Financial statements

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Look out for these throughout the report

Significant accounting policies

Critical & key accounting estimates and significant judgements

KPMG LLP's Independent Auditor's Report to the members of BT Group plc

1. Our opinion is unmodified

In our opinion:

- the financial statements of BT Group plc 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 Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What our opinion covers

We have audited the Group and Parent Company financial statements of BT Group plc ("the Company") for the year ended 31 March 2023 (FY23) included in the Annual Report, which comprise:

Group (BT Group plc and its subsidiaries)	Parent Company (BT Group plc)
Group income statement	Company balance sheet
Group statement of comprehensive income	Company statement of changes in equity
Group balance sheet	Notes 1 to 3 to the Parent Company financial statements, including the accounting policies in note 1
Group statement of changes in equity	
Group cash flow statement	
Notes 1 to 33 to the Group financial statements, including the accounting policies in the respective notes	

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 and matters included in this report are consistent with those discussed and included in our reporting to the Audit and Risk Committee ("ARC").

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.

2. Overview of our audit

Audit and Risk Committee interaction

During the year, the ARC met five times. KPMG are invited to attend all ARC meetings and are provided with an opportunity to meet with the ARC in private sessions without the Executive Directors being present. For each Key Audit Matter, we have set out communications with the ARC in section 4, including matters that required particular judgement for each.

The matters included in the Audit and Risk Committee Chair's report on pages 101 to 105 are materially consistent with our observations of those meetings.

Our independence

We have fulfilled our ethical responsibilities and 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 BT Group plc's consolidated 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 Audit and Risk Committee have concurred with this view.

We were first appointed as auditor by the shareholders for the year ended 31 March 2019. The period of total uninterrupted engagement is for the 5 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 Audit and Risk Committee has confirmed Jon Mills as his successor.

The average tenure of partners responsible for component audits as set out in section 7 below is 3 years.

Total audit fee	£19.8m
Audit related fees (including interim review)	£2.6m
Other services	£0.1m
Non-audit fee as a % of total audit and audit related fee %	11.6%
Date first appointed	11 July 2018
Uninterrupted audit tenure	5 years
Next financial period which requires a tender	2029
Tenure of Group engagement partner	5 years
Average tenure of component signing partners	3 years

Materiality

(Item 6 below)

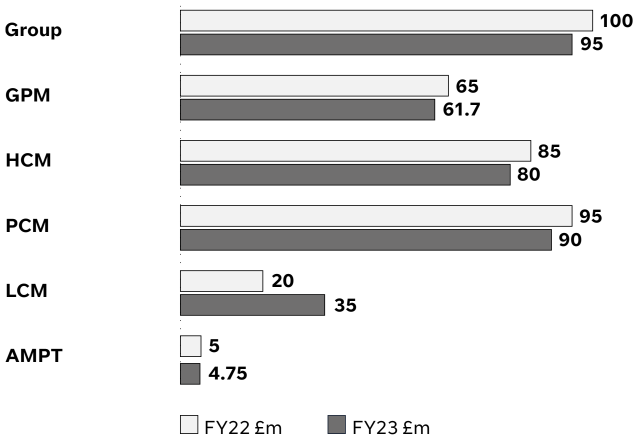
The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

Group Materiality is determined with reference to a benchmark of Group profit before tax normalised by adding back the one-off operating cost arising from the BT Sport disposal (FY22: normalised by averaging over the last 5 years due to fluctuations as a result of Covid-19). We have determined overall materiality for the Group financial statements as a whole at £95m (FY22: £100m) and for the Parent Company financial statements as a whole at £90m (FY22: £95m).

Consistent with FY22, we determined that normalised profit before tax remains the benchmark for the Group as BT Group plc is publicly traded and a profit seeking entity and the profitability and prospects for future net cash inflows is important to the users of the financial statements. In FY22, we determined normalised profit before tax by averaging over the last 5 years due to fluctuations as a result of Covid-19. Users including existing and potential investors and analysts are interested in this metric as it shows the company profitability from its operations. As such, we based our Group Materiality on normalised profit before tax, of which it represents 4.95% (FY22: 4.4%).

Materiality for the Parent Company financial statements was determined with reference to a benchmark of Parent Company Total Assets of which it represents 0.80% (FY22: 0.80%).

Materiality levels used in our audit



Group Group Materiality
GPM Group Performance Materiality
HCM Highest Component Materiality
PCM Parent Company Materiality
LCM Lowest Component Materiality
AMPT Audit Misstatement Posting Threshold

Group scope

(Item 7 below)

We have performed risk assessment and planning procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group financial statements, the type of procedures to be performed at these components and the extent of involvement required from our component auditor.

The total number of components in scope for FY23 is three, reduced from four from FY22. The decrease is due to the exclusion of BT Italy and BT America, which comprise 0.8% and 2.6% respectively of the group's FY23 revenue and 1.86% in aggregate of the group's normalised profit before tax and the inclusion of Openreach Limited. The below factors were considered before reaching a judgement to remove the two components from the Group audit scope:

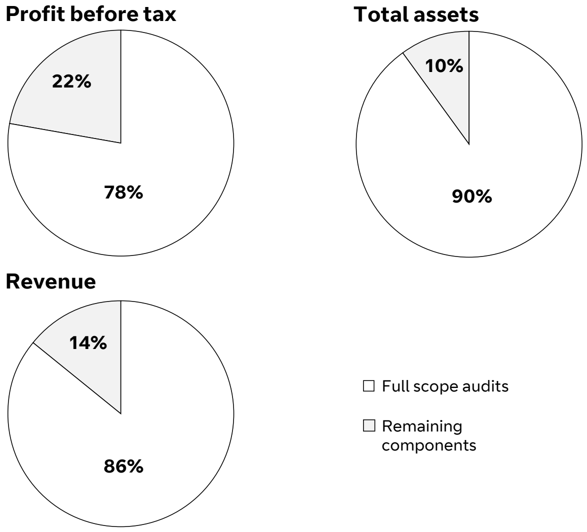
- Reduction in the size and complexity of the underlying operations of the business, which is partly attributable to the recent divestment activities in the BT Italy and BT America components
- Audit evidence obtained from procedures performed in the prior year shows both components have a reducing risk profile in terms of errors and fraud.

The components within the scope of our work accounted for the percentages illustrated below.

In addition, we have performed group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

We consider the scope of our audit, as communicated to the Audit and Risk Committee, to be an appropriate basis for our audit opinion.

Coverage of Group financial statements



The impact of climate change on our audit

In planning our audit, we considered the potential impacts of climate change on the Group's business and its financial statements.

The Group has pledged in the Strategic report to be a net-zero business by 2030 and has also outlined several shorter-term climate change targets. Furthermore, the Group has mentioned its commitment to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). As a part of our audit, we have performed a risk assessment, including enquiries of management, to understand how the impact of commitments made by the Group in respect of climate change, as well as the physical and transition risks of climate change, may affect the financial statements and our audit.

The potential impacts of these matters relate to the forward-looking estimates, which include projections for impairment assessment of goodwill, useful economic life of vehicle fleet and infrastructure impacting on future depreciation charges, and significant assumptions used in pension asset valuations. Taking into account our risk assessment procedures, the headroom on goodwill, the remaining useful economic lives of relevant assets and the nature of the assumptions used in the pension valuation, we have assessed that there is not a significant risk to the balances in the financial statements as a result of climate change. Therefore, there was no material impact on the Group's critical accounting estimates and our key audit matters.

We have read the disclosures of climate related information in the Annual Report and considered their consistency with the financial statements and our audit knowledge. We have not been engaged to provide assurance over the accuracy of the climate risk disclosures in the Annual Report.

