British Telecommunications plc

Annual Report and Financial Statements
Year ended 31 March 2023
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 BT Group plc’s Annual Report 2023, which does not form part of this report.

How we're organised

BT plc is the principal trading subsidiary of BT Group plc ("BT Group"), which is the ultimate parent company.

BT Group is made up of customer-facing, technology, and corporate units. In line with regulations, our Openreach customer-facing unit operates independently. The rest of the group operates through an integrated model. We share resources like our mobile network, technology, shared services such as billing and procurement, personnel and brands to deliver the best outcomes for customers.

Customer-facing units

Our four customer-facing units (CFUs) design, market, sell and service tailored solutions to different market segments. By delivering excellent customer service and differentiated solutions, they earn revenue and drive growth. This year we announced the merger of Enterprise and Global into Business to better serve our business customers. Business will formally begin reporting as a single unit from 1 April 2023. So, for FY23 reporting we have continued to cover Enterprise and Global separately.

Consumer serves individuals and households. We help people in over 14m homes to communicate, study, work, learn, play, and be entertained through our EE, BT and Plusnet brands.

Enterprise serves over 1.2m UK and Republic of Ireland organisations with connectivity solutions to help them run, transform and grow. Enterprise serves small, medium and large corporate businesses, the public sector and the UK government. We also wholesale some network solutions to other communications providers (CPs).

Global serves multinational companies and governments, with a presence in c. 180 countries. Our expertise helps customers with connectivity, cloud and cyber security solutions.

Openreach operates with strategic and operational autonomy in line with our regulatory Commitments. It builds and operates our fixed wholesale access network including rolling out our next generation full fibre network. Openreach serves over 680 CPs who sell fixed access services to their end customers like homes, schools, hospitals, libraries, government buildings and businesses across the UK.

Technology units

Our technology units (TUs) build, maintain, and manage our digital and network assets (apart from the fixed access network, managed by Openreach). They focus on modernising BT Group to make us more agile, efficient and help deliver better solutions for our customers. They also drive our research & development (R&D) and support innovation.

Digital leads our digital transformation, drives innovation and delivers IT and digital platforms to underpin the products and services that our customers need, while also helping to build new revenue platforms.

Networks designs, builds and runs the mobile, core and global networks that we and our customers rely on. Networks is now also responsible for BT Group’s security, operational resilience and health, safety and environment agenda.

Corporate units

Our corporate units (CUs) support the CFUs and TUs through sharing common activities and best practice to drive efficiency benefits. They also provide overall group-level direction-setting, management and coordination.

Key performance indicators

We use nine KPIs – five operational and four financial. We reconcile adjusted financial measures to the closest IFRS measure on page 143.

Operational

BT Group Net Promoter Score (NPS)

This tracks changes in our customers' perceptions of BT Group since we launched the measure in April 2016. It's a combined measure of 'promoters' minus 'detractors' across our business units. BT Group NPS measures the net promoter score in our retail business and net satisfaction in our wholesale business.

BT Group NPS decreased by 1.0 point, (FY22: up 2.3 points) due to cost of living challenges and industrial action affecting our consumer brands and the wider telecoms market, although this was offset partially by positive perceptions from corporate customers.

Total Openreach FTTP connections

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

3.1m customers were connected to Openreach's FTTP network at 31 March 2023 (FY22: 1.8m). Openreach's full fibre footprint reaches more than 10.3m homes and businesses including 3.1m rural premises, and we're on track to get to 25m premises by the end of 2026.

Total 5G connections

This measures the number of BT retail connections to the 5G network.
8.6m BT retail customers are able to connect to our 5G network at 31 March 2023 (FY22: 5.3m). We continue to expand our 5G network which now covers 68% 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 56% reduction from our baseline year (FY17) (FY22: 55%).

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 2023 we had helped 19.3m people improve their digital skills (FY22: 14.7m) and we remain 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 £20,681m (FY22: £20,850m). The decrease was driven by the removal of BT Sport revenue, legacy product declines, lower equipment sales in Global and the loss of an MVNO customer, partially offset by indexation and improvement in product mix.

Adjusted[a] EBITDA

This measures our earnings before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures.

Adjusted[a] EBITDA was £7,930m (FY22: £7,579m). The increase was primarily due to our cost transformation programme and the removal of BT Sport costs, partially offset by cost inflation and reported revenue decline.

Adjusted[a] EBITDA margin

This measures our margin, calculated using our adjusted[b] EBITDA as a percentage of adjusted revenue.

Adjusted[a] EBITDA margin improved 2pp to 38% (FY22: 36%). The increase is mainly driven by our cost transformation programme and margin improvements following the removal of BT Sport, offset by cost inflation.

Reported capital expenditure

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

Reported capital expenditure was £5,056m (FY22: £5,286m). The decrease was driven by the impact of the investment in spectrum in FY22, offsetting increased fixed network investment primarily in Openreach for building, and connecting more customers to, FTTP.

Strategic report continued

Group performance

The heightened economic and geopolitical uncertainty experienced over the past year have led to increased energy costs, supply chain disruption and a cost of living crisis that has impacted FY23 performance for the group and our competitors, customers and suppliers. The impact of the resulting uncertainty has been a key focus during the year, in particular inflationary pressures. We are able to mitigate the impact through cost management, our risk management framework and the proportion of inflation linkage within our key revenue streams which helps offset the impact of inflation and energy price rises. We are further protected against energy price volatility with 91% of our costs hedged for the next 12 months. Accordingly, we are comfortable that the group will be able to navigate these challenges in the short, mid and long term.

Summarised income statement (reported measures)

Year ended 31 March	**2023 £m**	2022 £m
Revenue	20,681	20,850
Operating costs	(13,242)	(13,558)
Depreciation and amortisation	(4,818)	(4,405)
Operating profit	**2,621**	**2,887**
Net finance expense	(447)	(801)
Share of post tax profit (loss) of associates and joint ventures	(59)	—
Profit before tax	**2,115**	**2,086**
Tax	176	(689)
Profit for the year	**2,291**	**1,397**

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

Revenue

Reported revenue was £20,681m, down 1%, driven by the removal of BT Sport revenue, legacy product declines (including copper products in Openreach and CPS products in Enterprise), lower equipment sales in Global and the loss of an MVNO customer, partially offset by indexation and improvement in product mix.

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 £18,060m, up 1%, primarily due to increased depreciation and cost inflation partially offset by tight cost control and the removal of BT Sport rights and production costs.

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

Adjusted[a] EBITDA

Adjusted[a] EBITDA of £7,930m increased by 5% primarily due to our cost transformation programme and and the removal of BT Sport costs, partially offset by cost inflation and decline in reported revenue.

Profit before tax

Reported profit before tax of £2,115m was up 1%, with decreases in net finance expense partially offset by increased operating costs and losses of associates and joint ventures, and decreased revenue. The movement in net finance expense was mainly driven by increased finance income on intra-group loan receivables, which is now calculated based on risk-free rates following IBOR reform and which reflects market conditions..

Specific items

As we explain on page 143, 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 adjusteda results as presented in the consolidated income statement. Adjusteda 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 £253m (FY22: £728m). The main components were restructuring charges of £300m (FY22: £347m), net charges associated with the disposal of BT Sport of £155m and subsequent charge of £34m (FY22: £nil) and property impairment charges of £65m (FY22: £nil); offset by tax credit on specific items of £308m (FY22: net tax charge of £340m). The net profit on disposal of BT Sport recognised in specific items was £28m, representing the £155m charges and £183m of the tax credit.

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

Taxation

The effective tax rate on reported profit was -8.3% (FY22: 33.0%) primarily driven by the impact of the super deduction and the gain on the disposal of BT Sport being exempt from UK tax. The FY22 rate was higher due to a tax charge on the revaluation of deferred tax liabilities from 19% to the new 25% UK corporation tax rate.

The effective tax rate on adjusted[a] profit was 4.9% (FY22: 14.1%) as we expect a large proportion of our capital spend on fibre rollout to qualify for the Government's super deduction scheme.

a Items presented as adjusted are stated before specific items. See page 143 for more information

At the end of FY23, we had c.£8bn of carried forward UK tax losses.

We received a net income tax refund globally of £136m (FY22: £52m paid) following the agreement of an outstanding issue with HMRC during the prior period.

Our tax expense recognised in the income statement before specific items was £132m (FY22: £349m). We also recognised a £642m tax credit (FY22: £430m tax charge) in the statement of comprehensive income, mainly relating to our pension scheme.

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

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

Dividends

In FY23 a dividend of £850m was paid to the parent company, BT Group Investments Limited (FY22: no dividends paid). The directors recommend payment of a final dividend in respect of FY23 of £850m (FY22: £850m).

Capital expenditure

Capital expenditure was £5,056m (FY22: £5,286m). The decrease was driven by the impact of our prior year investment in spectrum which offset Openreach's increased investment in fixed network infrastructure.

Capital expenditure contracted but not yet spent was £1,480m at 31 March 2023 (FY22: £1,596m).

Cash flow

Net cash inflow from operating activities was £6,725m, up 14%.

Summarised balance sheet

At 31 March	**2023 £m**	2022 £m
Intangible assets	13,695	13,817
Property, plant & equipment	21,667	20,599
Right-of-use assets	3,981	4,429
Derivative financial instruments	1,479	1,091
Cash and cash equivalents	384	772
Investments	14,493	13,792
Trade and other receivables	3,590	2,988
Preference shares in joint ventures	555	—
Contract assets	1,934	1,915
Deferred tax assets	709	289
Other current and non-current assets	1,208	1,191
Total assets	**63,695**	**60,883**
Loans and other borrowings	18,521	16,770
Derivative financial instruments	383	870
Trade and other payables	7,402	6,735
Contract liabilities	1,052	1,003
Lease liabilities	5,359	5,760
Provisions	598	661
Retirement benefit obligations	3,139	1,143
Deferred tax liabilities	1,620	1,960
Other current and non-current liabilities	82	130
Total liabilities	**38,156**	**35,032**
Total equity	**25,539**	**25,851**

Pensions

The IAS 19 gross deficit has increased from £1.1bn at 31 March 2022 to £3.1bn at 31 March 2023. The £2.0bn increase reflects negative asset returns mainly due to higher real gilt yields, partly offset by an increase in the real discount rate reducing liabilities and £1.0bn of deficit contributions paid over the period.

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 from relevant parts of the business and from stakeholders themselves. They use them to make better decisions, give feedback and constructively challenge activities, programmes and initiatives being considered. 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

Engaging with our over 99,000 colleagues is critical to creating a culture where they can be their best and contribute to our purpose, ambition, strategy and long-term success.

Our colleagues need us to:

- Create a work environment that helps them be their best
- Give them 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

The BT Group Board gets regular updates from the Chief Executive and Chief HR Officer – on colleagues, key people strategy initiatives, culture and overall sentiment in the organisation.

The BT Group Board uses the Colleague Board to engage with our workforce under the UK Corporate Governance Code 2018.

Every year colleagues tell us how it feels to work here through our Your Say survey. We've expanded this to include quarterly pulse surveys in several units.

Our People Networks are colleague groups that share opinions and ideas with our leadership to make us more diverse and inclusive. Each is supported by an executive sponsor.

We also formally engage with our European Consultative Council and EE employee representatives in the UK.

The results

This year engagement fell six points to 73% – just above the 70% external benchmark but continuing the downward trend from the last survey in 2021.

The post-Covid return to work, cost of living increases and industrial action have led to a turbulent year where engagement fell as a result, notably in Openreach. In response and to address areas of concern we continue to focus on our leadership capability, in-unit change management together with the cost of living pay award and our D&I agenda detailed further in the people section.

'Getting things done here is straightforward' at 42% still trails behind other metrics. We're working to address this through our group-wide modernisation programmes.

Perceptions of management are still very high with almost no change since 2022.

We're still getting high scores for supporting colleagues to do the right thing for customers (81%, down 3% from 2022).

Diversity and inclusion (D&I)

The BT Group Manifesto includes bold targets for diversity. We're making progress in our ethnic minority representation, with notable gains against our targets. But we're clear there's much more to be done. Our UK declaration rates of more than 78% mean we can use data to better understand our demography and areas of concern.

In the Manifesto we state that a more inclusive digital landscape will help us drive productivity, innovation and growth for our business and for the UK. Supporting that, we have created a rich ecosystem of partners to help us expand our reach into the community, create awareness, and invest in, develop and open up opportunities for the talent pools for the future. Inside and outside our business, we've continued to encourage inclusivity through understanding other people's lives better.

More broadly, we engage with colleagues through the Colleague Board and we work with our highly active, engaged and award-winning People Networks. These colleague-driven groups raise awareness and advocate for change both inside and outside BT.

Health, safety and wellbeing

The wellbeing of our people has always been at the heart of how we do business. Our strategy is to build a team of fulfilled, safe, happy and healthy employees in a culture where everyone can thrive.

This year we published guidance on fulfilling the physical, mental and cognitive needs and expectations of our people in relation to their work. We also launched a psychological risk assessment tool to help our managers and safety professionals identify roles and ways of working that could potentially harm our employees' mental health. This was part of meeting our obligations under the Health and Safety at Work Act 1974, and aligns to the recently published ISO45003 ('Occupational health and safety management — Psychological health and safety at work').

We're a founder member of the World Wellbeing Movement. This is a coalition of global leaders from business, civil society and academia who've committed to put wellbeing at the heart of decision-making in both business and public policy. We're also an active member of the European Telecommunications Network Operations Association, inputting to the recently announced commitment to protecting all telecommunications workers from violence and harassment at the workplace.

To minimise risks to our colleagues' health and improve attendance, we have strong health assessment processes and safe systems of work in place. In line with regulations, we run surveillance programmes for colleagues doing jobs that might affect their health, for example around vibration and noise.

We continue to set targets for measures of health and wellbeing, the performance of which are reported to the BT Group Executive Committee and BT Group Board. Sickness absence rate was 3.87% and work related mental ill health was 8.3%, a 19% reduction over last year.

Customers

Our goal is to offer standout experiences to our customers through outstanding service and smarter, differentiated solutions and outcomes.

We serve a wide range of customers with differing needs, from individuals to multi-national businesses and governments. We actively engage with them to get a deeper understanding of their current and future needs.

Our customers need us to:

- Connect them to their digital worlds through dependable, high-quality solutions
- Provide trustworthy experiences and outcomes that align with their needs
- Offer excellent service through in-store support teams, call centres, and digital channels
- Ensure the security and privacy of their data
- Offer all the above at a price that's great value for money

How we engage with customers

We understand our customers' needs using research techniques and data sources driven by our award winning insight centre of excellence.

Our business units, the BT Group Executive Committee and the BT Group Board monitor how we're delivering for customers – regularly tracking and reviewing metrics including NPS.

The BT Group Chief Executive, Executive Committee and senior management teams regularly review customer complaints.

Our Customer Inclusion Panel, Customer Fairness Panel, our Global Advisory Board and Security Advisory Board, help us better understand customer needs and experiences through direct conversations with customers.

Openreach engages its CP customers through a transparent and compliant consultation process.

The results

Our panels and boards help us understand our customers' needs and the challenges they face.

Reviewing our performance against customer experience metrics helps us to identify and then address areas for improvement.

These insights inform our strategy, drive operational improvements and innovation and shape our brands.

Communities

We're at the heart of the communities we serve, helping bring them together.

We need them to trust us. Without that, we couldn't deliver our growth plans or our purpose – to connect for good.

The communities we serve need us to:

- Give them reliable and secure connections
- Help local people and businesses get more from the digital world
- Provide direct and indirect employment
- Do business ethically and responsibly and protect the environment

How we engage with communities

Community members use our products as part of their daily life and work.

We provide support through our retail stores and contact centres, and we offer home visits to set up, install and maintain our services.

Our digital inclusion and wider societal programmes bring digital skills training to millions of UK people, and supports one of our KPIs (see page 4).

We use customer surveys and reputation tracking to understand community perceptions of us and inform our focus areas and targets.

The BT Group Executive Committee reviews this feedback monthly and it's shared with the BT Group Board quarterly.

The BT Group Digital Impact & Sustainability Committee oversees our societal programmes – tracking feedback and performance through a dashboard shared at each meeting.

The results

We make a significant economic contribution to UK communities:

We're one of the UK's biggest private sector apprenticeship employers – hiring more than 2,600 apprentices and graduates over the past four years.

We support a total of 284,000 UK full time jobs indirectly. (Source: 'The Economic Impact of BT Group plc in the UK' Report, 2023 edition, based on FY22 data.)

We spend over £9.3bn a year with UK-based suppliers and support £1 in every £80 of UK Gross Value Added. (Source: 'The Economic Impact of BT Group plc in the UK' Report, 2023 edition, based on FY22 data.)

We've expanded our full fibre to 3.1m rural homes and businesses as part of our 6.2m aim by December 2026.

We're extending 4G coverage to rural areas through the shared rural network initiative, and we aim to reach 90% of the UK's geography with our 5G network by 2028.

We give extra support to around 1m households through through our social tariffs and subsidised products.

With our partner Home-Start UK, we've supported the most socially excluded households by donating thousands of laptops, mobiles and free broadband vouchers.

We also donated over £1.5m to 1,156 charities through colleagues' payroll contributions.

Suppliers

Good supplier relationships are essential for our success. They help us deliver the solutions and propositions that create standout customer experiences.

Our suppliers need us to:

- Pay them in line with agreed terms
- Help them optimise their own supply chains and cash flow management
- Act ethically and transparently

How we engage with suppliers

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 suppliers before and after we sign a contract, which covers 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.

In April 2021 we launched BT Sourced, a standalone procurement company based in Dublin. 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.

Below are some of the key initiatives BT Sourced has delivered this year.

- We partnered with Candex, a fintech company, to simplify bringing on board suppliers for small off-contract purchases. It also gives us a better view of the diversity of our suppliers.
- We deployed Globality's AI-powered platform for sourcing across a range of business areas. We're also working with Globality to scope requirements more precisely, find suppliers in real-time, compare proposals and make better, data-driven buying decisions.
- Responding to small and midsize business' (SMBs') cashflow management concerns, we implemented C2FO's early payment marketplace. It gives our suppliers the working capital they need to grow.
- We've put a big focus on supply and procurement risk management this year. We've designed a new risk management framework for supply management and we've developed our internal controls arrangements, as part of our wider group key controls framework. This will manage supply-related enduring risks more consistently and efficiently and make our supply chain more resilient.
- BT Sourced is investing in data science. Our negotiation analytics teams are creating custom-made predictive analytics products which will help our sourcing teams.

The results

Our partnership with Candex has cut a 7-day task to 7 minutes and allowed suppliers to deliver what we need faster. They get a simpler, more flexible experience and get paid quicker too.

In 2022, 50% of suppliers onboarded by Candex have self-declared with a diversity status (e.g. small business, minority-owned).

Our buyers have placed more than 400 projects on the Globality Platform. BT Sourced used it to automate admin-heavy tasks – cutting go-to-market time for a typical sourcing project from approximately 7-10 working days to 3-4.

SMBs can now rely on efficient and timely payment via the C2FO platform – helping them free up cash to invest and develop their business.

UK Government

We add over £24bn to the UK economy each year (source: 'The Economic Impact of BT Group plc in the UK' Report, 2023 edition, based on FY22 data). We support vital services and work with more than 1,250 public sector customers.

Our networks make sure things like welfare, tax, health, social care, police and defence function, while protecting citizens' personal data.

Our relationship with Government also underpins our three strategic pillars, allowing us to contribute to policies and initiatives that promote the best stakeholder outcomes.

Our 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
- Invest in the best products and services, at fair prices, with brilliant customer service
- Support vulnerable customers through tough economic times

How we engage with the Government, and the results

We run the UK's critical national infrastructure and support national security. Our priority is fulfilling our responsibilities and obligations to our customers and country.

Our policy and public affairs team manages relationships with government and politicians.

Enterprise manages public sector contracts and services like the Emergency Services Network.

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

We have an open dialogue with Government through the BT Group Chairman, Chief Executive and leaders – as well as through consultation responses and cross-industry initiatives. Those conversations help us build support for policies that will deliver good results for the UK and our shareholders.

Our public policy work with Government covers a wide territory, including infrastructure investment, national security, regulating online harms and trade and economic policy.

This year we contributed to government initiatives including wireless infrastructure strategy, supply chain diversification, data strategy, drones and AI. We gave input and evidence on key legislation including the Digital Markets, Competition and Consumer Bill, the Online Safety Bill, and the Product Safety and Telecommunications Infrastructure Act 2022.

The BT Group Board is updated on government discussions through the BT Group Chairman, Chief Executive and Executive Committee members. The BT Group Board provides views and comments in response.

Regulators

Communications and TV services are regulated. These rules protect consumers and promote competition.

Other ancillary services that we provide, notably consumer finance products, are also regulated.

If we don't engage effectively with our regulators, we risk unnecessary regulatory intervention which 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, the Financial Conduct Authority and the Information Commissioner's Office.

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, open dialogue with Ofcom through the BT Group Chairman, Chief Executive and senior leaders. Our conversations focus on how regulation can support its ambition for a world class UK digital infrastructure and allow efficient investment, while keeping the market fair and competitive.

In 2017, we put in place the Commitments. These provide Openreach with a greater degree of strategic and operational independence, in line with objectives set out in Ofcom's Digital Communications Review.

On behalf of the BT Group Board, the BT Compliance Committee checks that we're adhering to the Commitments – including in our culture and colleagues' behaviour. It hears from a range of stakeholders. Ofcom is next scheduled to attend a BT Compliance Committee meeting in July 2023.

We continue to engage with Ofcom and CPs to reassure them we're adhering to both the letter and spirit of the Commitments.

The BT Group Board are regularly updated on any key meetings between Ofcom and the BT Group Chairman, Chief Executive and others.

The BT Group Manifesto

Launched in 2021, the BT Group Manifesto is our plan to accelerate growth through responsible, inclusive and sustainable technology.

It is rooted in our purpose, to connect for good, and it will help us achieve our ambition – to become the world's most trusted connector of people, devices and machines.

Our Manifesto includes measurable commitments to amplify our positive impact for people and planet – combined with a clear commercial agenda.

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.

Our Responsible Tech Steering Group oversees how we implement the principles. This year it continued looking into our emerging risks and strategic growth areas. It invited external experts to help define our approach to topics like children's digital rights, evolving high risk markets and customers, and new products and innovation.

We apply the principles right from the start when we develop and design new tech.

This year we:

- launched an AI accelerator – shortening new AI rollout time by over 90%, and built with security and ethics in mind
- started embedding responsible tech by design into new product development – to build trust and drive growth
- carried out a group-wide digital child rights impact assessment on how to protect and empower children in their digital lives, and made an action plan for the year ahead.

Our procurement company, BT Sourced, has responsibility and sustainability criteria set into its processes – giving our buyers clarity on supplier risks and opportunities. This year we:

started embedding our 'Responsible AI for Buyers' guide into our supplier onboarding processes

continued to do due diligence on our suppliers.

We want to make sure our products and services are used for good. We focus on protecting privacy and free expression and helping to prevent online harms. We support the Global Network Initiative (GNI) Principles on Freedom of Expression and Privacy. This year we:

- completed our first external GNI assessment. They said we were "making good faith efforts to implement the GNI principles with improvement over time" and also confirmed our strong commitment. They also showed us opportunities to improve our policies, oversight in overseas jurisdictions and related training and tools
- developed our data ethics standard. It sets out how we use responsible tech principles to determine what's 'right' and 'wrong' when deciding why and how to process data (personal or otherwise)
- created our Responsible AI standard for building ethical AI. It will help mitigate risk at every AI lifecycle stage – from conception to real world monitoring.

We sell to customers around the world.

This year we:

- further enhanced sales due diligence in our Global and Enterprise units. This will help us better identify and address potential human rights impacts of our products and services
- delivered training to our sales colleagues to help them understand the enhanced process
- conducted assurance to check our process was being followed. We concluded it was, with some minor exceptions which are being addressed with additional training
- reviewed our approach to evolving high risk markets and customers, and strengthened our ability to respond to them.

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

Championing digital inclusion

We want to support families worst hit by the cost of living crisis. We excluded a total of 3m eligible customers from the April 2023 price increase We're the market leader in social tariffs, currently helping around 1m low-income and vulnerable customers through affordable fibre broadband and calls.

Our Home Essentials social tariff lets customers on Universal Credit get discounted broadband. And we've launched EE Basics which mirrors the offer for eligible mobile customers. Openreach's 'Connect the Unconnected' scheme waives connection fees for vulnerable customers, via their communications provider. Working with charity partner Home-Start UK, we're also supporting the most socially excluded households with thousands of laptops, mobiles and free broadband vouchers.

We're working to develop the right digital infrastructure so no one gets left behind. Our full fibre broadband already passes 10.3m homes and businesses, including 3.1m in rural locations. We have the UK's largest and fastest 4G mobile network and we're rolling out 5G across the country.

Skilling the nation

This year we've helped 4.6m more UK people and businesses improve their digital skills – and a total of 19.3m people since FY15. We're on track to reach our KPI target of 25m by the end of FY26.

Supporting small businesses

We're helping businesses unlock their potential through our free digital skills programme:

- we've helped upskill a further 465k businesses and their employees this year
- our webinar series provides businesses with digital skills help and advice, on topics from digital marketing and social media strategy to cyber security
- our 'Let's Talk About' video series offered practical tips from successful entrepreneurs
- we sponsored the 10th anniversary Small Business Saturday Tour – providing support through mentoring sessions and webinars across the 23 UK locations visited.

Employability skills for young people

We're bridging the gap between education and employment by making sure children and young people are included in the UK's digital skills agenda.

189 young people attended our work experience events, learning the digital and employability skills vital in today's workplaces. 124 of them went on to join our apprenticeship scheme.

Our colleague volunteers delivered 15 Skills for Work Bootcamps for nearly 500 11-13 year-old school pupils. The bootcamps support teachers by encouraging STEM study subjects and careers.

We support the National Cyber Security Centre's CyberFirst programme. It aims to encourage school pupils into cyber and tech careers, hosting events for over 2,000 pupils in the UK.

Child online safety

With so many children and young adults owning their own mobile phones, it puts them at risk of harm. That's why we launched EE PhoneSmart – the first phone safety licence for kids – with Internet Matters and other experts. We've issued more than 1,300 PhoneSmart licences to children since launch. And over 3,800 children have signed up to the scheme's online educational training.

EE teamed up with Beano to create a series of animated comics and videos on how kids can learn to stay safe and be kind online. These have already given advice to more than 400k parents.

Tackling online hate

Our Hope United campaign is part of EE's ongoing commitment to delivering positive societal change. Hope United is a team of elite professional football players from all four home nations brought together to tackle online hate. So far, it's helped educate 7.4m people on how to be good digital citizens. The award-winning "Not her problem" campaign tackled sexist hate and ran during the UEFA Women's Euros 2022.

India skills partnership

With our partner The British Asian Trust, BT India has reached over 1m girls since 2019 with digital skills, STEM career guidance and job opportunities. We've also helped launch a smartphone library and helped match 12,000 mentors to mentees through a BT-developed app.

UNICEF partnership

We've partnered with UNICEF to enable digital skills development around the world via the Digital Learning Passport. The passport is a tech platform providing schoolchildren with online and offline access to quality educational resources. Since its 2020 launch, it's helped more than 2m users in 23 countries.

Digital talent pipeline

We're developing digital talent for BT and the whole UK. We're building a Digital Campus (a one-stop learning shop and community) so our people can be at the cutting edge of digital tech.

Together with other big UK employers, we're an Avado FastFutures programme partner. We're helping a diverse range of young people (ages 18-24) get into digital roles, supporting the government's skills agenda. So far, it's helped over 7,000 young people build their networks, gain experience and accelerate their careers. Our colleagues are involved – mentoring over 300 participants this year. We're now the programme's lead sponsor.

Diversity and inclusion

Embracing diversity and inclusion is core to our people strategy and critical to our growth. We've set big ambitions to champion a more inclusive culture across BT Group. Read more on how we're achieving this on page 7.

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

We've led on climate action for over 30 years. We've been 'A' rated on climate by Carbon Disclosure Project (CDP) for the last seven years running. But the transition to a low carbon economy needs to happen much faster. We've committed to being net zero for our operations by the end of March 2031 and for our full value chain by the end of March 2041. And we've also set goals to help customers avoid 60m tonnes of CO_2e and be a circular business by the end of March 2030, building towards a circular tech ecosystem by the end of March 2040.

Reducing carbon emissions in our operations

We've cut our carbon emissions intensity by 56%, against our science-based target of an 87% cut by the end of March 2031 (compared to FY17 levels). This year our performance improved due to a large decrease in natural gas consumption. This is also a KPI (see page 4).

One of the biggest ways we can cut carbon comes from our energy usage. All of our electricity worldwide is renewably sourced[1], powering our buildings estate, shops and networks. This year we increased the amount of electricity provided through power purchase agreements – meeting around 23% of our worldwide electricity demand this year, and around 26% of the UK total, supporting growth in the overall UK grid renewables supply.

We have more to do to get to net zero. We'll get there by electrifying our vehicle fleet, decarbonising our estate and building more energy efficient networks.

Transition to electric vehicles

Over 80% of our operational emissions come from our fleet of more than 34,000 vehicles. We're making investments to convert the majority of our commercial fleet to electric or zero-emission vehicles by 2030.

Building our full fibre network has increased emissions – from the supporting (mainly diesel) vehicles. We're working hard to change the BT Group fleet and have added more than 1,000 electric vehicles (EVs) this year. Those EVs have travelled more than 7.9m miles, saving over 2,200 tonnes of CO_2e. In total, we have over 2,400 EVs in our fleet.

We're still pushing for policy measures to support a wider UK EV transition as a member of the UK Electric Fleets Coalition, who this year published a seven-point policy plan to encourage Government momentum on EVs.

Decarbonising our buildings estate

We cut our global energy consumption by an extra 77GWh this year – a reduction of nearly 3%. We're decarbonising our estate through our Better Workplace Programme by consolidating hundreds of buildings to around 30.

Our new and refurbished buildings are designed with environmental impact firmly in mind, with new-builds constructed to the BREEAM[2]-Excellent standard.

Our new Bristol Assembly building has now opened. We expect it to save more than 140 tonnes of CO2e a year to start with – rising to over 500 tonnes as we reduce our buildings estate in the area.

Building energy efficient networks

We're building more energy-efficient networks that are renewably powered, whilst switching off our old networks. As well as saving energy, full fibre networks can better handle the effects of physical risks like flooding and higher temperatures. That means fewer faults or engineering visits.

Cutting carbon emissions across our value chain

Our Scope 3 carbon emissions account for 95% of our overall emissions. They come mainly from our supply chain and from customers using our products and services. Decarbonising the grid and improving our products' energy efficiency will help cut customer emissions.

Since FY17, we've cut our Scope 3 net emissions by 21% to 3,289ktonnes of CO_2e this year. This is an increase on FY22, caused by additional spend on carbon-intensive goods and services associated with our full fibre roll out.

Helping suppliers cut carbon

We continue to work with suppliers to cut carbon. We've cut supply chain emissions by 20% since FY17, and we're targeting a 42% reduction target by FY31.

We've hardwired carbon reduction into supplier contracts. Climate clauses commit 11 of our key suppliers to make measurable carbon savings during the life of their contracts with us.

We require suppliers with new contracts over £25m to sign up to science-based net zero targets. We encourage our key suppliers to report to CDP to improve visibility and action on emissions. Today more than 200 of them are doing so. We have been recognised for our supply chain leadership, through the CDP supplier engagement leader board for the sixth consecutive year.

We continued our collaboration with the 1.5°C Supply Chain Leaders initiative to drive climate action across global supply chains, and support small and medium-sized enterprises through the SME Climate Hub.

Helping customers cut carbon

There's huge potential to use our networks, products and services to help customers cut their emissions. We've set a target to help customers avoid 60m tonnes of carbon by the end of March 2030. They avoid carbon by using new technologies like full fibre broadband and mobile solutions, plus growth technologies like cloud computing and the Internet of Things (IoT).

This year we've:

- helped customers avoid over 935,000 tonnes of carbon, mainly through full fibre broadband reducing personal or work-related travel. As we develop more products and services like IoT and AI we expect this number to grow
- launched an AI-powered edge computing solution in partnership with QiO, helping business customers cut carbon by optimising energy use across their operations
- introduced real-time energy and carbon dashboards for larger customers – helping them estimate their network's carbon footprint and start to drive emissions reductions
- continued working with tech scale-up partners through our Green Tech Innovation Platform – developing breakthrough manufacturing tech to support the race to net zero.

[1] 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.

[2] Building Research Establishment's Environmental Assessment Method, the world's leading sustainability assessment for infrastructure.

Circularity

Developing a circular economy is a vital step in achieving a net zero economy. Around 70% of global greenhouse gas emissions come from material use and handling[3]. We want to become a circular business by 2030 – and build towards a circular tech ecosystem by 2040.

For our operational waste, we're aiming for zero waste to landfill by 2030, by increasing the amount we reuse and recycle. Globally, we generated 80,665 tonnes of operational waste this year, 83% more than in FY22. That significant increase was largely due to the increased network infrastructure build within Openreach, which generated a high volume of heavy material, such as soil and construction spoils. Our UK recycling, reuse and recovery rate was 89.4% (88.5% globally).

Our return rate for leased customer premises equipment was 68.2% during 2022 – up 6.5% on 2021 (our target is 75% by 2026[4]). Overall, customers returned more than 1.8m home hubs and set-top boxes to us and through our refurbishment operation, we reused 83% and recycled the rest. As well as promoting more circularity, we also save on manufacturing and shipping costs. We also collected over 190k mobile devices through consumer and business trade-in schemes, all of which were reused or recycled.

We rolled out our nationwide EE superfast in-store phone repair service, with customers able to get their phones fixed in as little as two hours. We joined the Eco Rating initiative for mobile devices, providing an overall environmental impact score to help customers make more informed and sustainable choices.

We're also launching more sustainably designed new home hubs and TV boxes – design features include up to 95% recycled plastic in the casing, using fewer materials, and reducing or completely removing plastic packaging. This supports our policy to reduce and remove single-use plastics while using more recycled polymers by 2025.

A new partnership with Cisco is also letting business customers return old network devices for reuse and recycling. And 1,279 tonnes of network equipment has been reused or recycled through our Exchange Clearance Operations programme – working with partners N2S and TXO.

Biodiversity

This year we ran a pilot to explore our impact on nature, in line with the draft Taskforce on Nature-related Financial Disclosures framework. Openreach has set up a working group to look at the operational impacts of infrastructure build on nature. Openreach has also joined the UK Business and Biodiversity Forum.

Water consumption

Our UK water use rose by 7.6% this year to 1,531,893m^3, due mainly to an increase in adiabatic cooling during the above average summer heat. Using water self-supply has helped us save nearly £3m since 2019, and has allowed us to improve how we monitor water usage, pinpoint areas of concern and fix leaks in order to minimise water wastage.

Human rights

Our Human Rights Policy explains how we respect and champion human rights in our business and relationships with others. It's supported by our responsible tech principles. Our Manifesto reinforces these principles and our respect for human rights.

