £m	2021 £m
Tax effect of temporary differences due to:		
Excess capital allowances	2,211	1,206
Losses	(778)	—
Share-based payments	(37)	(20)
Other	(83)	(47)
Total provision for deferred taxation	**1,313**	**1,139**

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

What factors affect our future tax charges?

We expect a large proportion of our capital spend on fibre roll-out to be eligible for the Government's super-deduction regime, which allows for enhanced and accelerated tax relief for qualifying capital expenditure. These enhanced deductions are available for FY22 and FY23, driving a projected UK tax loss and no UK tax payments for these periods. These deductions together with accelerated deductions relating to pension contributions result in c.£5bn of tax losses expected to be carried forward from FY23.

15. Reconciliation of movement in other reserves

	Cash flow reserve[a]	Fair value reserve	Cost of hedging reserve[b]	Capital redemption reserve[c]	Total other reserves
	£m	£m	£m	£m	£m
At 1 April 2020	463	—	—	752	1,215
Transferred to the income statement	807	—	46	—	853
Net fair value gain (loss) on cash flow hedges	(1,476)	—	13	—	(1,463)
Tax on items taken directly to equity	114	—	—	—	114
At 31 March 2021	**(92)**	**—**	**59**	**752**	**719**
Transferred to the income statement	(88)	—	32	—	(56)
Tax on items taken directly to equity	(30)	—	—	—	(30)
Net fair value gain on cash flow hedges	60	—	145	—	205
Fair value movement on assets at fair value through other comprehensive income	—	6	—	—	6
At 31 March 2022	**(150)**	**6**	**236**	**752**	**844**

[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 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 and forward points on certain foreign exchange contracts. 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, 1 Braham Street, London E1 8EE.

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:

	2022	2021
At 31 March	£m	£m
TV programme rights commitments	997	1,691
Capital commitments	1,275	956
Other commitments	6	19
Total	**2,278**	**2,666**

TV programme rights commitments, mainly relating to football broadcast rights, are those for which the licence period has not yet started. A sale of our BT Sport operations to which these commitments relate is considered highly probable. The company is contractually committed to future rights payments until the sale completes at which point the commitment will transfer to the new established joint venture. Further details on the transaction and held for sale assets and liabilities are included in note 22.

Other than as disclosed in note 14 in respect of legal and regulatory proceedings, there were no contingent liabilities or guarantees at 31 March 2022 other than those arising in the ordinary course of the company'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 company generally carries its own risks.

18. Retirement benefit plans

Background to BT's pension plans
The company has both defined benefit and defined contribution retirement benefit plans. The company's 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 future benefit accrual in 2018 for over 99% of the active membership at the time. The BT Hybrid Scheme (BTHS), which combines elements of both defined benefit and defined contribution plans, was set up for non-management employees impacted by the closure of the BTPS and was closed to new entrants in 2019.

New entrants to BT in the UK are eligible to join a defined contribution plan, currently the BT Retirement Saving Scheme (BTRSS), a contract-based arrangement operated by Standard Life.

Defined benefit plans
The net defined benefit liability, or deficit, in respect of the defined benefit plans is 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 (also known as the Defined Benefit Obligation (DBO) or liabilities) less the fair value of the plan assets.

The income statement expense is allocated between an operating charge and net finance 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 expense reflects the interest on the net defined benefit liability recognised in the balance sheet, based on the discount rate at the start of the year.

Remeasurements of the net defined benefit liability 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 balance sheet 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 over the year being different compared to the assumptions made at the start of the year, for example, from members choosing different benefit options at retirement or actual pension 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 expense.

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

Critical accounting estimates and significant judgements 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 members, price inflation and discount rate 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, actuarial 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 IAS 19, plan assets should be measured at fair value at the balance sheet date.

The 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 £5.6bn of these unquoted investments are formally valued periodically by the investment manager and the latest valuation precedes the balance sheet date. These valuations have been adjusted for cash movements between the previous valuation date and 31 March 2022. The valuation approach and inputs for these investments would only be approximately updated where there were indications of significant market movements, which was not the case at 31 March 2022 or in 2021. The BTPS exposure to Russian assets is less than 0.1% of the BTPS assets.

The asset-backed funding arrangement, issued to the BTPS in May 2021, which has a fair value of £1.4bn at 31 March 2022, is recognised as a pension asset when measuring the company's IAS 19 net defined benefit liability. This is not recognised in the group's net defined liability as it is a non-transferable financial instrument issued by the reporting company.