KPMG LLP's Independent Auditor's Report to the members of BT Group plc continued

3. Going concern, viability and principal risks and uncertainties

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

Going concern

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.

Our procedures also included an assessment of whether the going concern disclosure in note 1 to the financial statements gives a complete and accurate description of the Directors' assessment of going concern.

Accordingly, based on those procedures, we found the Directors' use of the going concern basis of accounting without any material uncertainty for the Group and Parent Company 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 Parent Company will continue in operation.

Our conclusions

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the Group and Parent Company's 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 Parent Company's ability to continue as a going concern for the going concern period;
- We have nothing material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Parent Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- The related statement under the Listing Rules set out on page 132 is materially consistent with the financial statements and our audit knowledge.

Disclosures of emerging and principal risks and longer-term viability

Our responsibility

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

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

- the Directors' confirmation within the Viability statement on page 81 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and how emerging risks are identified and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability statement set out on page 81 under the Listing Rules.

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

Our reporting

We have nothing material to add or draw attention to in relation to these disclosures.

We have concluded that these disclosures are materially consistent with the financial statements and our audit knowledge.

4. Key audit matters

What we mean

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

We include below the Key Audit Matters (KAM) in decreasing order of audit significance together with our key audit procedures to address those matters and our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, for the purpose of our audit of the financial statements as a whole. We do not provide a separate opinion on these matters.

4.1 Disposal of BT Sport and re-investment in Sports JV

Financial Statement Elements

At the date of disposal

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

Our assessment of risk vs FY22

✚	The disposal of BT Sport is a new transaction in the year

Our results

FY23: Acceptable

FY22: N/A

Description of the Key Audit Matter

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 25.

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 23. 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 23.

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 23) disclose the sensitivity estimated by the Group.

Our response to the risk

Our procedures to address the risk 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.

KPMG LLP's Independent Auditor's Report to the members of BT Group plc continued

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 arms 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.

Communications with BT Group plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Our definition of the KAM and related audit approach.
- Our assessment of the key judgments impacting the control assessment including the timing of key decisions over material activities in the JV and their interaction with WBD's options to purchase the business and the unequal contributions and cash distributions during the first four years.
- Our assessment of the key valuation judgements over BT's equity interest in the JV including key assumptions over the cashflow forecasts, discount rate and EBITDA multiples, and our acceptable range of possible outcomes.
- Our assessment of the key estimates within the valuation of the minimum guarantee contract with the JV including the key assumptions of market price and related market volume commitment, and our acceptable range of possible outcomes.
- Our assessment of management bias in the preparation of the estimate.
- Our assessment of the adequacy of the proposed disclosures.

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- A number of factors formed part of the control assessment. Taken individually these factors could result in a different outcome, so significant judgement was required to assess the different factors, before weighting them and reaching an overall conclusion.
- The appropriateness of the valuation of BT's equity interest in the Joint Venture, particularly the selection of comparable market data inputs and valuation model. The balance is sensitive to a number of assumptions and the overall estimate could fall within a range of reasonable amounts.
- The appropriateness of the valuation of the off-market element of the minimum guarantee contract with the JV given the limited number of market based valuation points. Having found the estimate of the off-market element of the minimum guarantee contract with the JV 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 clarity of the associated disclosure and potential for management bias due to the impact on future reported underlying profit.

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.

Further information in the Annual Report and Accounts

See the Audit and Risk Committee Report on page 103 for details on how the Audit and Risk Committee considered the Disposal of BT Sport and Re-investment in the Sports JV as an area of significant attention, and note 23 and 25 for the accounting policy on divestments and joint ventures and financial disclosures.

4.2 Valuation of unquoted investments in the BT pension scheme (group)

Financial Statement Elements

	FY23	FY22
Certain unquoted investments in the BTPS: included within the unquoted BTPS plan assets	£16.4bn	£18.6bn

Our assessment of risk vs FY22

↓	Decreased Refer to pages 190 to 200 (financial disclosures note 20 Defined Benefit Obligation)

Our results

FY23: Acceptable

FY22: Acceptable

Description of the Key Audit Matter

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 20) 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.

Our response to the risk

Our procedures to address the risk 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.

Communications with the BT Group plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Our definition of the Key Audit Matter relating to the valuation of the BTPS unquoted plan assets.
- We have also discussed our audit response to the Key Audit Matter which included the use of specialists to challenge key aspects of management's third party asset valuations.

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- Subjective and complex auditor judgement was required in evaluating the key assumptions used by the group (including discount rate, inflation and gearing).

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).

Further information in the Annual Report and Accounts

See the Audit and Risk Committee Report on page 103 for details on how the Audit and Risk Committee considered the valuation of the unquoted investments in the BT Pension Scheme as an area of significant attention, page 193 for the accounting policy on Retirement benefit plans, and note 20 for the financial disclosures.

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

Financial Statement Elements

	FY23	FY22
BTPS Obligation	£41.6bn	£54.3bn

Our assessment of risk vs FY22

↑ Increased
Refer to pages 190 to 200 (financial disclosures note 20 Defined Benefit Obligation)

Our results

FY23: Acceptable
FY22: Acceptable

Description of the Key Audit Matter

Subjective Valuation

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 20) disclose the sensitivity of key assumptions for the obligation estimated by the Group.

Our response to the risk

Our procedures to address the risk 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 BT Group plc 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.

KPMG LLP's Independent Auditor's Report to the members of BT Group plc continued

Communications with the BT Group plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Our definition of the Key Audit Matter relating to the valuation of the defined benefit pension obligation.
- We also discussed our audit response to the key audit matter which included the use of specialists to challenge key aspects of management's actuarial valuation.

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- Subjective and complex auditor judgement was required in evaluating the key actuarial assumptions used by the Group (including the discount rate, retail price index and mortality assumptions).

Our results

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

Further information in the Annual Report and Accounts

See the Audit and Risk Committee Report on page 103 for details on how the Audit and Risk Committee considered Valuation of the BTPS Defined Benefit Obligation of the BT Pension Scheme as an area of significant attention, and page 194 for the accounting policy on Retirement Benefit Plans (note 20) for the financial disclosures.

4.4 Accuracy of revenue due to the complexity of the billing systems (Group)

Financial Statement Elements

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

Our assessment of risk vs FY22

←→	Same Refer to pages 161 to 164 (financial disclosures note 5 Revenue)

Our results

FY23: Acceptable

FY22: Acceptable

Description of the Key Audit Matter

BT non-long-term contract revenue consists of a large number of low value transactions. The Group operates a number of distinct billing systems and the IT landscape underpinning revenue and linking the billing systems together is complex.

There are multiple products sold at multiple rates with varying price structures in place. Products represent a combination of service based products, such as fixed line telephony, as well as goods, such as the provision of mobile handsets. There are monthly tariff charges.

The revenue recognition of non-long-term contract revenue is not subject to significant judgement. However, due to the large number of transactions and complexity of the billing systems, this is considered to be an area of most significance in our audit.

Our response to the risk

Our procedures to address the risk 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 Detail: Comparing a sample of revenue transactions, including credit notes, to supporting evidence e.g., customer bills, orders, price lists 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.

Communications with the BT Group plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Our definition of the Key Audit Matter and our audit approach, including the extent of our planned control reliance.
- The findings from our substantive testing. 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.

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- We continued to update our risk assessment in light of the findings from our substantive testing.

Our results

We considered revenue relating to non-long-term contract revenue to be acceptable (2022: acceptable).

Further information in the Annual Report and Accounts

Refer to pages 161 to 162 for the accounting policy on Revenue and note 5 for the financial disclosures.