Our **Human Rights Policy Commitment** and our **Modern Slavery Statement** can be found at **bt.com/ourpolicies**

Research and development (R&D) and innovation

Innovation is key to the group's success. We strive to deploy innovative uses of technology to enhance our solutions, processes, and networks to better serve our customers.

We recognised expenditure of nearly £683m on R&D last year and hold over 5,400 patents and patent applications. Our R&D centre at Adastral Park leads our research into new technologies, pushing connectivity boundaries in areas like 5G. Openreach's innovations such as subtended headends enable new full fibre cables to be extended beyond their normal reach. This helps to reduce build and maintenance costs while improving the network quality, thereby enhancing the service we give to our CPs and further differentiating against competitors.

[3] Circle Economy – The Circularity Gap Report 2022 https://circulareconomy.europa.eu/platform/en/knowledge/circularity-gap-report-2022-five-years-analysis-circle-economy.

[4] This target only relates to equipment which is leased to our consumers under their contract terms.

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. This helps protect BT and drive growth.

Strong foundations built on our risk mindset aligned with strategy

Our business thrives on stakeholder trust. That 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 leaders promote a mindset of being smart with risk when making bold choices. Our code sets expected behaviours for all our colleagues. We have ongoing training and formally defined risk management roles that help weave risk awareness into our culture.

Risk management aligns with our internal strategic framework, business planning and performance management. This helps integrate risk thinking into key decision-making areas and makes sure we share information in a joined-up way for the biggest impact.

The ongoing risks we face

We divide our risk landscape into 16 Group Risk Categories (GRCs) of enduring risks – like supply management and legal compliance. These will always be important, needing consistent, enduring structures to manage them across the group.

Each GRC has a BT Group Executive Committee sponsor. This provides accountability, tone from the top and joined-up risk thinking. GRCs set how we measure and manage our risk exposure. They ensure we do what's needed to achieve and maintain our target risk appetite and level of control.

This is facilitated through our risk management framework. For each GRC, we set our risk appetite – how much risk we're willing to take underpinned by metrics with upper and lower boundaries setting our tolerance. We manage these risks through simple and clear policies, underpinned by standards and controls. We use a 'three lines of defence' model to clarify and coordinate assurance activities and to give confidence to stakeholders.

This year we focussed on enhancing our internal control arrangements. We simplified all our corporate policies, replacing them with new, much shorter policies aligned to each of the 16 GRCs. Each policy is supported by standards clearly setting out who needs to do what to comply with the policy.

Underpinning this, we also designed a group-wide Key Control Framework. This will help us manage all our enduring risks consistently and efficiently across the business – driving accountability and letting us target assurance activities. Next year, we'll focus on further embedding this Key Control Framework. We'll replace legacy activities and processes and make it the bedrock of assessing and assuring how effectively we're managing enduring risks.

Dynamic risks we face

We're also aware of and act on significant, dynamic risks and uncertainties. There are two types:

- Point risks (risks which can't be managed properly through the Key Control Framework, or that are materially significant to us and need to be separately managed)
- Emerging risks (long-term uncertainties which might be materially significant but which we can't currently fully define as a point risk).

For these dynamic risks we assign management ownership and identify and execute appropriate actions.

We categorise dynamic risks by GRC based on their causes and consequences. There are examples in the following pages.

Connecting it all up

Each unit leadership team regularly reviews their exposure across the GRCs and brings together any point and emerging risks to prioritise and act on. Categorising risks by GRC helps us spot broad trends, so we can understand potential impacts and respond in a consistent and coordinated way.

Our risk management tool, ARTEMIS, supports this with real-time access to risk and assurance information. This helps us link risk and control data and simplify reporting – so we can spend more time on the right behaviours, conversations and actions.

Our Emerging Risk Hubs consider the more ambiguous and cross-group uncertainties we face. They bring together cross-functional representatives to share intelligence, identify potential trade-offs and agree actions.

The context we operate in

This year a combination of economic pressures, increased competitive intensity, industrial action and supply chain disruption have created a challenging environment.

Inside the group, our business model, technology shifts and transformation initiatives are changing the quantity, type and location of skills and talent we need.

Outside the group, today's inflationary environment affects us across a number of our GRCs. We've included some examples of point risks in the following pages. As part of the BT Group long-term viability analysis, we've also considered the effects of sustained inflation on our business.

In the past 12 months, two GRCs which have had a lot of focus are supply management and cyber security.

We continue to develop our risk management structures. This lets us respond well to this volatile and complex operating environment. Whether reviewing and adjusting risk appetite, managing new or emerging risks, strengthening our controls or managing risks in programmes and change initiatives, we're always learning to help us make smarter decisions to protect ourselves and drive growth.

Supply management

The level of risk in our supply chains is high. We have to manage a combination of energy volatility, inflation and supply shortages (like semiconductors and fibre optic cables).

These issues are happening against a backdrop of increasing geopolitical instability that will likely cause continued disruption. During the year we reviewed our risk appetite and supporting metrics for this category, embedding them into key decisions to get the right balance between supply chain resilience and efficiency.

Geopolitical tensions in the South China Sea increased during the year and China continues to dominate our supply chain emerging risks. We recently ran a crisis simulation based on further escalation in the region, to understand better our exposure and critical supply options and to test our preparedness for a major supply chain event. From that, we created a playbook defining our approach, process and roles and responsibilities for managing such a disruption – and integrated it into our group-wide crisis management process and governance structures. We're also monitoring progress and further developments through our cross-functional Geopolitical Risk Hub.

Cyber security

We're a high-profile provider of critical national infrastructure. That makes us a prominent target for hostile cyber actors and we remain vigilant to this threat.

This year the Russia-Ukraine conflict was a significant part of the cyber security backdrop. We'll keep monitoring short and medium-term implications.

Security is at the centre of our business. We've brought together cyber, physical and personnel security teams into one function under a new expanded BT Group Executive Committee role of Chief Security and Networks Officer.

Our security stance continues to evolve. This year we commissioned an external review to assess and benchmark our security maturity, and we used the results to define and mobilise a new security strategy. We've also made delivering the requirements of the Telecommunications (Security) Act 2021 a key multi-year cyber security priority.

We'll never stop working to protect customers from cyber security-related harms. A recent example is our initiative to block international scam calls on landlines – which blocked 10 million calls in the first month.

Principal risks and uncertainties

The risks set out in the following pages align with our Group Risk Categories (GRCs). The categories are enduring. But each also contains examples of point and emerging risks. Scenarios used for the BT Group viability analysis, put forward for each GRC, are also noted here. Each GRC has a BT Group Executive Committee sponsor.

Strategic

Strategy, technology and competition

Sponsor: Chief Financial Officer

What this category covers

While developing and executing a strategy to grow value for stakeholders, we must manage risks from an uncertain economic context, intensifying competition and rapid changes in customer and technology trends.

Changes could affect our profit, shareholder value and reputation. Similarly, pursuing the wrong strategy, not reflecting strategy in business plans, or not executing against it could make us less competitive and create less long-term sustainable value.

Our appetite for risk in this category

Our risk appetite sets our tolerance for managing ‘internal’ risks associated with this category which include developing the right strategy, ensuring it is reflected in the business plan and executing against it.

We measure and track this through the performance of specific metrics. We also qualitatively assess how clearly our strategy is defined, the robustness of our strategic analysis and how closely our business and financial plans reflect our strategy.

Doing this means we will make robust strategic choices and execute them to stay competitive and grow value for all our stakeholders.

Examples of what we do to manage this category

– we extensively monitor, research and analyse economic, customer, market, competitor and technology trends
– the BT Group Executive Committee and Board discusses key strategic topics throughout the year
– the BT Group Executive Committee and Board frequently review performance against our strategic priorities/targets.

Dynamic risk examples in this category

Point risks:

– uncertain economic outlook which may suppress demand, increase customers’ price sensitivity and drive up costs
– intensifying competition in the retail broadband and fixed wholesale access markets could increase churn and impact our market share
– slower than expected progress on key programmes could limit our ability to deliver our strategy and growth ambitions.

Emerging risk:

– ecosystem changes in the industry (like private 5G networks) could reduce our revenue and increase customer churn.

Scenario considered in viability analysis/planning

Hyperscalers making direct moves into our markets.

Stakeholder management

Sponsor: Corporate Affairs Director

What this category covers

Trusted stakeholder management is essential to us achieving our ambitions. We listen to and communicate with stakeholders fairly and transparently to build strong, sustainable relationships.

Some sensitive topics need extra focus. These include network plans, customer fairness, net neutrality, using technology responsibly, ESG and industrial relations.

Our appetite for risk in this category

We recognise the importance of strong stakeholder relationships and consider them when setting strategy and making decisions.

At times this creates tensions when weighing up choices: price rises to sustain investment, markets we operate in, who we buy from and sell to, the way we use and develop technology and how we use data.

We want to sustain our sector leadership on reputation and trust among professional opinion formers, and our top quartile position on ESG.

Examples of what we do to manage this category

– we monitor the media, and track our reputation across our main stakeholder groups
– we engage with stakeholders to build stronger relationships
– our Manifesto sets out our commitment to growth through responsible, inclusive and sustainable technology. The Digital, Impact & Sustainability Committee provides Board-level governance
– our cross-organisational Responsible Technology Steering Group and the Geopolitical Risk Hub bring together representatives from across the group to share intelligence and agree actions.

Dynamic risk examples in this category

Point risks:

– the impact of inflation and cost of living on customers which may reduce demand or increase churn
– protecting our customers’ interests while migrating to digital products and closing legacy networks.

Emerging risks:

– escalating geopolitical tensions
– climate change and perceptions of our sector’s role in carbon emissions.

Scenario considered in viability analysis/planning

Impact of potential changes in Government policy on investment and commercial ambitions.

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 repayments.

We might not be able to fund our business cash flows or meet payment commitments to shareholders, lenders or our pension schemes.

Our appetite for risk in this category

We fund based on business performance forecasts in our medium term plans.

We rely on debt capital markets being open to investment grade borrowers. We set our minimum credit rating at BBB. We invest cash resources to preserve capital, not to generate returns.

We have an agreed plan to reduce investment risk in the BT Pension Scheme by 2034, and plan to reduce real interest rate and longevity risk further.

Examples of what we do to manage this category

- we review actual and forecast business performance
- we have formal treasury risk management processes, BT Group Board oversight, delegated approvals and lender relationship management
- we review our pension schemes' funding positions and investment performances and agree funding valuations.

Dynamic risk examples in this category

Point risks:

- increasingly volatile nominal interest rate and inflation forecasts might affect the cost of new debt and pension funding deficits
- macroeconomic and geopolitical events could lower actual and forecast business performance.

Emerging risks:

- changes to pension funding regulations could risk higher pension deficits or shorter recovery periods.

Scenarios considered in viability analysis/planning

An increase to BT's funding obligations to the BT Pension Scheme.

Winter power shortages and unhedged energy costs.

UK and global markets experience a significant recession with negative GDP growth.

Financial control

Sponsor: Chief Financial Officer

What this category covers

We have financial controls in place to prevent fraud (including misappropriation of assets) and to report accurately. If these failed it could result in material financial losses or cause us to misrepresent our financial position.

We might fail to apply the correct accounting principles and treatment. This could result in financial misstatement, fines, legal disputes and reputational damage.

Our appetite for risk in this category

We want our overall financial control framework to be effective so that there is a less than remote likelihood of a material financial misstatement in our reported numbers.

We have defined the proportion of our financial controls that we aim to be preventative rather than detective, and automated rather than manual.

We take a risk-based approach to compliance monitoring through a combination of sample testing and financial data analytics.

Examples of what we do to manage this category

- we maintain financial controls that provide planning and budgetary discipline, efficiency and accuracy while reducing the risk of fraud, leakage or errors
- we continually enhance processes, systems and our operating model to improve and automate accounting, financial reporting and controls
- we've improved tax risk management processes and training.

Dynamic risk examples in this category

Point risks:

- not simplifying and modernising our finance processes and operating model could reduce speed and quality of decision-making and reporting
- impact of complex legacy systems on our internal controls.

Emerging risks:

- higher chance of fraudulent behaviour from increasing cost of living.

Scenario considered in viability analysis/planning

A material financial misstatement which could lead to regulatory fines, lawsuits and reputational damage.

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 which protect customers and society while ensuring service providers can compete fairly. We must work in compliance with those regulations, maintain trust and strong relationships while delivering on our vision and sustainable value growth.

Areas of ongoing, industry-wide regulatory scrutiny include billing accuracy, customer complaints, support for vulnerable customers, migration away from legacy services and management of major incidents.

Our appetite for risk in this category

Regulatory compliance is a fundamental part of our goals to be trusted and deliver excellent customer experiences. Specific actions to deliver our regulatory obligations will marry this with our business imperatives and strategy.

Across the board we focus on 'doing the basics' well and maintaining long-term predictability and stability in regulation.

Examples of what we do to manage this category

- we proactively engage with regulators and supply timely and accurate information when required
- we focus on understanding our customers' experiences – like moving them onto new networks or managing vulnerable customers
- we have processes to help us follow regulations, build trust and enable future dialogue with policymakers
- we run a programme of compliance assurance activities.

Dynamic risk examples in this category

Point risks:

- there could be challenges shutting down our legacy networks which might adversely impact service delivery, lead to regulatory intervention and reputational damage
- we could fail to meet our roadmap for Telecommunications (Security) Act 2021 compliance
- there could be negative regulatory sentiment around pricing.

Emerging risks:

- regulation might not keep pace with the changing value chain economics, which could make us less competitive.

Scenario considered in viability analysis/planning

The impact that a more interventionist regulatory approach could have on our commercial strategy.

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 follow today's global data regulations while anticipating and preparing for tomorrow's.

Not following data protection laws or regulations could damage our reputation and stakeholder trust, harm colleagues, customers or suppliers and/or lead to litigation, fines and penalties.

Our appetite for risk in this category

We want to ethically protect the group, colleagues, customers, partners and suppliers from breaches of data protection laws and regulations. We also want to harness our data to support and drive our objectives and realise opportunities.

We'll only be able to achieve these aims with the right data ethics, governance, security, protection and compliance systems, processes and practices. Fulfilling our data objectives may require appropriate interpretation of the varied global data protection laws, regulations and standards.

Examples of what we do to manage this category

- we continuously run and improve our data governance programme to tackle existing and future data regulatory risks
- to make sure we follow our own data protection standards we review how we use personal data across the business
- horizon-scanning for evolving regulations, industry sector developments and new technologies impacting our data risks, controls and processes
- we provide data protection and handling training and tools to help colleagues make more risk-aware day-to-day decisions.

Dynamic risk examples in this category

Point risks:

- international data transfers could be restricted or deemed unlawful, which might affect business operations or lead to fines, claims and/or reputational damage.

Emerging risks:

- there could be changes to data protection laws and regulations where we do business
- there could be increased regulatory focus on governance and ethics around data propositions and processes especially with respect to generative Artificial Intelligence.

Scenario considered in viability analysis/planning

A data breach leading to regulatory investigation, enforcement action and reputational damage.

Legal compliance

Sponsor: General Counsel, Company Secretary & Director Regulatory Affairs

What this category covers

We focus on remaining in compliance with all substantive laws. Key areas of focus for this category are anti-bribery and corruption, competition, trade sanctions, export controls and corporate governance obligations.

Our appetite for risk in this category

We want to take advantage of commercial opportunities. So, we take considered, evidenced and defensible decisions around how we comply with applicable laws.

We assess risk to support decisions about proposed actions. This means looking at the nature of the risk, the costs of compliance, the value of the proposed actions and the steps we could take to bring them within our risk appetite.

In corporate governance, we determine the risks for a position we take by considering things like our rules and policies, market practice, investor expectations and our stakeholders' views.

Examples of what we do to manage this category

- through our code we foster a culture where colleagues know expected standards and speak up if something's not right
- we regularly assess risks when giving legal or compliance advice on strategic projects, signing new business and on our commercial operations
- we train colleagues to know where legal and compliance risks come from, how to handle them and when to get expert help
- we do assurance on day-to-day operations, regions, partners, projects and suppliers. We investigate and fix anomalies and share what we learn, where appropriate
- we scan the horizon to prepare and respond to legislative changes.

Dynamic risk examples in this category

Point risks:

- new technologies being exploited in multiple countries
- working with third parties in multiple jurisdictions.

Emerging risks:

- there could be changes to existing or potential new laws, or trade sanctions, put in place in response to geopolitical dynamics or to address concerns in a particular area of law.

Scenario considered in viability analysis/planning

Breaches of sanctions or export controls imposed by UK, US or EU nations potentially leading to regulatory investigation, fines, debarring from public contracts and reputational damage.

Financial services

Sponsor: CEO, Consumer

What this category covers

Our exposure to financial services regulation increased in 2022 when EE launched a Financial Conduct Authority (FCA) regulated mass-market proposition. We expect to continue scaling-up and broadening such products and services over the coming years, which means we must meet all applicable FCA principles, rules and requirements.

Operating outside FCA rules, requirements or permissions could harm customers and lead to fines, loss of FCA permissions, slow service take up and broader reputational damage.

Our appetite for risk in this category

We aim to minimise regulatory risk in two ways. First, by building operational and organisational capabilities that help us develop financial services activities compliantly. Second, by building and maintaining a trusted relationship with the FCA.

We monitor a range of conduct risk metrics, complaints data and customers in collections. These are early warning indicators of customer harm which we can act on.

Examples of what we do to manage this category

- we review and update relevant standards every year, and implement controls into operational procedures
- we run mandatory training on FCA regulations, aligned to job roles
- we review financial services products and promotions when we develop them and each year afterwards
- our 'second line' compliance team provides support and oversight
- we scan the horizon, interpret new regulatory requirements and regularly communicate with the regulator
- our proportionate governance framework provides clear responsibility, accountability and reporting.

Dynamic risk examples in this category

Point risks:

- we might not have enough operational capability and resources to support our financial services strategy
- we could fail to comply with new Consumer Duty regulation, leading to regulatory scrutiny/challenge and brand damage.

Emerging risk:

- the extra FCA permissions needed to undertake new activities will need us to comply with new regulatory framework areas. We could fail to do that.

Scenario considered in viability analysis/planning

Failing to get full FCA permissions and the impact on product roll out and projected revenue.

Operational

Operational resilience

Sponsor: Chief Security and Networks Officer

What this category covers

We want to deliver best in class performance across our fixed and mobile networks and IT by managing all the risks that could disrupt our services.

Service interruptions could be caused by things like bad weather or accidental or deliberate damage to our assets.

Some service interruptions might depend on suppliers' and partners' reliability – making picking the right ones important.

Our appetite for risk in this category

We want customers to get market leading services, underpinned by best-in-class network performance. To achieve that we must prioritise our resources to maximise overall service and customer experience, whilst aligning with our strategy.

We aim to deliver exceptional performance for high volume (FTTC/4G) and strategic (FTTP/5G) products and maintain reasonable performance for legacy services.

Examples of what we do to manage this category

- we continuously capacity plan, manage asset lifecycles and monitor our network, assets and services
- we respond quickly and professionally to incidents, reducing their impact through geographically dispersed emergency response teams – while communicating with customers
- we have comprehensive testing and change management processes
- we do regular business impact assessments that feed into tested, up to date continuity and disaster recovery plans
- we ensure our operational estate has requisite levels of physical security controls in place to assure service
- our operational planning improves network and IT resilience, including handling more frequent and severe bad weather.

Dynamic risk examples in this category

Point risks:

- increasing flood risk at non-protected sites could lead to flooding, interrupting services
- not creating robust contracts and/or managing relationships with third parties might lead to gaps in support arrangements and extended fix times, creating poor customer experience and churn.

Emerging risk:

- failing to properly manage significant changes to our digital estate could interrupt services and delay fix times.

Scenario considered in viability analysis/planning

Ongoing crisis in the energy sector leads to insufficient gas supply and energy volatility.

Cyber security

Sponsor: Chief Security and Networks Officer

What this category covers

Our aim is to protect the group, colleagues and customers from harm and financial loss from cyber security events.
Because we run critical national infrastructure, a cyber attack could disrupt both customers and the country and compromise data.
A poorly managed cyber security event might cost us money, damage our reputation and impact our market share. The regulator might also impose fines or penalties.

Our appetite for risk in this category

Cyber risk is inherent to our business, and significant reputational damage could be incurred by a major cyber event, but we acknowledge that not all cyber risks can be eradicated.
Cyber events could be deliberate or unintentional, originate from inside or outside the group, and we adapt our security posture and controls accordingly to detect and respond robustly to the evolving threat.
We prioritise the protection of our critical systems and networks, and the data and information they contain.

Examples of what we do to manage this category

- we have leading best practice security standards, tools and processes to protect our applications, systems and networks
- we monitor external threats and gather intelligence on evolving cyber techniques, tactics and capabilities
- to quickly detect, assess and respond to cyber risks we maintain a vigilant security stance
- we run communications, engagement and training
- we continue to invest in cyber defences and security tooling, shifting to automation where appropriate
- we nurture partnerships with industry, government and customers.

Dynamic risk examples in this category

Point risks:

- cyber attacks from nation states could target critical national infrastructure which could lead to service disruption, data loss, regulatory action and damage to our reputation
- exposure to suppliers with security vulnerabilities which might result in compromised supply chains, increased costs, loss of data or interrupted services
- relying on externally hosted cloud services potentially impacting service delivery and customer experience.

Emerging risks :

- AI and machine learning could be weaponised as security threats
- more connected home devices means more focus on protecting customers.

Scenario considered in viability analysis/planning

We fall victim to cyber attacks and experience a major loss of customer data which leads to a successful class action against us.

People

Sponsor: Chief HR Officer

What this category covers

Our people strategy is to enable a culture where all our colleagues can be their best, and help deliver our ambition.

This means we must manage risk around our organisational structure, skills and capabilities, engagement and culture, wellbeing and diversity.

Our appetite for risk in this category

Our priority is making sure colleagues can work and perform at their best. We avoid risks that could compromise critical business priorities and minimise those which cannot be avoided to as low as reasonably practicable. We avoid risks that could result in us not complying with applicable employment legislation.

A relatively small number of roles have a disproportionate effect on our success. For those roles we have a much lower tolerance for the risk of not having the right capabilities, compared to other roles in the organisation.

To deliver our transformation, we're prepared to take carefully managed short-term employee relations risks to achieve our ambitions.

Examples of what we do to manage this category

- our group people strategy is supported by a workforce plan
- we share consistent performance goals and performance management review processes – through clear organisation structures, roles and job descriptions
- we assess skills and capabilities, invest in group-wide workforce and talent planning and provide training, development and wellbeing support – for specific roles, future skills and succession planning
- our D&I strategy raises awareness, addresses bias and promotes our People Networks and support
- we engage with employees and maintain close relationships with formal representative groups and unions
- we offer fair, competitive and sustainable remuneration to promote smart risk taking, support engagement and retention and help align colleagues' and shareholders' interests.

Dynamic risk examples in this category

Point risks:

- large-scale, escalated industrial action could increase disruption, affect colleague engagement and damage our reputation
- changes to our strategy, technology or business model could affect what skills we need. Coupled with tightened talent markets, higher pay and increased attrition, this could create skills gaps.

Emerging risks:

- long-term social and workplace changes
- growing colleague activism on social or environmental topics.

Scenario considered in viability analysis/planning

Widespread lack of availability of frontline colleagues impacting service delivery and leading to poor customer experience and reputational harm.

Health, safety and environment

Sponsor: Chief Security and Networks Officer

What this category covers

We have diverse working environments in various locations, some of which could pose a health or safety risk to colleagues, partners or the public. We must make sure our colleagues and partners are safe and healthy and can perform at their best while managing hazards that could harm them.

Not maintaining or continually improving the right healthy, safety and environmental management systems could impact our provision of a safe and compliant business which protects colleagues.

Ineffective health, safety and environmental standards could lead to legal or financial penalties, and reputational and commercial damage.

Our appetite for risk in this category

It's important that employees and partners follow appropriate standards which support our business priorities. We aim to eliminate all unacceptable risks. We apply proactive risk management to identify, control and mitigate significant risks across the business to a level deemed as low as reasonably practicable.

We consider our legal, regulatory and other requirements the minimum obligation. We want to go beyond that – aiming for zero avoidable harm, optimum physical and mental health and minimal pollution.

Examples of what we do to manage this category

- our group policy is underpinned by standards and a safety framework reflected in our code
- we train colleagues and make sure they're clear on their roles and responsibilities around health, safety and environment
- we monitor health and safety through colleague surveys, focus groups and a dedicated portal
- our incident reporting system monitors and evaluates our health, safety and environmental performance.

Dynamic risk examples in this category

Point risks:

- heightened risks from the extra civil and construction work supporting the full fibre rollout including harm to colleagues, increased regulatory scrutiny, legal claims and reputational damage
- failure to manage contractors properly when they start, and during their contracts potentially leading to harm to colleagues, partners or the public, regulatory intervention and legal claims
- failure to keep our sites clean, tidy and environmentally safe could lead to increased fire risks or compliance breaches.

Emerging risks:

- complying with future health, safety and environment regulation.

Scenario considered in viability analysis/planning

A new pandemic as severe as Covid-19 causes harm to colleagues, disrupted service delivery and business operations.

Major customer contracts

Sponsor: CEO, Business (excluding Openreach, which has separate GRC sponsorship and management)

What this category covers

We offer and deliver a diverse mix of major contracts which contribute to our business performance and growth.

We seek to win and retain major private and public sector contracts in a highly competitive and dynamic environment. We do that, while navigating customer relationships and risk in complex agreements – delivering highly sensitive, critical or essential services globally.

Customer contractual terms can be onerous and challenging to meet which might lead to delays, penalties and disputes. Delivery or service failures against obligations and commitments could damage our brand and reputation, particularly for critical infrastructure contracts or security and data protection services. Not managing contract exits, migrations, renewals and disputes could erode profit margins and affect future customer relationships.

Our appetite for risk in this category

We want a diverse mix of major contracts that will help our business grow. To do that, we must build on our market share, target the right customers, make beneficial commercial and legal agreements and deliver services successfully.

As markets change, we need to proactively adjust our portfolio of services, countries and customers to avoid concentration risk, stagnation and legacy dependency.

We know this involves taking on some higher risk, complex customer agreements with obligations we can't fully meet through standard portfolio, terms and conditions and/or delivery process. We must manage this risk during the bid process and contract lifecycle to minimise the overall impact.

Examples of what we do to manage this category

– we have a clear governance framework to assess new business opportunities, manage bids and monitor in-life contract risks
– as part of bids, we check non-standard unfavourable terms and conditions, mitigating them where we can
– our senior management, and a dedicated team, regularly review our contracts
– we support frontline contract managers with contract and obligation management tools.

Dynamic risk examples in this category

Point risks:

– inflationary pressures affecting our supply chain might not be fully offset by adjusted prices given market challenges or us not having leverage to negotiate
– new IT infrastructure challenges, skills shortages, scale or complexity could stop us delivering our digital portfolio transformation.

Emerging risks:

– increasing geopolitical tensions and East/West divide could affect our multinational customers and our ability to provide global connectivity
– it could be difficult to manage EU contracts if the UK and EU don't renew their data adequacy agreement.

Scenario considered in viability analysis/planning

Losing major public services contracts.

Customers, brand and product

Sponsor: CEO, Consumer (excluding Openreach, which has separate GRC sponsorship and management)

What this category covers

We want to give customers standout service, building personal and enduring relationships and taking extra care of vulnerable customers. We aim to keep customer satisfaction high as we continue to migrate customers from legacy products and services to newer ones – while billing them accurately.

Not digitising or continually improving our customer experience could affect customer satisfaction and retention, colleague pride and advocacy, revenues and brand value.

Central to this is being accurate and competitive with our pricing, billing and collection. We must also manage our product and service lifecycles, inventory and supply chain, and comply with our customer obligations and product and service standards.

Our appetite for risk in this category

We want to be below the industry average for Ofcom complaints and continue to grow our NPS. We aim to maintain customer satisfaction, launch new products and services that benefit them and keep billing issues to a minimum.

We must serve customers through modern and cost-effective platforms – with as few as possible on expensive and labour intensive legacy and aging products and services. We also want customers to feel they get personalised service through friction-free channels.

Examples of what we do to manage this category

– we stick to our promises on the service levels customers should expect and we track a range of customer experience performance metrics
– we have clear and comprehensive brand usage guidelines
– we work with suppliers to manage ongoing relationships and risks
– we pilot products and services to make sure they benefit customers
– we have a colleague retention and skills development plan to make sure we're not short on key skills.

Dynamic risk examples in this category

Point risks:

– switching customers from old to new service platforms could interrupt the service and cause customer churn and/or regulator intervention
– failing to make sure we have the right current and future skill sets to serve our customers could lead to not meeting customer expectations, reputational damage and loss of customers and market share.

Emerging risks:

– long-term changes in customer needs and expectations.

Scenario considered in viability analysis/planning

Wrongly billing customers leading to dissatisfaction, unforeseen churn and possible regulatory investigation.

Supply management

Sponsor: Chief Financial Officer

What this category covers

Successfully selecting, bringing on board and managing suppliers is essential for us to deliver quality products and services.

We have a lot of suppliers. We must make supplier decisions on concentration, capability, resilience, security, costs and broader issues that could impact our business and reputation.

Our appetite for risk in this category

Our appetite guides us when we make purchasing decisions. That includes when we sole or dual source for products or services that support key business aims or activities and where alternative sources are not economically viable. To get the best commercial rates and operational resilience we continuously engage with and challenge key suppliers on pricing and supply chain diversity.

Working with so many third parties needs effective governance to manage them properly. So, we have a low appetite for dealing with suppliers outside our defined policies or processes.

We have to make sure third parties don’t expose our brands to damage. That means avoiding – or stopping working with – any that don’t meet our standards on things like human rights.

Examples of what we do to manage this category

– our sourcing strategy uses different approaches by category, standard terms and conditions and controls so we can make purchasing decisions efficiently and effectively
– we have comprehensive supplier due diligence, contract management, on-boarding and in-life assessment processes
– we have robust supplier risk management, performance, renewal and termination processes
– we do demand planning and forecasting, stock counts and inventory management so we have supplies available
– we get assurance that the goods and services we buy are made, delivered and disposed of responsibly. That includes monitoring energy use, labour standards and environmental, social and governance impacts.

Dynamic risk examples in this category

Point risks:

– rising energy prices, supply shortages, and inflationary pressures could affect cost reduction targets and future investments
– an escalating Russia-Ukraine war and/or China-Taiwan tensions could compound current supply chain challenges.

Emerging risks:

– long-term metal shortages could lead to much higher prices
– extreme climate conditions might disrupt supply chains.

Scenario considered in viability analysis/planning

Geopolitical uncertainty widens, with wholesale impact on the China supply chain.

Transformation delivery

Sponsor: Chief Financial Officer

What this category covers

We're accelerating transformation delivery to build a simpler, more efficient and dynamic BT Group.

We're modernising and streamlining our IT, simplifying and refining our product portfolio, switching to next-generation strategic networks, unlocking cost efficiencies through better and more agile ways of working, improving our customers’ digital journeys, automating our processes and using AI.

Failing to transform could make us less efficient and damage our financial performance and customer experience.

Our appetite for risk in this category

We’ve defined the level of risk we're willing to tolerate for simplifying and modernising our products, customer journeys and technology. We track specific metrics to check we’re achieving genuine, sustainable transformation outcomes and not just cutting costs.

Delivering within our risk appetite will give us competitive advantage, enable faster delivery, improve customer experience and ensure our costs benchmark favourably with peers.

Examples of what we do to manage this category

– we invest in digital and data capabilities to cut costs and grow revenue – prioritising it around making sure we have the right resources to deliver sustainable change effectively
– we have strong governance, with senior leaders clearly owning operational and financial outcomes to be delivered. Each quarter we assess performance to allocate funding – prioritising programmes delivering the most strategic value
– we share robust tracking and reporting (using financial and non-financial measures) with the BT Group Executive Committee and BT Group Board monthly
– we hold monthly BT Group Executive Committee transformation sessions to accelerate delivery by managing dependencies, making informed decisions and removing blocks.

Dynamic risk examples in this category

Point risks:

– managing complex interdependencies to complete migrating customers and close legacy IT and networks
– delivering the volume of change at pace while still focusing on cutting costs.

Emerging risks:

– the changing external environment could affect the size, scale and speed of transformation needed to deliver our strategy.

Scenario considered in viability analysis/planning

The group is unable to execute transformation plans required to deliver savings initiatives.

The strategic report was approved by the Board of Directors on 7 June 2023 and signed on its behalf by:

Simon Lowth

Director

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 2023 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 enter into an agreement to create a new joint venture incorporating both the Company's BT Sport business and the Warner Bros Discovery Eurosport business in the UK & Republic of Ireland.

In making this decision the Board considered a range of factors. These included the Company's financing requirements and the ongoing need for strategic review. The Board further considered the needs and expectations of the Company's stakeholders such as shareholders, employees, suppliers, customers, pensioners and the Financial Conduct Authority.

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 2023. The audited consolidated financial statements are presented on pages 37 to 106 and the audited entity only financial statements are presented on pages 107 to 136.

A statement by the directors of their responsibilities for preparing the financial statements is included in the Statement of directors' responsibilities on page 30.

Principal activity

The Company is the principal trading subsidiary of BT Group plc ("BT Group"), 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. Roger Eyre was appointed on 3 April 2023. Martin Smith served as a director until his resignation on 3 April 2023.

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 43 of the consolidated financial statements and page 110 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 FY23 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 has not been disclosed to the auditor. Each of the directors confirms that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the auditor has been made aware of that information.

Dividend

A dividend of £850m was paid to the parent company, BT Group Investments Ltd (FY22: £nil) . The directors recommend payment of a final dividend of £850m (FY22: £850m).

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 24 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, 25 and 27 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 17 to 24 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 2023, the group had cash and cash equivalents of £0.4bn and current asset investments of £3.5bn. 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 7 June 2023, and throughout FY23, 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 FY23 and deemed effective. Enhancements were made to simplify and standardise the group-wide policies and key controls to ensure all our enduring risks are managed consistently and effectively across our business, driving accountability, and enabling targeted assurance activities. More information on our group risk management framework can be found on pages 15 to 16.

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

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 FY23.

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 27 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 31 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 32 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 FY23, 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 Liberal Democrats Business day. These costs totalled £5,848 (FY22: £6,205). 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 137 to 142.

Governance Statement

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

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

The principles which underpin our corporate governance code and how these principles have been applied during the financial year ended 31st March 2023 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.

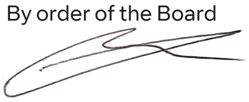
When making decisions, the Board considers the potential impact on its key stakeholders, including the BT Pension Scheme and its members.The Board aspires to have and maintain good standards of corporate governance and has adopted a corporate governance code appropriate for the Company.