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 International Private Equity and Venture Capital (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 using RICS guidelines. The significant assumptions used in the valuation are rental yields and occupancy rates.
- Bonds, including those issued by BT, 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.

18. Retirement benefit plans continued

Critical accounting estimates and significant judgements made when valuing our pension assets continued

- Over the counter derivatives are valued by an independent valuer using cash flows discounted at market rates. The significant assumptions used in the valuation are the yield curves and cost of carry.
- Holdings in investment funds are typically valued at 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, or at the price of recent market transactions if they represent fair value. Where a discounted cash flow model is used, 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.

The net defined benefit liability in respect of defined benefit plans reported in the balance sheet is set out below:

	2022			2021		
	Assets	**Liabilities**	**Surplus / (Deficit)**	Assets	Liabilities	Surplus / (Deficit)
At 31 March	**£m**	**£m**	**£m**	£m	£m	£m
BTPS[a]	54,905	(54,309)	596	53,172	(57,737)	(4,565)
Other plans[b]	126	(181)	(55)	119	(184)	(65)
Total (gross of tax)	**55,031**	**(54,490)**	**541**	**53,291**	**(57,921)**	**(4,630)**
Deferred tax asset			178			880
Total (net of tax)			**719**			**(3,750)**

[a] Included in the plan assets is £1.4bn (FY21: £nil) related to the asset-backed funding arrangement.
[b] The balance sheet position comprises of plans in surplus of £13m and plans in deficit of £68m. Included in the liabilities is £59m (FY21: £69m) related to unfunded plans.

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

	Assets	**Liabilities**	**Surplus / (Deficit)**
	£m	**£m**	**£m**
At 31 March 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	—	—	—
At 31 March 2021	**53,291**	**(57,921)**	**(4,630)**
Service cost (including administration expenses and PPF levy)	(45)	(16)	(61)
Interest on pension deficit	1,100	(1,159)	(59)
Return on plan assets above pensions interest on assets	734	—	734
Actuarial gain arising from changes in financial assumptions	—	2,738	2,738
Actuarial gain arising from changes in demographic assumptions	—	795	795
Actuarial (loss) arising from experience adjustments	—	(1,643)	(1,643)
Regular contributions by employer	106	—	106
Deficit contributions by employer	2,561	—	2,561
Contributions by employees	—	—	—
Benefits paid	(2,716)	2,716	—
Other movements	—	—	—
At 31 March 2022	**55,031**	**(54,490)**	**541**

18. Retirement benefit plans continued

Asset-backed funding arrangement (ABF)
In May 2021, the company put in place an ABF arrangement which provides the BTPS with annual capital and interest payments over a period of 13 years. The initial fair value of the ABF was £1.7bn. The stream of payments are financed through distributions from EE Limited and are secured on EE Limited shares. Under IFRS, the ABF is recognised as a plan asset in the company's balance sheet, but not recognised at group level. Following the first annual payment of £180m made in June 2021, the fair value has reduced to £1.4bn at 31 March 2022, which is recognised as an additional asset in the company accounts. The ABF would be categorised as an unquoted secure income asset within the asset allocation table in note 19 of the consolidated financial statements.

Further information covering details of the BTPS, including the valuation methodology of plan assets and liabilities, funding valuation and future funding obligations is disclosed in note 19 of the consolidated financial statements.

19. Employees and directors

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

Year ended 31 March	2022 000	2021 000
Average monthly number of employees[a]	35.4	37.3

Year ended 31 March	2022 £m	2021 £m
Wages and salaries	1,355	1,605
Share-based payments	53	36
Social security	152	150
Other pension costs	271	287
	1,831	**2,078**

[a] Includes an average of 7 non-UK employees (FY21: 10 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 cash flow hedges or fair value 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 in a cash flow hedge relationship. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge. To qualify for hedge accounting, hedge documentation must be prepared at inception, the hedge must be in line with BT Group plc'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 plc's risk management strategy or if it no longer qualifies for hedge accounting.

The group targets a one-to-one hedge ratio. The economic relationship between the hedged item and the hedging instrument is assessed on an ongoing basis. Ineffectiveness can arise from subsequent change in the forecast transactions as a result of altered timing, cash flows or value.

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

Other derivatives
BT Group plc '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.

31 March 2022	Current asset £m	Non current asset £m	Current liability £m	Non current liability £m
Designated in a cash flow hedge	77	878	25	712
Other	11	339	27	107
Total derivatives	**88**	**1,217**	**52**	**819**

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	41	1,023
Other	19	215	30	172
Total derivatives	**75**	**1,165**	**71**	**1,195**

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 2030 US dollar bond. The hedged cash flows will affect income statement 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 Indian rupees 12 months forward with certain specific transactions hedged further forward. The related cash flows are recognised in the income statement over this period.