4.5 Recoverability of parent company investment in subsidiaries

Financial Statement Elements

	FY23	FY22
Investment in subsidiary	£11.3bn	£11.2bn

Our assessment of risk vs FY22

←→	Same Refer to page 227 (Company financial statements note 2)

Our results

FY23: Acceptable

FY22: Acceptable

Description of the Key Audit Matter

The carrying amount of the parent company investment in subsidiary represents 100% (2022: 93%), of the company's total assets.

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

Our response to the risk

Our procedures to address the risk included:

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

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

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

Communications with the BT Group plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included our definition of the Key Audit Matter and our findings.

Areas of particular auditor judgement

We did not identify any areas of particular auditor judgement.

Our results

We found the carrying amounts of the investment in subsidiary to be acceptable (2022: acceptable).

Further information in the Annual Report and Accounts

Refer to page 226 for the accounting policy on Investment in Subsidiaries Undertakings and page 227 for the financial disclosures.

5. Our ability to detect irregularities, and our response

Fraud – identifying and responding to risks of material misstatement due to fraud

Fraud risk assessment

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

- enquiring of Directors, the Audit and Risk Committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board, *Remuneration Committee* and *Executive Committee* minutes;
- considering significant unusual transactions, such as the BT Sport disposal;
- 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.

Risk communications

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.

Fraud risks

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.

Procedures to address fraud risks

In determining the audit procedures, we took into account the results of our evaluation and test of operating effectiveness of some of the Group-wide fraud risk management controls.

We also 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

Laws and regulations – identifying and responding to risks of material misstatement relating to compliance with laws and regulations

Laws and regulations risk assessment

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.

KPMG LLP's Independent Auditor's Report to the members of BT Group plc continued

Risk communications

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.

Direct laws context and link to audit

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.

Most significant indirect law/ regulation areas

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 (including compliance with Ofcom regulation), and certain aspects of company legislation recognising the nature of the Group's activities 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.

Known actual or suspected matters

For the legal matters discussed in note 19 we assessed disclosures against our understanding from legal correspondence.

Significant actual or suspected breaches discussed with ARC

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

Context

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. Our determination of materiality

The scope of our audit was influenced by our application of materiality. We set quantitative thresholds and overlay qualitative considerations to help us determine the scope of our audit and the nature, timing and extent of our procedures, and in evaluating the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

£95m (FY22: £100m)

Materiality for the group financial statements as a whole

What we mean

A quantitative reference for the purpose of planning and performing our audit.

Basis for determining materiality and judgements applied

Materiality for the Group financial statements as a whole was set at £95m (FY22: £100m). This was determined with reference to a benchmark of normalised profit before tax.

Consistent with FY22, we determined that normalised profit before tax remains the main benchmark for the Group as BT Group plc is publicly traded and a profit seeking entity and the profitability and prospects for future net cash inflows is important to the users of the financial statements. Users including existing and potential investors and analysts are interested in this metrics as it shows the company profitability from its operations.

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 £1.905bn. In FY22, we determined normalised profit before tax of £2.265bn by averaging over the last 5 years due to fluctuations as a result of Covid-19.

Our Group materiality of £95m was determined by applying a percentage to the normalised profit before tax. When using a benchmark of normalised profit before tax to determine overall materiality, KPMG's approach for listed entities considers a guideline range 3% – 5% of the measure. In setting overall Group materiality, we applied a percentage of 4.99% (FY22: 4.4%) to the benchmark.

Materiality for the Parent Company financial statements as a whole was set at £90m (FY22: £95m), determined with reference to a benchmark of Parent Company Total Assets of which it represents 0.80% (FY22: 0.80%).

£61.70m (FY22: £65.00m)

Performance materiality

What we mean

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.

Basis for determining performance materiality and judgements applied

We have considered performance materiality at a level of 65% (FY22: 65%) of materiality for BT Group plc Group financial statements as a whole to be appropriate.

The Parent Company performance materiality was set at £58.5m (FY22: £61.75m), which equates to 65% (FY22: 65%) of materiality for the Parent Company financial statements as a whole.

We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

£4.75m (FY22: £5.00m)

Audit misstatement posting threshold

What we mean

This is the amount below which identified misstatements are considered to be clearly trivial from a quantitative point of view. We may become aware of misstatements below this threshold which could alter the nature, timing and scope of our audit procedures, for example if we identify smaller misstatements which are indicators of fraud.

This is also the amount above which all misstatements identified are communicated to BT Group plc's Audit and Risk Committee.

Basis for determining the audit misstatement posting threshold and judgements applied

We set our audit misstatement posting threshold at 5% (FY22: 5%) of our materiality for the Group financial statements. We also report to the Audit and Risk Committee any other identified misstatements that warrant reporting on qualitative grounds.

The overall materiality for the Group financial statements of £95m (FY22: £100m) compares as follows to the main financial statement caption amounts:

	Total Group Revenue		Group normalised profit before tax		Total Group Assets	
	FY23	FY22	**FY23**	FY22	**FY23**	FY22
Financial statement Caption	£20,681m	£20,850m	£1,905m	£2,265m	£52,752m	£49,774m
Group Materiality as % of caption	0.46%	0.48%	4.99%	4.4%	0.18%	0.20%

7. The scope of our audit

Group scope

What we mean

How the Group audit team determined the procedures to be performed across the Group.

The Group has 226 (FY22: 234) reporting components. In order to determine the work performed at the reporting component level, we identified those components which we considered to be of individual financial significance, those which were significant due to risk and those remaining components on which we required procedures to be performed to provide us with the evidence we required in order to conclude on the group financial statements as a whole.

We determined individually financially significant components as those contributing at least 10% (FY22: 10%) of revenue or total assets. We selected revenue and total assets because these are the most representative of the relative size of the components. We identified 2 (FY22: 2) components as individually financially significant components and performed full scope audits on these components.

In addition, to enable us to obtain sufficient appropriate audit evidence for the group financial statements as a whole, we selected 1 component where we performed an audit of payroll account balances (2022: 2 components on which we performed full scope audits).

The components within the scope of our work accounted for the following percentages of the Group's results, with the prior year comparatives indicated in brackets:

Scope	Number of components	Range of materiality applied	Group revenue	Group PBT	Group total assets
Full scope audits	2 (4)	£60m – £80m (£20m – £85m)	86% (90%)	78% (83%)	90% (97%)
Audit of account balances	1 (0)	£35m (£nil)	0% (0%)	0% (0%)	*0% (0%)*

For the residual components, we performed analytical reviews at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within those.

The work on 1 of the 3 in scope components (2022: 1 of the 4 in scope components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

The Group audit team has also performed audit procedures on the following areas on behalf of the components:
– Testing of IT Systems
– Litigation and Claims

These items were audited by the Group team because of efficiency reasons, where the Group team has direct access to the underlying information. The Group team communicated the results of these procedures to the component teams.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, as detailed in the table above, having regard to the mix of size and risk profile of the Group across the components.

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

The Parent company audit was undertaken by the Group audit team.

KPMG LLP's Independent Auditor's Report to the members of BT Group plc continued

Group audit team oversight

What we mean

The extent of the Group audit team's involvement in component audits.

In working with component auditors, we:

- Held planning calls and had in person meetings with component audit teams to discuss the significant areas of the audit relevant to the components
- Issued group audit instructions to component auditors on the scope of their work,
- Held risk assessment update discussions with component audit teams before the commencement of the final phases of the audit led by the Group engagement partner and engagement quality control partner
- Inspection of component audit team's key work papers (in person or using remote technology capabilities) to evaluate the quality of execution of the audits of the components.

8. 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.

All other information

Our responsibility

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.

Our reporting

Based solely on that work we have not identified material misstatements or inconsistencies in the other information.