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 to 14)
- An indication of our research and development activities (page 14)
- 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 10)
- Anti-bribery and corruption (page 9)
- Social and community (pages 8 to 9)
- Human rights (page 14)

By order of the Board



Antony Gara
Secretary
7 June 2023

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 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 estimates that are reasonable, relevant, reliable and prudent
- state whether the group financial statements have been prepared in accordance with the UK-adopted international accounting standards
- 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 and disclose, as applicable, matters related to going concern
- 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 an annual 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 Board 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 group and the undertakings included in the consolidation taken as a whole
- 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 that 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 7 June 2023 and was signed on its behalf by

Simon Lowth
Director
7 June 2023

KPMG LLP's Independent Auditor's Report to the members of British Telecommunications plc

1. Our opinion is unmodified

We have audited the financial statements of British Telecommunications plc ("the Company") for the year ended 31 March 2023 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 2023 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 board.

We were first appointed as auditor by the shareholders on 11 July 2018. The period of total uninterrupted engagement is for the five financial years ended 31 March 2023. The Group engagement partner is required to rotate every 5 years. As this is the fifth year of John Luke's involvement in the Group audit, he will be required to rotate off after the FY23 audit. The Board has confirmed Jon Mills as his successor. 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.

Apart from the matters noted below, we have not performed any non-audit services during the year ended 31 March 2023 or subsequently which are prohibited by the FRC Ethical Standard.

During 2023, we identified that certain KPMG member firms had provided preparation of local financial statement services and foreign language translation services during the periods ended 31 March 2018 to 31 March 2023 to some entities not in scope for the group audit. The services, which have been terminated, were administrative in nature and did not involve any management decision-making or bookkeeping. The work in each case was undertaken after the group audit opinion was signed by KPMG LLP for each of the related financial years and had no direct or indirect effect on British Telecommunications plc's financial statements.

In our professional judgment, we confirm that based on our assessment of the breaches, our integrity and objectivity as auditor has not been compromised and we believe that an objective, reasonable and informed third party would conclude that the provision of these services would not impair our integrity or objectivity for any of the impacted financial years. The Board have concurred with this view.

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.

2.1 Disposal of BT Sport And Re-Investment in Sports JV

	FY23	FY22
Profit on disposal after tax	£28m	£nil
Joint ventures and associates	£414m	£nil
Other Payables - Minimum guarantee from BT Sport Disposal	£712m	£nil

Our assessment of risk vs FY22

+	Not applicable - The disposal of BT Sport is a new transaction in the year Refer to pages 86 to 93 (financial disclosures note 21 and 23 divestments and joint venture)

The risk - accounting judgement and subjective valuation

BT have classified the Sports JV ("JV") as a joint venture and have therefore deconsolidated BT Sport from the group as described in note 23.

Assessment of joint control

There is significant judgement involved in determining joint control due to the complex structure of the transaction. This includes the unequal size of businesses contributed to the JV by BT and Warner Bros. Discovery (WBD) and the unequal split of cash distribution during the first four years of operation.

Valuation of BT's equity interest in the JV and the off-market element of the minimum guarantee contract with JV

There is significant estimation uncertainty over the valuation of consideration on the disposal in relation to two main areas which have initially been recognised at fair value.

The valuation of BT's equity interest in the JV as described in note 21. A change in the methodology applied or a small change in key assumptions around forecast cashflows, exit multiple or discount rate can significantly impact the valuation.

The valuation of the off-market element of the wholesale distribution minimum guarantee contract between BT and the JV. A small change in the assumption of market price or market minimum volume commitment can significantly impact the valuation as described in note 21.

Overall assessment

Due to the level of judgement and estimation uncertainty in relation to the BT Sport disposal as a whole, there is increased susceptibility to management bias, resulting in a significant risk of fraud or error.

The effect of these matters is that, as part of our risk assessment, we determined that the profit on disposal 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 21) disclose the sensitivity estimated by the Group.

KPMG LLP's Independent Auditor's Report to the members of British Telecommunications plc continued

Our response - our procedures included:

Assessment of joint control

Our accounting expertise: We evaluated and challenged the assessment of control with reference to IFRS 10 by taking into account a number of operational, economic and legal factors including:

– Jointly controlled board and voting rights and pre-agreed business plan
– Unequal value of business contributed and unequal exposure to variable returns
– WBD's options to purchase BT's shares at set points in the first 4 years and its interaction with the timing of key decisions over material activities of the JV.

Inspection of transaction documents: We inspected legal agreements between BT, WBD and the JV, including the Joint Venture agreement, master service agreement and loan facility documents.

Valuation of BT's equity interest in the JV

Our valuation expertise: We challenged, with the support of our own valuation specialists, the valuation methodology applied including developing our own independent assessment of key assumptions including, the determination of comparator group of companies, discount rate and multiple applied.

Benchmarking assumptions: We challenged the accuracy of cashflow forecasts, including any growth rates and risk adjustments applied with reference to historic trends in the industry and wider economic forecasts. We inspected and challenged sensitivity analysis over the forecasts by considering plausible downside scenarios, including the impact of the ongoing economic downturn and the potential loss of key sports rights.

Test of details: We compared forecast cashflows with contractual arrangements in place over revenues and costs.

Historical comparisons: We compared historic results such as subscriber numbers and revenues to underlying data sources and compared historic trends with those forecast.

Re-performance: We inspected valuation calculations and recalculated for mathematical accuracy and internal consistency.

Sensitivity analysis: We performed sensitivity analysis on key assumptions of forecast cashflows, exit multiple and discount rate applied.

Valuation of the off-market element of the minimum guarantee contract with JV

Benchmarking assumptions: We compared the Group's estimate of a market price and market volume commitment to contractual evidence from other market participants recent and historic transactions with BT or the Sports Joint Venture.

Comparing valuations: We developed an independent expectation of the range of fair values based on the limited evidence of market pricing available. In doing so, we considered the relevance and reliability of alternative price points, giving more weight to external evidence. Having found the estimate to be at the high end of the range we consider to be acceptable, we exercised judgement to determine the acceptability of the amount recognised, taking into account the limited number of market participants, and the clarity of the associated disclosure of estimation uncertainty.

Re-performance: We recalculated BT's internal pricing model including whether the assumptions and data inputs were consistently applied.

Sensitivity analysis: We performed sensitivity analysis on key assumptions of discount rate, market volume commitment and associated market price.

Overall assessment

Inspection and inquiry: We made inquiries of JV board members and inspected JV board minutes.

Assessing bias: We considered the impact on the profit on disposal after tax and future profit trends as a result of potential bias in the preparation of the judgements and estimates, particularly the estimate of arm's length commercial terms for the minimum guarantee liability.

Assessing transparency: We assessed whether the Group's disclosures about the sensitivity of the profit on disposal to changes in key assumptions reflected the risks inherent in the valuation of consideration. We also assessed whether the key judgements in respect of deconsolidation were appropriately disclosed.

We performed the detailed tests above rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.

Our results

We found the Group's classification of the JV as a joint venture to be acceptable. We found the estimate of consideration, related balance sheet amounts and recognised profit on disposal to be acceptable.

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

	FY23	FY22
Certain unquoted investments in the BTPS: included within the unquoted BTPS plan assets	£38.7bn	£53.5bn
Parent Company balance sheet only	£40.0bn	£54.9bn

Our assessment of risk vs FY22

	Decrease
↓	Refer to page 73 and 76 (note 19 accounting policy Retirement benefit plans) and pages 73 to 84 (disclosures note 19 Retirement benefit plans)

The risk - subjective valuation

The BTPS has unquoted plan assets in property, mature infrastructure assets and a longevity insurance contract which are classified as fair value level three 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. BT engage valuation experts to value these assets.

The key unobservable inputs used to determine the fair value of these plan assets includes estimated rental value and price inflation (for properties), discount rates and comparable transactions (for mature infrastructure assets), discount rate, model and projected future mortality (for the longevity insurance contract).

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.

The valuation risk arising from private equity, secure income and non-core credit assets has decreased on the prior year as the impact of geo-political events is now embedded in market valuations and is no longer considered a significant risk for our audit

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.

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. 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.

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.

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

We performed the detailed tests above rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.

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

Based on the risk identified and our procedures performed we consider the valuation of the unquoted pension plan assets in respect of the BTPS and the related disclosures to be acceptable (2022 result: acceptable).

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

	FY23	FY22
Group balance sheet: BTPS obligation	£41.5bn	£54.3bn
Parent Company balance sheet: BTPS obligation	£41.6bn	£54.3bn

Our assessment of risk vs FY22

	Increased
↑	Refer to page 73 and 77 (note 19 accounting policy Retirement benefits) and pages 73 to 84 (disclosures note 19 Retirement benefit plans).

The risk - subjective estimate

The valuation of the BTPS defined benefit obligation is complex and requires a significant degree of estimation in determining the assumptions. It is dependent on key actuarial assumptions, including the discount rate, retail price index (RPI) and mortality assumptions. A change in the methodology applied or small changes in the key actuarial assumptions may have a significant impact on the measurement of the defined benefit obligation.

The inherent risk levels have increased from prior year levels due to the increased volatility of the discount rate and price inflation assumptions since March 2022.

The effect of these matters is that, as part of our risk assessment, we determined the valuation of the BTPS defined benefit obligation had 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:

Evaluation of management's expert: 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.

Our actuarial expertise: We involved our own actuarial professionals in the following:

- Evaluating the judgements made and the appropriateness of methodologies used by management and management's actuarial expert in determining the key actuarial assumptions;
- Comparing the assumptions used by Group to our independently compiled expected ranges based on market observable indices and our market experience.

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 and related disclosures of the BTPS defined benefit obligation to be acceptable (2022 result: acceptable).

KPMG LLP's Independent Auditor's Report to the members of British Telecommunications plc continued

2.4 Accuracy of revenue due to the complexity of billing systems

	FY23	FY22
Certain revenue streams: included within the total revenue	£20.7bn	£20.9bn

Our assessment of risk vs FY22

←→	Unchanged
	Refer to pages 48 to 51 (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 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 an assessment of whether the overstatements of revenue identified through these procedures were material, taking into account findings from other areas of the audit and qualitative aspects of the financial statements as a whole.

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 (2022 result: acceptable).

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 £95 million (2022: £85 million), determined with reference to a benchmark of normalised profit before tax

We normalised by adding back adjustments that do not represent the normal, continuing operations of the Group. The items we adjusted for were BT Sport related items as disclosed in note 9. As such, we based our Group materiality on Group normalised profit before tax of £2.291bn. In FY22, we determined normalised profit before tax of £2.512bn by averaging over the last 5 years due to fluctuations as a result of Covid-19. In setting overall Group materiality, we applied a percentage of 4.15% (2022: 3.4%) to the benchmark.

Materiality for the Parent Company financial statements as a whole was set at £80 million (2022: £85 million), determined with reference to a benchmark of total net assets, of which it represents 0.52% (2022: 0.59%), 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% (2022: 65%) of materiality for the financial statements as a whole, which equates to £62 million (2022: £55 million) for the Group and £52 million (2022: £55 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 Board any corrected or uncorrected identified misstatements exceeding £4 million (2022: £5 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. Of the Group's 225 (2022: 234) reporting components, we subjected 2 (2022: 4) to full scope audits and 1 (2022: Nil) to an audit of the payroll account balance. Testing of IT Systems and Litigation and Claims 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	86%	78%	90%
2022	90%	83%	97%

The remaining 14% (2022: 10%) of total Group revenue, 22% (2022: 17%) of Group profit before tax and 10% (2022: 3%) of total Group assets is represented by 222 (2022: 229) reporting components, none of which individually represented more than 5% (2022: 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 EE Limited, was performed by the Group audit team. The Parent Company was also audited by the Group audit team. The Group team instructed the EE 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 £35 million to £80 million (2022: £20 million to £85 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 and had in person meetings with the EE 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 rising energy prices, supply shortages, and inflationary pressures;
- The impact of significant supply chain disruptions driven by geo-political factors;
- The impact of plans to deliver new initiatives required to meet savings commitments not being mobilised and executed;
- The impact of an increased level of financial market volatility and deterioration of BT's covenant triggers on the funding obligation of the BT Pension Scheme;
- The likelihood of existing legal matters/claims crystallising within the going concern period.

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 board, 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 also identified a fraud risk related to the BT Sport disposal in response to possible pressures to meet strategic objectives and future profit targets.

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.

KPMG LLP's Independent Auditor's Report to the members of British Telecommunications plc continued

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

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's 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 board 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 27, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or 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
7 June 2023

Group income statement

Year ended 31 March 2023

	Notes	**Before specific items ('Adjusted') £m**	**Specific items[a] £m**	**Total (Reported) £m**
Revenue	4, 5	20,669	12	20,681
Operating costs	6	(17,492)	(568)	(18,060)
Of which net impairment losses on trade receivables and contract assets[b]		*(138)*	—	*(138)*
Operating profit (loss)	4	**3,177**	**(556)**	**2,621**
Finance expense	26	(894)	(5)	(899)
Finance income		452	—	452
Net finance expense		**(442)**	**(5)**	**(447)**
Share of post tax profit (loss) of associates and joint ventures	23	(59)	—	(59)
Profit (loss) before taxation		**2,676**	**(561)**	**2,115**
Taxation	10	(132)	308	176
Profit (loss) for the year		**2,544**	**(253)**	**2,291**

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)
Of which net impairment losses on trade receivables and contract assets[b]		*(102)*	*19*	*(83)*
Operating profit (loss)	4	**3,174**	**(287)**	**2,887**
Finance expense	26	(837)	(101)	(938)
Finance income		137	—	137
Net finance expense		**(700)**	**(101)**	**(801)**
Share of post tax profit (loss) of associates and joint ventures	23	—	—	—
Profit (loss) before taxation		**2,474**	**(388)**	**2,086**
Taxation	10	(349)	(340)	(689)
Profit (loss) for the year		**2,125**	**(728)**	**1,397**

a For a definition of specific items, see page 143. An analysis of specific items is provided in note 9.
b Impairment losses have been presented separately in accordance with IAS 1.

Group statement of comprehensive income

Year ended 31 March

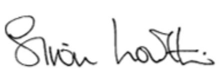
	Notes	2023 £m	2022 £m
Profit for the year		**2,291**	1,397
Other comprehensive income (loss)			
Items that will not be reclassified to the income statement			
Remeasurements of the net pension obligation	19	(2,876)	2,865
Tax on pension remeasurements	10	732	(399)
Items that have been or may be reclassified to the income statement			
Exchange differences on translation of foreign operations	28	87	65
Fair value movements on assets at fair value through other comprehensive income	28	(3)	6
Movements in relation to cash flow hedges:			
– net fair value gains (losses)	28	1,055	204
– recognised in income and expense	28	(713)	(54)
Tax on components of other comprehensive income that have been or may be reclassified	10, 28	(90)	(31)
Share of post tax other comprehensive loss in associates and joint ventures	23	(1)	—
Other comprehensive (loss) income for the year, net of tax		**(1,809)**	2,656
Total comprehensive income (loss) for the year		**482**	4,053

Group balance sheet

At 31 March

	Notes	2023 £m	2022 £m
Non-current assets			
Intangible assets	12	13,695	13,817
Property, plant and equipment	13	21,667	20,599
Right-of-use assets	14	3,981	4,429
Derivative financial instruments	27	1,397	1,003
Investments	22	10,945	11,113
Joint ventures and associates	23	359	5
Trade and other receivables	16	503	337
Preference shares in joint ventures	23	542	—
Contract assets	5	369	361
Retirement benefit surplus	19	52	—
Deferred tax assets	10	709	289
		54,219	51,953
Current assets			
Programme rights	15	—	310
Inventories		349	300
Trade and other receivables	16	3,087	2,651
Preference shares in joint ventures	23	13	—
Contract assets	5	1,565	1,554
Assets classified as held for sale	21	21	80
Current tax receivable		427	496
Derivative financial instruments	27	82	88
Investments	22	3,548	2,679
Cash and cash equivalents	24	384	772
		9,476	8,930
Current liabilities			
Loans and other borrowings	25	1,772	873
Derivative financial instruments	27	86	51
Trade and other payables	17	6,508	6,137
Contract liabilities	5	859	833
Lease liabilities	14	800	795
Liabilities classified as held for sale	21	4	40
Current tax liabilities		78	90
Provisions	18	229	222
		10,336	9,041
Total assets less current liabilities		**53,359**	51,842
Non-current liabilities			
Loans and other borrowings	25	16,749	15,897
Derivative financial instruments	27	297	819
Contract liabilities	5	193	170
Lease liabilities	14	4,559	4,965
Retirement benefit obligations	19	3,139	1,143
Other payables	17	894	598
Deferred tax liabilities	10	1,620	1,960
Provisions	18	369	439
		27,820	25,991
Equity			
Share capital		2,172	2,172
Share premium		8,000	8,000
Other reserves	28	1,664	1,326
Retained earnings		13,703	14,353
Total equity		**25,539**	25,851
		53,359	51,842

The consolidated financial statements on pages 37 to 106 were approved by the Board of Directors on 7 June 2023 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 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
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**
Adoption of amendments to IAS 37	1	—	—	—	(12)	(12)
At 1 April 2022		**2,172**	**8,000**	**1,326**	**14,341**	**25,839**
Profit for the year		—	—	—	2,291	2,291
Other comprehensive income (loss) – before tax		—	—	1,141	(2,879)	(1,738)
Tax on other comprehensive income (loss)	10	—	—	(90)	732	642
Transferred to the income statement		—	—	(713)	—	(713)
Total comprehensive income (loss) for the year		—	—	338	144	482
Dividends to parent company	11	—	—	—	(850)	(850)
Share-based payments	20	—	—	—	77	77
Tax on share-based payments	10	—	—	—	(9)	(9)
At 31 March 2023		**2,172**	**8,000**	**1,664**	**13,703**	**25,539**

a The allotted, called up, and fully paid ordinary share capital of the company at 31 March 2023 was £2,172m comprising 8,689,755,905 ordinary shares of 25p each (31 March 2022: £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 28.
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	2023 £m	2022 £m
Cash flow from operating activities			
Profit before taxation		2,115	2,086
Share of post tax loss (profit) of associates and joint ventures		59	—
Net finance expense		447	801
Operating profit		**2,621**	**2,887**
Other non-cash charges		86	73
Loss (profit) on disposal of businesses		157	(37)
Loss (profit) on disposal of property, plant and equipment and intangible assets		2	—
Depreciation and amortisation, including impairment charges		4,818	4,405
(Increase) decrease in inventories		(47)	(3)
Decrease (increase) in programme rights		7	(17)
(Increase) decrease in trade and other receivables		(285)	(53)
(Increase) decrease in contract assets		(17)	(51)
Increase (decrease) in trade and other payables		234	97
Increase (decrease) in contract liabilities		41	(93)
(Decrease) increase in other liabilities[a]		(919)	(1,169)
(Decrease) increase in provisions		(109)	(80)
Cash generated from operations		**6,589**	**5,959**
Income taxes refunded (paid)		136	(52)
Net cash inflow from operating activities		**6,725**	**5,907**
Cash flow from investing activities			
Interest received		41	6
Dividends received from joint ventures, associates and investments		9	1
Proceeds on disposal of subsidiaries, associates and joint ventures		29	76
Outflow on non-current amounts owed by ultimate parent company		(888)	(398)
Proceeds on disposal of current financial assets[b]		11,868	13,402
Purchases of current financial assets[b]		(12,705)	(12,432)
Net (purchase) disposal of non-current asset investments		(5)	(8)
Proceeds on disposal of property, plant and equipment and intangible assets		—	2
Purchases of property, plant and equipment and intangible assets[c]		(5,307)	(4,607)
(Increase) decrease in amounts owed by joint ventures	22	(265)	—
Settlement of minimum guarantee liability with sports joint venture	21	(61)	—
Net cash outflow from investing activities		**(7,284)**	**(3,958)**
Cash flow from financing activities			
Interest paid		(709)	(755)
Repayment of borrowings[d]		(513)	(1,374)
Proceeds from bank loans and bonds		2,203	744
Payment of lease liabilities		(727)	(659)
Cash flows from collateral received		(17)	(29)
Changes in ownership interests in subsidiaries		—	(86)
Increase (decrease) in amounts owed to joint ventures	25	11	—
Net cash outflow from financing activities		**248**	**(2,159)**
Net decrease in cash and cash equivalents		**(311)**	**(210)**
Opening cash and cash equivalents[e]		687	893
Net decrease in cash and cash equivalents		(311)	(210)
Effect of exchange rate changes		(3)	4
Closing cash and cash equivalents[e]	24	**373**	**687**

a Includes pension deficit payments of £994m (FY22: £1,121m).
b Primarily consists of investment in and redemption of amounts held in liquidity funds.
c Consists of additions to property, plant and equipment, engineering stores and software of £5,056m (FY22: £4,807m) and movements in capital accruals of £251m (FY22: £23m) less net refund in respect of spectrum acquisition of £nil (FY22: £223m).
d Repayment of borrowings includes the impact of hedging.
e Net of bank overdrafts of £11m (FY22: £85m).

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 2024, 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 British Telecommunications plc.

These financial statements cover the financial year from 1 April 2022 to 31 March 2023 ('FY23'), with comparative figures for the financial year from 1 April 2021 to 31 March 2022 ('FY22').

New and amended accounting standards effective during the year

The following amended standards were effective during the year:

Amendments to IAS 37 for onerous contracts

The group adopted Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37) from 1 April 2022. This resulted in a change in accounting policy for performing an onerous contracts assessment. Previously, only incremental costs to fulfil a contract were included when determining whether that contract was onerous. The revised policy is to include both incremental costs and an allocation of other costs directly attributable to the fulfilment of a contract.

The amendments apply prospectively to contracts existing at the date when the amendments are first applied. We analysed contracts existing at 1 April 2022 and identified the cumulative effect of applying the revised policy to be a £12m increase in the onerous contract provision. This has been recorded as an opening balance adjustment to retained earnings. Comparative figures have not been restated.

IFRS Interpretations Committee agenda decisions

The IFRS Interpretations Committee (IFRIC) periodically issues agenda decisions which explain and clarify how to apply the principles and requirements of IFRS standards. Agenda decisions are authoritative and may require the group to revise accounting policies or practice to align with the interpretations set out in the decision.

We regularly review IFRIC updates and assess the impact of agenda decisions. The following were identified as being potentially significant to the group:

Demand Deposits with Restrictions on Use arising from a Contract with a Third Party

In its agenda decision, the IFRIC concluded that restrictions on the use of demand deposits arising from a contract with a third party do not result in the deposits being declassified as cash and cash equivalents, unless those restrictions change the nature of the deposit in a way such that it would no longer meet the definition of cash in IAS 7. Application of this agenda decision to deposits held by the group identified one bank account with restrictions on use that nonetheless meets the IAS 7 definition of cash. This bank account was subsequently recognised on the group balance sheet and is now reflected in the cash and cash equivalents balance presented throughout the financial statements. An equal and opposite amount was recognised in trade payables.

The balance on this account was £96m at 31 March 2023 and £148m at 31 March 2022. Prior period comparatives have not been restated as the impact is not considered material, having regard to the fact that a corresponding liability is recognised within trade payables and therefore has no bearing on the group's net assets. The impact on the cash flow statement is not considered to be material and recognition of the balance is presented as an increase in trade and other payables. Cash flows relating to the account which have already been accounted for within normalised cash flow (including its initial recognition) will be excluded from this metric.

Other

The following changes have not had a significant impact on our consolidated financial statements:

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Annual Improvements to IFRS Standards 2018-2020
- Reference to the Conceptual Framework - Amendments to IFRS 3

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:

IFRS 17 Insurance Contracts

BT adopted IFRS 17 with retrospective application on 1 April 2023. It is therefore effective from FY24 onwards.

The standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The measurement method for insurance contracts required by IFRS 17 is a probability weighted discounted cash flow model, including a best estimate and an adjustment for non-financial risk calculated for groups of similar contracts.

IFRS 17 primarily impacts insurance entities, however as it applies to individual contracts it is possible that non-insurers could issue contracts that are in scope of the standard such as product breakdown contracts or warranties.

We have assessed the impact of the standard on the group and the BT plc legal entity, and concluded that its impact is not material. Contracts in scope of the standard entered into by the group are restricted to intragroup insurance arrangements, and the group does not issue external insurance contracts. Contracts in scope of the standard entered into by the BT plc legal entity are restricted to parent company guarantees, which we have assessed to have no material impact.

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

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- 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)
- Non-Current Liabilities with Covenants (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

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 BT Group plc Board and the BT Group plc Executive Committee and assists in providing a meaningful analysis of our trading results. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Specific items may not be comparable to similarly titled measures used by other companies. Examples of charges or credits which meet the above definition include significant business restructuring programmes such as the current group-wide cost transformation and modernisation programme, 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 other items meet the criteria, which are applied consistently from year to year, they are also treated as specific items. Any releases to provisions originally booked as a specific item are also classified as specific. Conversely, when a reversal occurs in relation to a prior year item not classified as specific, the reversal is not classified as specific in the current year.

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. They can be identified by the following symbol 🔍.

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. Valuation of pension assets and liabilities	✓		✓
23. BT Sport joint venture	✓		✓

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

The significant accounting policies applied in the preparation of our consolidated financial statements are set out below. Other significant accounting policies applicable to a particular area are disclosed in the most relevant note. They can be identified by the following symbol ☑.

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

Basis of consolidation

The group financial statements consolidate the financial statements of 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.

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 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.

Associates are those entities in which the group has significant influence, but not control or joint control, over the financial and operating policies.

A joint venture is an arrangement in which the group has joint control, whereby the group has rights to the net assets of the

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

arrangement, rather than rights to its assets and obligations for its liabilities. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities that significantly affect the returns of the arrangement require the unanimous consent of the parties sharing control.

Interests in associates and joint ventures are initially recognised at cost (including transaction costs) except where they relate to a retained non-controlling interest in a former subsidiary, which is initially recognised at a deemed cost being the fair value of the retained interest. Subsequent to initial recognition, the consolidated financial statements include the group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

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 Building Digital UK (BDUK) 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. The functional currency of the group is sterling. 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. 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). The CFUs are our reportable segments and generate substantially all of our revenue.

With effect from 1 January 2023 we formed the new Business unit, but its components, Global and Enterprise, continued to be managed separately and reported separately to the Executive Committee. At 31 March 2023 the group had four CFUs: Consumer, Enterprise, Global and Openreach. From 1 April 2023 Business will be a single unit and financial information for this unit will be provided to the Executive Committee on a consolidated basis only. From FY24 our CFUs will be Business, Consumer and Openreach.

The CFUs are supported by technology units (TUs) comprising Digital and Networks; and corporate units (CUs) including procurement and property management. 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 provided 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. Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax 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. We also increasingly track adjusted operating profit which reflects the growing depreciation expense arising from our elevated network investment.

Revenue recognition

Our revenue recognition policy is set out in note 5.

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 other 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 is where we generate the majority of our revenue from external UK customers. The geographic analysis of revenue is based on the country in which the customer is invoiced. The geographic analysis of non-current assets, which excludes derivative financial instruments, investments, preference shares in joint ventures, retirement benefit schemes in surplus and deferred tax assets, is based on the location of the assets.

4. Segment information continued

Segment revenue and profit

Year ended 31 March 2023	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Segment revenue	9,737	4,962	3,328	5,675	27	23,729
Internal revenue	(57)	(113)	—	(2,890)	—	(3,060)
Adjusted[a] revenue from external customers	**9,680**	**4,849**	**3,328**	**2,785**	**27**	**20,669**
Adjusted EBITDA[b]	**2,623**	**1,394**	**458**	**3,449**	**6**	**7,930**
Depreciation and amortisation[a]	(1,397)	(842)	(317)	(2,059)	(138)	(4,753)
Adjusted[a] operating profit (loss)	**1,226**	**552**	**141**	**1,390**	**(132)**	**3,177**
Specific operating profit (loss) - see note 9						(556)
Operating profit						**2,621**
Net finance expense[c]						(447)
Share of post tax profit (loss) of associates and joint ventures						(59)
Profit before tax						**2,115**

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)
Adjusted[a] revenue from external customers	**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)
Adjusted[a] operating profit (loss)	**841**	**912**	**101**	**1,303**	**17**	**3,174**
Specific operating profit (loss) - see note 9						(287)
Operating profit						**2,887**
Net finance expense[c]						(801)
Share of post tax profit (loss) of associates and joint ventures						—
Profit before tax						**2,086**

a Before specific items.
b Adjusted EBITDA, defined as profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures.
c Net finance expense includes specific item expense of £5m (FY22: £101m). See note 9.

Internal revenue and costs

	Internal cost recorded by					
Year ended 31 March 2023	**Consumer £m**	**Enterprise £m**	**Global £m**	**Openreach £m**	**Other £m**	**Total £m**
Internal revenue recorded by						
Consumer	—	40	16	—	1	57
Enterprise	26	—	32	—	55	113
Global	—	—	—	—	—	—
Openreach	1,805	888	184	—	13	2,890
Total	**1,831**	**928**	**232**	**—**	**69**	**3,060**

	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**

4. Segment information continued

Capital expenditure

Year ended 31 March 2023	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Intangible assets[a]	530	257	81	87	63	1,018
Property, plant and equipment[b]	663	351	171	2,709	144	4,038
Capital expenditure	**1,193**	**608**	**252**	**2,796**	**207**	**5,056**

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**

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	2023 £m	2022 £m
UK	18,154	18,470
Europe, Middle East and Africa, excluding the UK	1,372	1,315
Americas	684	620
Asia Pacific	459	440
Adjusted[a] revenue	**20,669**	**20,845**

a Before specific items.

Non-current assets

At 31 March	2023 £m	2022 £m
UK	39,395	38,386
Europe, Middle East and Africa, excluding the UK	740	741
Americas	283	269
Asia Pacific	156	152
Non-current assets[a]	**40,574**	**39,548**

a Comprising the following balances presented in the group balance sheet: intangible assets, property, plant and equipment, right-of-use assets, joint ventures and associates and 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 2023 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.

5. Revenue continued

We recognise revenue based on the relative standalone selling price of each performance obligation. Determining the standalone selling price often requires judgement and may be derived from regulated prices, list prices, a cost-plus derived price or the price of similar products when sold on a standalone basis by BT or a competitor. In some cases it may be appropriate to use the contract price when this represents a bespoke price that would be the same for a similar customer in a similar circumstance.
The fixed access and mobile subscription arrangements sold by our Consumer business are typically payable in advance, with any variable or one-off charges billed in arrears. Contracts are largely inflation-linked with price increases recognised when effective. Payment is received immediately for direct sales of equipment to customers. Where equipment is provided to customers under mobile and fixed access subscription arrangements, payment for the equipment is received over the course of the contract term. For sales by our enterprise businesses, invoices are issued in line with contractual terms. Payments received in advance are recognised as contract liabilities; amounts billed in arrears are recognised as contract assets.

We 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 standalone 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. Finance lease receivables are presented in note 16. The receivable is measured based on future payments to be received discounted using the interest rate implicit in the lease, adjusted for any direct costs. Any difference between the derecognised asset and the finance lease receivable is recognised in the income statement. Where the nature of services delivered relates to our core operating activities it is presented as revenue. Where it relates to non-core activities it is presented within other operating income (note 6).

5. Revenue continued

Disaggregation of external revenue

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

Year ended 31 March 2023	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
ICT and managed networks	—	1,676	1,676	—	—	3,352
Fixed access subscriptions	4,059	1,625	268	2,716	—	8,668
Mobile subscriptions	3,351	1,074	86	—	—	4,511
Equipment and other services	2,270	474	1,298	69	27	4,138
Revenue before specific items	**9,680**	**4,849**	**3,328**	**2,785**	**27**	**20,669**
Specific items[a] (note 9)						12
Revenue						**20,681**

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**

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 2023 is £12,792m (FY22: £13,502m). Of this, £6,592m (FY22: £7,108m) 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 £6,200m (FY22: £6,394m) 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 £2,909m (FY22: £2,745m) 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:

- £29m (FY22: £33m) operating lease income from non-core business activities which is presented in other operating income (note 6). Note 14 presents an analysis of payments to be received across the remaining term of operating lease arrangements.
- £58m (FY22: £44m) revenue in relation to upfront gains from arrangements meeting the definition of a finance lease. These arrangements meet the criteria for revenue recognition as they concern leases and sub-leases of telecommunications infrastructure that represent core business activities of the group.

£69m (FY22: £68m) of this income relates to the sub-leasing of right-of-use assets. These are primarily operating sub-leases of unutilised properties, and finance sub-leases of telecommunications infrastructure.

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 we have the right to bill. 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.

5. Revenue continued

Contract assets and liabilities are as follows:

At 31 March	2023 £m	2022 £m
Contract assets		
Current	1,565	1,554
Non-current	369	361
	1,934	**1,915**
Contract liabilities		
Current	859	833
Non-current	193	170
	1,052	**1,003**

£903m of the contract liability at 31 March 2022 was recognised as revenue during the year (FY22: £880m). Impairment losses of £46m were recognised on contract assets during the year (FY22: £48m).

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 2023 was 3% (FY22: 3%).

6. Operating costs

Year ended 31 March	Notes	2023 £m	2022 (re-presented)[a] £m
Operating costs by nature			
Staff costs:			
Wages and salaries		3,852	3,740
Social security costs		423	399
Other pension costs	19	590	591
Share-based payment expense	20	77	105
Total staff costs		**4,942**	**4,835**
Own work capitalised[a]		(1,364)	(1,105)
Net staff costs		**3,578**	**3,730**
Net indirect labour costs[a,b]		381	470
Net labour costs		**3,959**	**4,200**
Product costs		3,368	3,166
Sales commissions		589	628
Payments to telecommunications operators		1,354	1,346
Property and energy costs		1,242	1,028
Network operating and IT costs		913	904
TV programme rights charges[c]		354	879
Provision and installation		591	678
Marketing and sales		363	312
Net impairment losses on trade receivables and contract assets[d]		138	102
Other operating costs		111	264
Other operating income		(243)	(241)
Depreciation and amortisation, including impairment charges		4,753	4,405
Total operating costs before specific items		**17,492**	**17,671**
Specific items	9	568	292
Total operating costs		**18,060**	**17,963**
Operating costs before specific items include the following:			
Leaver costs[e]		11	15
Research and development expenditure[f]		683	604
Foreign currency (gains)/losses		(9)	3
Inventories recognised as an expense		2,311	2,297

a FY22 comparatives have been re-presented to reclassify £116m capitalised labour from net indirect labour costs to own work capitalised. This change results from a recent system change and improved analysis which affords better visibility of the nature of capitalised labour costs.
b Net of capitalised indirect labour costs of £824m (FY22: £755m (re-presented, see footnote a)).
c TV programme rights charges relate to programme rights assets which were transferred to the sports joint venture in August 2022, see note 21.
d Consists of net impairment losses on trade receivables and contract assets in Consumer of £94m (FY22: £86m), in Enterprise of £30m (FY22: £5m), in Global of £2m (FY22: £7m), in Openreach of £5m (FY22: £3m) and in Other of £1m (FY22: £1m).
e Leaver costs are included within wages and salaries, except for leaver costs of £129m (FY22: £170m) associated with restructuring costs, which have been recorded as specific items.
f Research and development expenditure includes amortisation of £632m (FY22: £543m) in respect of capitalised development costs and operating expenses of £51m (FY22: £61m). In addition, the group capitalised software development costs of £503m (FY22: £601m).