With the exception of one hedge which became ineffective due to divestment activity, all cash flow hedges were fully effective in the period. See note 15 for details of the movements in the cash flow hedge reserve.

Other derivatives include £214m (FY21: £nil) in relation to BT plc's interest in the ABF funding arrangement for the BTPS. Further information is disclosed in note 19 of the consolidated financial statements.

22. Assets & liabilities classified as held for sale

Significant accounting policies that apply to 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.

At 31 March 2022, the company had one disposal group held for sale, BT Sport. No other disposal groups were classified as held for sale during FY21 or FY22.

BT Sport
In May 2022 we reached an agreement with Warner Bros. Discovery (Discovery) to create a sports joint venture (JV), see note 23 to the consolidated financial statements for further details on the transaction.

The transaction is subject to regulatory approval, but it is expected to conclude in the first half of FY23 and meets the held for sale criteria per IFRS 5. Accordingly, the following assets and liabilities of the BT Sport disposal group that are directly held by the company have been classified as held for sale at 31 March 2022:

At 31 March	2022 £m
Assets	
Intangible assets	4
Property, plant and equipment	13
Right-of-use assets	2
Trade and other receivables	10
Assets held for sale[a]	**29**
Liabilities	
Trade and other payables	38
Lease liabilities	2
Liabilities held for sale	**40**

a £310m of programme rights relating to sports broadcasting rights acquired for the BT Sport operations have not been reclassified to held for sale as the carrying amount of these assets is expected to be recovered principally through continuing use before completion of the transaction.

No impairment loss has been recognised on the assets of the disposal group, see note 23 to the consolidated financial statements of BT plc for further details on the impairment test performed.

23. Post balance sheet events

BT Sport
In May 2022, we reached an agreement with Warner Bros. Discovery (Discovery) to create a sports joint venture (JV). Further details are provided in note 31 to the consolidated financial statements.

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, 1101 CM, Amsterdam, 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		
1 Braham Street, London, E1 8EE, 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	99 %	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 Ninety-Five Limited	100%	ordinary
BT Nominees Limited	100%	ordinary
BT OnePhone Limited[c]	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, Lanarkshire, G2 8LA, Scotland		
BT Corporate Limited	100%	ordinary
BT Falcon 1 LP	100%	–
BT Falcon 2 LP	100%	–
Holland House (Northern) Limited	100%	ordinary
BDO LLP, 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
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
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		
Maipu No 1210, piso 8 (C1006), Buenos Aires, 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		
UTC Building, 19th Floor, Kawran Bazar, Dhaka-1215, Dhaka, 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
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		
Trg Heroja 10/1, Sarajevo, 71000, Bosnia and Herzegovina		
BTIH Teleconsult Drustvo sa organicenom odgovornoscu za posredovanje i zastupanje d.o.o. Sarajevo	100%	–
Botswana		
Deloitte House, Fairgrounds Office Park, Plot 64518, Gaborone, PO BOX 1839,		
BT Global Services Botswana (Proprietary) Limited	100%	ordinary
Brazil		
Avenida Das Nações Unidas, 4777 - 14 andar, São Paulo, SP, Brazil		
BT Communications do Brasil Limitada	100%	quotas
Avenida Das Nações Unidas, 4777 - 14 andar, Pinheiros,São Paulo, SP, 05477-000, Brazil		
BT Global 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 ON 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 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 702A, Tower W3,Oriental Plaza,1 East Chang An Avenue, Dongcheng, Beijing, 100738, China		
BT China Limited	100%	registered
Unit 1537B, Floor 15th, No. 55, Xili Road, Shanghai Free Trade Zone, Shanghai, China		
BT China Communications Limited	50%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Colombia		
Calle 113, 7-21,Torre A Oficina 1015 Teleport Business, 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 Cote 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		
Pujmanové 1753 / 10a, Nusle, 140 00, Prague, 4, Czech Republic		
BT Limited, organizacni slozka[b]	100%	–
BT Global Europe B.V., odštěpný závod[b]	100%	–
Denmark		
Havneholmen 29, 1561, Kobenhavn V, Copenhagen, 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, 4° Piso, Quito, Ecuador		
BT Solutions Limited (Sucursal Ecuador)[b]	100%	–
Egypt		
95 C st. El Sayed El Mirghany, Heliopolis 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		