Strategic report and directors' report

Our responsibility and reporting

Based solely on our work on the other information described above we report to you as follows:

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

Directors' remuneration report

Our responsibility

We are required to form an opinion as to whether the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Our reporting

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

Corporate governance disclosures

Our responsibility

We are required to perform procedures to identify whether there is a material inconsistency between the financial statements and our audit knowledge, and:

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

Our reporting

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

Our responsibility

We are also required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

Our reporting

We have nothing to report in this respect.

Other matters on which we are required to report by exception

Our responsibility

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.

Our reporting

We have nothing to report in these respects.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 131, 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**.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

10. 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. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Luke

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

17 May 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	(17,494)	(568)	(18,062)
Of which net impairment losses on trade receivables and contract assets[b]		*(138)*	–	*(138)*
Operating profit (loss)	4	**3,175**	**(556)**	**2,619**
Finance expense	28	(889)	(5)	(894)
Finance income		63	–	63
Net finance expense		**(826)**	**(5)**	**(831)**
Share of post tax profit (loss) of associates and joint ventures	25	(59)	–	(59)
Profit (loss) before taxation		**2,290**	**(561)**	**1,729**
Taxation	10	(132)	308	176
Profit (loss) for the year		**2,158**	**(253)**	**1,905**
Earnings per share	11			
Basic		22.0p	(2.6)p	19.4p
Diluted		21.4p	(2.5)p	18.9p

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	(17,673)	(292)	(17,965)
Of which net impairment losses on trade receivables and contract assets[b]		*(102)*	*19*	*(83)*
Operating profit (loss)	4	**3,172**	**(287)**	**2,885**
Finance expense	28	(833)	(101)	(934)
Finance income		12	–	12
Net finance expense		**(821)**	**(101)**	**(922)**
Share of post tax profit (loss) of associates and joint ventures	25	–	–	–
Profit (loss) before taxation		**2,351**	**(388)**	**1,963**
Taxation	10	(349)	(340)	(689)
Profit (loss) for the year		**2,002**	**(728)**	**1,274**
Earnings per share	11			
Basic		20.3p	(7.4)p	12.9p
Diluted		19.7p	(7.2)p	12.5p

a For a definition of specific items, see page 233. 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		**1,905**	**1,274**
Other comprehensive income (loss)			
Items that will not be reclassified to the income statement			
Remeasurements of the net pension obligation	20	(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	30	87	65
Fair value movements on assets at fair value through other comprehensive income	30	(3)	6
Movements in relation to cash flow hedges:			
– net fair value gains (losses)	30	1,055	204
– recognised in income and expense	30	(713)	(54)
Tax on components of other comprehensive income that have been or may be reclassified	10, 30	(90)	(31)
Share of post tax other comprehensive loss in associates and joint ventures	25	(1)	–
Other comprehensive (loss) income for the year, net of tax		**(1,809)**	**2,656**
Total comprehensive income (loss) for the year		**96**	**3,930**

Group balance sheet

At 31 March

	Notes	2023 £m	2022 £m
Non-current assets			
Intangible assets	13	13,687	13,809
Property, plant and equipment	14	21,667	20,599
Right-of-use assets	15	3,981	4,429
Derivative financial instruments	29	1,397	1,003
Investments	24	29	34
Joint ventures and associates	25	359	5
Trade and other receivables	17	503	337
Preference shares in joint ventures	25	542	–
Contract assets	5	369	361
Retirement benefit surplus	20	52	–
Deferred tax assets	10	709	289
		43,295	**40,866**
Current assets			
Programme rights	16	–	310
Inventories		349	300
Trade and other receivables	17	3,060	2,624
Preference shares in joint ventures	25	13	–
Contract assets	5	1,565	1,554
Assets classified as held for sale	23	21	80
Current tax receivable		427	496
Derivative financial instruments	29	82	88
Investments	24	3,548	2,679
Cash and cash equivalents	26	392	777
		9,457	**8,908**
Current liabilities			
Loans and other borrowings	27	1,772	873
Derivative financial instruments	29	86	51
Trade and other payables	18	6,564	6,142
Contract liabilities	5	859	833
Lease liabilities	15	800	795
Liabilities classified as held for sale	23	4	40
Current tax liabilities		78	90
Provisions	19	229	222
		10,392	**9,046**
Total assets less current liabilities		**42,360**	**40,728**
Non-current liabilities			
Loans and other borrowings	27	16,749	15,312
Derivative financial instruments	29	297	819
Contract liabilities	5	193	170
Lease liabilities	15	4,559	4,965
Retirement benefit obligations	20	3,139	1,143
Other payables	18	920	624
Deferred tax liabilities	10	1,620	1,960
Provisions	19	369	439
		27,846	**25,432**
Equity			
Share capital		499	499
Share premium		1,051	1,051
Own shares	21	(422)	(274)
Merger reserve		998	998
Other reserves	30	957	619
Retained earnings		11,431	12,403
Total equity		**14,514**	**15,296**
		42,360	**40,728**

The consolidated financial statements on pages 150 to 232 were approved by the Board of Directors on 17 May 2023 and were signed on its behalf by:

Adam Crozier
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

Group statement of changes in equity

	Notes	Share capital[a] £m	Share premium[b] £m	Own shares[c] £m	Merger reserve[d] £m	Other reserves[e] £m	Retained (loss) earnings £m	Total equity (deficit) £m
At 1 April 2021		**499**	**1,051**	**(143)**	**998**	**436**	**8,838**	**11,679**
Profit for the year		–	–	–	–	–	1,274	1,274
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	3,740	3,930
Dividends to shareholders	12	–	–	–	–	–	(227)	(227)
Unclaimed dividend over 10 years		–	–	–	–	–	2	2
Share-based payments	22	–	–	–	–	–	108	108
Tax on share-based payments	10	–	–	–	–	–	11	11
Net buyback of own shares	21	–	–	(131)	–	–	(65)	(196)
Transfer to realised profit		–	–	–	–	(7)	7	–
Other movements[f]		–	–	–	–	–	(11)	(11)
At 31 March 2022		**499**	**1,051**	**(274)**	**998**	**619**	**12,403**	**15,296**
Adoption of amendments to IAS 37	1	–	–	–	–	–	(12)	(12)
At 1 April 2022		**499**	**1,051**	**(274)**	**998**	**619**	**12,391**	**15,284**
Profit for the year		–	–	–	–	–	1,905	1,905
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	(242)	96
Dividends to shareholders	12	–	–	–	–	–	(753)	(753)
Share-based payments	22	–	–	–	–	–	80	80
Tax on share-based payments	10	–	–	–	–	–	(9)	(9)
Net buyback of own shares	21	–	–	(148)	–	–	(34)	(182)
Other movements		–	–	–	–	–	(2)	(2)
At 31 March 2023		**499**	**1,051**	**(422)**	**998**	**957**	**11,431**	**14,514**