Notes to the consolidated financial statements continued

6. Operating costs continued

Depreciation and amortisation, which includes impairment charges, is analysed as follows:

Year ended 31 March	Notes	**2023 £m**	2022 £m
Depreciation and amortisation before impairment charges			
Intangible assets	12	1,165	1,035
Property, plant and equipment	13	2,878	2,658
Right-of-use assets	14	689	676
Impairment charges			
Intangible assets	12	—	13
Property, plant and equipment	13	11	11
Right-of-use assets	14	10	12
Total depreciation and amortisation before specific items		**4,753**	**4,405**
Impairment charges classified as specific items	9		
Intangible assets		—	—
Property, plant and equipment		—	—
Right-of-use assets		65	—
Total depreciation and amortisation		**4,818**	**4,405**

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	**2023 £m**	2022 £m
Short-term employee benefits	24.9	19.2
Post employment benefits	0.8	0.8
Share-based payments	7.4	7.3
	33.1	**27.3**

Information concerning directors' remuneration, pension entitlements and long-term incentive plans is shown in note 29.

7. Employees

	2023		2022	
Number of employees in the group[a]	**Year end '000**	**Average '000**	Year end '000	Average '000
UK	77.6	79.7	79.9	80.2
Non-UK	19.5	19.1	18.5	18.8
Total employees	**97.1**	**98.8**	**98.4**	**99.0**
Consumer	16.4	16.5	16.6	17.2
Enterprise	11.4	11.6	11.5	11.4
Global	12.6	13.0	13.2	13.8
Openreach	36.6	37.6	37.3	36.4
Other	20.1	20.1	19.8	20.2
Total employees	**97.1**	**98.8**	**98.4**	**99.0**

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.

Year ended 31 March	**2023 £000**	2022 £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	13,498	11,352
The audit of the company's subsidiaries	6,257	5,996
	19,755	**17,348**
Audit related assurance services[b]	**2,553**	**3,169**
Other non-audit services		
All other assurance services	**55**	**127**
Total services	**22,363**	**20,644**

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.
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 FY23 this included fees of £1,000,000 to support divestment transactions (FY22: £789,000).

Fees payable to auditors other than KPMG for audits of certain overseas subsidiaries were £171,000 (FY22: £163,000).

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 FY23 KPMG LLP received total fees from the BT Pension Scheme of £1.6m (FY22: £1.6m) in respect of the following services:

Year ended 31 March	**2023 £000**	2022 £000
Audit of financial statements of associates	1,622	1,602
Audit-related assurance services	14	16
Total services	**1,636**	**1,618**

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 plc Board and the BT Group plc 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 significant business restructuring programmes such as the current group-wide cost transformation and modernisation programme, 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. Conversely, when a reversal occurs in relation to a prior year item not classified as specific, the reversal is not classified as specific in the current year.

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 subsequent periods.

Current and future movements relating to the sports joint venture (Sports JV) with Warner Bros. Discovery (WBD), such as fair value gains or losses on the A and C preference shares or impairment charges on the equity-accounted investment, will be classified as specific as they are deemed to be related to the divestment of BT Sport operations and linked to the overall fair value of the transaction. Refer to note 25 for further detail.

9. Specific items continued

Year ended 31 March	2023 £m	2022 £m
Revenue		
Retrospective regulatory matters	(12)	(5)
Specific revenue	**(12)**	**(5)**
Operating costs		
Restructuring charges	300	347
BT Sport disposal	155	—
Sports JV - subsequent movements	34	—
Retrospective regulatory matters	12	—
Other divestment-related items	2	(36)
Covid-19	—	(19)
Specific operating costs before depreciation and amortisation	**503**	**292**
Impairment charges due to property rationalisation	65	—
Specific operating costs	**568**	**292**
Specific operating loss	**556**	**287**
Net finance expense		
Finance expense relating to BT Sport disposal	(13)	8
Interest expense on retirement benefit obligation	18	93
Specific net finance expense	**5**	**101**
Net specific items charge before tax	**561**	**388**
Taxation		
Tax credit on specific items above	(308)	(80)
Tax charge on re-measurement of deferred tax	—	420
	(308)	**340**
Net specific items charge after tax	**253**	**728**

Retrospective regulatory matters

We recognised net nil impact in relation to historic regulatory matters, with £12m credits recognised in revenue offset by £12m charges recognised within operating costs (FY22: net credit of £5m). These items represent movements in provisions relating to various matters.

Restructuring charges

We have incurred charges of £300m (FY22: £347m) relating to projects associated with our group-wide cost transformation and modernisation programme. Costs primarily relate to leaver costs, consultancy costs, and staff costs associated with colleagues working exclusively on programme activity. The net cash cost of restructuring activity during the year was £326m (FY22: £370m).

The programme was first announced in May 2020 and runs until the end of FY25. In response to cost inflation, during the year we revised the gross annualised savings target to £3.0bn (previously £2.5bn), with a cost to achieve of £1.6bn (previously £1.3bn). Since embarking on the programme we have achieved gross annualised savings of £2.1bn and incurred costs of £1.1bn.

BT Sport disposal

During FY23 we completed the disposal of BT Sport operations. We recognised a profit on disposal of £28m in specific items, made up of £155m charges recognised within operating costs net of £183m tax credits. We also recognised a £13m credit within finance costs as specific (FY22: £8m charge), relating to a foreign exchange hedging arrangement with the Sports JV, see note 30. Further details on the BT Sport disposal can be found in note 23.

Sports JV subsequent movements

Subsequent to the disposal, we have recorded a net fair value movement of £34m on the A and C preference shares in the Sports JV (see note 23).

Other divestment-related items

We recognised a £2m charge (FY22: £36m credit) relating to ongoing divestment projects.

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. At 31 March 2023 these provisions had been fully released or utilised.

Impairment charges due to property rationalisation

During FY23, we recognised a £65m impairment charge as specific (FY22: £nil), in relation to an ongoing property rationalisation programme.

Interest expense on retirement benefit obligation

During the year we incurred £18m (FY22: £93m) of interest costs in relation to our defined benefit pension obligations.

Tax on specific items

A tax credit of £308m (FY22: £80m) was recognised in relation to specific items. Of this, £183m relates to the BT Sport disposal. Further details can be found in note 23.

Remeasurement of deferred tax balances

In FY22 we remeasured our deferred tax balances following the enactment of the new UK corporation tax rate of 25% from April 2023. The corresponding adjustment comprised 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 was 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 evaluate positions taken in tax returns where tax regulation is subject to interpretation, and establish provisions if appropriate based on the amounts likely 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 and current income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority 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 is probable that there will be suitable taxable profits 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.

Key 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 our intra-group trading model will be accepted by a particular tax authority; whether intra-group payments are subject to withholding taxes and the deductibility of certain compensation payments made in prior years. We provide for the predicted outcome where an outflow is probable, but the agreed amount can differ materially from our estimates. Approximately 75% 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. £104m (FY22: £194m) is included in current tax liabilities or offset against current tax assets where netting is appropriate.

Under a downside case an additional amount of £174m could be required to be paid. 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	**2023 £m**	2022 £m
United Kingdom		
Corporation tax at 19% (FY22: 19%)	—	—
Adjustments in respect of earlier years[a]	63	223
Non-UK taxation		
Current	(67)	(78)
Adjustments in respect of earlier years	9	7
Total current taxation (expense)	**5**	**152**
Deferred taxation		
Origination and reversal of temporary differences	102	(102)
Adjustments in respect of earlier years[a]	56	(190)
Impact of change in UK corporation tax rate to 25% (FY22: 19%)	—	(420)
Remeasurement of temporary differences	13	(129)
Total deferred taxation credit (expense)	**171**	**(841)**
Total taxation (expense)	**176**	**(689)**

a In FY22, 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.

10. Taxation continued

Factors affecting our taxation expense for the year

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

Year ended 31 March	2023 £m	2022 £m
Profit before taxation	**2,115**	**2,086**
Expected taxation expense at UK rate of 19% (FY22: 19%)	(402)	(396)
Effects of:		
(Higher)/lower taxes on non-UK profits	—	(4)
Net permanent differences between tax and accounting[a]	426	202
Adjustments in respect of earlier years[b]	126	40
Prior year non-UK losses used against current year profits	5	20
Non-UK losses not recognised[c]	9	(2)
Re-measurement of deferred tax balances	12	(549)
Total taxation credit (expense)	**176**	**(689)**
Exclude specific items (note 9)	(308)	340
Total taxation expense before specific items	**(132)**	**(349)**

a Includes income that is not taxable or UK income taxable at a different rate, and expenses for which no tax relief is received. In both FY22 and FY23 this included the benefit of the UK super-deduction. In FY23 it also includes the non-taxable profit on the disposal and revaluation of BT Sport.
b Reflects the differences between initial accounting estimates and tax returns submitted to tax authorities, including the release and establishment of provisions for uncertain tax positions.
c Reflects losses made in countries where it has not been considered appropriate to recognise a deferred tax asset, as future taxable profits are not probable.

Tax components of other comprehensive income

Year ended 31 March	2023 Tax credit (expense) £m	2022 Tax credit (expense) £m
Taxation on items that will not be reclassified to the income statement		
Pension remeasurements	732	(399)
Tax on items that have been or may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	—	—
Fair value movements on cash flow hedges		
– net fair value gains or (losses)	(90)	(31)
– recognised in income and expense	—	—
Total tax recognised in other comprehensive income	**642**	**(430)**
Current tax credit[a]	8	8
Deferred tax credit (expense)	634	(438)
Total tax recognised in other comprehensive income	**642**	**(430)**

a Includes £nil (FY22: £nil) relating to cash contributions made to reduce retirement benefit obligations.

Tax (expense) credit recognised directly in equity

Year ended 31 March	2023 £m	2022 £m
Tax (expense) credit relating to share-based payments	**(9)**	**11**

Notes to the consolidated financial statements continued

10. Taxation continued

Deferred taxation

	Fixed asset temporary differences £m	Retirement benefit obligations[a] £m	Share-based payments £m	Tax losses £m	Other £m	Jurisdictional offset £m	Total £m
At 1 April 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
Exchange differences	—	—	(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**
Expense (credit) recognised in the income statement	886	(18)	(13)	(1,022)	(4)	—	(171)
Expense (credit) recognised in other comprehensive income	—	(413)	—	(311)	90	—	(634)
Expense (credit) recognised in equity	—	—	9	—	—	—	9
Exchange differences	—	—	—	(4)	(3)		(7)
Transfer to held for sale	—	—	—	—	2	—	2
Transfer to current tax	—	—	—	—	41	—	41
At 31 March 2023	**3,799**	**(626)**	**(40)**	**(2,194)**	**(28)**	**—**	**911**
Non-current							
Deferred tax asset	—	(626)	(40)	(2,194)	(28)	2,179	(709)
Deferred tax liability	3,799	—	—	—	—	(2,179)	1,620
At 31 March 2023	**3,799**	**(626)**	**(40)**	**(2,194)**	**(28)**	**—**	**911**

a Includes a deferred tax asset of £8m (FY22: £5m) arising on contributions payable to defined contribution pension plans.

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

What factors affect our future tax charges?

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. Together with trading losses and pension deficit contribution deductions, these result in c. £8bn of tax losses expected to be carried forward from FY23 to be utilised against UK taxable profit from FY24 onwards. These are represented by a net c. £2.0bn deferred tax asset which is disclosed within the £2,194m deferred tax asset relating to tax losses in the table above.

What are our unrecognised tax losses and other temporary differences?

At 31 March 2023 we had operating losses and other temporary differences carried forward in respect of which no deferred tax assets were recognised amounting to £3.7bn (FY22: £3.8bn). 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 2023	£m	Expiry
Restricted losses		
Europe	—	2024 - 2027
Americas	365	2024 - 2045
Other	3	2024 - 2030
Total restricted losses	**368**	
Unrestricted operating losses	3,073	No expiry
Other temporary differences	266	No expiry
Total	**3,707**	

At 31 March 2023 we had UK capital losses carried forward in respect of which no deferred tax assets were recognised amounting to £16.8bn (FY22: £16.8bn). These losses have no expiry date, but we consider the future utilisation of significant amounts of these losses to be remote.

At 31 March 2023 the undistributed earnings of non-UK subsidiaries were £2.5bn (FY22: £1.9bn). 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

10. Taxation continued

and hence any tax consequences that may arise. Under current tax rules, tax of £41m (FY22: £35m) would arise if these earnings were to be repatriated to the UK.

11. Dividends

What dividends have been paid and proposed?

A dividend of £850m was paid to the parent company, BT Group Investments Ltd (FY22: £nil). The directors recommend payment of a final dividend in respect of FY23 of £850m (FY22: £850m).

12. Intangible assets

Significant accounting policies that apply to intangible assets

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

Goodwill

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

Acquired intangible assets – customer relationships and brands

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

Telecommunications licences

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

Computer software

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

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

Other

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

Estimated useful economic lives

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

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

Impairment of intangible assets

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

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

12. Intangible assets continued

	Goodwill £m	Customer relationships and brands[a] £m	Telecoms licences and other[b] £m	Internally developed software[c] £m	Purchased software[c] £m	Total £m
Cost						
At 1 April 2021	**7,846**	**3,383**	**3,013**	**4,753**	**1,135**	**20,130**
Additions[d]	—	—	479	793	151	1,423
Acquisitions	94	—	—	—	2	96
Disposals and adjustments[e]	(7)	—	(3)	(239)	(272)	(521)
Transfers	—	—	1	45	(44)	2
Exchange differences	43	—	—	1	(1)	43
Transfers to assets held for sale[f]	(51)	—	—	(7)	—	(58)
At 31 March 2022	**7,925**	**3,383**	**3,490**	**5,346**	**971**	**21,115**
Additions	—	—	—	815	203	1,018
Acquisitions	—	—	—	—	—	—
Disposals and adjustments[e]	(21)	—	—	(466)	151	(336)
Transfers	—	—	—	30	(38)	(8)
Exchange differences	72	—	1	2	7	82
Transfer to assets held for sale[f]	(13)	—	—	—	—	(13)
At 31 March 2023	**7,963**	**3,383**	**3,491**	**5,727**	**1,294**	**21,858**
Accumulated amortisation						
At 1 April 2021	**—**	**2,238**	**734**	**3,299**	**494**	**6,765**
Amortisation charge for the year[g]	—	231	179	529	96	1,035
Impairment[g]	—	—	—	—	13	13
Disposals and adjustments[e]	—	—	(5)	(229)	(278)	(512)
Transfers	—	—	—	(2)	2	—
Exchange differences	—	—	—	1	(1)	—
Transfers to assets held for sale[f]	—	—	—	(3)	—	(3)
At 31 March 2022	**—**	**2,469**	**908**	**3,595**	**326**	**7,298**
Amortisation charge for the year[g]	—	231	185	596	153	1,165
Impairment[g]	—	—	—	—	—	—
Disposals and adjustments[e]	—	—	1	(389)	79	(309)
Transfers	—	—	—	(56)	56	—
Exchange differences	—	—	1	1	7	9
At 31 March 2023	**—**	**2,700**	**1,095**	**3,747**	**621**	**8,163**
Carrying amount						
At 31 March 2022	**7,925**	**914**	**2,582**	**1,751**	**645**	**13,817**
At 31 March 2023	**7,963**	**683**	**2,396**	**1,980**	**673**	**13,695**

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 £643m (FY22: £693m), 1800 MHz with book value of £590m (FY22: £636m), 700Mhz with book value of £281m (FY22: £297m), 3400 MHz with book value of £242m (FY22: £258m) and 2600 MHz with book value of £206m (FY22: £227m). Spectrum licences are being amortised over a period between 11 and 19 years.
c Includes a carrying amount of £1,125m (FY22: £1,046m) in respect of assets under construction, which are not yet amortised.
d Additions to telecoms licences and other assets in FY22 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.
e Disposals and adjustments include the removal of assets from the group's fixed asset registers following disposals and the identification of fully amortised assets (including through operation of the group's annual asset verification exercise). They also include adjustments between gross cost and accumulated amortisation following review of fixed asset registers. These adjustments do not impact the net carrying amount of any asset class.
f For a breakdown of assets held for sale see note 21.
g In previous years impairment charges were included within the amortisation charge for the year but are now presented separately. FY22 comparatives have been re-presented for comparability.

12. Intangible assets continued

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.

Significant judgements and key accounting estimates 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. Our determination of CGUs is unchanged from FY22.

From 1 April 2023 the existing Enterprise and Global units will be managed and reported as a single unit, Business, and we will review the impact this has on our determination of CGUs in FY24. In FY22 we brought together the Legacy BT Consumer and Legacy EE CGUs into a combined 'Consumer' CGU.

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 on a nominal basis and based on our latest BT Group plc Board-approved five-year financial plans, representing management's best estimate of future growth. This includes the direct and indirect impacts of inflation and associated mitigations. Expectations about future growth reflect the expectations of growth in the markets to which the CGU relates and consideration of the overall variability relating to individual assumptions at the unit level. The future cash flows are discounted using a pre-tax nominal 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 2023. 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 2021	**—**	**1,183**	**2,768**	**3,475**	**420**	**7,846**
Acquisitions and disposals	—	—	—	94	(7)	87
Transfer	3,951	(1,183)	(2,768)	—	—	—
Exchange differences	—	—	—	4	39	43
Transfer to assets held for sale[a]	(51)	—	—	—	—	(51)
At 31 March 2022	**3,900**	**—**	**—**	**3,573**	**452**	**7,925**
Acquisitions and disposals	(26)	—	—	4	1	(21)
Exchange differences	—	—	—	4	68	72
Transfer to assets held for sale	—	—	—	(4)	(9)	(13)
At 31 March 2023	**3,874**	**—**	**—**	**3,577**	**512**	**7,963**

a Assets transferred to held for sale during FY22 relate to the sale of our BT Sport operations. See note 21.

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 FY23 was 9.4% (FY22: 7.6%). We have used the same discount rate for all CGUs except Global where we have used 9.7% (FY22: 7.9%) reflecting higher risk in some of the countries in which Global operates.

In FY23 we changed the calculation methodology of the group's weighted average cost of capital. The most significant change relates to the nominal interest rate for debt which we previously benchmarked to a 5-year historic average. We now use a spot rate to better reflect the recent significant increases in interest rates by the Bank of England, and the increase in our discount rate is largely attributable to this. The pre-tax discount rate calculated under the previous methodology would have been 7.8%.

12. Intangible assets continued

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 2.4% (FY22: 2.3%) for Global and 2.0% (FY22: 2.0%) for Enterprise and Consumer.

What sensitivities have we applied?

There is significant headroom in our Enterprise and Consumer CGUs. For Global, the value in use exceeds the carrying value of the CGU by approximately £0.7bn (FY22: £3.9bn) due mainly to market conditions and the increased weighted average cost of capital. Any of the following changes in assumptions in isolation would cause the recoverable amount for the CGU to equal its carrying amount:

- A reduction in the perpetuity growth rate from our 2.4% assumption to a revised assumption of a perpetuity decline rate of 3.9%;
- An increase in the discount rate from our 9.7% assumption to a revised assumption of 14.4%; or
- Shortfalls in trading performance against forecast resulting in operating cash flows decreasing by 41% each year and in perpetuity.

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 is 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	Shorter of unexpired portion of lease or 40 years
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.

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 was 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.

13. Property, plant and equipment continued

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.

	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 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**
Additions[b]	7	—	129	7	3,947	4,090
Transfers[e]	89	2,617	913	211	(3,822)	8
Disposals and adjustments[c]	31	(118)	(183)	(33)	(70)	(373)
Transfer to assets held for sale[d]	—	—	(108)	(13)	—	(121)
Exchange differences	16	—	99	6	1	122
At 31 March 2023	**1,165**	**33,775**	**25,289**	**1,622**	**1,502**	**63,353**
Accumulated depreciation						
At 1 April 2021	**612**	**16,076**	**20,946**	**1,137**	**—**	**38,771**
Depreciation charge for the year[f]	37	1,372	1,092	157	—	2,658
Impairment[f]	—	—	—	11	—	11
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**
Depreciation charge for the year[f]	50	1,466	1,144	218	—	2,878
Impairment[f]	—	—	—	11	—	11
Transfers[e]	—	195	(192)	(4)	—	(1)
Disposals and adjustments[c]	32	(139)	(133)	(36)	—	(276)
Transfer to assets held for sale[d]	—	—	(106)	(11)	—	(117)
Exchange differences	13	—	91	7	—	111
At 31 March 2023	**716**	**18,998**	**20,854**	**1,210**	**—**	**41,778**
Carrying amount						
At 31 March 2022	**401**	**13,800**	**4,389**	**419**	**1,446**	**20,455**
Engineering stores	—	—	—	—	144	144
Total at 31 March 2022	**401**	**13,800**	**4,389**	**419**	**1,590**	**20,599**
At 31 March 2023	**449**	**14,777**	**4,435**	**412**	**1,502**	**21,575**
Engineering stores	—	—	—	—	92	92
Total at 31 March 2023	**449**	**14,777**	**4,435**	**412**	**1,594**	**21,667**

a Other mainly comprises motor vehicles, computers and fixtures and fittings.
b Net of government grants of £150m (FY22: £78m).
c Disposals and adjustments include the removal of assets from the group's fixed asset registers following disposals and the identification of fully depreciated assets (including through operation of the group's annual asset verification exercise). They also include adjustments between gross cost and accumulated depreciation following review of fixed asset registers, and 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 are detailed in note 21.
e Following review of fixed asset registers during the year we transferred £195m accumulated depreciation relating to Openreach network infrastructure that was historically recorded against other units. Prior year comparatives have not been restated as the impact is not qualitatively material. There is no impact on the segmentation of the profit and loss depreciation charge as disclosed in note 4.
f In previous years impairment charges were included within the depreciation charge for the year but are now presented separately. FY22 comparatives have been re-presented for comparability.

Notes to the consolidated financial statements continued

13. Property, plant and equipment continued

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

- £14,777m (FY22: £13,800m) 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 £163m (FY22: £169m) 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 carrying amount of land and buildings, including leasehold improvements, comprised:

At 31 March	**2023 £m**	2022 £m
Freehold	80	92
Leasehold	369	309
Total land and buildings	**449**	**401**

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 £721m (FY22: £562m) and is recorded within network infrastructure. Included within this is £66m (FY22: £73m), being the group's share of assets owned by its joint operation MBNL.

Within network infrastructure are assets with a net book value of £10.9bn (FY22: £10.3bn) which have useful economic lives of more than 18 years.

14. Leases

Significant accounting policies that apply to leases

Identifying whether a lease exists

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

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

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

Lessee accounting

We recognise a lease liability and right-of-use asset at the commencement of the 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 that the lessee will exercise, or termination options that we are reasonably certain that 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

14. Leases continued

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

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

Right-of-use assets are initially measured at the initial amount of the corresponding lease liabilities, adjusted for any prepaid lease payments, plus any initial direct costs incurred and an estimate of any decommissioning costs that have been recognised as provisions, less any lease incentives received. They are subsequently depreciated using the straight-line method to the earlier of the end of the useful life of the asset or the end of the lease term. Right-of-use assets are tested for impairment following the policy set out in note 13 and are adjusted for any remeasurement of lease liabilities.

We have elected not to recognise lease liabilities and right-of-use assets for short-term leases that have a lease term of 12 months or less, and leases of low-value assets with a purchase price under £5,000. We recognise payments for 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 or on modification of a contract that contains a lease component, we allocate the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When we act as a lessor, we determine at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, we make 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, then it is an operating lease. As part of this assessment, we consider certain indicators such as whether the lease is for the major part of the economic life of the asset.

When we are an intermediate lessor, we account for our interests in the headlease and the sublease separately. We assess the lease classification of a sublease with reference to the right-of-use asset arising from the headlease, not with reference to the underlying asset. If a headlease is a short-term lease to which we apply the exemption described above, then we classify the sublease as an operating lease.
If an arrangement contains lease and non-lease components, then we apply IFRS 15 to allocate the consideration in the contract.
We apply the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. We further regularly review estimated unguaranteed residual values used in calculating the gross investment in the lease.
We recognise lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

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.

14. Leases continued

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, using an updated discount rate. There would be no overall impact on net assets.

If the assessment were to change at the balance sheet date 31 March 2023:

- 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.

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 with our 5G rollout and other capital refresh programmes.

14. Leases continued

Right-of-use assets

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

	Land and buildings £m	Network infrastructure £m	Motor vehicles £m	Other £m	Total £m
At 1 April 2021	**4,332**	**145**	**375**	**11**	**4,863**
Additions[a]	249	13	110	1	373
Depreciation charge for the year[b]	(526)	(31)	(115)	(4)	(676)
Impairment[b]	(6)	(6)	—	—	(12)
Transfer to assets held for sale	(2)	—	—	—	(2)
Other movements[c]	(106)	(11)	(1)	1	(117)
At 31 March 2022	**3,941**	**110**	**369**	**9**	**4,429**
Additions[a]	203	16	150	2	371
Depreciation charge for the year[b]	(521)	(32)	(131)	(5)	(689)
Impairment[b]	(75)	—	—	—	(75)
Transfer to assets held for sale	(3)	—	—	—	(3)
Other movements[c]	(49)	1	(3)	(1)	(52)
At 31 March 2023	**3,496**	**95**	**385**	**5**	**3,981**

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 In previous years impairment charges were included within the depreciation charge for the year but are now presented separately. FY22 comparatives have been re-presented for comparability. Impairment charge in FY23 relates primarily to the early exit of leases as a result of ongoing property rationalisation activity.

c Other movements primarily relate to terminated leases and downwards remeasurements of right-of-use assets arising from reductions or reassessments of lease terms and decreases in lease payments.

Lease liabilities

Lease liabilities recognised are as follows:

Year ended 31 March	2023 £m	2022 £m
Current	800	795
Non-current	4,559	4,965
	5,359	**5,760**

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 (FY22: £133m) accrued on lease liabilities.
- Variable lease payments of £38m (FY22: £24m) which are not dependent on an index or rate and which have not been included in the measurement of lease liabilities.

Expenses relating to leases of low-value assets and short-term leases for which no right-of-use asset or lease liability has been recognised were not material.

The total cash outflow for leases in the year was £860m (FY22: £792m). Our cash flow statement and normalised free cash flow reconciliation present £727m (FY22: £659m) of the cash outflow as relating to the principal element of lease liability payments, with the remaining balance of £133m (FY22: £133m) presented within interest paid.

Note 27 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.

14. Leases continued

Other information relating to leases

At 31 March 2023 the group was committed to future minimum lease payments of £145m in respect of leases which have not yet commenced and for which no lease liability has been recognised (31 March 2022: £39m).

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

At 31 March 2023	To be recognised as revenue (note 5) £m	To be recognised as other operating income (note 6) £m	Total £m
Less than one year	416	19	435
One to two years	131	15	146
Two to three years	46	15	61
Three to four years	13	14	27
Four to five years	10	13	23
More than five years	—	20	20
Total undiscounted lease payments	**616**	**96**	**712**
At 31 March 2022			
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**

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 31. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 16). No contractual commitments or prepayments exist in respect of programme rights at 31 March 2023 following the BT Sport divestment during the year.

Programme rights were disposed in year as part of the BT Sport divestment, see note 21 for further details.

	Total £m
At 1 April 2021	**328**
Additions	861
Release	(879)
At 1 April 2022	**310**
Additions	676
Release	(354)
Disposal	(632)
At 31 March 2023	**—**

16. Trade and other receivables

Significant accounting policies that apply to trade and other receivables

Trade receivables are recognised where the right to receive payment from customers is conditional only on the passage of time. 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.

The group utilises factoring arrangements for selected trade receivables. Trade receivables that are subject to debt factoring arrangements are derecognised if they meet the conditions for derecognition detailed in IFRS 9 'Financial instruments'.

Contingent assets such as any insurance recoveries 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	**2023** **£m**	2022 £m
Current		
Trade receivables	1,395	1,339
Amounts owed by ultimate parent company	26	27
Prepayments	545	523
Accrued income	158	150
Deferred contract costs	369	336
Finance lease receivables[a]	29	3
Amounts due from joint ventures	268	—
Other assets[a,b]	297	273
	3,087	**2,651**
Non-current		
Deferred contract costs	211	226
Finance lease receivables[a]	98	90
Other assets[a,b]	194	21
	503	**337**

a In previous years finance lease receivables were included within other receivables but are now presented separately. FY22 comparatives have been re-presented for comparability.
b Other assets comprise prepayments and £70m (FY22: £nil) of deferred cash consideration relating to the disposal of BT Sport, see note 21.

Amounts due from joint ventures relates to a sterling Revolving Credit Facility (RCF) provided to the Sports JV formed during the year, see note 21. The RCF is in place to provide short-term liquidity required by the Sports JV to fund working capital and commitments to sports rights holders, up to a maximum of £300m (expected to decrease to £200m during FY24). Amounts drawn down by the Sports JV under the RCF accrue interest at a market reference rate, consistent with group's external short-term borrowings, and is held as a financial asset at amortised cost. The expected loss provision is immaterial.

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

	2023 **£m**	2022 £m
At 1 April	223	378
Expense	84	35
Utilised	(142)	(189)
Exchange differences	3	(1)
At 31 March	**168**	**223**

Included within the movements above are certain items which have been classified as a specific item (see note 9). In FY23, £nil of expected credit loss provisions recognised as a specific item were released (FY22: £19m release) reflecting lower than expected credit losses.

16. Trade and other receivables continued

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
2023							
Expected loss rate %	1%	75%	10%	46%	41%	52%	11%
Gross carrying amount	1,030	20	265	48	59	141	1,563
Loss allowance	(8)	(15)	(26)	(22)	(24)	(73)	(168)
Net carrying amount	1,022	5	239	26	35	68	1,395
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

Trade receivables not past due and accrued income are analysed below by CFU.

	Trade receivables not past due		Accrued income	
At 31 March	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Consumer	309	324	82	76
Enterprise	180	168	2	—
Global	533	446	—	—
Openreach	—	—	70	71
Other	—	—	4	3
Total	**1,022**	**938**	**158**	**150**

Given the broad and varied nature of our customer base, the analysis of trade receivables not past due and accrued income by CFU is considered the most appropriate disclosure of credit concentrations.

Deferred contract costs

Significant accounting policies that apply to deferred contract costs

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

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

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

Notes to the consolidated financial statements continued

16. Trade and other receivables continued

The following table shows the movement on deferred costs:

	Deferred connection costs £m	Deferred contract acquisition costs - commissions £m	Deferred contract acquisition costs - dealer incentives £m	Transition and transformation £m	Total £m
At 1 April 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**
Additions	15	100	285	70	470
Amortisation	(15)	(94)	(276)	(67)	(452)
Impairment	—	(1)	(1)	—	(2)
Other	(2)	2	(2)	4	2
At 31 March 2023	**22**	**131**	**330**	**97**	**580**

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.

We use a supply chain financing programme to extend payment terms with a limited number of suppliers to a more typical payment term. We also use a separate supply chain financing programme to allow suppliers to receive funding earlier than the invoice due date. We assess these arrangements against indicators to assess if debts which vendors have sold to the funder under the supplier financing schemes continue to meet the definition of trade payables or should be classified as borrowings. At 31 March 2023 the payables met the criteria of trade payables. Cash flows are presented in cash flows from operating activities.

At 31 March	**2023 £m**	2022 £m
Current		
Trade payables	4,196	4,143
Amounts owed to ultimate parent company	11	11
Other taxation and social security	581	573
Minimum guarantee from BT Sport disposal[a]	195	—
Accrued expenses	458	549
Deferred income[b]	532	345
Other payables[c]	535	516
	6,508	**6,137**
Non-current		
Minimum guarantee from BT Sport disposal[a]	465	—
Deferred income[b]	403	594
Other payables[c]	26	4
	894	**598**

a See note 21.
b Deferred income includes £258m (FY22: £96m) current and £169m (FY22: £392m) non-current liabilities relating to Building Digital UK, for which grants received by the group may be subject to re-investment or repayment depending on the level of take-up.
c During FY23 we reclassified £132m payables to provisions (note 18) following reassessment of the level of certainty over the timing and amount of any outflow of resources.

Current trade and other payables at 31 March 2023 include:

- £348m (31 March 2022: £89m) of trade payables that have been factored by suppliers in a supply chain financing programme. These programmes are used with a limited number of suppliers with short payment terms to extend them to a more typical payment term.
- £169m (31 March 2022: £93m) of trade payables in a separate supply chain financing programme that allows suppliers the opportunity to receive funding earlier than the invoice due date. Financial institutions are used to support this programme but we continue to recognise the underlying payables as we continue to cash settle the supplier invoices in accordance with their terms.

18. Provisions & contingent liabilities

Our provisions principally relate to obligations arising from property rationalisation programmes, restructuring programmes, asset retirement obligations, network assets, third party 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 nominal pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Cash flows are adjusted for the effect of inflation where appropriate.

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.

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.

When measuring provisions we reflect the impact of inflation as appropriate particularly in relation to our property, asset retirement obligation and third party claims provisions. Although this involves a degree of estimation it does not represent a significant source of estimation uncertainty having regard to the quantum of the balances in question and the anticipated timing of outflows.

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 associated 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.

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.

Establishing contingent liabilities associated with litigation brought against the group may involve the use of key 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.

Third party claims provisions (previously described as insurance provisions) represent our exposure to claims from third parties, with latent disease claims from former colleagues and motor vehicle claims making up the majority of the balance. We engage an independent actuary to provide an estimate of the most likely outcomes in respect of latent disease and third party motor vehicle accident claims, and our in-house insurance teams review our exposure to other risks.

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.

Notes to the consolidated financial statements continued

18. Provisions & contingent liabilities continued

	Property[a] £m	Network ARO[a] £m	Regulatory £m	Litigation £m	Third party claims[b] £m	Other[c,d] £m	Total £m
At 1 April 2021	**138**	**158**	**96**	**109**	**91**	**123**	**715**
Additions	17	25	14	7	6	22	91
Unwind of discount	—	1	—	—	—	—	1
Utilised	(9)	(3)	(26)	—	(5)	(11)	(54)
Released	(2)	—	(18)	(31)	—	(38)	(89)
Transfers	(2)	—	(1)	—	—	—	(3)
At 31 March 2022	**142**	**181**	**65**	**85**	**92**	**96**	**661**
IAS 37 opening balance adjustment[e]	—	—	—	—	—	12	12
At 1 April 2022	**142**	**181**	**65**	**85**	**92**	**108**	**673**
Additions	43	—	16	6	35	15	115
Unwind of discount	1	3	—	—	—	—	4
Utilised	(8)	(4)	(1)	(41)	(30)	(7)	(91)
Released	(37)	(87)	(16)	(9)	(43)	(42)	(234)
Transfers[f]	—	—	4	—	132	(11)	125
Exchange differences	1	—	—	3	1	1	6
At 31 March 2023	**142**	**93**	**68**	**44**	**187**	**64**	**598**

a Timing of expected cash flows associated with property and network ARO provisions varies depending on the exit dates of individual properties and sites. Provision releases during FY23 primarily relate to the remeasurement of provisions using increased discount rates that reflect an increase in risk-free rates.
b Third party claims described as insurance in prior periods, relabelled to better reflect the nature of the underlying exposures. Within this balance £77m held in respect of our gross exposure to latent disease claims from former colleagues and £30m for motor vehicle claims, with no individually material items in the remaining balance.
c Network share provisions were previously presented separately but are now presented within Other provisions due to their relative immateriality. FY22 comparatives have been restated for comparability. Network share provisions were £5m at 31 March 2022 and £5m at 31 March 2023.
d Other provisions include contract loss provisions of £8m (FY22: £1m) relating to the anticipated total losses in respect of certain contracts.
e Opening balance adjustment arising on adoption of the amendments to IAS 37, see note 1.
f Transfers into third party claims in FY23 relate to the reclassification of balances previously presented in other payables (note 17) following reassessment of the level of certainty over the timing and amount of any outflow of resources.