Company name	Group interest in allotted capital[a]	Share class
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
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, P.O. Box MB 595, Accra, Ghana		
BT Ghana Limited	100%	ordinary
Greece		
75 Patision Street, Athens, 10434, Greece		
BT Solutions Limited-Greek Branch[b]	100%	–
Guatemala		
5ta avenida 5-55 zona 14, Edificio Europlaza World Business Center, Torre IV, nivel 7, oficina 702, Guatemala City, Guatemala		
BT Guatemala S.A.	100%	unique
Honduras		
Colonia Pueblo Nuevo, Edificio Torre Morazán, Torre No. 1, Piso 9, Municipio del Distrito Central, Departamento de, Francisco Morazán, Tegucigalpa, 10918, Honduras		
BT Sociedad De Responsabilidad Limitada	100%	–
Hong Kong		
38th Floor Dorset House, Taikoo Place, 979 King's Road, Island East, Quarry Bay, Hong		
BT Hong Kong Limited	100%	ordinary
Infonet China Limited	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
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
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	100%	ordinary
BT Telecom India Private Limited	100%	ordinary
A-47, Hauz Khas, New Delhi, Delhi-DL, 110016, India		
Orange Services India Private Limited	100%	ordinary
Indonesia		
20/F of IWG Spaces at World Trade Centre 3, Jl. Jend. Sudirman, RT.4/RW.2, Karet Kuningan, Kota Administrasi Jakarta Selatan, Jakarta, 12920, Indonesia		
PT BT Indonesia	100%	ordinary
PT BT Communications Indonesia	95%	ordinary
Isle of Man		
Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man		
Belmullet Limited	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 Mario Bianchini 15, 00142 Roma, Italy		
BT Global Services Limited[b]	100%	–
Via Pianezza n° 123, 10151, 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		
Suite #6, 9A Garelli Avenue , Half way tree, St. Andrew, Kingston 10, 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		
Wadi AlSer - Dahiet Prince Rashid - King Abdullah Street , Building No. 391 - 3rd Floor, Jordan		
BT (International) Holdings Limited (Jordan)	100%	ordinary
Kazakhstan		
No 201, 2nd Floor, Building 1a, Business Centre Nurly-Tau, 5 Al-Farabi Avenue, Almaty , 050057, Kazakhstan		
BT Kazakhstan LLP	100%	–
Kenya		
Aln House, Eldama Ravine close, off Eldama Ravine Road, Westlands, P O Box 764, Sarit Centre, Nairobi, 00606, Kenya		
BT Communications Kenya Limited	100%	ordinary
P.O. BOX 10032-00100, Nairobi, Kenya		
BT Telecommunications Kenya Limited	100%	ordinary
Korea		
8th Floor, KTB Building, 66 Yeoui-daero, Yeongdeungpo-gu, Seoul, 07325, Korea		
BT Global Services Korea Limited	100%	common
Latvia		
Muitas iela 1A, Riga, LV-1010, Latvia		
BT Latvia Limited, Sabiedriba ar ierobezotu 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 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		
Level 5, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia		
BT Global Services Solutions Sdn Bhd	100%	ordinary
BT Global Technology (M) Sdn. Bhd.	100%	ordinary
BT Systems (Malaysia) Sdn Bhd	100%	ordinary
Malta		
Level 1, LM Complex, Brewery Street, Zone 3, Central Business District, Birkirkara CBD, 3040, Malta		
BT Solutions Limited[b]	100%	–
Mauritius		
c/o Deloitte, 7th Floor Standard Chartered Tower, 19-21 Bank Street, Cybercity, Ebène, 72201, Mauritius		
BT Global Communications (Mauritius) Limited	100%	ordinary
Mexico		
Edificio Plaza Inverlat Blvd, Manuel Avila Camacho 1, Piso, Piso 6, Colonia Lomas de Chapultepec, Miguel Hidalgo, Mexico City, 11009, Mexico		
BT LatAm México, S.A. de C.V.	100%	common
Montenegro		
Vasa Raickovica 4b, Podgorica, Podgorica, Montenegro		
BT Montenegro DOO	100%	–
Morocco		
Bd. Abdelmoumen, Immeuble Atrium, n 374, Lot. Manazyl Al Maymoune, 5eme 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