a The allotted, called up, and fully paid ordinary share capital of BT Group plc at 31 March 2023 was £499m comprising 9,968,127,681 ordinary shares of 5p each (FY22: £499m comprising 9,968,127,681 ordinary shares of 5p each).
b The share premium account, comprising the premium on allotment of shares, is not available for distribution.
c For further analysis of own shares, see note 21.
d The merger reserve balance at 1 April 2021 includes £998m related to the group reorganisation that occurred in November 2001 and represented the difference between the nominal value of shares in the new parent company, BT Group plc, and the aggregate of the share capital, share premium account and capital redemption reserve of the prior parent company, British Telecommunications plc. In addition, on 29 January 2016, the company issued 1,594,900,429 ordinary shares of 5p at 470.7p per share. These shares were used as part consideration for the acquisition of EE. As a result of this transaction the merger reserve was credited with £7,424m net of £3m issue costs. In FY21, following settlement of intercompany loans by qualifying consideration of £1,574m, equivalent balances were transferred from merger reserve to realised profit.
e For further analysis of other reserves, see note 30.
f 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		1,729	1,963
Share of post tax (profit) loss of associates and joint ventures		59	–
Net finance expense		831	922
Operating profit		**2,619**	**2,885**
Other non-cash charges		89	76
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		232	99
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		**6,588**	**5,962**
Income taxes refunded (paid)		136	(52)
Net cash inflow from operating activities		**6,724**	**5,910**
Cash flow from investing activities			
Interest received		41	6
Dividends received from joint ventures, associates and investments		9	1
Acquisition of subsidiaries		–	76
Proceeds on disposal of subsidiaries, associates and joint ventures		29	–
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	24	(265)	–
Settlement of minimum guarantee liability with sports joint venture	23	(61)	–
Net cash outflow from investing activities		**(6,396)**	**(3,560)**
Cash flow from financing activities			
Equity dividends paid		(751)	(228)
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)
Proceeds from issue of own shares		5	13
Repurchase of ordinary share capital		(138)	(184)
Increase (decrease) in amounts owed to joint ventures	27	11	–
Net cash outflow from financing activities		**(636)**	**(2,558)**
Net decrease in cash and cash equivalents		**(308)**	**(208)**
Opening cash and cash equivalents[e]		692	896
Net decrease in cash and cash equivalents		(308)	(208)
Effect of exchange rate changes		(3)	4
Closing cash and cash equivalents[e]	26	**381**	**692**

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.

This assessment is consistent with the assessment of our viability, as set out on pages 81 to 82, in estimating the financial impact of a severe but plausible outcome for each risk, both individually, in combination and through stochastic risk modelling. This stress testing confirmed that existing projected cash flows and cash management activities provide us with adequate headroom over the going concern assessment period.

Having assessed the principal and emerging risks, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the group and parent company financial statements. This assessment covers the period to May 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.

In preparing the financial statements, the directors have considered the impact of climate change, particularly in the context of the risks identified in the TCFD disclosure on pages 71 to 80 this year. There has been no material impact identified on the financial reporting judgements and estimates.

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

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

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.

Notes to the consolidated financial statements continued

1. Basis of preparation continued

We have assessed the impact of the standard on the group and the BT Group 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 Group 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)

Presentation of specific items

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

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

Specific items may not be comparable to similarly titled measures used by other companies. Examples of charges or credits 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*.

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

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

Note	Critical estimate	Key estimate	Significant judgement
10. Current and deferred income tax		✓	✓
13. Goodwill impairment		✓	✓
15. Reasonable certainty and determination of lease terms			✓
19. Contingent liabilities associated with litigation		✓	✓
19. Other provisions and contingent liabilities		✓	✓
20. Valuation of pension assets and liabilities	✓		✓
25. 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 BT Group plc and its subsidiaries, and include its share of the results of associates and joint ventures using the equity method of accounting. The group recognises its direct rights to (and its share of) jointly held assets, liabilities, revenues and expenses of joint operations under the appropriate headings in the consolidated financial statements.

All business combinations are accounted for using the acquisition method regardless of whether equity instruments or other assets are acquired.

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 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 14.

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

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. 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.

Notes to the consolidated financial statements continued

4. Segment information

Significant accounting policies that apply to segment information

Operating and reportable segments

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

Our organisational structure reflects the different customer groups to which we provide communications products and services via our customer-facing units (CFUs). 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*. 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**	**4**	**7,928**
Depreciation and amortisation[a]	(1,397)	(842)	(317)	(2,059)	(138)	(4,753)
Adjusted[a] operating profit (loss)	**1,226**	**552**	**141**	**1,390**	**(134)**	**3,175**
Specific operating profit (loss) – see note 9						(556)
Operating profit						**2,619**
Net finance expense[c]						(831)
Share of post tax profit (loss) of associates and joint ventures						(59)
Profit before tax						**1,729**

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**	**44**	**7,577**
Depreciation and amortisation[a]	(1,421)	(724)	(355)	(1,876)	(29)	(4,405)
Adjusted[a] operating profit (loss)	**841**	**912**	**101**	**1,303**	**15**	**3,172**
Specific operating profit (loss) – see note 9						(287)
Operating profit						**2,885**
Net finance expense[c]						(922)
Share of post tax profit (loss) of associates and joint ventures						–
Profit before tax						**1,963**

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**

Notes to the consolidated financial statements continued

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 13.
b Additions to property, plant and equipment as presented in note 14, 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

Year ended 31 March	2023 £m	2022 £m
UK	39,387	38,378
Europe, Middle East and Africa, excluding the UK	740	741
Americas	283	269
Asia Pacific	156	152
Non-current assets[a]	**40,566**	**39,540**

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.

Notes to the consolidated financial statements continued

5. Revenue continued

We recognise revenue based on the relative standalone selling price of each performance obligation. Determining the standalone selling price often requires judgement and may be derived from regulated prices, list prices, a cost-plus derived price or the price of similar products when sold on a standalone basis by BT or a competitor. In some cases it may be appropriate to use the contract price when this represents a bespoke price that would be the same for a similar customer in a similar circumstance.

The fixed access and mobile subscription arrangements sold by our Consumer business 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 15. Arrangements meeting the definition of a lease in which we act as lessor are classified as operating or finance leases at lease inception based on an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case then the lease is a finance lease; if not, it is an operating lease. For sub-leases, we make this assessment by reference to the characteristics of the right-of-use asset associated with the head lease rather than the underlying leased asset.

Income from arrangements classified as operating leases is presented as revenue where it relates to our core operating activities, for example leases of fixed-line telecommunications infrastructure to external communications providers and leases of devices to consumer customers as part of fixed access subscription products. Operating lease income from other arrangements is presented within other operating income (note 6).

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

Where the contract contains both lease and non-lease components, the transaction price is allocated between the components on the basis of relative 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 17. 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 15 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 17.

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

Notes to the consolidated financial statements continued

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 £m (re-presented)[a]
Operating costs by nature			
Staff costs:			
Wages and salaries		3,858	3,746
Social security costs		424	400
Other pension costs	20	590	591
Share-based payment expense	22	80	108
Total staff costs		**4,952**	**4,845**
Own work capitalised[a]		(1,364)	(1,105)
Net staff costs		**3,588**	**3,740**
Net indirect labour costs[a,b]		381	470
Net labour costs		**3,969**	**4,210**
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		103	256
Other operating income		(243)	(241)
Depreciation and amortisation, including impairment charges		4,753	4,405
Total operating costs before specific items		**17,494**	**17,673**
Specific items	9	568	292
Total operating costs		**18,062**	**17,965**
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 23.
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).

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	13	1,165	1,035
Property, plant and equipment	14	2,878	2,658
Right-of-use assets	15	689	676
Impairment charges			
Intangible assets	13	–	13
Property, plant and equipment	14	11	11
Right-of-use assets	15	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 *Executive Committee*.

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

Year ended 31 March	2023 £m	2022 £m
Short-term employee benefits	23.0	17.7
Post employment benefits[a]	0.7	0.7
Share-based payments	6.7	6.7
	30.4	**25.1**

a Post employment benefits include cash pension allowances paid to the Chief Executive and Chief Financial Officer. The group does not contribute to defined contribution or defined benefit pension schemes on behalf of key management personnel.

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

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.