At 31 March	**2023 £m**	2022 £m
Analysed as:		
Current	229	222
Non-current	369	439
	598	**661**

Contingent liabilities and legal proceedings

In the ordinary course of business, we are periodically notified of actual or threatened litigation, and regulatory and compliance matters and investigations. We have disclosed below a number of such matters including any matters where we believe a material adverse impact on the operations or financial condition of the group is possible and the likelihood of a material outflow of resources is more than remote.

Where the outflow of resources is considered probable, and a reasonable estimate can be made of the amount of that obligation, a provision is recognised for these amounts and reflected in the table above. Where an outflow is not probable but is possible, or a reasonable estimate of the obligation cannot be made, a contingent liability exists.

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 (on behalf of a Claim Representative) 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 five 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 hearing window has been set for January – April 2024. On 1 June 2023 Mishcon de Reya notified us that they intend to file an updated claim. BT intends to defend itself vigorously.

Italian business

Milan Public Prosecutor prosecutions: in February 2019 the Milan Public Prosecutor served BT Italia S.P.A. (BT Italia) with a notice (which named BT Italia, as well as various individuals) to record the Prosecutor's view that there is a basis for proceeding with its case against BT Italia for certain potential offences, namely the charge of having adopted, from 2011 to 2016, an inadequate management and control organisation model for the purposes of Articles 5 and 25 of Legislative Decree 231/2001. BT Italia disputes this and maintains in a defence brief filed in April 2019 that: (a) BT Italia did not gain any interest or benefit from the conduct in question; and (b) in any event, it had a

18. Provisions & contingent liabilities continued

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 ongoing. 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 successfully joined 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. The trial on the question of liability/breach ran from May to July 2022. The parties are now awaiting judgment, and the court has not yet indicated when it will be delivered. A second trial on quantum would be required in the event of a finding for the claimant. We continue to dispute these allegations vigorously.

UK Competition and Markets Authority (CMA) investigation

On 12 July 2022 the CMA opened a competition law investigation into BT and other companies involved in the purchase of freelance services for the production and broadcasting of sports content in the UK. The investigation is focused on BT Sport. In February 2023, the CMA extended its investigation to include suspected breaches of competition law in relation to the employment of staff supporting the production and broadcasting of sports content in the UK. The CMA has said no assumption should be made at this stage that competition law has been infringed. BT is cooperating with the investigation.

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:

- The BT Pension Scheme (BTPS) is the largest UK Defined Benefit plan. It was closed to future benefit accrual in 2018 for the majority of members, and has 62,000 deferred members and 208,000 pensioners. All BTPS members receive pensions benefits at retirement based on salary and years of service, and some members also receive a lump sum payment at retirement. Increases for the majority of benefits are linked to either the Retail Price Index (RPI) or the Consumer Price Index (CPI). The scenarios on page 80 illustrate how sensitive the BTPS liabilities are to inflation expectations. The BTPS constitutes 97% of BT Group's IAS 19 liability.
- The EE Pension Scheme (EEPS) has a Defined Benefit section that was closed to future benefit accrual in 2014 and a Defined Contribution section. The Defined Benefit section constitutes 2% of BT Group's IAS 19 liability.
- The BT Retirement Saving Scheme (BTRSS) is a Defined Contribution, contract-based, plan operated by Standard Life which new UK employees join. There are around 65,000 employees building benefits in the BTRSS.

The group also has retirement arrangements around the world in line with local markets and culture.

Types of retirement benefit plans

Defined benefit ("DB") plans

DB plan benefits are determined by the plan rules, typically dependent on factors such as age, years of service and pensionable pay, but not on the value of actual contributions made by the company and 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.
The net defined benefit liability, or deficit, 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.

Defined contribution ("DC") plans

DC plan benefits are linked to the value of each member's fund, which is based on contributions paid and the performance of each individual's chosen investments. The group has no exposure to investment and other experience risks.

19. Retirement benefit plans continued

Amounts in the financial statements

Group income statement

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

Year ended 31 March	**2023 £m**	2022 £m
Recognised in the income statement before specific items (note 6)		
– Service cost:		
– DB plans	17	20
– DC plans	537	525
– Past service (credit) cost	(2)	(1)
– Administration expenses and PPF levy	38	47
Subtotal	**590**	**591**
Recognised in the income statement as specific items (note 9)		
– Costs to close BTPS and provide transition payments[a] for affected employees	13	14
– Interest on pensions deficit	18	93
Subtotal	**31**	**107**
Total recognised in the income statement	**621**	**698**

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. EEPS is in a surplus position in FY23 (FY22: deficit position) so assets and liabilities are presented within non-current assets (FY22: non-current liabilities).

	2023			2022		
At 31 March	**Assets £m**	**Liabilities £m**	**Deficit[a] £m**	Assets £m	Liabilities £m	Deficit[a] £m
Recognised in non-current liabilities						
BTPS	38,673	(41,575)	(2,902)	53,465	(54,309)	(844)
EEPS	n/a	n/a	n/a	1,004	(1,017)	(13)
Unfunded plans	—	(92)	(92)	—	(115)	(115)
Other funded plans	65	(210)	(145)	468	(639)	(171)
Asset ceiling[a]	—	—	—	—	—	—
Total	**38,738**	**(41,877)**	**(3,139)**	**54,937**	**(56,080)**	**(1,143)**
Recognised in non-current assets						
EEPS	749	(713)	36	—	—	—
Funded plans	321	(305)	16	—	—	—
Asset ceiling[a]	—	—	—	—	—	—
Total	**1,070**	**(1,018)**	**52**	**—**	**—**	**—**

a In the context of IFRIC 14, 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 when there are no members remaining in the BTPS or EEPS.

The table below shows the group's defined benefit liability net of tax.

At 31 March	**2023 £m**	2022 £m
Balance sheet position (net of tax)		
(Deficit) surplus	(3,087)	(1,143)
Deferred tax asset (note 10)	618	190
Total (net of tax)	**(2,469)**	**(953)**

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 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 net 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)**
Service cost (including administration expenses and PPF levy)	(38)	(17)	(55)
Past service credit	—	2	2
Interest on net pension deficit	1,480	(1,498)	(18)
Included in the group income statement			**(71)**
Return on plan assets below the amount included in the group income statement	(14,911)	—	(14,911)
Actuarial gain arising from changes in financial assumptions	—	12,279	12,279
Actuarial gain arising from changes in demographic assumptions	—	891	891
Actuarial (loss) arising from experience adjustments[a]	—	(1,135)	(1,135)
Included in the group statement of comprehensive income			**(2,876)**
Regular contributions by employer	22	—	22
Deficit contributions by employer	994	—	994
Included in the group cash flow statement			**1,016**
Contributions by employees	1	(1)	—
Benefits paid	(2,686)	2,686	—
Other (e.g. foreign exchange)	9	(22)	(13)
Other movements			**(13)**
At 31 March 2023	**39,808**	**(42,895)**	**(3,087)**

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.

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). The Trustee's key powers include setting the investment strategy of BTPS (after consultation with BT) and agreeing with BT the actuarial assumptions to be used when assessing the BTPS funding position and the resulting contributions that will be paid.

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.

Employer 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.

19. Retirement benefit plans continued

BTPS IAS 19 assets

Critical accounting estimates and significant judgements made when valuing the BTPS assets

Under IAS 19, plan assets are measured at fair value at the balance sheet date and include quoted and unquoted investments.

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

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.

- 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.
- 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.
- 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.
- The longevity insurance contract 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.

£6.4bn of unquoted investments that are formally valued periodically by the investment manager have a latest valuation that precedes the balance sheet date. These assets consist of: £3.7bn non-core credit; £1.2bn mature infrastructure; £1.1bn private equity; £0.2bn secure income; and £0.2bn overseas property. These valuations have been adjusted for cash movements between the previous valuation date and 31 March 2023. The valuation approach and inputs for these investments would only be approximately updated where there were indications of significant movements, for example implied by market indicators. No such adjustment was required at 31 March 2023.

Asset-backed funding arrangement

The asset-backed funding arrangement, issued to the BTPS in May 2021, has a fair value of £1.3bn at 31 March 2023 (2022: £1.4bn) calculated as the present value of the future stream of payments, allowing for the probability of the BTPS becoming fully funded and therefore the payments to the BTPS ending early. It 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 group.

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 a range of areas, including: i) the balance between seeking returns and incurring risk; ii) the extent to which the assets should be allocated to match movements in the liabilities due to changes in interest rates, inflation and/ or longevity (i.e. liability-driven investments, or LDI); iii) the extent to which the assets should provide cash flows to meet expected payments to beneficiaries; and iv) liquidity needed to meet benefit payments and collateral requirements for derivatives contracts.

Financial derivatives (e.g. swaps) are used to reduce the mismatch between movements in the liabilities and the assets from changes in interest rates, inflation, and exchange rates. This provides greater stability in the funding position, and therefore the deficit contributions that may be required from BT. The sensitivity chart on page 82 shows how the use of some of these derivatives adjusts outcomes for the BTPS. While the use of derivatives reduces funding risk, it increases the Scheme's liquidity requirements which is factored into the overall investment strategy. Following the impact of the September 2022 mini-budget on derivatives, the Bank of England and the Pensions Regulator issued guidance on the minimum level of collateral pension schemes should hold. At 31 March 2023, the BTPS held more collateral than these minimum levels.

The table below analyses the fair value of the BTPS assets 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).

19. Retirement benefit plans continued

At 31 March		2023 Total assets[a] £bn	2023 of which quoted £bn	2022 Total assets[a] £bn	2022 of which quoted £bn
Growth					
Equities	UK	0.1	—	0.3	0.2
	Overseas developed	1.7	0.6	6.5	5.6
	Emerging markets	—	—	1.0	0.9
Private Equity		1.1	—	1.2	—
Property	UK	2.6	—	3.4	—
	Overseas	0.8	—	0.8	—
Other growth assets	Absolute Return[b]	0.9	—	1.0	—
	Non Core Credit[c]	4.2	0.4	4.7	1.4
	Mature Infrastructure	1.2	—	1.4	—
Liability matching					
Government bonds[d]	UK	13.2	13.1	15.1	15.1
Investment grade credit	Global	10.4	8.2	13.9	11.7
Secure income assets[e]		3.7	—	2.6	—
Cash, derivatives and other					
Cash balances		3.0	—	2.9	—
Financial derivative contracts		(4.2)	—	0.6	—
Longevity insurance contract[f]		(0.8)	—	(1.0)	—
Other[g]		0.8	—	(0.9)	—
Total		**38.7**	**22.3**	**53.5**	**34.9**

a At 31 March 2023, the BTPS held nil (FY22: nil) equity issued by the group and £1,550m (FY22: £1,930m) of bonds issued by the group.
b This allocation seeks to generate a positive return in all market conditions.
c 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.
d Around 72% (2022: 83%) of these are index-linked gilts with the remainder in conventional gilts.
e This allocation includes property, infrastructure and credit investments and provides the BTPS contractual income and expected return in excess of corporate bonds.
f The value reflects experience to date on the contract from higher than expected deaths; This partly offset a corresponding reduction in BTPS's liabilities over the same period.
g Other balances comprise net amounts receivable (payable) by the BTPS, including investment balances due to and from brokers.

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, market expectations (where relevant), actuarial advice and our judgement regarding future expectations at the balance sheet date.

What are the forecast benefits payable from the BTPS?

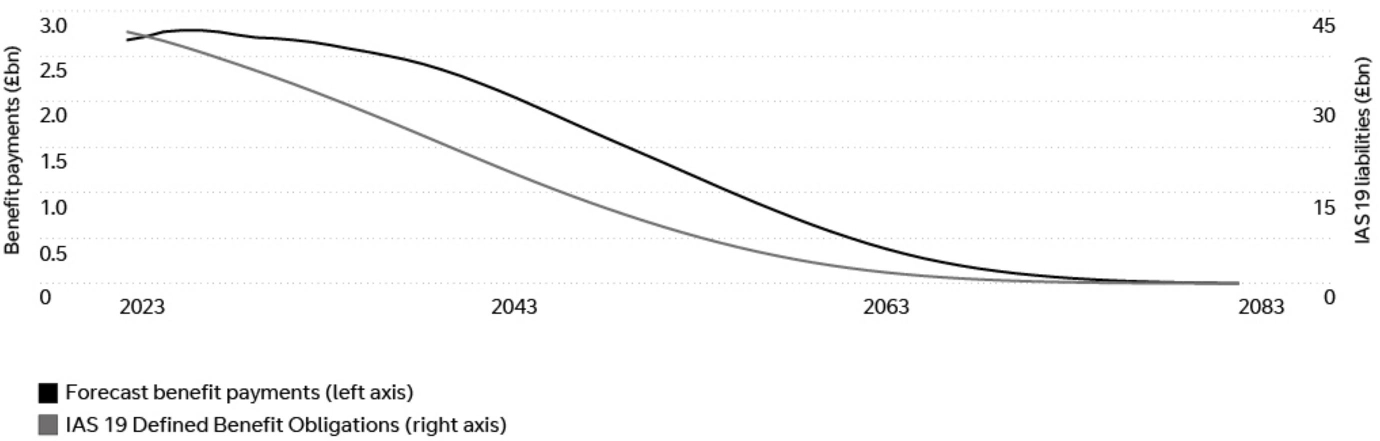
There are c. 270,000 members, and their dependents, who will be receiving benefits from the BTPS for the remainder of their lives. Members currently receiving pension benefits make up around 69% of the liability and 77% of the membership. Forecasting the benefit payments involves judgement about uncertain events. While assumptions are made for these events, actual benefit payments in a given year may be higher or lower than the assumption, for example if members retire sooner or later than assumed. The liabilities are the present value of the future expected benefit payments.

Notes to the consolidated financial statements continued

19. Retirement benefit plans continued

The chart below illustrates how the forecast benefits payable from the BTPS, and IAS 19 liabilities, projected using the IAS 19 assumptions evolve over time. While benefit payments are expected to increase in the early years, as non-pensioners retire, the value of the liabilities is expected to reduce.

Forecast benefits payable by BTPS at 31 March 2023 (unaudited)



The estimated duration of the BTPS liabilities, which is an indicator of the weighted average term of the discounted future payments, is 12 years (2022: 14 years) using the IAS 19 assumptions. The duration is sensitive to the assumptions and has reduced following the increase in bond yields, and therefore discount rate, over the year.

What are the most significant assumptions, and how have they been set?

The most significant financial assumptions used to calculate the IAS 19 liabilities for the BTPS are the discount rate and inflation. The most significant demographic assumption used is how life expectancy will evolve over time which is illustrated as forecast life expectancies for members aged 60 in the table below.

At 31 March	**2023**	2022
Discount rate	4.85 %	2.75 %
Inflation – average increase in RPI	3.35 %	3.70 %
Inflation – average increase in CPI	2.85 %	3.25 %
Life expectancy – male in lower pension bracket	24.7 years	25.2 years
Life expectancy – male in higher pension bracket	26.9 years	27.3 years
Life expectancy – female	27.5 years	27.8 years
Average additional life expectancy for a male member retiring at age 60 in 10 years' time	0.4 years	0.4 years

While the financial assumptions are typically scheme specific, the average financial assumptions weighted by liabilities across all schemes are within 0.05% of the figures shown in the table above.

Notes to the consolidated financial statements continued

19. Retirement benefit plans continued

The table below summarises how these assumptions have been set, including key changes over the year.

	Detail
Discount rate	The discount rate 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 £-denominated corporate bonds at the balance sheet date. 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	RPI inflation expectations are calculated by applying the projected BTPS benefit cash flows to an inflation curve derived from market yields on UK government bonds, and making a deduction for an inflation risk premium (to reflect the extra premium paid by investors for inflation linked assets) of 0.2% pa before 2030 and 0.3% pa thereafter. CPI inflation expectations are set with reference to the RPI inflation assumption taking into account market data and independent estimates of the expected difference. Before 2030, CPI inflation is assumed to be 1.0% lower than RPI inflation (2022: 1.0%). RPI will be aligned with CPIH from 2030, and we assume a nil gap between CPI and CPIH inflation as historically these measures have been broadly comparable.
Pension increases	Benefits are assumed to increase in line with the RPI or CPI inflation assumptions. Under the BTPS rules, benefit increases prior to retirement are primarily linked to CPI capped at 5%, and the majority of benefits increase after retirement linked to either CPI for Sections A and B or RPI with a 5% cap for Section C.
Longevity	The longevity assumption takes into account: – the actual mortality experience of the BTPS pensioners, based on a formal review carried out for the 2020 triennial funding valuation – future improvements in longevity based on the CMI's 2021 Mortality Projections model published by the UK actuarial profession There is significant uncertainty as to the impact of the Covid-19 pandemic on future life expectancy. We continue to assume that following the pandemic there is a short-term increase in deaths compared to the assumptions adopted prior to the pandemic and we have fully allowed for population mortality data from 2022, but not data from 2020 and 2021. Allowing for the 2022 data reduced the BTPS liabilities by £0.7bn. We continue to assume mortality will improve in the long term by 1% per year.

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. A summary is set out in the table below:

19. Retirement benefit plans continued

Change in	Impact
Government bond yields	A fall in government bond yields will: • increase the IAS 19 liabilities, driven by the fall in the discount rate. • increase the assets, driven by an increase in the value of government bonds, corporate bonds and interest rate derivatives held by the BTPS.
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 but smaller increase in both asset values and funding liabilities.
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: • increase the IAS 19 liabilities • increase the value of index-linked bonds, other inflation linked assets and inflation derivatives held by the BTPS **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 both the IAS 19 liabilities and funding liabilities. If inflation is higher than the caps that apply to benefits, the assets will increase by more than the liabilities. Similarly, in a deflationary environment, the asset values are expected to fall by more than the IAS 19 liabilities and funding liabilities since the payments on index-linked gilts would be reduced but pensions paid by the BTPS would not.
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 increase the IAS 19 and funding deficit.
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 IAS 19 liabilities and funding 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. The scale of the BTPS means that investment changes and any future de-risking actions need to be planned and executed carefully, potentially over an extended timeframe or multiple transactions.

Scenario analysis

The potential negative impact of these 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. The scenarios have been updated to reflect market experience over the last year.

	1-in-20 events	
Scenario	**2023**	2022
1. Fall in bond yields[a]	1.2 %	0.8 %
2. Increase in credit spreads[b]	0.9 %	0.7 %
3. Increase to average inflation expectations over the lifetime of the plan[c]	1.1 %	0.6 %
4. Fall in growth assets[d]	20.0 %	20.0 %
5. Increase to life expectancy	1.30 years	1.00 years

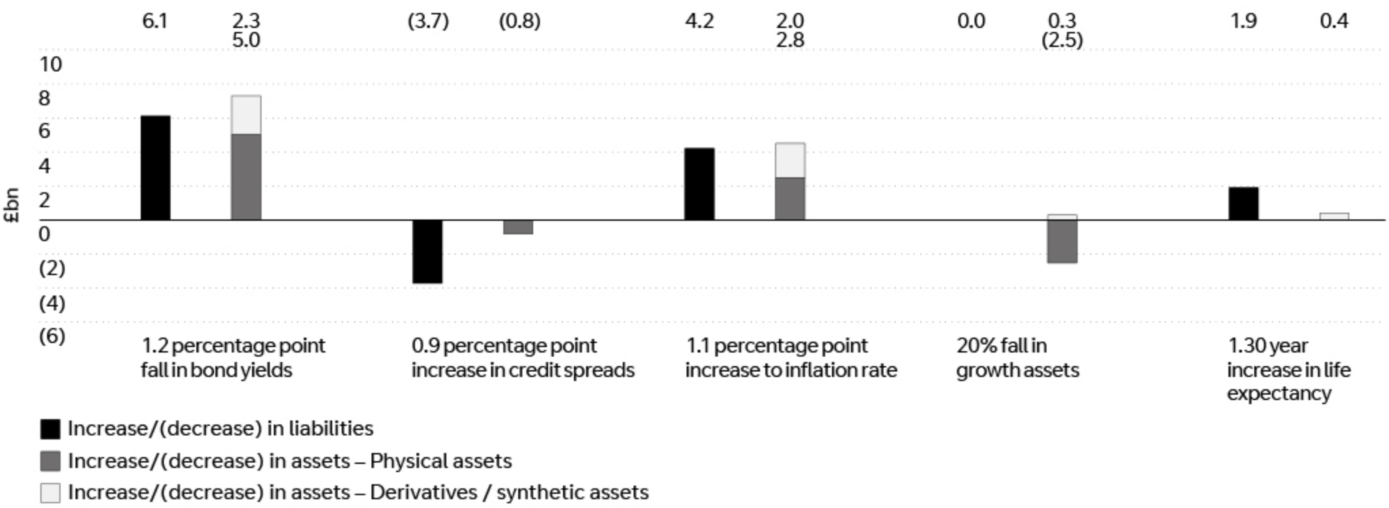
a Scenario assumes a fall in the yields on both government and corporate bonds.
b Scenario assumes an increase in the yield on corporate bonds, with no change to yield on government bonds.
c Scenario assumes average RPI and CPI inflation expectations over the lifetime of the plan increase by the same 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, and the effects are not additive nor are they linear (e.g. doubling the change in bond yields assumed will not exactly double the impact).

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 2023



The sensitivities have been prepared using the same approach as FY22 which involves calculating the liabilities and assets allowing for the change in market conditions assumed under the scenario. The change in impact from FY22 is due to a combination of: changes in the scenarios, the significant fall in asset and liability values over the year, and changes in the scheme's investment strategy in line with the agreed de-risking plan.

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 funding valuation assesses the ongoing financial health of the Scheme. If there are insufficient assets to meet the estimated future benefit payments to members (i.e. a funding deficit), BT and the Trustee agree the amount and timing of additional cash contributions. It is prepared using the principles set out in UK Pension legislation, such as the 2004 and 2021 pensions acts, and uses a prudent approach overall when setting the actuarial assumptions. Some of the key differences compared to the IAS 19 deficit are set out in the table below.

	IAS 19	**Funding**
Purpose	Balance sheet in BT plc accounts	Assessing the ongoing financial health and setting cash payments
Regulation	IFRS	2004 and 2021 pensions acts
Frequency	Semi-annually	At least every three years
Key assumptions		
Determined by	BT	BT and BTPS agreement
Discount rate	Yield curve based on AA corporate bonds	Yield curve reflecting prudent return expected from BTPS assets
Other assumptions	Best estimate	Prudent overall approach

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

The next funding valuation is scheduled to take place as at 30 June 2023. The latest funding valuation was performed as at 30 June 2020 and the results are shown below.

	30 June 2020 £bn
Funding liabilities	(65.3)
Assets	57.3
BTPS Funding deficit	**(8.0)**
Percentage of accrued benefits covered by the BTPS assets at valuation date	88%

Key assumptions at valuation date:	
Discount rate[a]	1.4%
Inflation – average increase in RPI	3.2%
Inflation – average increase in CPI	2.4%
Life expectancy - 60 year old male in lower pension bracket	25.8 years
Life expectancy - 60 year old male in higher pension bracket	28.0 years
Life expectancy - 60 year old female	28.5 years
Average additional life expectancy for a male member retiring at age 60 in 10 years' time	0.9 years

a The discount rate at 30 June 2020 was derived from prudent return expectations that reflect 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.

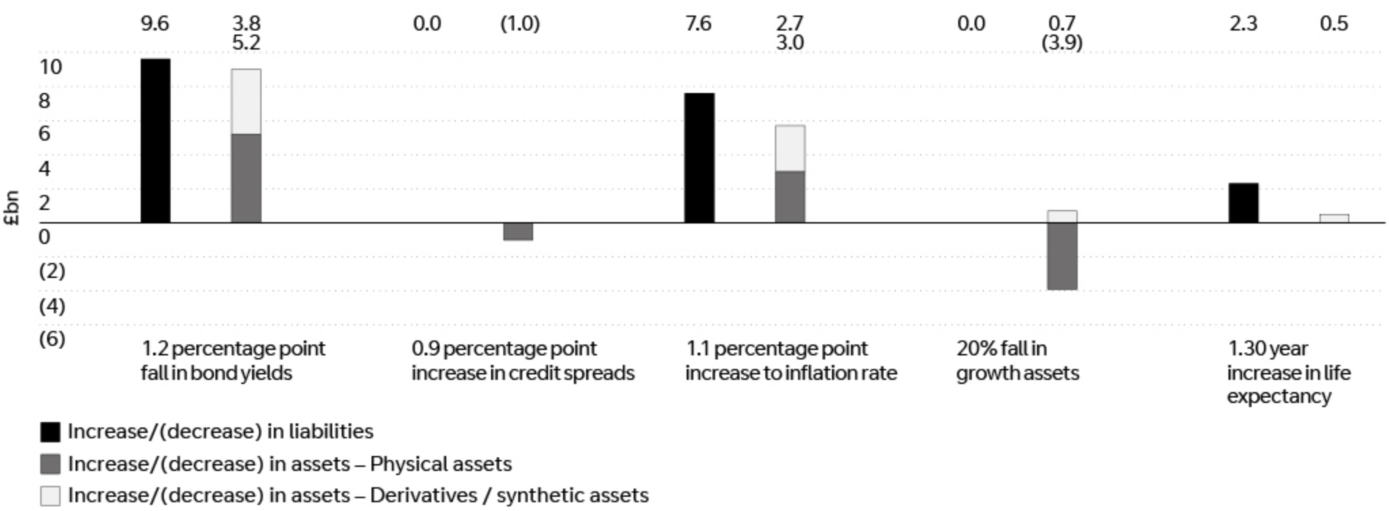
19. Retirement benefit plans continued

Interim updates of the funding position (unaudited)

The Scheme Actuary carried out an interim assessment as at 30 June 2022, estimating the BTPS's funding position to have improved from a deficit of £8.0bn to £4.4bn, predominantly reflecting £3.5bn of contributions from BT. 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.

The impact of changes in market conditions on the funding liabilities differs to the impact on the IAS 19 liabilities. For example, the funding liabilities use a discount rate linked to a risk-free rate and a fixed margin which is reviewed at each triennial valuation, whereas the IAS 19 liabilities use a discount rate based on corporate bond yields (and so are affected by changes in credit spreads). The chart below illustrates the impact of the scenarios set on page 80 on the 30 June 2022 interim assessment of the funding position.

Scenario analysis – Funding position at 30 June 2022



The figures shown in the table apply to the BTPS assets and funding liabilities as at 30 June 2022; an increase in the assets or funding liabilities will increase the impact of the scenarios shown.

Deficit payments from the group

The 2020 funding valuation showed a deficit of £8.0bn, which was agreed to be met as follows:

- £2bn of the deficit met through an Asset Backed Funding arrangement (ABF), providing cash payments of £180m pa which are secured on EE Limited. The BTPS is entitled to the full value of these future payments in the unlikely event that BT becomes insolvent. If the BTPS reaches full funding at any 30 June, the payments to the BTPS will cease.
- Annual cash contributions until June 2023 paid directly to the BTPS
- Annual cash contributions from July 2023 to June 2030 paid either to the BTPS directly, or to a co-investment vehicle where they will be invested as if part of the overall BTPS investment strategy.

These payments are summarised in the table below:

Year to 31 March	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Payments from BT plc	610[a]	600[b]	600[b]	600[b]	600[b]	600[b]	600[b]	500[b]	—	—	—
Payments from ABF	180	180	180	180	180	180	180	180	180	180	180
Total	**790**	**780**	**780**	**780**	**780**	**780**	**780**	**680**	**180**	**180**	**180**

a £500m due by 30 June.
b £490m of each payment due by 30 June. £10m is directly payable to the BTPS, and BT has the option to pay remaining amounts into the co-investment vehicle.

ABF

The future payments from the ABF have a present value of £1.4bn at 31 March 2023. The fair value of the ABF is £1.3bn at 31 March 2023 and allows for the probability of the BTPS becoming fully funded, and therefore the payments to the BTPS ending early.

The fair value of the ABF is included in the assets of the BTPS when assessing the funding deficit. Payments from the ABF to BTPS are treated in the same way as coupon payments from bonds, and do not affect the funding deficit when they are paid.

The fair value of the ABF is not included in the assets of the BTPS when assessing the IAS 19 deficit in the group consolidated accounts, as it is a non-transferable asset issued by the group. Payments from the ABF to BTPS are treated as deficit contributions, and reduce the IAS 19 deficit, when they are paid.

Co-investment vehicle

At 31 March 2023, the fair value of assets in the co-investment vehicle was less than £1m (2022: less than £1m). The fair value of assets in the co-investment vehicle are included in the assets of the BTPS when assessing the IAS 19 and funding deficits.

The co-investment vehicle 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.

19. Retirement benefit plans continued

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.

Protections for BTPS (going concern)

BT has agreed to provide the Trustee with certain protections. These will predominantly be in place until 2035, or until the Protections Deficit (which is calculated in line with the funding liabilities but with an adjustment to the discount rate) has reduced below £2bn. A £2bn deficit on this measure is currently broadly equivalent to a nil funding deficit. The protections include:

Feature	Detail
Future funding commitment	BT will provide additional contributions, of between £150m pa and £200m pa, should the funding deficit fall more than £1bn behind plan at any 30 June interim assessment. The payments will stop once an interim assessment shows the funding deficit is back on plan, i.e. the recovery plan agreed at the last triennial valuation is sufficient to meet the funding deficit. The next annual test will be carried out as at 30 June 2023.
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 FY22. 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 any disposal of more than £1.0bn; • it considers making a Class 1 transaction which will have a material impact on the BTPS (acquisition or disposal); • it is likely to be subject to a takeover offer; or • there is any other 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 ongoing 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.

No additional contributions were triggered during FY23.

Protections for BTPS (insolvency)

The Scheme Actuary assumes that in the highly unlikely event that the group were to become insolvent, the Trustee would continue to run the Scheme with a low-risk, closely-matched investment strategy including additional margins for risk. On this basis and assuming no further contribution from BT, it was estimated that at 30 June 2020 the assets of the Scheme would have met around 71% of the liabilities.

Were this to occur, BTPS members would benefit from the following additional protections:

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. In July 2014, the courts 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.

19. Retirement benefit plans continued

EEPS funding valuation

The most recent triennial valuation of the defined benefit section was performed as at 31 December 2021 and agreed in March 2023. This showed a funding deficit of £218m. The group is scheduled to contribute £1.7m each month until 31 July 2025 plus a one-off contribution of £11.7m in April 2023. A further payment of up to £80m is payable by 31 March 2026, subject to the results of the 2024 triennial valuation. £13.3m (FY22: £40.0m) of deficit contributions were paid by the group to the EEPS during the year.

At the triennial valuation date, the EEPS had a diversified investment strategy, investing scheme assets in: global equities (25%), property & illiquid alternatives (20%), an absolute return portfolio (24%) and a liability-driven investment portfolio (31%). The asset allocation at 31 March 2023 was: global equities (1%), property & illiquid alternatives (36%), an absolute return portfolio (7%) and a liability-driven investment portfolio (56%).

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 are 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	**2023 £m**	2022 £m
Employee saveshare plans	21	29
Yourshare	12	28
Executive share plans:		
Incentive Share Plan (ISP)	—	13
Deferred Bonus Plan (DBP)	10	10
Retention and Restricted Share Plans (RSP)	34	25
	77	**105**

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 HMRC-approved savings-related share option plans, 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 FY23 or FY22.

Yourshare

In FY22 and FY21, all eligible employees of the group were awarded £500 of BT shares. The shares are held in trust for a three-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

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 and vested in 2022. 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.

20. Share-based payments continued

Deferred Bonus Plan (DBP)

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

Retention and Restricted Share Plans (RSP)

Awards are granted to selected employees. Shares in the group 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.

Employee Saveshare Plans

Movements in Employee Saveshare options are shown below.

	Number of share options		Weighted average exercise price	
Year ended 31 March	**2023 millions**	2022 millions	**2023 pence**	2022 pence
Outstanding at 1 April	**342**	**414**	**113**	**121**
Granted	—	—	—	—
Forfeited	(42)	(41)	130	127
Exercised	(5)	(9)	96	152
Expired	(26)	(22)	208	229
Outstanding at 31 March	**269**	**342**	**102**	**113**
Exercisable at 31 March	**—**	**—**	**—**	**—**

The weighted average share price for all options exercised during FY23 was 153p (FY22: 185p).

The following table summarises information relating to options outstanding and exercisable under Employee Saveshare plans at 31 March 2023.

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 (months)
2023	82p – 170p	107p	87	10
2024	164p	164p	37	22
2025	82p	82p	145	34
Total		**102p**	**269**	**25**

Executive share plans

Movements in executive share plan awards are shown below:

	Number of shares (millions)			
	ISP	**DBP**	**RSP**	**Total**
At 1 April 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**
Awards granted	—	5	27	32
Awards vested	(4)	(5)	(4)	(13)
Awards lapsed	(23)	(1)	(7)	(31)
Dividend shares reinvested	—	2	4	6
At 31 March 2023	**—**	**20**	**73**	**93**

Fair values

There were no grants under Employee Saveshare or the ISP in FY22 or FY23.

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

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

The fair values for the DBP and RSP were determined using the market price of the shares at the grant date. The weighted average share price for DBP awards granted in FY23 was 188p (FY22: 203p) and for RSP awards granted in FY23 was 183p (FY22: 201p).

21. 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 disposal of BT Sport operations through forming a sports joint venture (Sports JV) with Warner Bros. Discovery (WBD). We recognised a profit on disposal after tax of £28m, see below for further details. We disclosed a profit on disposal after tax of £3m in our Q2 results which has subsequently been adjusted to £28m for FY23. The difference is driven by a £33m increase in the profit on disposal before tax, as a result of correcting certain errors in the provisional calculation of the minimum guarantee liability completed at Q2, offset by an £8m decrease in the related deferred tax credit recorded on the same liability. The difference is not quantitatively material and does not impact qualitative disclosures of our KPIs.

In FY22 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.

The disposals in the current or prior year have not been reclassified as discontinued operations as they do not meet our definition of a separate major line of business.