Company name	Group interest in allotted capital[a]	Share class
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, 1101 CM, Amsterdam, 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, Nicargua, 2815, Nicaragua		
BT Nicaragua S.A.	100%	capital
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, Oslo, 0121, 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		
50th and 74th Street, San Francisco, PH 909, 15th and 16th Floor, Panama City , 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		
126/134 Marszalkowska St., Room 128, 00-008 WARSAW, Warsaw, 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
Whitestream Industries Limited	100%	ordinary
BDO, Beaux Lane House, Mercer Street Lower, Dublin 2, Ireland		
Canal Capital Investment 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
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, 2191, South Africa		
BT Communications Services South Africa (Pty) Limited	70%	ordinary
BT Limited[b]	100%	–
Spain		
C/ María Tubau, 3, 28050 de Madrid, Spain		
BT Global ICT Business Spain SLU	100%	ordinary
Sri Lanka		
Level 03, No 11, Castle Lane, Colombo, 04, Sri Lanka		

Company name	Group interest in allotted capital[a]	Share class
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		
Region Dar Es Salaam, District Kinondoni, Ward Msasani, Street Msasani Peninsula, Road 1 Bains Singh Avenue, Plot number 1403/1, Ground Floor, 14111, United Republic of Tanzania		
BT Solutions Limited - Tanzania Branch[b]	100%	–
Thailand		
No.63 Athenee Tower, 23rd Floor (CEO Suite, Room No.38), Wireless Road, Kwaeng Lumpini, Khet 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		
Rue de l', Euro Immeuble Slim, 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, Istanbul, 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%	–

Company name	Group interest in allotted capital[a]	Share class
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		
1 Braham Street, London, E1 8EE, 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
BDO LLP, 55 Baker Street, London, W1U 7EU, United Kingdom		
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 Limited	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
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
Uruguay		
Rincón 487 Piso 11, Montevideo, ZIP CODE 11.000, Uruguay		
BT Solutions Limited Sucursal Uruguay[b]	100%	–
Venezuela		
Edificio Parque Cristal, Torre Oeste, Piso 5, Oficina 5, Avenida Francisco de Miranda, Urbanización Los Palos Grandes, Caracas 1060, Venezuela		
BT LatAm Venezuela, S.A.	100%	ordinary
BT Global (Venezuela) S.A.	100%	ordinary
Vietnam		
16th Floor Saigon Tower, 29 Le Duan Road, District 1, Ho Chi Minh City, 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 directly		
United Kingdom		
2nd Floor, Aldgate Tower, 2 Leman Street, London, E1 8FA, United Kingdom		
Youview TV Limited	14%	voting
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%	-
Held via other group companies		
Indonesia		
20/F of IWG Spaces at World Trade Centre 3, Jl, Jend. Sudirman, RT.4/ RW.2, Karet Kuningan, Kota Administrasi Jakarta Selatan, Jakarta, 12920, Indonesia		
PT Sun Microsystems Indonesia	60%	ordinary
Philippines		
11th Floor, Page One Building, 1215 Acacia Avenue, Madrigal Business Park, Ayala Alabany, Muntinlupa city, 1780 City, Manila, 1780, Philippines		
Sun Microsystems Philippines, Inc	51%	common
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 therefore the company is now a wholly owned subsidiary.
d BT (Germany) GmbH & Co. oHG is making use of disclosure exemption under the German Commercial Code Paragraph 264.

Additional Information

Alternative performance measures

Introduction

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

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

Specific items

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* of BT Group plc 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. 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 business restructuring programmes, acquisitions and disposals of businesses and investments, charges or credits relating to retrospective regulatory matters, property rationalisation programmes, significant out of period contract settlements, net interest on our pension obligation, and the impact of remeasuring deferred tax balances. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. Any releases to provisions originally booked as a specific item are also classified as specific.

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 36.

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	2022 £m	2021 £m
Reported profit for the period	**1,397**	**1,629**
Tax	689	368
Reported profit before tax	**2,086**	**1,997**
Net interest related finance expense	691	584
Depreciation and amortisation	4,405	4,347
EBITDA	**7,182**	**6,928**
EBITDA specific items	287	481
Net other finance expense	110	18
Share of post tax losses (profits) of associates and joint ventures	—	(8)
Adjusted EBITDA	**7,579**	**7,419**

Cautionary statement regarding forward-looking statements

Certain information included in this Annual Report and Accounts is forward looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward looking statements. Forward looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations. Forward looking statements can be identified by the use of forward looking terminology, including terms such as 'believes', 'estimates', 'anticipates', 'expects', 'forecasts', 'intends', 'plans', 'projects', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology. Forward looking statements in this Annual Report and Accounts are not guarantees of future performance. All forward looking statements in this Annual Report and Accounts are based upon information known to the Company on the date of this Annual Report and Accounts. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward looking statements, which speak only at their respective dates. Additionally, forward looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise. Nothing in this Annual Report and Accounts shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.