Notes to the consolidated financial statements continued

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	13,558	11,400
The audit of the company's subsidiaries	6,274	6,009
	19,832	**17,409**
Audit related assurance services[b]	**2,553**	**3,169**
Other non-audit services		
All other assurance services	**55**	**127**
Total services	**22,440**	**20,705**

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 Board and the *Executive Committee* and assists in providing an additional analysis of our reporting trading results. Specific items may not be comparable to similarly titled measures used by other companies.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include 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 31. 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 25).

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.

Notes to the consolidated financial statements continued

9. Specific items continued

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 25.

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.

10. Taxation continued

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.

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	**1,729**	**1,963**
Expected taxation expense at UK rate of 19% (FY22: 19%)	(328)	(373)
Effects of:		
(Higher)/lower taxes on non-UK profits	–	(4)
Net permanent differences between tax and accounting[a]	352	179
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.

Notes to the consolidated financial statements continued

10. Taxation continued

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

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.

10. Taxation continued

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 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. Earnings per share

How is earnings per share calculated?

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

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

Year ended 31 March	2023	2022
Basic weighted average number of shares (millions)	9,803	9,866
Dilutive shares from share options (millions)	83	105
Dilutive shares from share awards (millions)	171	165
Diluted weighted average number of shares (millions)	**10,057**	**10,136**
Basic earnings per share	19.4p	12.9p
Diluted earnings per share	18.9p	12.5p

The earnings per share calculations are based on profit after tax attributable to equity shareholders of the parent company which excludes non-controlling interests. Profit after tax was £1,905m (FY22: £1,274m) and profit after tax attributable to non-controlling interests was £4m (FY22: £2m). Profit attributable to non-controlling interests is not presented separately in the financial statements as it is not material.

12. Dividends

What is the group's dividend policy?

We have a progressive dividend policy to maintain or grow the dividend each year whilst taking into consideration a number of factors including underlying medium-term earnings expectations and levels of business reinvestment.

What dividends have been paid?

A final dividend of 5.39p per share amounting to approximately £534m is proposed in respect of the year ended 31 March 2023 (FY22: final dividend of 5.39p per share amounting to £527m paid in respect of the year ended 31 March 2022). An interim dividend of 2.31p per share amounting to £226m was paid on 6 February 2023 (FY22: interim dividend of 2.31p per share amounting to £227m paid). This value may differ from the amount shown for equity dividends paid in the group cash flow statement, which represents the actual cash paid in relation to dividend cheques that have been presented over the course of the financial year.

	2023		2022	
Year ended 31 March	pence per share	£m	pence per share	£m
Final dividend in respect of the prior year	5.39	527	–	–
Interim dividend in respect of the current year	2.31	226	2.31	227
	7.70	**753**	**2.31**	**227**

Notes to the consolidated financial statements continued

13. Intangible assets

Significant accounting policies that apply to intangible assets

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

Goodwill

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

Acquired intangible assets – customer relationships and brands

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

Telecommunications licences

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

Computer software

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

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

Other

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

Estimated useful economic lives

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

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

Impairment of intangible assets

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

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

13. Intangible assets continued

	Goodwill £m	Customer relationships and brands[a] £m	Telecoms licences and other[b] £m	Internally developed software[c] £m	Purchased software[c] £m	Total £m
Cost						
At 1 April 2021	**7,838**	**3,383**	**3,013**	**4,753**	**1,135**	**20,122**
Additions[d]	–	–	479	793	151	1,423
Acquisitions	94	–	–	–	2	96
Disposals and adjustments[f]	(7)	–	(3)	(239)	(272)	(521)
Transfers	–	–	1	45	(44)	2
Exchange differences	43	–	–	1	(1)	43
Transfers to assets held for sale[e]	(51)	–	–	(7)	–	(58)
At 31 March 2022	**7,917**	**3,383**	**3,490**	**5,346**	**971**	**21,107**
Additions	–	–	–	815	203	1,018
Acquisitions	–	–	–	–	–	–
Disposals and adjustments[f]	(21)	–	–	(466)	151	(336)
Transfers	–	–	–	30	(38)	(8)
Exchange differences	72	–	1	2	7	82
Transfer to assets held for sale[e]	(13)	–	–	–	–	(13)
At 31 March 2023	**7,955**	**3,383**	**3,491**	**5,727**	**1,294**	**21,850**
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[f]	–	–	(5)	(229)	(278)	(512)
Transfers	–	–	–	(2)	2	–
Exchange differences	–	–	–	1	(1)	–
Transfers to assets held for sale[e]	–	–	–	(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[f]	–	–	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	**7,917**	**914**	**2,582**	**1,751**	**645**	**13,809**
At 31 March 2023	**7,955**	**683**	**2,396**	**1,980**	**673**	**13,687**

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 For a breakdown of assets held for sale see note 23.
f 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.
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.

Notes to the consolidated financial statements continued

13. 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 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.

13. Intangible assets continued

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**	**412**	**7,838**
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**	**444**	**7,917**
Acquisitions and disposals	(26)	–	–	4	1	(21)
Transfer	–	–	–	–	–	–
Exchange differences	–	–	–	4	68	72
Transfer to assets held for sale	–	–	–	(4)	(9)	(13)
At 31 March 2023	**3,874**	**–**	**–**	**3,577**	**504**	**7,955**

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

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%.

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.

Notes to the consolidated financial statements continued

14. Property, plant and equipment

Significant accounting policies that apply to property, plant and equipment

Our property, plant and equipment is included at historical cost, net of accumulated depreciation, government grants and any impairment charges. Property, plant and equipment acquired through business combinations 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 13.

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 18.

14. Property, plant and equipment continued

	Land and buildings £m	Network infrastructure Held by Openreach £m	Network infrastructure Held by other units £m	Other[a] £m	Assets under construction £m	Total £m
Cost						
At 1 April 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 23.
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

14. Property, plant and equipment continued

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

- £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.

15. Leases

Significant accounting policies that apply to leases

Identifying whether a lease exists

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

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

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

Lessee accounting

We recognise a lease liability and right-of-use asset at the commencement of 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 14 and are adjusted for any remeasurement of lease liabilities.

We have elected not to recognise lease liabilities and right-of-use assets for short-term leases that have a lease term of 12 months or less, and leases of low-value assets with a purchase price under £5,000. We recognise 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.

Notes to the consolidated financial statements continued

15. Leases continued

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 standalone 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.

15. 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.

Notes to the consolidated financial statements continued

15. 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	(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	(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 29 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.

15. 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**

16. Programme rights

Significant accounting policies that apply to programme rights

Programme rights are recognised on the balance sheet from the point at which the legally enforceable licence period begins. They are 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 32. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 17). 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 23 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	**–**

Notes to the consolidated financial statements continued

17. 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
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]	296	273
	3,060	**2,624**
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 23.

Amounts due from joint ventures relates to a sterling Revolving Credit Facility (RCF) provided to the Sports JV formed during the year, see note 23. 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.

17. Trade and other receivables continued

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

At 31 March	Not past due £m	Trade receivables specifically impaired net of provision £m	Past due and not specifically impaired: 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.

At 31 March	Trade receivables not past due 2023 £m	2022 £m	Accrued income 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

17. 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**

18. 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
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]	602	532
	6,564	**6,142**
Non-current		
Minimum guarantee from BT Sport disposal[a]	465	–
Deferred income[b]	403	594
Other payables[c]	52	30
	920	**624**

a See note 23.
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 19) 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.

19. 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.

Notes to the consolidated financial statements continued

19. Provisions & contingent liabilities continued

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.

	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)
Exchange differences	–	–	–	–	–	–	–
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 18) 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**

19. Provisions & contingent liabilities continued

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 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. 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 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.