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

	2023[a] **£m**	2022 £m
Intangible assets (including goodwill)[b]	88	12
Property, plant and equipment	13	6
Right-of-use assets	1	1
Other assets[c]	760	27
Liabilities[c]	(357)	(15)
Net assets of operations disposed	**505**	**31**
Recycling from translation reserve	—	(1)
Net financial liabilities recognised[d]	534	—
Net impact on the consolidated balance sheet	**1,039**	**30**
Profit on disposal, after tax[e]	28	41
Net consideration	**1,067**	**71**
Satisfied by		
Proceeds received in the year per the cash flow statement	**29**	**76**
Deferred cash consideration[f]	70	(2)
Investment in A preference shares in Sports JV (note 23)	428	—
Investment in C preference shares in Sports JV (note 23)[g]	161	—
Ordinary equity interest in Sports JV (note 25)	414	—
Transaction costs	(35)	(3)
Net consideration	**1,067**	**71**

a Balances in FY23 only include the BT Sport disposal.
b Includes allocated goodwill of £83m (FY22: £7m).
c Other assets includes £632m of capitalised programme rights (note 16) and £104m prepayments relating to rights payments made for licence periods that had not yet started. Liabilities include £351m relating to outstanding trade payables to broadcast rights holders for the current licence period.
d FY23 balance comprises the fair value of BT's obligation under the minimum revenue commitment of £712m, less tax credit of £178m.
e Profit on disposal has been recognised as a specific item, refer to note 9.
f FY23 deferred cash consideration balance relates to the discounted cash flows due to BT from fixed consideration payable by WBD in instalments over the next three years.
g Expected to be sold to WBD at the end of BT's earn-out entitlement in consideration for any programme rights funded by BT and is therefore akin to deferred consideration for pre-funded programme rights contributed by BT in to the Sports JV at formation.

Notes to the consolidated financial statements continued

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

BT Sport

In August 2022 the group formed a sports joint venture (Sports JV) with Warner Bros. Discovery (WBD) combining BT Sport and WBD's Eurosport UK business. As part of the transaction, British Telecommunications plc (BT plc or BT) and WBD has each contributed, sub-licensed or delivered the benefit of their respective sports rights and distribution businesses for the UK & Ireland to the Sports JV. Both parties each hold a 50% interest and equal voting rights in the Sports JV.

BT Sport's distribution agreement with Virgin Media has transferred to the Sports JV, and the Sports JV has also entered into a new agreement with Sky extending beyond 2030 to provide for its distribution of the Sports JV's combined sports content.

The production and operational assets of BT Sport have transferred to WBD who will manage and operate the production of the Sports JV's sport content.

BT plc has entered into a distribution agreement with the Sports JV to procure the sport content required to continue to supply our broadband, TV and mobile customers. BT plc's agreement with the Sports 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.

At completion of the transaction, BT no longer has control of the BT Sport operations based on the assessment of ownership and joint control over the key decisions of the Sports JV (50/50 with WBD) established through the Sports JV agreement. The group's retained ordinary equity interest in the combined business has been classified as a joint venture under IFRS 11.

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

Critical & key accounting estimates and significant judgements made in accounting for the BT Sport disposal

Assessment of whether BT has joint control over the Sports JV

See note 23 for assessment on control.

Valuation of investment in A preference shares (akin to contingent consideration)

BT will receive an earn-out from the Sports JV (subject to liquidity and usual UK company law requirements), which will end at the earliest of:

- four years post completion of the transaction;
- the exercise by WBD of the Call Option; and
- if the earn-out reaches an agreed cap.

The earn-out cash flows to BT are dependent on the cash profit generation of the Sports JV over the earn-out period and is therefore akin to contingent consideration, initially recorded at a fair value of £428m reflecting the present value of expected cash flows. The valuation of the earn-out consideration is supported by a jointly-agreed business plan and internal valuation model.

The key assumptions within the jointly-agreed business plan and internal valuation model are:

- approximately 50% of revenues and 80% of costs during the four years of the jointly-agreed business plan are contractually committed;
- material contracts are renewed at an economic value no less than current terms;
- the total premium sports subscriber base does not materially grow or decline over the earn-out period; and
- revenue growth and production costs are driven by contractual terms.

We have also assumed that the earn-out period ends at four years post completion of the transaction; however given the mechanics of the deal arrangements if there is an earlier exercise by WBD of their Call Option this would also not materially impact the amounts disclosed in the financial statements.

Subsequent to the initial recognition, the group's carried forward investment in A preference shares will be remeasured to fair value at each reporting date in accordance with IFRS 9, see note 25.

Valuation of the minimum revenue guarantee in BT's distribution agreement with the Sports JV

BT plc's obligation under the minimum revenue guarantee of c. £2bn over the first four years of the Sports JV represents both a trading arrangement on market terms and a financing arrangement for the off-market element of the revenue guarantee, which has been recorded as a financial liability within trade and other payables on the balance sheet. The liability will be held at amortised cost and will unwind through payments made to the Sports JV over the next four years on the minimum revenue guarantee.

The valuation of this financial liability, and what a fair cost-per-subscriber would be, is sensitive to a number of assumptions on volumes and price, and there is a range of outcomes which we could have arrived at. Alternative scenarios considered, based on the different prices and terms used with other market participants, could have resulted in a liability ranging from £543m to £837m, and we initially recognised a financial liability £712m.

The key assumptions in calculating the financial liability are in estimating what is a market wholesale price at market volume commitment that is supported by the forecast volumes for the related revenue streams. The volumes used are consistent with those included in the jointly-agreed business plan as described above. We note that the bottom of the range disclosed above is based on the price that we will pay after four years when the minimum revenue guarantee has ended, however we do not believe that is an appropriate rate from the outset due to existing volume commitments.

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

Valuation of BT's equity interest in the Sports JV

WBD will have the option to acquire BT plc's 50% interest in the Sports JV at specified points during the first four years of the Sports JV. If the Call Option is not exercised, BT plc will have the ability to exit its shareholding in the JV either through a sale or IPO.

The group has valued its interest in the Sports JV based on the estimated fair value at exit and using the following key assumptions:

- BT expect to realise its interest in the Sports JV through exit rather than ongoing value in use;
- BT expect WBD to exercise its option to acquire BT's 50% interest in the Sports JV at the end of the first four years of the Sports JV; and
- An earnings multiple has been applied to the expected year 5 EBITDA per the jointly-agreed business plan - the multiple is at the lower end of a possible range identified from comparable peers and transactions in the premium sports subscription and broadcasting market.

As the group's interest is recorded on a point in time valuation, based on forecast earnings and current market returns on similar investments, it carries both upside and downside risk from changes in micro- and macroeconomic factors affecting the sports content subscription market and risk appetite of investors in that market.

We have applied the following sensitivities on these risk factors:

- EBITDA impact from revenue loss due to ongoing cost of living pressures or changes in the Sports JV's rights portfolio;
- An increase or decrease in the valuation multiple achieved; and
- An increase or decrease in the discount rate applied.

None of these sensitivities individually resulted in a material change to the investment value. All downside or upside factors in combination could lead to a £70m decrease or £200m increase in the fair value respectively. However, in our view, combining all downside factors is not a reasonable scenario given the financial and commercial levers available to both the JV and BT plc to mitigate the impact; and we have taken a prudent approach in not recognising a higher investment value upfront based on possible but uncertain changes in market conditions in the future.

The investment will be subsequently accounted for using the equity method and will be subject to impairment testing at each reporting period, with any impairment losses recognised through specific items, see note 25.

Discounting of cash flows

All cash flows expected to be received or paid over time have been discounted at a rate applicable to the risks associated with the cash flows:

- Deferred payments due to BT from WBD have been discounted at an appropriate post-tax cost of debt (3.3%);
- BT's earn-out from the Sports JV has been discounted at the weighted average cost of capital for the Sports JV at completion date (6.7%); and
- BT's commitments under the minimum guarantee have been discounted at the group's post-tax cost of debt (2.8%).

We do not consider the net present value of the transaction would be materially affected by a reasonable change in the discount rate.

Assets and liabilities held for sale

Assets and liabilities held for sale at 31 March 2023 relate to certain city fibre networks and associated infrastructure assets in Germany and Pelipod Limited, a connected-locker business used in our UK supply chain operations. The Competition and Markets Authority (CMA) formally opened its investigation into the proposed disposal of Pelipod Limited on 29 March 2023 which we expect to conclude by 31 May 2023. We have classified the business as held for sale on the basis that the IFRS 5 criteria have been met at 31 March 2023.

In FY22, the group had one disposal group held for sale, BT Sport.

The assets of the disposal groups 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 transactions, 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.

Where the group is disposing of 100% of underlying operations and assets, we used the selling price agreed with the prospective purchaser as the fair value for the impairment test, which was classified as Level 3 on the fair value hierarchy. For the BT Sport transaction, we used the discounted cash flows due to BT over the first four years of the Sports JV, plus a potential exit value from the sale of the group's equity interest, as total gross consideration; BT's obligation under the minimum revenue guarantee in 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 Sports JV and the trading multiples for the exit valuation.

These operations have not been reclassified as a discontinued operation as it does not meet our definition of a separate major line of business.

Notes to the consolidated financial statements continued

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

The disposal groups held for sale comprised the following assets and liabilities:

At 31 March	2023 £m	2022 £m
Assets		
Intangible assets[a]	13	55
Property, plant and equipment	4	13
Right-of-use assets	3	2
Inventories	—	—
Trade and other receivables	1	10
Assets held for sale[b]	**21**	**80**
Liabilities		
Trade and other payables	1	38
Lease liabilities	3	2
Liabilities held for sale	**4**	**40**

a Intangible assets includes goodwill of £13m (FY22: £51m) that has been allocated to the disposal group.
b £310m of programme rights relating to sports broadcasting rights acquired for the BT Sport operations were not reclassified to held for sale in FY22 as the carrying amount of these assets were principally recovered through continuing use before completion of the transaction.

22. 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	2023 £m	2022 £m
Non-current assets		
Fair value through other comprehensive income	23	34
Amounts owed by ultimate parent and parent company	10,916	11,079
Fair value through profit or loss	6	—
Total non-current asset investments	**10,945**	**11,113**
Current assets		
Investments held at amortised cost	3,548	2,679
Current asset investments	**3,548**	**2,679**

Investments held at amortised cost relate to money market investments denominated in sterling of £3,094m (FY22: £2,225m), in euros of £446m (FY22: £436m) and in US dollars of £8m (FY22: £18m). Within these amounts are investments in liquidity funds of £3,491m (FY22: £1,912m), £48m collateral paid on swaps (FY22: £67m), interest on investments of £9m (FY22: £nil) and repurchase agreements £nil (FY22: £700m).

22. Investments continued

Fair value estimation

Fair value hierarchy At 31 March 2023	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	—	—	23	23
Fair value through profit or loss	6	—	—	6
Total	**6**	**—**	**23**	**29**
At 31 March 2022				
Non-current and current investments				
Fair value through other comprehensive income	4	—	30	34
Total	**4**	**—**	**30**	**34**

The three levels of valuation methodology used are:

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

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

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

Level 3 balances consist of investments classified as fair value through other comprehensive income of £23m (FY22: £30m) 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.

23. Joint ventures and associates

At 31 March	**2023** **£m**	2022 £m
Interest in joint ventures	354	2
Interest in associates	5	3
Total	**359**	**5**

The £352m movement in joint ventures relates to the disposal of BT Sport and creation of a new sports joint venture (Sports JV) with Warner Bros. Discovery (WBD), see below. This is the only material equity-accounted investment held by the group.

Sports joint venture (Sports JV) with Warner Bros. Discovery (WBD)

In August 2022, we formed the Sports JV with WBD, combining BT Sport and WBD's Eurosport UK business. Further details on the BT Sport transaction are provided in note 21.

23. Joint ventures and associates continued

Significant judgements made in accounting for the sports joint venture

Assessment of whether BT has joint control over the Sports JV

The Sports JV is classified as a joint venture and hence has been deconsolidated from the group based on an assessment under IFRS 10 and 11 of the ownership, voting power and joint control established through the joint venture agreement between BT and WBD.

Factors relevant to our assessment:

- Equal voting rights over the activities that most significantly impact the returns of the Sports JV, namely decisions around new or existing sports rights and distribution arrangements.
- Unequal cash distribution during the first four years due to the earn-out mechanism and relative size of businesses contributed into the Sports JV.
- Revolving credit facility (RCF) provided by BT to fund short-term liquidity required by the Sports JV for working capital and commitments to sports rights holders.
- WBD's call option to acquire BT's 50% interest in the Sports JV is not exercisable before key decisions over material activities of the Sports JV are made such that joint control still applies at the outset.

The assessment whether joint control remains in place is reviewed at each reporting period.

Accounting policies adopted by the Sports JV

The Sports JV has a financial year-end of 31 July and therefore has not yet prepared its first set of audited financial statements. In order to recognise our share of the Sports JV's results for our equity-accounted investment, we have prepared the Sports JV's financial information disclosed below based on management accounts for the period ending 31 March 2023 after making certain adjustments to comply with IFRS.

Significant judgements made in preparing the Sports JV's financial information:

- IFRS 3 acquisition accounting should be applied by the Sports JV over the business combination achieved through the transfer of the BT Sport and Eurosport UK businesses from BT and WBD respectively, recognising acquired intangibles on the current and future value of programme rights, and goodwill.
- Revenues from the minimum guarantee in the Sports JV's distribution agreement with BT should be adjusted to reflect a trading agreement on market terms with a separate financing arrangement for the off-market portion accounted for under IFRS 9 – this mirrors the accounting treatment applied by BT (see note 21).
- A and C preference shares issued by the Sports JV to BT should be classified as a financial liability at fair value through profit or loss under IFRS 9.
- Hedge accounting should be applied on the Sports JV's forward contracts with BT (see note 30) with fair value movements on the derivatives recognised in other comprehensive income and held in the cash flow hedge reserve until recycle on settlement of the forward contracts.
- Programme rights should be recognised on the balance sheet from the point at which the licence period begins and are consumed by the Sports JV on a straight-line basis over the programming period which is generally 12 months – this is consistent with the group's accounting policy (see note 15).

Accounting policies in other areas are consistent with those applied by the group.

Ordinary equity shares

On completion of the BT Sport transaction, the group recorded an investment in joint venture at an initial fair value of £414m, relating to our retained ordinary equity interest interest in the Sports JV entity, in accordance with IFRS 10 and IAS 28. The group has valued this interest in the Sports JV at the estimated fair value at exit, see note 21. Consistent with our accounting policy on associates and joint ventures, we will recognise our share of the change in the Sports JV's net assets under the equity method of accounting.

Year ended 31 March	**2023** **£m**
Group's equity-accounted investment in the Sports JV at formation	414
Share of total comprehensive loss	(62)
Dividends received during the year	—
Carrying amount at the end of the year	**352**

As required by IAS 36, we have assessed the investment for impairment. There is no impairment at 31 March 2023 as the fair value less costs to sell is higher than the carrying amount of the investment. See below for sensitivities we have applied in determining the fair value less costs to sell.

The following is summarised and unaudited financial information for the Sports JV prepared in accordance with IFRS and including adjustments required to align with the group's accounting policies and provisional fair value adjustments. These results are subject to true-up within the 12 months from Sports JV formation, however any adjustments are not expected to materially impact our share of the Sports JV's results recorded in the period.

23. Joint ventures and associates continued

Summarised statement of total comprehensive income for year ended 31 March	2023 £m
Revenue	557
Loss for the year[a]	(121)
Other comprehensive loss	(2)
Total comprehensive loss	**(123)**

Summarised balance sheet at 31 March	2023 £m
Current assets[b]	1,106
Non-current assets[c]	1,236
Current liabilities[d]	(702)
Non-current liabilities[e]	(543)
Net assets	**1,097**

a Includes amortisation of £56m on acquired intangibles based on provisional fair value adjustments, net finance income of £6m, and tax income of £17m (current tax charge of £4m less deferred tax credit of £21m).
b Includes cash and cash and cash equivalents of £11m.
c Includes goodwill and acquired intangibles of £645m.
d Includes current financial liabilities (excluding trade and other payables and provisions) of £(281)m of which £(268)m relates to the outstanding liability on the RCF provided by BT (see note 24).
e Includes non-current financial liabilities (excluding trade and other payables and provisions) of £(416)m.

The Sports JV's accounting loss for the year reflects amortisation of acquired intangibles from the BT Sport and Eurosport business transfers, reduced revenues from IFRS 15 adjustments for the off-market minimum guarantee with BT (see note 21) and underperformance against business plan. Underperformance has been driven by cost of living pressures affecting the premium sports subscription market and impacts from a prolonged winter break in European club football from the World Cup. Underlying trading, before accounting adjustments, is expected to recover in the medium to long term as wider macroeconomic and inflationary pressures ease and through the Sports JV reducing its cost base to mitigate any future revenue loss.

Preference shares

In addition to BT's ordinary shareholding, BT held the following investments in preference shares in the Sports JV that have not been included within the equity-accounted interest above.

At 31 March	2023 £m	2022 £m
Investment in A preference shares	429	—
Investment in C preference shares	126	—
Total	**555**	**—**

- **A preference shares** - we expect these shares to be redeemed by the Sports JV over the 4-year earn-out period in order to effect the distribution of cash to BT under our earn-out entitlement. The fair value of the shares is driven by the underlying cash profit generation of the Sports JV and therefore have been classified as a fair value through profit or loss (FVTPL) financial asset under IFRS 9. In our view, the cash flows due to BT from the A preference shares are akin to contingent consideration and therefore the fair value of £428m on initial recognition has been included in the consideration within the profit on disposal recognised on the BT Sport transaction (see note 23). Subsequent to the initial recognition, £1m of fair value gain has been recognised through specific items (see note 9) driven by an increase in forecasted cash flows offset by an increase in the discount rate applied to cash flows.
- **C preference shares** – these shares are expected to be sold to WBD at the end of BT's earn-out entitlement in consideration for any sports rights funded by BT at that point and have been recognised as a financial asset held at FVTPL under IFRS 9. In our view, the cash flows due to BT from the C preference shares are akin to deferred consideration and therefore the fair value of £161m on initial recognition has been included in the consideration within the profit on disposal recognised on the BT Sport transaction (see note 21). Subsequent to the initial recognition, £35m of fair value loss has been recognised through specific items (see note 9) driven by an expected reduction in the Sports JV's cost base to mitigate short- to medium-term revenue loss, which will reduce the expected payment to BT for pre-funded sports rights.

The preference shares are held at Level 3 on the fair value hierarchy, reflecting a valuation methodology that does not use inputs based on observable market data. See note 22 for further details on fair value estimation. See below for sensitivities we have applied in determining the fair value.

Sensitivities

The group's ordinary equity and preference share investments in the Sports JV, carry both upside and downside risk from changes in micro and macroeconomic factors affecting the sports content subscription market and risk appetite of investors in that market.

We have applied the following sensitivities to these risk factors:

- EBITDA decline from loss of material sports rights or a significant decline in the Sports JV's revenues from ongoing cost of living pressures;
- EBITDA improvement from outperformance against revised forecasts, particularly with respect to wholesale revenues;
- an increase or decrease in the valuation multiple achieved; and
- an increase or decrease in the discount rate applied.

23. Joint ventures and associates continued

Sensitivity	Fair value of A and C preference shares in Sports JV	Headroom on impairment test over equity-accounted investment
5% increase or decrease in EBITDA	+/- £32m	+/- £26m
10pp increase or decrease in discount rate	+/- £8m	+/- £15m
10% change in valuation multiple	—	+/- £52m

None of these sensitivities generated an impairment on the group's equity-accounted investment in the Sports JV. Headroom on the investment has increased since formation of the Sports JV driven by an expected increase in long-term value from the Sports JV reducing its cost base.

24. 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 25).

At 31 March	**2023 £m**	2022 £m
Cash at bank and in hand	**328**	**319**
Cash equivalents		
UK deposits	—	353
Indian rupee deposits	55	90
Other deposits	1	10
Total cash equivalents[a]	**56**	**453**
Total cash and cash equivalents	**384**	**772**
Bank overdrafts (note 25)	(11)	(85)
Cash and cash equivalents per the cash flow statement	**373**	**687**

a Total cash equivalents have fallen in line with our treasury strategy.

Cash and cash equivalents include restricted cash of £131m (FY22: £24m), of which £23m (FY22: £22m) was held in countries where local capital or exchange controls currently prevent us from accessing cash balances. The remaining balance of £108m (FY22: £2m) was held in escrow accounts, or in commercial arrangements akin to escrow.

Following an IFRIC agenda decision relating to demand deposits the group identified one bank account with restrictions on use that nonetheless meets the IAS 7 definition of cash. This bank account, which has a balance of £96m (FY22: £148m) is now reflected in cash and cash equivalents. Comparatives have not been restated as the impact is not considered material. Please see note 1 for further information.

25. 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 27.

Notes to the consolidated financial statements continued

25. Loans and other borrowings continued

The table below shows the key components of external gross debt and of the increase of £1,327m (FY22: decrease of £991m).

	At 31 March 2022 £m	Cash flows £m	Net lease additions[a] £m	Foreign exchange £m	Transfer to within one year £m	Other movements[d] £m	At 31 March 2023 £m
Loans and other borrowings due within one year[b]	873	(136)	—	65	943	27	1,772
Lease liabilities due within one year	795	(859)	—	1	863	—	800
Loans and other borrowings due after one year	15,312	1,746	—	525	(943)	109	16,749
Lease liabilities due after one year	4,965	—	449	11	(863)	(3)	4,559
Liabilities classified as held for sale	2	—	—	—	—	1	3
Impact of cross-currency swaps[c]	(234)	—	—	(585)	—	—	(819)
Removal of the accrued interest and fair value adjustments	(251)	—	—	—	—	(13)	(264)
Removal of loans with joint ventures	—	(11)	—	—	—	—	(11)
External gross debt	**21,462**	**740**	**449**	**17**	**—**	**121**	**22,789**

	At 31 March 2021 £m	Cash flows £m	Net lease additions[a] £m	Foreign exchange £m	Transfer to within one year £m	Other movements[d] £m	At 31 March 2022 £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	(242)	—	—	—	—	(9)	(251)
External gross debt	**22,453**	**(1,470)**	**397**	**41**	**—**	**41**	**21,462**

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 Includes accrued interest and bank overdrafts.
c Translation of debt balances at swap rates where hedged by cross-currency swaps.
d Other movements include removal of accrued interest applied to reflect the effective interest rate method, removal of fair value adjustments and movements relating to held for sale assets and liabilities (see note 21).

25. Loans and other borrowings continued

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

At 31 March	2023 £m	2022 £m
0.875% €500m bond due September 2023[a,d]	270	423
4.5% $675m bond due December 2023[a]	554	520
1% €575m bond due June 2024[a,d]	415	489
1% €1,100m bond due November 2024[a,d]	726	929
3.50% £250m index linked bond due April 2025	524	468
0.5% €650m bond due September 2025[a]	571	549
1.75% €1,300m bond due March 2026[a]	1,143	1,098
1.5% €1,150m bond due June 2027[a]	1,017	977
2.75% €600m bond due August 2027[a]	530	—
2.125% €500m bond due September 2028[a]	442	425
5.125% $700m bond due December 2028[a]	573	537
5.75% £600m bond due December 2028	669	680
1.125% €750m bond due September 2029[a]	657	631
3.25% $1,000m bond due November 2029[a]	812	762
9.625% $2,670m bond due December 2030[a] (minimum 8.625%[b])	2,214	2,077
3.75% €800m bond due February 2031[a]	704	—
3.125% £500m bond due November 2031	503	503
3.375% €500m bond due August 2032[a]	445	—
3.64% £330m bond due June 2033	339	339
1.613% £330m index linked bond due June 2033	380	362
6.375% £500m bond due June 2037[a]	523	523
3.883% £330m bond due June 2039	340	340
1.739% £330m index linked bond due June 2039	381	363
5.75% £350m bond due February 2041	347	—
3.924% £340m bond due June 2042	350	350
1.774% £340m index linked bond due June 2042	392	374
2.08% JPY10,000m bond due February 2043[a]	61	—
3.625% £250m bond due November 2047	250	250
4.25% $500m bond due November 2049[a]	408	383
1.874% €500m bond due August 2080[a,c]	443	426
4.250% $500m Hybrid bond due November 2081[a,c]	404	383
4.875% $500m Hybrid bond due November 2081[a,c]	409	384
Total listed bonds	**17,796**	**15,545**
Other loans[e]	714	555
Bank overdrafts (note 24)	11	85
Amounts due to ultimate parent company	—	585
Total other loans and borrowings	**725**	**1,225**
Total loans and other borrowings	**18,521**	**16,770**

a Designated in a cash flow hedge relationship.
b The interest rate payable on this bond attracts an additional 0.25% for rating category downgrade by either Moody's or Standard & Poor's to the group's senior unsecured debt below A3/A– respectively. In addition, if Moody's or Standard & Poor's subsequently increase the ratings then the interest rate will be decreased by 0.25% for each rating category upgrade by either rating agency. In no event will the interest rate be reduced below the minimum rate reflected in the above table.
c Includes call options between 2.5 years and 8.5 years.
d Bond partially redeemed in February 2023.
e Includes £100m relating to an asset monetisation programme, further details below.

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 £16,979m (FY22: £16,750m).

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.

During the period the group entered into the sale of cash flows related to contract assets related to mobile handsets where the performance obligations have been substantially delivered to the customer in the amount of £100m (FY22: £nil). The right to receive cash is dependent on the group's further performance in relation to airtime and so a financial liability has been recognised and the related cash flows have been included within financing activities in the cash flow statement.

25. Loans and other borrowings continued

Loans and other borrowings are analysed as follows:

At 31 March	2023 £m	2022 £m
Current liabilities		
Listed bonds	1,075	233
Amounts owed to joint ventures	11	—
Other loans and bank overdrafts[a]	686	640
Total current liabilities	**1,772**	**873**
Non-current liabilities		
Listed bonds	16,722	15,312
Other loans and bank overdrafts	27	—
Amounts due to ultimate parent company	—	585
Total non-current liabilities	**16,749**	**15,897**
Total loans and other borrowings	**18,521**	**16,770**

a Includes collateral received on swaps of £557m (FY22: £555m).

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 2023 were unsecured.

The principal repayments of loans and borrowings at hedged rates amounted to £17,442m (FY22: £16,280m) and repayments fall due as follows:

	2023			2022		
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	**1,772**	**(271)**	**1,501**	**873**	**(233)**	**640**
Between one and two years	1,165	15	1,180	935	43	978
Between two and three years	2,669	(141)	2,528	1,415	76	1,491
Between three and four years	404	(33)	371	3,117	(64)	3,053
Between four and five years	1,539	(14)	1,525	379	(8)	371
After five years	10,983	(646)	10,337	10,041	(294)	9,747
Total due for repayment after more than one year	**16,760**	**(819)**	**15,941**	**15,887**	**(247)**	**15,640**
Total repayments	**18,532**	**(1,090)**	**17,442**	**16,760**	**(480)**	**16,280**
Non cash adjustments[a]	(11)			10		
Total loans and other borrowings	**18,521**			**16,770**		

a Fair value adjustments and unamortised bond fees.

26. Finance expense and income

Year ended 31 March	2023 £m	2022 £m
Finance expense		
Interest on:		
Financial liabilities at amortised cost and associated derivatives	753	628
Lease liabilities	133	133
Derivatives	9	4
Fair value movements on derivatives not in a designated hedge relationship	1	4
Reclassification of cash flow hedge from other comprehensive income	(21)	64
Unwinding of discount on provisions and other payables	14	—
Interest payable on ultimate parent company borrowings	5	4
Total finance expense before specific items	**894**	**837**
Specific items (note 9)[a]	5	101
Total finance expense	**899**	**938**

a Includes £13m credit (FY22: £8m charge) reclassification of cash flow hedge from other comprehensive income.

26. Finance expense continued

Year ended 31 March	2023 £m	2022 £m
Finance income		
Interest on investments held at amortised cost	63	12
Interest income on loans to immediate and ultimate parent company	389	125
Total finance income before specific items	**452**	**137**
Total finance income	**452**	**137**

Year ended 31 March	2023 £m	2022 £m
Net finance expense before specific items	442	700
Specific items (note 9)[a]	5	101
Net finance expense	**447**	**801**

a Includes £13m credit (FY22: £8m charge) reclassification of cash flow hedge from other comprehensive income.

27. 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 2023 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 corporate finance director 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 enter into cross-currency and interest rate swap agreements to vary the amounts and periods for which interest rates on borrowings are fixed. The duration of the swap agreements matches the duration of the debt instruments. The majority of the group’s long-term borrowings are subject to fixed sterling interest rates after applying the impact of these hedging instruments.

How do we manage foreign exchange risk?

Management policy

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

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 corporate finance director 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.

27. Financial instruments and risk management continued

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 dollars, euros, Indian rupees and Hungarian forints. 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.

	2023			2022		
At 31 March	**Fixed rate interest £m**	**Floating rate interest £m**	**Total £m**	Fixed rate interest £m	Floating rate interest £m	Total £m
Sterling	15,210	1,773	16,983	13,515	2,326	15,841
Euro	—	443	443	—	436	436
Other	—	16	16	—	3	3
Total	15,210	2,232	17,442	**13,515**	**2,765**	**16,280**
Ratio of fixed to floating	87 %	13 %	100 %	83 %	17 %	100 %
Weighted average effective fixed interest rate – sterling	4.0 %			3.9 %		

The floating rate loans and borrowings and committed facilities bear interest rates fixed in advance for periods up to one year, primarily by reference to RPI, CPI and ARRs where applicable.

Sensitivity analysis

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

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

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

At 31 March	**2023 £m Increase (reduce)**	2022 £m Increase (reduce)
Sterling interest rates	579	666
US dollar interest rates	(371)	(429)
Euro interest rates	(284)	(247)
Sterling strengthening	(169)	(203)

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

The impact of a 1% change in interest rates on the group's annual net finance expense would have been a decrease of £104m (FY22: £93m). Our exposure to foreign exchange volatility in the income statement, after hedging, (excluding translation exposures) would not have been material in FY23 and FY22.

Credit ratings

BT Group plc continues to target a BBB+/Baa1 credit rating over the cycle, with a BBB/Baa2 floor. We regularly review the liquidity of the group and our funding strategy takes account of medium-term requirements. These include the pension deficit and shareholder distributions.

Our December 2030 bond contains 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 £2.2bn at 31 March 2023, our finance expense would increase/decrease by approximately £11m a year if the group's credit rating were to be downgraded/upgraded, respectively, by one credit rating category by both agencies.

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

	2023		2022	
At 31 March	**Rating**	**Outlook**	Rating	Outlook
Rating agency				
Fitch	BBB	Stable	BBB	Stable
Moody's	Baa2	Stable	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 by using short- and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used

27. Financial instruments and risk management continued

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 2023 is disclosed in note 25. We have term debt maturities of £0.8bn in FY24.

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 2023 we had undrawn committed borrowing facilities of £2.1bn (FY22: £2.1bn) maturing in March 2027.

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 may therefore differ from both the carrying value and fair value.

Non-derivative financial liabilities At 31 March 2023	**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	1,512	643	5,395	3	800	8,353
Between one and two years	1,165	637	—	2	774	2,578
Between two and three years	2,669	616	—	2	676	3,963
Between three and four years	404	575	—	2	640	1,621
Between four and five years	1,539	558	—	2	612	2,711
After five years	10,983	2,891	—	—	2,529	16,403
	18,272	**5,920**	**5,395**	**11**	**6,031**	**35,629**
Interest payments not yet accrued	—	(5,660)	—	—	—	(5,660)
Fair value adjustment	(11)	—	—	—	—	(11)
Impact of discounting	—	—	—	(1)	(672)	(673)
Carrying value on the balance sheet[a,b]	**18,261**	**260**	**5,395**	**10**	**5,359**	**29,285**
At 31 March 2022						
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**

a Foreign currency-related cash flows were translated at closing foreign exchange rates as at the relevant reporting date. Future variable interest cash flows were calculated using the most recent interest or indexation rates at the relevant balance sheet date.
b The carrying amount of trade and other payables excludes £894m (FY22: £598m) of non-current trade and other payables which relates to non-financial liabilities, and £1,113m (FY22: £918m) of other taxation, 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.

27. 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 settlement arrangements of the instruments.

	Derivatives – Analysed by earliest payment date[a]				Derivatives – Analysis based on holding instrument to maturity			
Derivative financial liabilities At 31 March 2023	**Net settled £m**	**Gross settled outflows £m**	**Gross settled inflows £m**	**Total £m**	**Net settled £m**	**Gross settled outflows £m**	**Gross settled inflows £m**	**Total £m**
Due within one year	47	2,184	(2,088)	143	47	2,184	(2,088)	143
Between one and two years	47	1,125	(1,058)	114	47	1,125	(1,058)	114
Between two and three years	94	939	(882)	151	46	939	(882)	103
Between three and four years	111	381	(364)	128	46	381	(364)	63
Between four and five years	16	161	(135)	42	46	161	(135)	72
After five years	47	2,127	(2,011)	163	130	2,127	(2,011)	246
Total[b]	**362**	**6,917**	**(6,538)**	**741**	**362**	**6,917**	**(6,538)**	**741**
At 31 March 2022								
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**

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 energy price risk?

Management policy

UK (excluding Northern Ireland) and European energy prices continue to be exposed to volatility driven by fears of reduced gas supply as Europe continues the shift from Russian gas to LNG and renewables (which themselves are subject to short-term fluctuations given their intermittent nature). In order to manage our exposure to fluctuating energy prices, we have a target for UK (excluding Northern Ireland) energy demand to be at least 80% hedged one quarter before the start of the next financial year, and 50% hedged for the following financial year. We achieve this through forward over the counter hedges and a mixture of new and existing power purchase agreements (PPAs) and derivative virtual PPAs (vPPAs).

Hedging strategy

In each financial year our strategy is to build our PPA and vPPA portfolio, exploring opportunities with 5-10 year contracts delivering favourable net present values. We complement this by monitoring the markets and forward purchasing electricity (power) when the market is favourable. In the forthcoming financial year (FY24) the aim is to be 95% hedged, which allows for headroom for increased outputs from the renewable sources should weather conditions prevail.

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.

27. 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	2023 £m	2022 £m
Derivative financial assets		1,479	1,091
Investments	22	14,493	13,792
Trade and other receivables[a]	16	1,847	1,516
Contract assets	5	1,934	1,915
Cash and cash equivalents	24	384	772
Total		**20,137**	**19,086**

a The carrying amount excludes £503m (FY22: £337m) of non-current trade and other receivables which relate to non-financial assets, and £1,240m (FY22: £1,135m) of prepayments, deferred contract costs, finance lease receivables and other assets.

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	2023 £m	2022 £m
Aa2/AA and above	3,498	1,946
Aa3/AA–	115	1,118
A1/A+	957	768
A2/A	400	269
A3/A–	53	122
Baa1/BBB+	—	—
Baa2/BBB and below[a]	60	—
Total[b]	**5,083**	**4,223**

a Baa2/BBB rated exposure represents the energy derivatives and carrying value of forward currency contracts with Sports JV.
b We hold cash collateral of £557m (FY22: £555m) 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 (FY22: £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 2023	**Amounts presented in the balance sheet £m**	**Right of set off with derivative counterparties £m**	**Cash collateral £m**	**Net amount £m**
Derivative financial assets	1,479	(323)	(557)	599
Derivative financial liabilities	(383)	323	48	(12)
Total	**1,096**	**—**	**(509)**	**587**
At 31 March 2022				
Derivative financial assets	1,091	(431)	(555)	105
Derivative financial liabilities	(870)	431	67	(372)
Total	**221**	**—**	**(488)**	**(267)**

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.