Accounting misstatement claims: a law firm acting on behalf of a group of investors has made claims under s.90A of the Financial Services & Markets Act 2000, alleging that untrue or misleading statements were made in relation to the historical irregular accounting practices in BT's Italian business (which have been the subject of previous disclosures). No value is stated and the matter is in the very early stages. As mentioned in our earlier reports, the accounting issues in Italy have previously been the subject of class actions in the US that were dismissed by the US courts.

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.

Notes to the consolidated financial statements continued

20. Retirement benefit plans

Background to BT's pension plans

The group has both Defined Benefit and Defined Contribution retirement benefit plans. The group's main plans are in the UK:

- 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 196 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.

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 cost/(credit)	(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.

20. Retirement benefit plans continued

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)		
Surplus/(deficit)	(3,087)	(1,143)
Deferred tax asset (note 10)	618	190
Total (net of tax)	**(2,469)**	**(953)**

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Movements in defined benefit plan assets and liabilities

The table below shows the movements 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.

20. 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 198 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.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

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).

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.

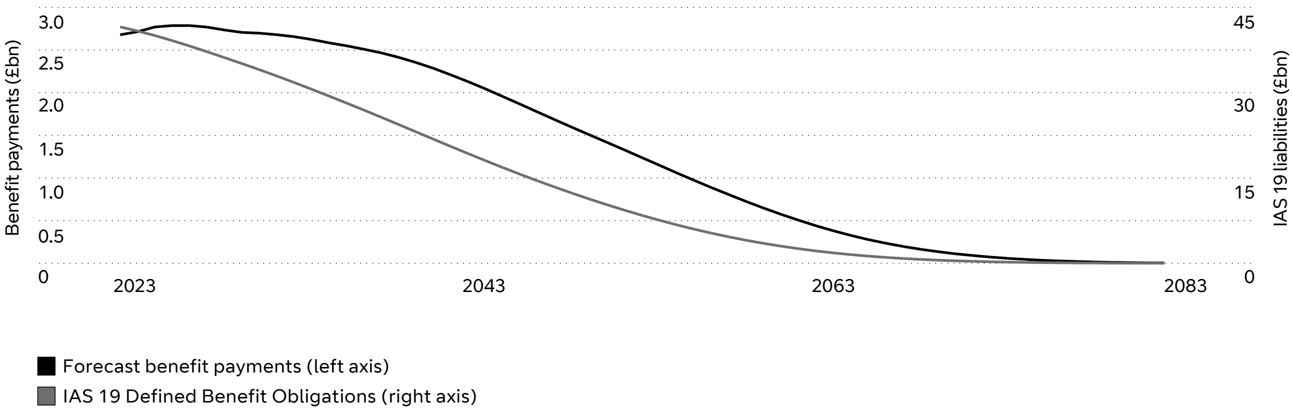
What are the forecast benefits payable from the BTPS?

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.

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.

20. Retirement benefit plans continued

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.

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.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Risks underlying the BTPS deficit

Background

A large increase in our pension scheme obligations could stop us from being able to fund our business cash flows or meet our payment commitments. Things like future low investment returns, high inflation, longer life expectancy and regulatory changes may all mean the BTPS becomes more of a financial burden to BT.

Changes in external factors, such as bond yields, can have an impact on the IAS 19 and funding assumptions, impacting the measurement of BTPS liabilities. These factors can also impact the BTPS assets. A summary is set out in the table below:

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

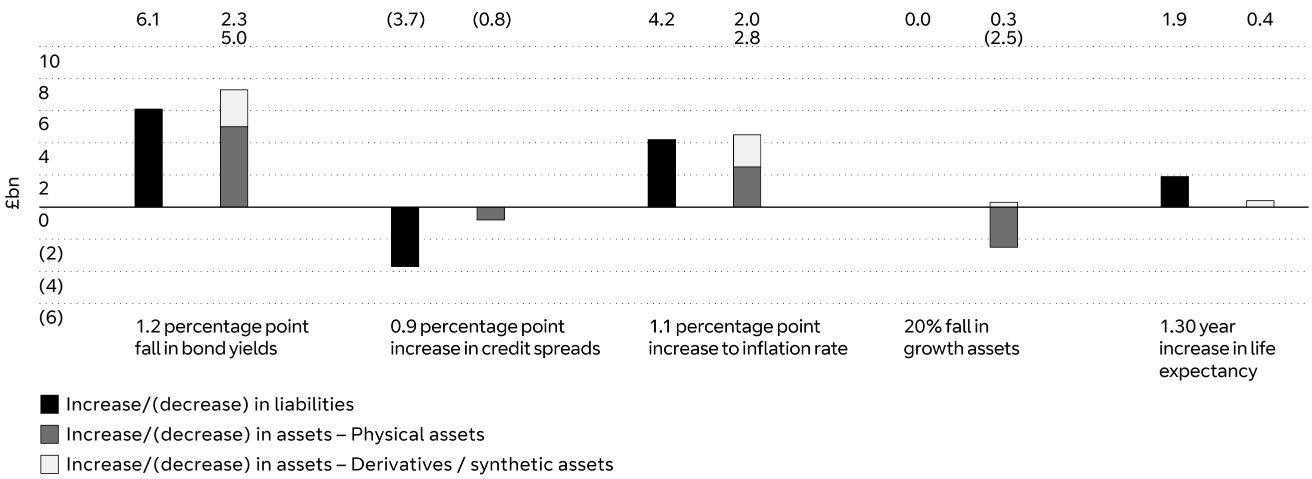
a Scenario assumes a fall in the yields on both government and corporate bonds.
b Scenario assumes an increase in the yield on corporate bonds, with no change to yield on government bonds.
c Scenario assumes average RPI and CPI inflation expectations over the lifetime of the plan increase by the same 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).

20. 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.

Notes to the consolidated financial statements continued

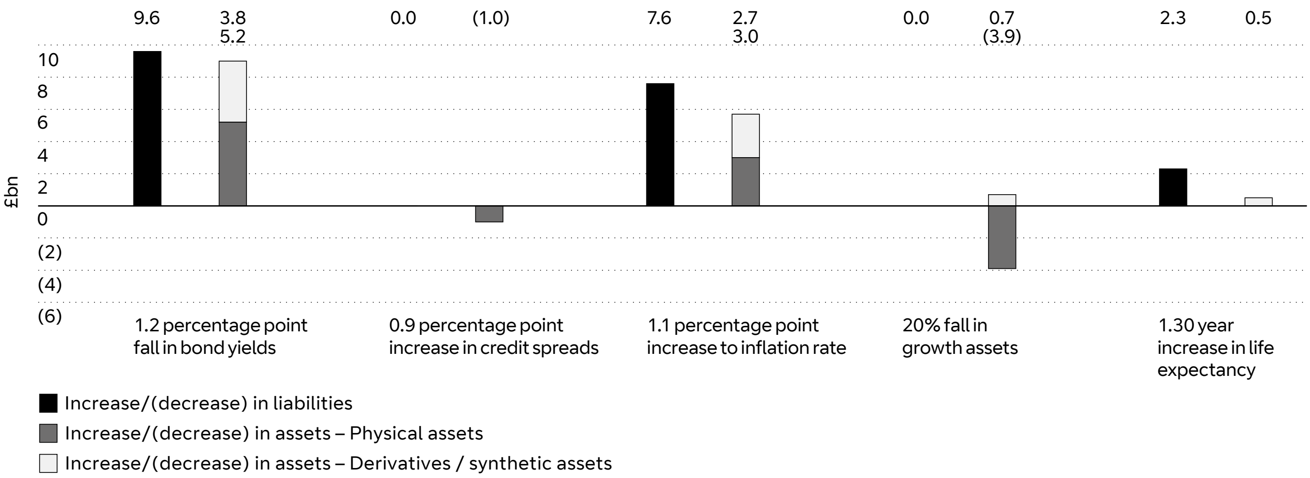
20. Retirement benefit plans continued

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 196 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.