27. Financial instruments and risk management continued

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'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. We effectively operate a process to identify any embedded derivatives within revenue, supply, leasing and financing contracts, including those relating to inflationary features. 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 2023	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
Designated in a cash flow hedge	78	1,330	62	255
Other	4	67	24	42
Total derivatives	**82**	**1,397**	**86**	**297**
At 31 March 2022				
Designated in a cash flow hedge	77	878	25	712
Other	11	125	26	107
Total derivatives	**88**	**1,003**	**51**	**819**

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 22.

Instruments designated in a cash flow hedge include interest rate swaps and cross-currency swaps hedging euro, US dollar and Japanese yen- 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 25).

We hedge forecast foreign currency purchases, principally denominated in US dollars, euros, Indian rupees and Hungarian forints 12 months forward with certain specific transactions hedged further forward. The related cash flows are recognised in the income statement over this period.

27. Financial instruments and risk management continued

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

Hedged items At 31 March 2023	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, US dollar and Japanese yen denominated borrowings[a]	12,888	1,316	(290)	(316)	(887)	597
Step up interest on the 2030 US dollar bond[b]	115	—	(2)	(31)	(8)	6
Foreign currency purchases, principally denominated in US dollars, euros, Indian rupees and Hungarian forints[c]	1,211	34	(24)	(35)	(75)	61
Energy contracts[d]		58	(1)	(64)	(85)	49
Total cash flow hedges	**14,214**	**1,408**	**(317)**	**(446)**	**(1,055)**	**713**
Deferred tax		—	—	106		
Derivatives not in a designated hedge relationship		71	(66)	—		
Carrying value on the balance sheet		**1,479**	**(383)**	**(340)**		
At 31 March 2022						
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 dollars, euros 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)**		

a Sterling, euro, US dollar and Japanese yen 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 dollars, euros, Indian rupees and Hungarian forints 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.

All hedge relationships were fully effective in the period.

28. Other reserves

	Other comprehensive income					
	Cash flow reserve[a] £m	Fair value reserve £m	Cost of hedging reserve[b] £m	Translation reserve[c,d] £m	Merger and other reserves £m	Total £m
At 1 April 2021	**(90)**	**—**	**59**	**316**	**858**	**1,143**
Exchange differences[e]	—	—	—	65	—	65
Net fair value gain (loss) on cash flow hedges[f]	59	—	145	—	—	204
Movements in relation to cash flow hedges recognised in income and expense[g]	(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[h]	—	(7)	—	—	—	(7)
At 31 March 2022	**(148)**	**(1)**	**236**	**381**	**858**	**1,326**
Reclassification[i]	472	—	(472)	—	—	—
Exchange differences[e]	—	—	—	89	—	89
Net fair value gain (loss) on cash flow hedges[f]	864	—	191	—	—	1,055
Movements in relation to cash flow hedges recognised in income and expense[g]	(721)	—	8	—	—	(713)
Fair value movement on assets at fair value through other comprehensive income	—	(3)	—	—	—	(3)
Tax recognised in other comprehensive income	(90)	—	—	—	—	(90)
At 31 March 2023	**377**	**(4)**	**(37)**	**470**	**858**	**1,664**

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 recognised in other comprehensive income and accounted for similarly to gains or losses in the cash flow reserve.
c 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.
d Movement in translation reserve includes £nil (FY22 : £1m) which relate to disposals (see note 21).
e Excludes £2m (FY22: £1m) of exchange differences in relation to retained earnings attributed to non-controlling interests.
f The large swing in the year of £1,055m was due to large fluctuations in interest rates, energy prices and foreign exchange rates.
g Movements in cash flow hedge-related reserves recognised in income and expense of £713m (FY22: £54m) include a net charge to other comprehensive income of £679m (FY22: £126m) which have been reclassified to operating costs, and a net charge of £34m (FY22: credit of £72m) which have been reclassified to finance expense (see note 26).
h Realised profit includes profit on disposal of investments held at fair value through other comprehensive income.
i Reclassification on cash flow hedges includes £472m (FY22: £nil) reclassification from cash flow hedge reserve to cost of hedging reserve.

29. Directors' emoluments and pensions

Neil Harris, Edward Heaton, Daniel Rider, Martin Smith and Simon Lowth served as directors throughout the year.

For the year ended 31 March 2023 the aggregate emoluments of the directors excluding deferred bonuses of £502,000 (FY22: £623,000) was £2,804,000 (FY22: £3,176,000). 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 (FY22: none) under a money purchase scheme.

During the year no directors exercised options (FY22: none) under BT Group share option plans. Five directors who held office for the whole or part of the year (FY22: 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 £418,000 (FY22: £698,000).

The emoluments of the highest paid director excluding his deferred bonus of £656,000 (FY22: £883,000) were £845,000 (FY22: £868,000). He is entitled to receive 4,342,436 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 emoluments of the directors are calculated in accordance with the statutory provisions applicable to the company.

30. Related party transactions

Key management personnel comprise Executive and Non-Executive Directors and members of the BT Group plc Executive Committee. Compensation of key management personnel is disclosed in note 6.

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

Associates and joint ventures related parties include the Sports JV formed in August 2022 (see note 21). Sales of services to the Sports JV during FY23 were £23m and purchases from the Sports JV were £176m. The amount receivable from the Sports JV as at 31 March 2023 was £10m and the amount payable to the Sports JV was £123m.

As part of the BT Sport transaction, the group has committed to providing the Sports JV with a sterling Revolving Credit Facility (RCF), up to a maximum for £300m, for short-term liquidity required by the Sports JV to fund its working capital and commitments to sports rights holders. Amounts drawn down by the Sports JV under the RCF accrue interest at a market reference rate, consistent with the group's external short-

30. Related party transactions continued

term borrowings. The outstanding balance under the RCF of £268m is treated as a loan receivable and held at amortised cost, see note 16. The capacity of the RCF is expected to reduce to £200m during FY24. There is also a loan payable to the Sports JV of £11m, see note 25.

The Sports JV has a foreign exchange hedging arrangement with the group to secure Euros required to meet its commitments to certain sports rights holders; the group has external forward contracts in place to purchase the Euros at an agreed sterling rate in order to mitigate its exposure to exchange risk. The group holds a £14m derivative liability in respect of forward contracts provided to the Sports JV.

Transactions from commercial trading arrangements with associates and joint ventures, including the Sports JV, are shown below:

At 31 March	**2023 £m**	2022 £m
Sales of services to associates and joint ventures	29	5
Purchases from associates and joint ventures	216	44
Amounts receivable from associates and joint ventures	10	2
Amounts payable to associates and joint ventures	124	1

Other related party transactions include the purchase of energy from an entity owned by the BT Pension Scheme. Total purchases during the year were £13m (FY22: £12m). £1m was due to the other party as at 31 March 2023 (FY22: £1m). 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.

During FY23, a dividend of £850m (FY22: £nil) was settled with the parent company in respect of the year ended 31 March 2022. The directors recommend payment of a final dividend in respect of FY23 of £850m. See note 11 and the group statement of changes in equity.

At 31 March 2022 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.

In FY23, due to LIBOR discontinuation, the company switched to risk-free rates. The daily rate is the sum of the Risk-Free Rate (SONIA) plus Baseline Credit Adjustment Spread (CAS) plus margin (37.5bp or 97.5bp); interest is capitalised daily. We started the interest model transition from 1 April 2022. No material commercial impact has been identified on the parties.

As of 31 March 2023, there was only one balance between BT plc and the ultimate parent, which accrued interest at SONIA plus a margin of 97.5bp, plus baseline CAS 45.4.

The loan facility between the parent company and British Telecommunications plc accrues interest at a rate of SONIA plus 142.9 bp 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.

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:

		2023		2022	
	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					
Non-current assets investments	22, 26	10,613	385	11,079	125
Amounts owed by (to) ultimate parent company					
Non-current assets investments	22, 26	303	4	—	—
Non-current liabilities loans	25, 26	—	(5)	(585)	(4)
Trade and other receivables	16	26	n/a	27	n/a
Trade and other payables	17	(11)	n/a	(11)	n/a

31. Financial commitments

Financial commitments as at 31 March 2023 include capital commitments of £1,480m (FY22: £1,596m) and device purchase commitments of £217m (FY22: £295m). TV programme rights commitments were £nil (FY22: £997m) as these were transferred to the Sports JV formed with Warner Bros. Discovery (WBD) during FY23 (see note 21); both the group and WBD have guaranteed the Sports JV's obligations under certain programme rights commitments but we consider the risk of these guarantees being called as remote.

Other than as disclosed below and in note 18, there were no contingent liabilities or guarantees at 31 March 2023 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.

Legal and regulatory proceedings

See note 18 for contingent liabilities associated with legal and regulatory proceedings.

32. Post balance sheet events

As disclosed in note 21, Pelipod Limited is classified as held for sale on the basis that the IFRS 5 criteria had been met at 31 March 2023, notwithstanding an active Competition and Markets Authority (CMA) investigation into the proposed disposal at this date. On 31 May 2023 the CMA concluded their investigation and cleared the acquisition by the proposed buyer. The transaction is expected to complete during FY24.

British Telecommunications plc company balance sheet

Registered number 01800000

At 31 March	Notes	2023 £m	2022 £m
Non-current assets			
Intangible assets	4	2,407	2,283
Property, plant and equipment	5	19,242	17,968
Right-of-use assets	6	2,794	3,116
Derivative financial instruments	21	1,492	1,217
Investments in subsidiary undertakings, associates and joint ventures	7	16,246	16,685
Other investments	8	11,509	12,240
Trade and other receivables	10	290	177
Preference shares in joint venture	7	542	—
Contract assets		27	27
Retirement benefit surplus	18	15	609
Deferred tax assets		611	178
		55,175	**54,500**
Current assets			
Programme rights	9	—	310
Inventories		195	116
Trade and other receivables	10	2,466	1,639
Preference shares in joint venture	7	13	—
Contract assets		188	215
Assets classified as held for sale	22	4	29
Current tax receivables		642	650
Derivative financial instruments	21	82	88
Other investments	8	4,733	3,356
Cash and cash equivalents[a]		200	546
		8,523	**6,949**
Current liabilities			
Loans and other borrowings	11	17,367	15,493
Derivative financial instruments	21	86	52
Trade and other payables	12	4,645	4,295
Contract liabilities		521	521
Liabilities classified as held for sale	22	—	40
Lease liabilities	6	508	490
Provisions	14	147	103
		23,274	**20,994**
Total assets less current liabilities		**40,424**	**40,455**
Non-current liabilities			
Loans and other borrowings	11	16,722	15,897
Derivative financial instruments	21	297	819
Contract liabilities		129	94
Lease liabilities	6	3,587	3,863
Retirement benefit obligations	18	1,639	68
Other payables	13	1,646	1,251
Deferred taxation	14	810	1,313
Provisions	14	209	159
		25,039	**23,464**
Equity			
Ordinary shares		2,172	2,172
Share premium		8,000	8,000
Other reserves	15	1,099	844
Retained earnings[b]		4,114	5,975
Equity shareholder's funds		**15,385**	**16,991**
		40,424	**40,455**

a Includes cash of £200m (FY22: £193m) and cash equivalents of £nil (FY22: £353m).
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 £1,159m (FY22: £352m) before dividends paid of £850m (FY22: £nil).

The financial statements of the company on pages 107 to 136 were approved by the Board of Directors on 7 June 2023 and were signed on its behalf by:

Simon Lowth
Director

BT plc company statement of changes in equity

	Notes	Share capital[a] £m	Share premium account[b] £m	Other reserves[c] £m	Retained earnings (loss) £m	Total equity £m
At 1 April 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 loss 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**
Adoption of amendments to IAS 37		—	—	—	(11)	(11)
At 31 March 2022 (restated)		**2,172**	**8,000**	**844**	**5,964**	**16,980**
Profit for the year[d]		—	—	—	1,159	1,159
Actuarial loss	18	—	—	—	(2,953)	(2,953)
Tax on actuarial loss		—	—	—	743	743
Share-based payments		—	—	—	59	59
Tax on share-based payments		—	—	—	(8)	(8)
Tax on items taken directly to equity	15	—	—	(89)	—	(89)
Net fair value gain on cash flow hedges	15	—	—	1,052	—	1,052
Dividends[d]		—	—	—	(850)	(850)
Transferred to the income statement	15	—	—	(708)	—	(708)
At 31 March 2023		**2,172**	**8,000**	**1,099**	**4,114**	**15,385**

a The allotted, called up and fully paid ordinary share capital of the company at 31 March 2023 and 31 March 2022 was £2,172m representing 8,689,755,905 ordinary shares of 25p each.
b The share premium account, representing the premium on allotment of shares, is not available for distribution.
c A breakdown of other reserves is provided in note 15.
d As permitted by Section 408(3) of the Companies Act 2006, no income statement of the company is presented. The company's profit for the financial year including dividends received from subsidiary undertakings was £1,159m (FY22: £352m) before dividends paid of £850m (FY22: £nil).

Notes to the company financial statements

British Telecommunications plc company accounting policies

1. Basis of preparation

Preparation of the financial statements

The term 'company' refers to British Telecommunications plc (BT plc). The consolidated group financial statements of BT plc 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 company 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.

New and amended accounting standards effective during the year

The following amended standards were effective during the year:

Amendments to IAS 37 for onerous contracts

The company adopted Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37) from 1 April 2022. This resulted in a change in accounting policy for performing an onerous contracts assessment. Previously, only incremental costs to fulfil a contract were included when determining whether that contract was onerous. The revised policy is to include both incremental costs and an allocation of other costs directly attributable to the fulfilment of a contract.

The amendments apply prospectively to contracts existing at the date when the amendments are first applied. We analysed contracts existing at 1 April 2022 and identified the cumulative effect of applying the revised policy to be an £11m increase in the onerous contract provision. This has been recorded as an opening balance adjustment to retained earnings. Comparative figures have not been restated.

IFRS Interpretations Committee agenda decisions

The IFRS Interpretations Committee (IFRIC) periodically issues agenda decisions which explain and clarify how to apply the principles and requirements of IFRS standards. Agenda decisions are authoritative and may require the company to revise accounting policies or practice to align with the interpretations set out in the decision.

We regularly review IFRIC updates and assess the impact of agenda decisions. The following were identified as being potentially significant to the company:

Demand Deposits with Restrictions on Use arising from a Contract with a Third Party

In its agenda decision, the IFRIC concluded that restrictions on the use of demand deposits arising from a contract with a third party do not result in the deposits being declassified as cash and cash equivalents, unless those restrictions change the nature of the deposit in a way such that it would no longer meet the definition of cash in IAS 7. Application of this agenda decision to deposits held by the company identified one bank account with restrictions on use that nonetheless meets the IAS 7 definition of cash. This bank account was subsequently recognised on the balance sheet and is now reflected in the cash and cash equivalents balance presented throughout the financial statements. An equal and opposite amount was recognised in trade payables.

The balance on this account was £96m at 31 March 2023 and £148m at 31 March 2022. Prior period comparatives have not been restated as the impact is not considered material, having regard to the fact that a corresponding liability is recognised within trade payables and therefore has no bearing on the company's net assets.

Other

The following changes have not had a significant impact on the financial statements:

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Annual Improvements to IFRS Standards 2018-2020
- Reference to the Conceptual Framework - Amendments to IFRS 3

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 consolidated group financial statements of 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 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
4. Goodwill impairment		✓	
6. Reasonable certainty and determination of lease terms			✓
8. Other investments			✓
14. Contingent liabilities associated with litigation		✓	✓
14. Current and deferred income tax		✓	✓
14. Other provisions and contingent liabilities		✓	✓
18. Valuation of pension assets and liabilities	✓		✓
22. BT Sport joint venture	✓		✓

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 recognised as deferred income and amortised over the life of the related asset. 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 are 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

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

adjustment is made to total equity for awards that lapse or are forfeited after the vesting date.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less. Bank overdrafts are included within loans and other borrowings, in current liabilities on the balance sheet.

Dividends

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

4. Intangible assets

Significant accounting policies that apply to intangible assets

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the identifiable net assets (including intangible assets) of the acquired business.

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash generating unit (CGU) level. These CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. 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 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 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 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 on a nominal basis and based on our latest BT Group plc Board-approved five-year financial plans, representing management's best estimate of future growth. This includes the direct and indirect impacts of inflation and associated mitigations. Expectations about future growth reflect the expectations of growth in the markets to which the CGU relates and consideration of the overall variability relating to individual assumptions at the unit level. The future cash flows are discounted using a pre-tax nominal 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 2023. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed below.

	Software[a] £m	Goodwill £m	Other £m	Total £m
Cost				
At 1 April 2022	**5,696**	**530**	**23**	**6,249**
Additions	764	—	—	764
Disposals and adjustments[b]	(887)	—	—	(887)
At 31 March 2023	**5,573**	**530**	**23**	**6,126**
Accumulated amortisation				
At 1 April 2022	**3,953**	**—**	**13**	**3,966**
Charge for the year	621	—	—	621
Disposals and adjustments[b]	(868)	—	—	(868)
At 31 March 2023	**3,706**	**—**	**13**	**3,719**
Carrying amount				
At 31 March 2022	**1,743**	**530**	**10**	**2,283**
At 31 March 2023	**1,867**	**530**	**10**	**2,407**

a Includes a carrying amount of £674m (FY22: £662m) 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 £0.8bn (FY22: £0.3bn).

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 FY23 was 9.4% (FY22: 7.6%). We have used the same discount rate for all CGUs except Global where we have used 9.7% (FY22: 7.9%) reflecting higher risk in some of the countries in which Global operates.

In FY23 we changed the calculation methodology of the weighted average cost of capital. The most significant change relates to the nominal interest rate for debt which we previously benchmarked to a 5-year historic average. We now use a spot rate to better reflect the recent significant increases in interest rates by the Bank of England, and the increase in our discount rate is largely attributable to this. The pre-tax discount rate calculated under the previous methodology would have been 7.8%.

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 2.4% (FY22: 2.3%) for Global and 2.0% (FY22: 2.0%) for Enterprise and Consumer.

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 and any impairment charges. Property, plant and equipment acquired through business combinations is 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	Shorter of unexpired portion of lease or 40 years
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.

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 notes 12 and 13.

5. Property, plant and equipment continued

	Land and buildings £m	Network infrastructure[a] Held by Openreach £m	Network infrastructure[a] Held by other units £m	Other[b] £m	Assets under construction £m	Total £m
Cost						
At 31 March 2022	**611**	**31,276**	**17,653**	**1,145**	**1,101**	**51,786**
Additions	—	—	250	16	3,303	3,569
Transfers	89	2,617	378	215	(3,292)	7
Disposals and adjustments[d]	(8)	(118)	(774)	(36)	10	(926)
At 31 March 2023	**692**	**33,775**	**17,507**	**1,340**	**1,122**	**54,436**
Depreciation						
At 31 March 2022	**327**	**17,476**	**15,409**	**750**	**—**	**33,962**
Charge for the year	35	1,466	521	199	—	2,221
Impairments	—	—	—	11	—	11
Transfers[c]	—	195	(195)	—	—	—
Disposals and adjustments[d]	(7)	(139)	(746)	(18)	—	(910)
At 31 March 2023	**355**	**18,998**	**14,989**	**942**	**—**	**35,284**
Carrying amount						
At 31 March 2022	**284**	**13,800**	**2,244**	**395**	**1,101**	**17,824**
Engineering stores	—	—	—	—	144	144
At 31 March 2022	**284**	**13,800**	**2,244**	**395**	**1,245**	**17,968**
At 31 March 2023	**337**	**14,777**	**2,518**	**398**	**1,122**	**19,152**
Engineering stores	—	—	—	—	90	90
At 31 March 2023	**337**	**14,777**	**2,518**	**398**	**1,212**	**19,242**

a Within network infrastructure are assets with net book value of £10.3bn (FY22: £9.8bn) which have useful economic lives of more than 18 years.
b Other mainly comprises motor vehicles, computers and fixtures and fittings.
c Following review of fixed asset registers during the year we transferred £195m accumulated depreciation relating to Openreach network infrastructure that was historically recorded against other units. Prior year comparatives have not been restated as the impact is not qualitatively material.
d Disposals and adjustments include the removal of assets from the company's fixed asset registers following disposals and the identification of fully depreciated assets (including through operation of the group's annual asset verification exercise). They also include adjustments between gross cost and accumulated depreciation following review of fixed asset registers, and adjustments resulting from changes in assumptions used in calculating lease-end obligations where the corresponding asset is capitalised.

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

- £14,777m (FY22: £13,800m) 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 £163m (FY22: £169m) 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	2023 £m	2022 £m
Freehold	41	52
Leasehold	296	232
Total net book value of land and buildings	**337**	**284**

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 the 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 that the lessee will exercise, or termination options that we are reasonably certain that the lessee will not exercise.

The incremental borrowing rate is the rate that we would have to pay for a loan of a similar term, and with similar security, to obtain an asset of similar value.

Lease payments include:

- fixed payments
- variable lease payments that depend on an index or rate
- amounts expected to be paid under residual value guarantees
- the exercise price of any purchase options that we are reasonably certain to exercise
- payments due over optional renewal periods where we are reasonably certain to renew
- penalties for early termination of the lease where we are reasonably certain to terminate early

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

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

Right-of-use assets are initially measured at the initial amount of the corresponding lease liabilities, adjusted for any prepaid lease payments, plus any initial direct costs incurred and an estimate of any decommissioning costs that have been recognised as provisions, less any lease incentives received. They are subsequently depreciated using the straight-line method to the earlier of the end of the useful life of the asset or the end of the lease term. Right-of-use assets are tested for impairment following the policy set out in note 5 and are adjusted for any remeasurement of lease liabilities.

We have elected not to recognise lease liabilities and right-of-use assets for short-term leases that have a lease term of 12 months or less, and leases of low-value assets with a purchase price under £5,000. We recognise payments for 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 contract 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 of 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 up front 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 standalone 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, adjustment 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 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	(2)	—	—	—	(2)
Other movements[c]	(47)	(6)	(1)	(1)	(55)
At 1 April 2022	**2,723**	**38**	**354**	**1**	**3,116**
Additions[a]	29	8	143	1	181
Depreciation charge for the year[b]	(283)	(22)	(123)	(1)	(429)
Impairment[b]	(65)	—	—	—	(65)
Other movements[c]	(6)	(1)	(2)	—	(9)
At 31 March 2023	**2,398**	**23**	**372**	**1**	**2,794**

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 In previous years impairment charges were included within the depreciation charge for the year but are now presented separately. There were no impairments in FY22. Impairment charge in FY23 relates primarily to the early exit of leases as a result of ongoing property rationalisation activity.
c Other movements primarily relate to terminated leases and downwards remeasurements of right-of-use assets arising from reductions or reassessments of lease terms and decreases in lease payments.

Lease liabilities

Lease liabilities recognised are as follows:

Year ended 31 March	2023 £m	2022 £m
Current	508	490
Non-current	3,587	3,863
	4,095	**4,353**

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

At 31 March 2023 the company was committed to future minimum lease payments of £139m in respect of leases which have not yet commenced and for which no lease liability has been recognised (31 March 2022: £31m).

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	2023 £m	2022 £m
Less than one year	409	444
One to two years	132	147
Two to three years	48	42
Three to four years	15	5
Four to five years	15	5
More than five years	19	18
Total undiscounted lease payments	**638**	**661**

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

	Subsidiary undertakings £m	Associates and joint ventures £m	Total £m
Cost			
At 31 March 2022	**34,496**	**40**	**34,536**
Additions[a]	—	414	414
Transfer to assets held for sale[b]	(4)	—	(4)
Return of capital	(849)	—	(849)
At 31 March 2023	**33,643**	**454**	**34,097**
Provisions and amounts written off			
31 March 2022	**17,812**	**39**	**17,851**
Disposals	—	—	—
At 31 March 2023	**17,812**	**39**	**17,851**
Net book value at 31 March 2022	**16,684**	**1**	**16,685**
Net book value at 31 March 2023	**15,831**	**415**	**16,246**

a Additions relate to the disposal of BT Sport and creation of a new sports joint venture (Sports JV) with Warner Bros. Discovery (WBD), see below.
b Transfer to assets held for sale at 31 March 2023 relate to Pelipod Limited, see Note 22.

Details of the company's subsidiary undertakings are set out on pages 137 to 142.

Sports joint venture (Sports JV) with Warner Bros. Discovery (WBD)

In August 2022 we formed the Sports JV with WBD combining BT Sport and WBD's Eurosport UK business. Further details on the BT Sport transaction are provided in note 22.

Ordinary equity shares

On completion of the BT Sport transaction, the company recorded an investment on its ordinary equity interest held, at a deemed cost being the initial fair value of £414m based on the estimated fair value at exit, see note 22. Consistent with our accounting policy, this investment will be subsequently held at this deemed cost and reviewed for impairment. There is no impairment at 31 March 2023 as the fair value less costs to sell is higher than the carrying amount of the investment, see below for sensitivities we have applied in determining the fair value less costs to sell.

Preference shares

In addition to the company's ordinary equity shareholding, it held the following investments in preference shares in the Sports JV

At 31 March	2023 £m	2022 £m
Investment in A preference shares	429	—
Investment in C preference shares	126	—
Total	**555**	**—**

- **A preference shares** - we expect these shares to be redeemed by the Sports JV over the 4-year earn-out period in order to effect the distribution of cash to the company under our earn-out entitlement. The fair value of the shares is driven by the underlying cash profit generation of the Sports JV and therefore have been classified as a fair value through profit or loss (FVTPL) financial asset under IFRS 9. In our view, the cash flows due to the company from the A preference shares are akin to contingent consideration and therefore the fair value of £428m on initial recognition has been included in the net consideration recognised on the BT Sport transaction (see note 22).
- **C preference shares** – these shares are expected to be sold to WBD at the end of the company's earn-out entitlement in consideration for any sports rights funded by BT at that point and have been recognised as a financial asset held at FVTPL under IFRS 9. In our view, the cash flows due to BT from the C preference shares are akin to deferred consideration and therefore the fair value of £161m on initial recognition has been included in the net consideration recognised on the BT Sport transaction (see note 22).

The combined net decrease of £34m since initial recognition relates to the fair value movement in the period, see note 25 to the consolidated financial statements for further details. See below for sensitivities we have applied in determining the fair value at 31 March 2023.

7. Investments in subsidiary undertakings, associates and joint ventures continued

Sensitivities

The company's ordinary equity and preference share investments in the Sports JV, carry both upside and downside risk from changes in micro and macroeconomic factors affecting the sports content subscription market and risk appetite of investors in that market. For further information including details of the sensitivities applied please see note 23 to the consolidated financial statements.

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.

Significant 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 is held against these loans.

At 31 March	**2023 £m**	2022 £m
Non-current assets		
Fair value through other comprehensive income	21	21
Fair value through profit or loss	5	—
Loans to group undertakings	567	1,140
Loans to parent undertakings	10,916	11,079
Total non-current asset investments	**11,509**	**12,240**
Current assets		
Investments held at amortised cost	3,548	2,679
Loans to group undertakings	1,185	677
Total current asset investments	**4,733**	**3,356**

Investments held at amortised cost relate to money market investments denominated in sterling of £3,094m (FY22: £2,225m), in euros of £446m (FY22: £436m) and in US dollars of £8m (FY22: £18m). Within these amounts are investments in liquidity funds of £3,491m (FY22: £1,912m), £48m collateral paid on swaps (FY22: £67m), interest on investments of £9m (FY22: £nil) and repurchase agreements £nil (FY22: £700m).

Loans to group and parent undertakings total £12,668m (FY22: £12,896m). These consist of amounts denominated in sterling of £11,523m (FY22: £11,785m), euros of £772m (FY22: £729m), US dollars of £8m (FY22: £8m) and other currencies of £365m (FY22: £374m).

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). No contractual commitments or prepayments exist in respect of programme rights at 31 March 2023 following the BT Sport divestment during the year.

Programme rights were disposed in year as part of the BT Sport divestment, see note 22 for further details.

9. Programme rights continued

	Total £m
At 1 April 2021	**328**
Additions	861
Release	(879)
At 31 March 2022	**310**
Additions	16
Release	(286)
Disposal	(40)
At 31 March 2023	**—**

10. Trade and other receivables

Significant accounting policies that apply to trade and other receivables

Recognition of trade and other receivables

Trade receivables are recognised where the right to receive payment from customers is conditional only on the passage of time. 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.

The company utilises factoring arrangements for selected trade receivables. Trade receivables that are subject to debt factoring arrangements are derecognised if they meet the conditions for derecognition detailed in IFRS 9 'Financial instruments'.

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

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.

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.

10. Trade and other receivables continued

At 31 March	2023 £m	2022 £m
Current receivables		
Trade receivables	713	645
Amount owed by group undertakings	798	343
Amount owed by ultimate parent company	26	27
Prepayments	264	253
Accrued income	70	73
Deferred contract costs	137	118
Finance lease receivables[a]	7	3
Amounts due from joint ventures	268	—
Other assets[a,b]	183	177
Total current receivables	**2,466**	**1,639**
Non-current receivables		
Deferred contract costs	137	137
Finance lease receivables[a]	44	25
Other assets[a,b]	109	15
Total non current receivables	**290**	**177**

a In previous years finance lease receivables were included within other receivables but are now presented separately. FY22 comparatives have been re-presented for comparability.
b Other assets comprise prepayments and £70m (FY22: £nil) of deferred cash consideration relating to the disposal of BT Sport, see note 22.

Amounts due from joint ventures relates to a sterling Revolving Credit Facility (RCF) provided to the Sports JV formed during the year, see note 22. The RCF is in place to provide short-term liquidity required by the Sports JV to fund working capital and commitments to sports rights holders, up to a maximum of £300m (expected to decrease to £200m during FY24). Amounts drawn down by the Sports JV under the RCF accrue interest at a market reference rate, consistent with company's external short-term borrowings, and is held as a financial asset at amortised cost. The expected loss provision is immaterial.

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.

Notes to the parent company financial statements continued

11. Loans and other borrowings continued

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

At 31 March	2023 £m	2022 £m
0.875% €500m bond due September 2023[a,d]	270	423
4.5% US$675m bond due December 2023[a]	554	520
1% €575m bond due June 2024[a,d]	415	489
1% €1,100m bond due November 2024[a,d]	726	929
3.50% £250m index linked bond due April 2025	524	468
0.5% €650m bond due September 2025[a]	571	549
1.75% €1,300m bond due March 2026[a]	1,143	1,098
1.5% €1,150m bond due June 2027[a]	1,017	977
2.75% €600m bond due Aug 2027[a]	530	—
2.125% €600m bond due September 2028[a]	442	425
5.125% US$700m bond due December 2028[a]	573	537
5.75% £600m bond due December 2028	669	680
1.125% €750m bond due September 2029[a]	657	631
3.25% $1,000m bond due November 2029[a]	812	762
9.625% US$2,670m bond due December 2030[a] (minimum 8.625%[b])	2,214	2,077
3.75% €800m bond due February 2031[a]	704	—
3.125% £500m bond due November 2031	503	503
3.375% €500m bond due August 2032[a]	445	—
3.64% £330m bond due June 2033	339	339
1.613% £330m index linked bond due June 2033	380	362
6.375% £500m bond due June 2037[a]	523	523
3.883% £330m bond due June 2039	340	340
1.739% £330m index linked bond due June 2039	381	363
5.75% £350m bond due February 2041	347	—
3.924% £340m bond due June 2042	350	350
1.774% £340m index linked bond due June 2042	392	374
2.08% JPY10,000m bond due February 2043[a]	61	—
3.625% £250m bond due November 2047	250	250
4.25% $500m bond due November 2049[a]	408	383
1.874% €500m bond due August 2080[a,c]	443	426
4.250% $500m Hybrid bond due November 2081[a,c]	404	383
4.875% $500m Hybrid bond due November 2081[a,c]	409	384
Total listed bonds	**17,796**	**15,545**
Loans from group undertakings[e]	15,668	15,205
Other loans	614	555
Bank overdrafts	11	85
Total other loans and borrowings	**16,293**	**15,845**
Total loans and borrowings	**34,089**	**31,390**

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 2.5 years and 8.5 years.
d Bond partially redeemed in February 2023.
e Loans from group undertakings are £15,668m (FY22: £15,205m). These consist of £12,889m (FY22: £12,582m) denominated in sterling, £1,266m (FY22: £1,171m) denominated in euros, £684m (FY22: £744m) denominated in US dollars and £829m (FY22: £708m) denominated in other currencies.

Unless previously designated in a fair value hedge relationship, all loans and other borrowings are carried in the company balance sheet at cost. The table above is presented at amortised cost. The fair value of listed bonds is £16,979m (FY22: £16,750m).

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.

11. Loans and other borrowings continued

Loans and other borrowings are analysed as follows:

At 31 March	2023 £m	2022 £m
Current liabilities		
Listed bonds	1,075	233
Amount owed to joint ventures	11	—
Loans from group undertakings	15,668	14,620
Other loans and bank overdrafts	613	640
Total current liabilities	**17,367**	**15,493**
Non-current liabilities		
Listed bonds	16,722	15,312
Loans from group undertakings	—	585
Total non-current liabilities	**16,722**	**15,897**
Total	**34,089**	**31,390**

	2023			2022		
At 31 March	Lease liabilities £m	Loans and other borrowings £m	Total £m	Lease liabilities £m	Loans and other borrowings £m	Total £m
Repayments falling due as follows:						
Within one year, or on demand	**508**	**17,367**	**17,875**	**490**	**15,493**	**15,983**
Between one and two years	515	1,137	1,652	506	935	1,441
Between two and three years	505	2,669	3,174	484	1,415	1,899
Between three and four years	493	404	897	477	3,117	3,594
Between four and five years	484	1,539	2,023	467	379	846
After five years	2,139	10,984	13,123	2,547	10,041	12,588
Total due for repayment after more than one year	**4,136**	**16,733**	**20,869**	**4,481**	**15,887**	**20,368**
Total repayments	**4,644**	**34,100**	**38,744**	**4,971**	**31,380**	**36,351**
Non cash adjustments[a]	—	(11)	(11)	—	10	10
Impact of discounting	(549)	—	(549)	(618)	—	(618)
Total loans and other borrowings	**4,095**	**34,089**	**38,184**	**4,353**	**31,390**	**35,743**

a Fair value adjustments and unamortised bond fees.

12. Current trade and other payables

Significant accounting policies relating 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.

We also use supply chain financing programmes to allow suppliers to receive funding earlier than the invoice due date. We assess these arrangements against indicators to assess if debts which vendors have sold to the funder under the supplier financing schemes continue to meet the definition of trade payables or should be classified as borrowings. At 31 March 2023 the payables met the criteria of trade payables.

At 31 March	2023 £m	2022 £m
Trade payables	2,366	2,266
Amounts owed to group undertakings	624	683
Amounts owed to ultimate parent company	11	11
Other taxation and social security	209	233
Minimum guarantee from BT Sport disposal[a]	195	—
Accrued expenses	218	287
Deferred income[b]	564	364
Other payables	458	451
Total	**4,645**	**4,295**

a See note 22.
b Deferred income includes £258m (FY22: £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.

Current trade and other payables at 31 March 2023 includes £150m (31 March 2022: £93m) of trade payables in a supply chain financing programme that allows suppliers the opportunity to receive funding earlier than the invoice due date. Financial institutions are used to support this programme but we continue to recognise the underlying payables as we continue to cash settle the supplier invoices in accordance with their terms.

13. Other non-current payables

At 31 March	2023 £m	2022 £m
Minimum guarantee from BT Sport disposal[a]	465	—
Deferred income[b]	1,167	1,249
Other payables	14	2
Total	**1,646**	**1,251**

a See note 22.
b Deferred income includes £169m (FY22: £392m) 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.

14. Provisions & contingent liabilities

Our provisions principally relate to obligations arising from property rationalisation programmes, restructuring programmes, third party 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. Cash flows are adjusted for the effect of inflation where appropriate.

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.

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.

When measuring provisions we reflect the impact of inflation as appropriate particularly in relation to our property and third party claims provisions. Although this involves a degree of estimation it does not represent a significant source of estimation uncertainty having regard to the quantum of the balances in question and the anticipated timing of outflows.

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.

Establishing contingent liabilities associated with litigation brought against the group may involve the use of key 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.

14. Provisions & contingent liabilities continued

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

Third party claims provisions (previously described as insurance provisions) represent our exposure to claims from third parties, with latent disease claims from former colleagues and motor vehicle claims making up the majority of the balance. We engage an independent actuary to provide an estimate of the most likely outcomes in respect of latent disease and third party motor vehicle accident claims, and our in-house insurance teams review our exposure to other risks

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.

	Property[a] £m	Regulatory £m	Litigation £m	Third party claims[b] £m	Other[c] £m	Total £m
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**
IAS 37 opening balance adjustment[d]	—	—	—	—	11	11
At 1 April 2022	**78**	**65**	**26**	**49**	**55**	**273**
Additions	36	16	2	11	—	65
Unwind of discount	1	—	—	—	—	1
Utilised	(4)	(1)	—	(13)	—	(18)
Released	(29)	(16)	—	(35)	(21)	(101)
Transfers[e]	—	4	—	132	—	136
At 31 March 2023	**82**	**68**	**28**	**144**	**34**	**356**

a Timing of expected cash flows associated with property provisions varies depending on the exit dates of individual properties. During FY23 there has been no material change in the judgements or assumptions applied in the measurement of our existing obligations.
b Third party claims described as insurance in prior periods, relabelled to better reflect the nature of the underlying exposures. Within this balance £77m is held in respect of our gross exposure to latent disease claims from former colleagues and £30m for motor vehicle claims, with no individually material items in the remaining balance.
c Other provisions include contract loss provisions of £8m (FY22: £1m) relating to the anticipated total losses in respect of certain contracts.
d Opening balance adjustment arising on adoption of the amendments to IAS 37, see note 1.
e Transfers into third party claims in FY23 relate to the reclassification of balances previously presented as payables (reflected in notes 12 and 13) following reassessment of the level of certainty over the timing and amount of any outflow of resources.

At 31 March	2023 £m	2022 £m
Analysed as:		
Current	147	103
Non-current	209	159
	356	**262**

Contingent liabilities and legal proceedings

In the ordinary course of business, we are periodically notified of actual or threatened litigation, and regulatory and compliance matters and investigations. We have disclosed below a number of such matters including any matters where we believe a material adverse impact on the operations or financial condition of the group is possible and the likelihood of a material outflow of resources is more than remote.

Where the outflow of resources is considered probable, and a reasonable estimate can be made of the amount of that obligation, a provision is recognised for these amounts and reflected in the table above. Where an outflow is not probable but is possible, or a reasonable estimate of the obligation cannot be made, a contingent liability exists.

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 (on behalf of a Claim Representative) 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 five 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

14. Provisions & contingent liabilities continued

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 hearing window has been set for January – April 2024. On 1 June 2023 Mishcon de Reya notified us that they intend to file an updated claim. BT intends to defend itself vigorously.

UK Competition and Markets Authority (CMA) investigation

On 12 July 2022 the CMA opened a competition law investigation into BT and other companies involved in the purchase of freelance services for the production and broadcasting of sports content in the UK. The investigation is focused on BT Sport. In February 2023, the CMA extended its investigation to include suspected breaches of competition law in relation to the employment of staff supporting the production and broadcasting of sports content in the UK. The CMA has said no assumption should be made at this stage that competition law has been infringed. BT is cooperating with the investigation.

Taxation

The value of the company's income tax asset is disclosed on the company balance sheet on page 107. 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.

Key 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; whether intra-group payments are subject to withholding taxes and the deductibility of certain compensation payments made in prior years. We provide for the predicted outcome where an outflow is probable, but the agreed amount can differ materially from our estimates. Approximately 75% 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. £78m (FY22: £168m) is included in current tax liabilities or offset against current tax assets where netting is appropriate. Under a downside case an additional amount of £174m could be required. This amount is not provided as we don't consider this outcome to be probable.

	£m
At 1 April 2021	**1,139**
Charge recognised in the income statement	515
Transfer to deferred tax asset	—
Transfer to current tax	(33)
Charge recognised in reserves	(308)
At 1 April 2022	**1,313**
Charge recognised in the income statement	(333)
Transfer to deferred tax asset	—
Transfer to current tax	39
Credit recognised in reserves	(209)
At 31 March 2023	**810**

At 31 March	**2023** **£m**	2022 £m
Tax effect of temporary differences due to:		
Excess capital allowances	2,955	2,211
Losses	(2,115)	(778)
Share-based payments	(42)	(37)
Other	12	(83)
Total provision for deferred taxation	**810**	**1,313**

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

14. Provisions & contingent liabilities 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 trading losses and pension deficit contribution deductions result in c. £8bn of tax losses expected to be carried forward from FY23 to be utilised against UK taxable profit from FY24 onwards.

15. Reconciliation of movement in other reserves

	Cash flow reserve[a] £m	Fair value reserve £m	Cost of hedging reserve[b] £m	Capital redemption reserve[c] £m	Total other reserves £m
At 1 April 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 movements on assets at fair value through other comprehensive income	—	6	—	—	6
At 31 March 2022	**(150)**	**6**	**236**	**752**	**844**
Transferred to the income statement	(716)	—	8	—	(708)
Tax on items taken directly to equity	(89)	—	—	—	(89)
Net fair value gain on cash flow hedges	1,333	—	(281)	—	1,052
Other movements	—	—	—	—	—
At 31 March 2023	**378**	**6**	**(37)**	**752**	**1,099**

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 recognised 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 Investment 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 to the 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 the group, provided that any subsidiary which is a party to the transaction is wholly-owned by such a member.

Associates and joint ventures related parties include the Sports JV formed in August 2022 (see note 22). The amount receivable from the Sports JV as at 31 March 2023 was £10m and the amount payable to the Sports JV was £123m.

As part of the BT Sport transaction, the company has committed to providing the Sports JV with a sterling Revolving Credit Facility (RCF), up to a maximum for £300m, for short-term liquidity required by the Sports JV to fund its working capital and commitments to sports rights holders. Amounts drawn down by the Sports JV under the RCF accrue interest at a market reference rate, consistent with the company's external short-term borrowings. The outstanding balance under the RCF of £268m is treated as a loan receivable and held at amortised cost, see note 10. The capacity of the RCF is expected to reduce to £200m during FY24. There is also a loan payable to the Sports JV of £11m, see note 11.

The Sports JV has a foreign exchange hedging arrangement with the company to secure Euros required to meet its commitments to certain sports rights holders; the company has external forward contracts in place to purchase the Euros at an agreed sterling rate in order to mitigate its exposure to exchange risk. The company holds a £14m derivative liability in respect of forward contracts provided to the Sports JV.

Transactions from commercial trading arrangements with associates and joint ventures, including the Sports JV, are shown below:

At 31 March	2023 £m	2022 £m
Amounts receivable from associates and joint ventures	10	2
Amounts payable to associates and joint ventures	124	1

Other related party transactions include the purchase of energy from an entity owned by the BT Pension Scheme. £1m was due to the other party as at 31 March 2023 (FY22: £1m). The balance is unsecured and no guarantees have been given.

17. Financial commitments

Financial commitments as at 31 March 2023 include capital commitments of £1,124m (FY22: £1,275m) and other commitments of £1m (FY22: £6m). TV programme rights commitments were £nil (FY22: £997m) as these were transferred to the Sports JV formed with Warner Bros. Discovery (WBD) during FY23 (see note 7); the company has guaranteed the Sports JV's obligations under certain programme rights commitments but we consider the risk of these guarantees being called as remote.

Other than as disclosed in note 14 in respect of legal and regulatory proceedings, there were no contingent liabilities or guarantees at 31 March 2023 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.

Types of retirement benefit plans

Defined benefit ("DB") plans

DB plan benefits are determined by the plan rules, typically dependent on factors such as age, years of service and pensionable pay, but not on the value of actual contributions made by the company and members. The company 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.
The net defined benefit liability, or deficit, 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.

Defined contribution ("DC") plans

DC plan benefits are linked to the value of each member's fund, which is based on contributions paid and the performance of each individual's chosen investments. The company has no exposure to investment and other experience risks.

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, market expectations (where relevant), actuarial advice and our judgement regarding future expectations at the balance sheet date.

18. Retirement benefit plans continued

Critical accounting estimates and significant judgements made when valuing the BTPS assets

Under IAS 19, plan assets are measured at fair value at the balance sheet date and include quoted and unquoted investments.

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

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.

- 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.
- 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.
- 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.
- The longevity insurance contract 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.

£6.4bn of unquoted investments that are formally valued periodically by the investment manager have a latest valuation that precedes the balance sheet date. These assets consist of: £3.7bn non-core credit; £1.2bn mature infrastructure; £1.1bn private equity; £0.2bn secure income; and £0.2bn overseas property. These valuations have been adjusted for cash movements between the previous valuation date and 31 March 2023. The valuation approach and inputs for these investments would only be approximately updated where there were indications of significant movements, for example implied by market indicators. No such adjustment was required at 31 March 2023.

Asset-backed funding arrangement

The asset-backed funding arrangement, issued to the BTPS in May 2021, has a fair value of £1.3bn at 31 March 2023 (2022: £1.4bn) calculated as the present value of the future stream of payments, allowing for the probability of the BTPS becoming fully funded and therefore the payments to the BTPS ending early. Under IFRS, the ABF is recognised as a plan asset in the company's balance sheet, but not recognised at group level.

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

	2023			2022		
At 31 March	**Assets £m**	**Liabilities £m**	**Surplus (Deficit) £m**	Assets £m	Liabilities £m	Surplus (Deficit) £m
BTPS[a]	39,983	(41,575)	(1,592)	54,905	(54,309)	596
Other plans[b]	92	(124)	(32)	126	(181)	(55)
Total (gross of tax)	**40,075**	**(41,699)**	**(1,624)**	**55,031**	**(54,490)**	**541**
Deferred tax asset			611			178
Total (net of tax)			**(1,013)**			**719**

a Included in the plan assets is £1.3bn (FY22: £1.4bn) related to the asset-backed funding arrangement.
b The balance sheet position comprises of plans in surplus of £15m (FY22: £13m) and plans in deficit of £47m (FY22:£68m). Included in the liabilities is £40m (FY22: £59m) related to unfunded plans.

18. Retirement benefit plans continued

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

	Assets £m	Liabilities £m	Surplus (Deficit) £m
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**
Service cost (including administration expenses and PPF levy)	(36)	(13)	(49)
Interest on pension surplus	1,484	(1,461)	23
Return on plan assets below pensions interest on assets	(14,562)	—	(14,562)
Actuarial gain arising from changes in financial assumptions	—	11,783	11,783
Actuarial gain arising from changes in demographic assumptions	—	898	898
Actuarial (loss) arising from experience adjustments	—	(1,072)	(1,072)
Regular contributions by employer	13	—	13
Deficit contributions by employer	801	—	801
Contributions by employees	—	—	—
Benefits paid	(2,656)	2,656	—
Other movements	—	—	—
At 31 March 2023	**40,075**	**(41,699)**	**(1,624)**

Asset-backed funding arrangement (ABF)

The future payments from the ABF have a present value of £1.4bn at 31 March 2023. The fair value of the ABF is £1.3bn at 31 March 2023 and allows for the probability of the BTPS becoming fully funded, and therefore the payments to the BTPS ending early.

The fair value of the ABF is included in the assets of the BTPS when assessing the funding deficit and the IAS 19 deficit in the company accounts. Payments from the ABF to BTPS are treated in the same way as coupon payments from bonds, and do not affect the deficit when they are paid. The ABF would be categorised as an unquoted secure income asset within the asset allocation table in note 19 of the BT plc consolidated financial statements.

The fair value of the ABF is not included in the assets of the BTPS when assessing the IAS 19 deficit in the group consolidated accounts, as it is a non-transferable asset issued by the group. Payments from the ABF to BTPS are treated as deficit contributions, and reduce the IAS 19 deficit, when they are paid.

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 BT plc 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	**2023 000**	2022 000
Average monthly number of employees[a]	31.0	35.4

Year ended 31 March	**2023 £m**	2022 £m
Wages and salaries	1,325	1,355
Share-based payments	44	53
Social security	164	152
Other pension costs	268	271
	1,801	**1,831**

a Includes an average of 12 non-UK employees (FY22: 7 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 29 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 company 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.

In line with BT Group plc's policy the company 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

In line with BT Group, company's policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting, some derivatives may not qualify for hedge accounting, or may be specifically not designated as a hedge because natural offset is more appropriate. We effectively operate a process to identify any embedded derivatives within revenue, supply, leasing and financing contracts, including those relating to inflationary features. 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 2023	Current asset £m	Non current asset £m	Current liability £m	Non current liability £m
Designated in a cash flow hedge	78	1,330	62	255
Other	4	162	24	42
Total derivatives	**82**	**1,492**	**86**	**297**
At 31 March 2022				
Designated in a cash flow hedge	77	878	25	712
Other	11	339	27	107
Total derivatives	**88**	**1,217**	**52**	**819**

Instruments designated in a cash flow hedge include interest rate swaps and cross-currency swaps hedging euro, US dollar and Japanese yen- 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 11).

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

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

Other derivatives include £95m (FY22: £214m) in relation to BT plc's interest in the ABF funding arrangement for the BTPS. Further information is disclosed in note 19 of the BT plc consolidated financial statements.

22. Divestments and 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.

Divestments

During the year, the company completed the disposal of BT Sport operations through forming a sports joint venture (Sports JV) with Warner Bros. Discovery (WBD), see below. The company did not divest any other operations during FY23 or FY22. The company does not present an income statement (see note 1) and accordingly does not provide a disclosure of the profit or loss recognised on its divestments.

BT Sport disposal

In August 2022 the company formed the Sports JV with WBD combining BT Sport and WBD's Eurosport UK business. As part of the transaction, the company and WBD has each contributed, sub-licensed or delivered the benefit of their respective sports rights and distribution businesses for the UK & Ireland to the Sports JV. Both parties each hold a 50% ordinary equity interest and equal voting rights in the Sports JV.

BT Sport's distribution agreement with Virgin Media has transferred to the Sports JV, and the Sports JV has also entered into a new agreement with Sky extending beyond 2030 to provide for its distribution of the Sports JV's combined sports content. The production and operational assets of BT Sport have transferred to WBD who will manage and operate the production of the Sports JV's sport content.

The company has entered into a distribution agreement with the Sports JV to procure the sport content required to continue to supply our broadband, TV and mobile customers. BT plc's agreement with the Sports 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.

WBD will have the option to acquire the company's 50% interest in the Sports JV at specified points during the first four years of the Sports JV (Call Option). The price payable under the Call Option will be 50% of the fair market value of the Sports JV to be determined at the time of the exercise, plus any unpaid fixed consideration and remaining earn-out as described below. If the Call Option is not exercised, the company will have the ability to exit its shareholding in the Sports JV either through a sale or IPO after the initial four-year period.

The net consideration recognised by the company on completion of the transaction was as follows:

	£m
Cash consideration[a]	99
Investment in A preference shares in Sports JV (note 7)	428
Investment in C preference shares in Sports JV (note 7)[b]	161
Ordinary equity interest in Sports JV (note 7)	414
Transaction costs	(35)
Net consideration	**1,067**

a £29m has been settled in cash during the year with the remaining £70m representing discounted cash flows due to BT from remaining consideration payable by WBD in instalments over the next three years.
b Expected to be sold to WBD at the end of BT's earn-out entitlement in consideration for any programme rights funded by BT and is therefore akin to deferred consideration for prefunded programme rights contributed by BT in to the Sports JV at formation.

Critical accounting estimates and significant judgements made in accounting for the BT Sport disposal

Valuation of investment in A preference shares (akin to contingent consideration)

The company will receive an earn-out from the Sports JV (subject to liquidity and usual UK company law requirements), which will end at the earliest of:

- four years post completion of the transaction;
- the exercise by WBD of the Call Option; and
- if the earn-out reaches an agreed cap.

The earn-out cash flows to the company are dependent on the cash profit generation of the Sports JV over the earn-out period and is therefore akin to contingent consideration, initially recorded at a fair value of £428m reflecting the present value of expected cash flows. The valuation of the earn-out consideration is supported by a jointly-agreed business plan and internal valuation model.

The key assumptions within the jointly-agreed business plan and internal valuation model are:

- approximately 50% of revenues and 80% of costs during the four years of the jointly-agreed business plan are contractually committed;
- material contracts are renewed at an economic value no less than current terms;
- the total premium sports subscriber base does not materially grow or decline over the earn-out period; and
- revenue growth and production costs are driven by contractual terms.

The earn-out period has been assumed to end at four years post completion of the transaction; however given the mechanics of the deal arrangements if there is an earlier exercise by WBD of their Call Option this would also not materially impact the amounts disclosed in the financial statements.

Subsequent to the initial recognition, the company's carried forward investment in A preference shares will be remeasured to fair value at each reporting date in accordance with IFRS 9, see note 7.

Valuation of the minimum revenue guarantee in the company's distribution agreement with the Sports JV

The company's obligation under the minimum revenue guarantee of c. £2bn over the first four years of the Sports JV represents both a trading arrangement on market terms and a financing arrangement for the off-market element of the revenue guarantee, which has been recorded as a financial liability within trade and other payables on the balance sheet. The liability will be held at amortised cost and will unwind through payments made to the Sports JV over the next four years on the minimum revenue guarantee.

The valuation of this financial liability, and what a fair cost-per-subscriber would be, is sensitive to a number of assumptions on volumes and price, and there is a range of outcomes which we could have arrived at. Alternative scenarios considered, based on the different prices and terms used with other market participants, could have resulted in a liability ranging from £543m to £837m, and the company initially recognised a financial liability of £712m.

The key assumptions in calculating the financial liability are in estimating what is a market wholesale price at market volume commitment that is supported by the forecast volumes for the related revenue streams. The volumes used are consistent with those included in the jointly-agreed business plan as described above. The bottom of the range disclosed above is based on the price that the company will pay after four years when the minimum revenue guarantee has ended, however that is not considered an appropriate rate from the outset due to existing volume commitments.

Notes to the parent company financial statements continued

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

Valuation of the company's equity interest in the Sports JV

WBD will have the option to acquire the company's 50% interest in the Sports JV at specified points during the first four years of the Sports JV. If the Call Option is not exercised, the company will have the ability to exit its shareholding in the JV either through a sale or IPO.

The company has valued its equity interest in the Sports JV based on the estimated fair value at exit and using the following key assumptions:

- the company expects to realise its interest in the Sports JV through exit rather than ongoing value in use;
- the company expects WBD to exercise its option to acquire BT's 50% interest in the Sports JV at the end of the first four years of the Sports JV; and
- an earnings multiple has been applied to the expected year 5 EBITDA per the jointly-agreed business plan - the multiple is at the lower end of a possible range identified from comparable peers and transactions in the premium sports subscription and broadcasting market.

As the company's interest is recorded on a point in time valuation, based on forecast earnings and current market returns on similar investments, it carries both upside and downside risk from changes in micro- and macroeconomic factors affecting the sports content subscription market and risk appetite of investors in that market.

The company has applied the following sensitivities on these risk factors:

- EBITDA impact from revenue loss due to ongoing cost of living pressures or changes in the Sports JV's rights portfolio;
- An increase or decrease in the valuation multiple achieved; and
- An increase or decrease in the discount rate applied.

None of these sensitivities individually resulted in a material change to the investment value. All downside or upside factors in combination could lead to a £70m decrease or £200m increase in the fair value respectively. However, in the company's view, combining all downside factors is not a reasonable scenario given the financial and commercial levers available to mitigate the impact; and the company has taken a prudent approach in not recognising a higher investment value upfront based on possible but uncertain changes in market conditions in the future.

The investment will be subsequently held at a deemed cost being the initial fair value, subject to impairment testing at each reporting period.

Discounting of cash flows

All cash flows expected to be received or paid over time have been discounted at a rate applicable to the risks associated with the cash flows:

- Deferred payments due to the company from WBD have been discounted at an appropriate post-tax cost of debt (3.3%);
- the company's earn-out from the Sports JV has been discounted at the weighted average cost of capital for the Sports JV at completion date (6.7%); and
- the company's commitments under the minimum guarantee have been discounted at the group's post-tax cost of debt (2.8%).

The net present value of the transaction is not considered to be materially affected by a reasonable change in the discount rate.

Assets and liabilities held for sale

Assets held for sale at 31 March 2023 relate to Pelipod Limited, a connected-locker business used in our UK supply chain operations. The Competition and Markets Authority (CMA) formally opened its investigation into the proposed disposal of Pelipod Limited on 29 March 2023 which we expect to conclude by 31 May 2023. We have classified the company's cost of investment as held for sale on the basis that the IFRS 5 criteria have been met at 31 March 2023.

In FY22, the company had one disposal group held for sale, BT Sport, which was completed during the year as described above.

The assets of these disposal groups 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 transactions, 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.

At 31 March	**2023 £m**	2022 £m
Assets		
Intangible assets	—	4
Property, plant and equipment	—	13
Right-of-use assets	—	2
Investment in subsidiary	4	—
Trade and other receivables	—	10
Assets held for sale[a]	**4**	**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 were not reclassified to held for sale in FY22 as the carrying amount of these assets were principally recovered through continuing use before completion of the transaction.

23. Post balance sheet events

As disclosed in note 22, Pelipod Limited is classified as held for sale on the basis that the IFRS 5 criteria had been met at 31 March 2023, notwithstanding an active Competition and Markets Authority (CMA) investigation into the proposed disposal at this date. On 31 May 2023 the CMA concluded their investigation and cleared the acquisition by the proposed buyer. The transaction is expected to complete during FY24.

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 Tucidide 14, 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		
5th Floor, 2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, 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	100%	limited by guarantee
BT European Investments Limited	100%	ordinary
BT Holdings Limited	100%	ordinary
BT IoT Networks Limited	100%	ordinary
BT Ninety-Seven Limited	100%	ordinary
BT Nominees Limited	100%	ordinary
BT OnePhone Limited	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
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	99%	ordinary
BT Falcon 1 LP	51%	–
Holland House (Northern) Limited	100%	ordinary
BDO LLP, 55 Baker Street, London, W1U 7EU, United Kingdom		
BT Centre Nominee 2 Limited	100%	ordinary
BT Facilities Services Limited	100%	ordinary
BT Managed Services Limited	100%	ordinary
BDO LLP, 5 Temple Square, Temple Street, Liverpool, L2 5RH, United Kingdom		
BT Lancashire 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 20, 420 George Street, Sydney, NSW 2000, Australia		
BT Australasia Pty Limited	100%	ordinary
	100%	preference
Austria		
Louis-Häfliger-Gasse 10, 1210, Wien, Austria		
BT Austria GmbH	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Azerbaijan		
AZ 1025 The Azure Business Center, 20th Floor , c/o BDO Azerbaijan LLC, Z1025, Khatai district, Afiyaddin Jalilov 26, apt.177, Azerbaijan		
BT Azerbaijan Limited, Limited Liability Company	100%	ordinary
Bahrain		
Suite #2216, Building No. 2504, Road 2832, Al Seef, PO BOX 18259, Bahrain		
BT Solutions Limited (Bahrain Branch)[b]	100%	–
Bangladesh		
UTC Building, 19th Floor, Kawran Bazar, Dhaka, 1215, 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
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%	–
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, Botswana		
BT Global Services Botswana (Proprietary) Limited	100%	ordinary
Brazil		

Company name	Group interest in allotted capital[a]	Share class
Avenida Dr. Ruth Cardoso, 4777 - 14 andar, Pinheiros, São Paulo, SP, 05477-000, Brazil		
BT Communications do Brasil Limitada	100%	quotas
BT Global Communications do Brasil Limitada	100%	quotas
Bulgaria		
51B Bulgaria Blvd., fl. 4, Sofia, 1404, Bulgaria		
BT Bulgaria EOOD	100%	ordinary
BT Global Europe B.V. – Bulgaria branch[b]	100 %	–
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%	–
1502-1503, AVIC Center, No. 1008, Huafu Road, Futian District, Shenzhen, 518000, China		
BT China Limited - Shenzhen Branch[b]	100%	–
Room 3, 4, F7, Tower W3, Oriental Plaza, 1 East Chang An Avenue, Dongcheng District, Beijing, 100738, China		
BT China Limited	100%	registered
Unit 1537B, Floor 15th, No. 55, Xili Road, Shanghai Free Trade Zone, Shanghai, China		
BT China Communications Limited	50%	ordinary
Colombia		
Calle 113, 7-21,Torre A Oficina 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		

Company name	Group interest in allotted capital[a]	Share class
Abidjan Plateau, Rue du commerce, Immeuble Nabil 1er étage, 01 BP 12721 Abidjan 01, Côte d'Ivoire		
BT Cote D'Ivoire	100%	ordinary
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 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		
BT El Salvador, Limitada de Capital Variable	100%	ordinary
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		

Company name	Group interest in allotted capital[a]	Share class
BT (Germany) GmbH & Co. oHG	100%	ordinary
BT Deutschland GmbH	100%	ordinary
BT Garrick GmbH	100%	ordinary
Frankfurter Straße 21-25, Eschborn, 65760, Frankfurt am Main, Germany		
IP Trade Networks GmbH	100%	ordinary
Widdersdorfer Strasse 252, 50933, Cologne, Germany		
Global Security Europe Limited - Germany Branch[b]	100%	–
Ghana		
5th Floor, Vivo Place, Cantonments City, Rangoon Lane, PO 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		
Unit 31-105, 31/F, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong		
BT Hong Kong Limited	100%	ordinary
Infonet China Limited	100%	ordinary
Hungary		
1112 Budapest, Boldizsár utca 4. , 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

Related undertakings continued

Company name	Group interest in allotted capital[a]	Share class
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		
Menara Astra, 37F. Jl. Jendral Sudirman Kav 5-6, Jakarta Pusat, Jakarta, 10220, 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 Tucidide 14, 20134, Milano, Italy		
Atlanet SpA	99%	ordinary
Basictel 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 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		
L R No, 1870/ 1/176, Aln House, Eldama Ravine close, off Eldama Ravine Road, Westlands, PO Box 764, Sarit Centre, Nairobi, 00606, Kenya		
BT Communications Kenya Limited	70%	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, PO 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
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 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		
Boulevard Manuel Avila Camacho No. 32, 6th Floor, Lomas de Chapultepec III Section, Miguel Hidalgo, Mexico City CP11000		
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
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, New Zealand		
BT Australasia Pty Limited - New Zealand Branch[b]	100%	–
Nicaragua		

Company name	Group interest in allotted capital[a]	Share class
De donde fué el Restaurante Marea Alta Ahora quesillos, El Pipe, 2 cuadras al este, 10 Metros al norte, frente al, Hotel El Gran Marquez, Casa #351, Nicaragua, 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		

Company name	Group interest in allotted capital[a]	Share class
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		
Corporation Service Company Puerto Rico Inc., c/o RVM Professional Services LLC, A4 Reparto Mendoza, Humacao, 00791, 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		
BDO Block 3 Miesian Plaza, 50-58 Baggot Street Lower, Dublin 2, Dublin, Ireland D02 Y754		
BT Global Communications (Ireland) Limited	100%	ordinary
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
Whitestream Industries Limited	100%	ordinary
Romania		
Cladirea A1, Biroul Nr. 52, Nr 35-37, Str. Oltenitei, Sector 4, Bucharest, Romania		
BT Global Services Limited Londra Sucursala Bucuresti[b]	100%	–
Russia		
Room 62, prem xx, Floor 2, Pravdy, 26, 127137, Moscow, Russian Federation		
BT Solutions Limited Liability Company	100%	–
Serbia		
Dimitrija Georgijevica Starike 20, Belgrade, 11070, Serbia		
BT Belgrade d.o.o	100%	ordinary
Sierra Leone		
84 Dundas Street, Freetown, Sierra Leone		
BT (SL) Limited	100%	ordinary
Singapore		

Company name	Group interest in allotted capital[a]	Share class
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 Solutions Pte. Ltd.	100%	ordinary
BT Singapore Pte. Ltd.	100%	ordinary
Slovakia		
Pribinova 10, 811 09, Bratislava , mestskó èast' Staré Mesto, Slovakia		
BT Global Europe B.V., o.z.[b]	100%	–
BT Slovakia s.r.o.	100%	ordinary
Slovenia		
Cesta v Mestni Log 1, Ljubljana, 1000, Slovenia		
BT GLOBALNE STORITVE, telekomunikacijske storitve, obdelava podatkov, podatkovnih baz; d.o.o.	100%	ordinary
South Africa		
BT Building, Woodmead North Office Park, 54 Maxwell Drive, Woodmead, Johannesburg, 2191, South Africa		
BT Communications Services South Africa (Pty) Limited	70%	ordinary
BT Limited[b]	100%	–
Spain		
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		
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%	–

Related undertakings continued

Company name	Group interest in allotted capital[a]	Share class
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%	–
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, PO 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
EE (Group) Limited	100%	ordinary
EE Limited	100%	ordinary
EE Pension Trustee Limited	100%	ordinary
ESAT Telecommunications (UK) Limited	100%	ordinary
Extraclick Limited	100%	ordinary
Global Security Europe Limited	100%	ordinary
Mainline Communications Group Limited	100%	ordinary
Mainline Digital Communications Limited	100%	ordinary
Newgate Street Secretaries Limited	100%	ordinary
Numberrapid Limited	100%	ordinary
Orange Furbs Trustees Limited	100%	ordinary
Orange Home UK Limited	100%	ordinary
Orange Personal Communications Services 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
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
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%	–

Related undertakings continued

Associates (note 23)

Company name	Group interest in allotted capital[a]	Share class
Held via other group companies		
Mauritius		
IFS Court, Bank Street, TwentyEight Cybercity, Ebene, 72201, Mauritius		
Mahindra – BT Investment Company (Mauritius) Limited	43%	ordinary
Philippines		
32F Philam Life Tower, 8767 Paseo de Roxas, Makati City, Philippines		
ePLDTSunphilcox JV, Inc	20%	ordinary
SunPhilcox JV, Inc	20%	ordinary
United Kingdom		
24/25 The Shard, 32 London Bridge Street, London, SE1 9SG, United Kingdom		
Digital Mobile Spectrum Limited	25%	ordinary
10 Stadium Business Court , Millennium Way, Pride Park , Derby, DE24 8HP, United Kingdom		
Midland Communications Distribution Limited	35%	ordinary
Phoneline (M.C.D) Limited	35%	ordinary
2nd Floor, Aldgate Tower, 2 Leman Street, London, E1 8FA, United Kingdom		
Youview TV Limited	14%	voting

Joint ventures (note 23)

Company name	Group interest in allotted capital[a]	Share class
Held directly		
United Kingdom		
Chiswick Park Building 2, 566 Chiswick High Road, London, W4 5YB, United Kingdom		
BT Ninety-Five Limited[c]	50%	ordinary
6th Floor, One London Wall, London, EC2Y 5EB, United Kingdom		
Internet Matters Limited	25%	-
Held via other group companies		
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		
450 Longwater Avenue, Green Park, Reading, Berkshire, RG2 6GF, 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: (i) the efficient management of shared infrastructure and a 3G network on behalf of the Companies, (ii) acquiring certain network elements for shared use, and (iii) 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 Sports joint venture formed with Warner Bros. Discovery following the sale of BT Sport transaction. In addition to the 50% ordinary A shares we also hold A preference shares and C preference shares, see notes 21 and 23 for more details.

Subsidiaries exempt from audit

The following subsidiary undertakings have taken the exemption from the requirements of audit of individual accounts by parent guarantee under section 479A-479C of the Companies Act 2006:

Subsidiary	Registered number
Autumnwindow Limited	4109614
Autumnwindow No.2 Ltd	4312827
Bruning Limited	4958289
BT (International) Holdings Limited	2216586
BT (RRS LP) Limited	4109640
BT European Investments Limited	4276882
BT Fifty-One	3621755
BT Fifty-Three Limited	3621745
BT Global Services Limited	2410810
BT Holdings Limited	2216773
BT IoT Networks Limited	2329342
BT Limited	2216369
BT Ninety-Seven Limited	14017603
BT Onephone Limited	8043734
BT Property Holdings (Aberdeen) Limited	10255933
BT Sixty-Four Limited	4007415
BT Sle Euro Limited	7573610
BT Sle USD Limited	7573644
BT Solutions Limited	4573373
BT UAE Limited	4726666
ExtraClick Limited[a]	4552808
Holland House (Northern) Limited	SC390251
Mainline Communications Group Limited	2862068
Numberrapid Limited	4825279
Radianz Limited	3918478
Tudor Minstrel	3747023

a Extraclick Limited has a 30 September 2022 year-end

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, is 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 BT Group plc Board and the BT Group plc *Executive Committee* and assists in providing an additional analysis of our reporting trading results.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. 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 significant business restructuring programmes such as the current group-wide cost transformation and modernisation programme, 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. Conversely, when a reversal occurs in relation to a prior year item not classified as specific, the reversal is not classified as specific in the current year.

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 37.

Adjusted EBITDA

In addition to measuring financial performance of the group and customer-facing units based on adjusted operating profit, we also measure performance based on adjusted EBITDA. Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures.

We consider adjusted EBITDA to be a useful measure of our operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. Adjusted EBITDA is not a direct measure of our liquidity, which is shown by our cash flow statement, and needs 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 adjusted EBITDA, is set out below.

Year ended 31 March	**2023 £m**	2022 £m
Reported profit for the period	**2,291**	**1,397**
Tax	(176)	689
Reported profit before tax	**2,115**	**2,086**
Net finance expense	447	801
Depreciation and amortisation, including impairment charges	4,818	4,405
Share of post tax losses (profits) of associates and joint ventures	59	—
Specific revenue	(12)	(5)
Specific operating costs before depreciation and amortisation	503	292
Adjusted EBITDA	**7,930**	**7,579**

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.