20. Retirement benefit plans continued

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.

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.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

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.

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%).

21. Own shares

Significant accounting policies that apply to own shares

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

	Treasury shares[a]		Employee share ownership trust[a]		Total	
	millions	£m	millions	£m	millions	£m
At 1 April 2021	**51**	**(132)**	**9**	**(11)**	**60**	**(143)**
Own shares purchased[b]	–	–	114	(210)	114	(210)
Yourshare issue	(1)	2	(18)	34	(19)	36
Share options exercised[b]	(9)	22	–	–	(9)	22
Share awards vested	–	–	(11)	21	(11)	21
At 31 March 2022	**41**	**(108)**	**94**	**(166)**	**135**	**(274)**
Own shares purchased[b]	–	–	114	(187)	114	(187)
Share options exercised[b]	(5)	14	–	–	(5)	14
Share awards vested	–	–	(14)	25	(14)	25
At 31 March 2023	**36**	**(94)**	**194**	**(328)**	**230**	**(422)**

a At 31 March 2023, 36,190,551 shares (FY22: 41,429,938) with an aggregate nominal value of £2m (FY22: £2m) were held at cost as treasury shares and 193,798,578 shares (FY22: 94,120,883) with an aggregate nominal value of £10m (FY22: £5m) were held in the Trust.
b See group cash flow statement. The cash paid for the repurchase of ordinary shares was £138m (FY22: £184m). 40m shares (FY22: 15m) were purchased via forward contracts. The cash received from proceeds on the issue of treasury shares was £5m (FY22: £13m).

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

The treasury shares and the shares in the Trust are being used to satisfy our obligations under employee share plans, further details of which are provided in note 22.

22. Share-based payments

Significant accounting policies that apply to share-based payments

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

Service and performance conditions are vesting conditions. Any other conditions are non-vesting conditions which 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)	–	14
Deferred Bonus Plan (DBP)	12	11
Retention and Restricted Share Plans (RSP)	35	26
	80	**108**

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.

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.

Notes to the consolidated financial statements continued

22. Share-based payments continued

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	**66**	**20**	**47**	**133**
Awards granted	–	7	23	30
Awards vested	–	(4)	(7)	(11)
Awards lapsed	(35)	(1)	(6)	(42)
Dividend shares reinvested	–	–	1	1
At 31 March 2022	**31**	**22**	**58**	**111**
Awards granted	–	6	29	35
Awards vested	(5)	(5)	(4)	(14)
Awards lapsed	(26)	(1)	(7)	(34)
Dividend shares reinvested	–	2	4	6
At 31 March 2023	**–**	**24**	**80**	**104**

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

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

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

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

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

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

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

Divestments

During the year, we completed the 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 25)	428	–
Investment in C preference shares in Sports JV (note 25)[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

23. 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, the group's wholly owned subsidiary, 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 25 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.

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

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 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. 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.

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 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 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.

Notes to the consolidated financial statements continued

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

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.

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.

24. 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
Fair value through profit or loss	6	–
Total non-current asset investments	**29**	**34**
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).

24. 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.

25. 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 JV with Warner Bros. Discovery

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 23.

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.

Notes to the consolidated financial statements continued

25. Joint ventures and associates continued

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 23).
- 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 31) 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 16).

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 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 23. 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.

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.

25. Joint ventures and associates continued

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 23) 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 23). 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 24 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.

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.

Notes to the consolidated financial statements continued

26. 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 27).

At 31 March	**2023 £m**	2022 £m
Cash at bank and in hand	**336**	**324**
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	**392**	**777**
Bank overdrafts (note 27)	(11)	(85)
Cash and cash equivalents per the cash flow statement	**381**	**692**

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.

27. Loans and other borrowings

Significant accounting policies that apply to loans and other borrowings

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

What's our capital management policy?

The objective of our capital management policy is to target an overall level of debt consistent with our credit rating target while investing in the business, supporting the pension scheme and meeting our distribution policy. In order to meet this objective, we may issue or repay debt, issue new shares, repurchase shares, or adjust the amount of dividends paid to shareholders. We manage the capital structure and make adjustments to it accordingly to reflect changes in economic conditions and the risk characteristics of the group. The Board regularly reviews the capital structure. No changes were made to these objectives and processes during FY23. For details of share issues and repurchases in the year see note 21.

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

At 31 March	**2023 £m**	2022 £m
Net debt	18,859	18,009
Total parent shareholders' equity[a]	14,490	15,274
Capital structure	**33,349**	**33,283**

a Excludes non-controlling interests of £24m (FY22: £22m).

27. Loans and other borrowings continued

Net debt and net financial debt

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

Currency denominated balances within net debt are translated to sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed. Amounts due to joint ventures held within loans and borrowings are also excluded. Net financial debt is net debt excluding lease liabilities.

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

At 31 March	Notes	**2023 £m**	2022 £m
Loans and other borrowings[a]		18,521	16,185
Lease liabilities	15	5,359	5,760
Net lease liabilities classified as held for sale[b]	23	3	2
Less:			
Cash and cash equivalents	26	(392)	(777)
Current asset investments	24	(3,548)	(2,679)
		19,943	**18,491**
Adjustments:			
To retranslate debt balances at swap rates where hedged by currency swaps[c]		(819)	(234)
To remove accrued interest applied to reflect the effective interest method and fair value adjustments		(254)	(248)
Loans with joint ventures	31	(11)	–
Net debt		**18,859**	**18,009**
Lease liabilities	15	(5,359)	(5,760)
Lease liabilities classified as held for sale[b]		(3)	(2)
Net financial debt		**13,497**	**12,247**

a Includes overdrafts of £11m at 31 March 2023 (FY22: £85m).
b There are lease liabilities classified as held for sale, refer to note 23.
c The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency.

Notes to the consolidated financial statements continued

27. Loans and other borrowings continued

The table below shows the key components of net debt and the increase of £850m this year.

	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)
Gross debt	**21,462**	**740**	**449**	**17**	**–**	**121**	**22,789**
Less:							
Cash and cash equivalents	(777)	379	–	3	–	3	(392)
Current asset investments	(2,679)	(885)	–	(21)	–	37	(3,548)
Removal of accrued interest[c]	3	–	–	–	–	7	10
Net debt	**18,009**	**234**	**449**	**(1)**	**–**	**168**	**18,859**

	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)
Gross debt	**22,453**	**(1,470)**	**397**	**41**	**–**	**41**	**21,462**
Less:							
Cash and cash equivalents	(1,000)	226	–	(3)	–	–	(777)
Current asset investments	(3,652)	970	–	3	–	–	(2,679)
Removal of accrued interest[c]	1	–	–	–	–	2	3
Net debt	**17,802**	**(274)**	**397**	**41**	**–**	**43**	**18,009**

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 23).

Cash flows from gross debt of £740m outflow (FY22: £1,470m outflow) include repayment of borrowings £513m (FY22: £1,374m outflow), proceeds from bank loans and bonds £2,203m inflow (FY22: £744m), cash flows from collateral received £17m outflow (FY22: £29m outflow), payment of lease liabilities £727m outflow (FY22: £659m outflow), interest paid on lease liabilities £143m outflow (FY22: £133m outflow), increase in amounts owed to joint venture £11m (FY22: £nil), and change in bank overdraft £74m outflow (FY22: £19m outflow).

27. 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% €500m bond due August 2027[a]	530	–
2.125% €600m 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 26)	11	85
Total other loans and borrowings	**725**	**640**
Total loans and other borrowings	**18,521**	**16,185**

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.

Notes to the consolidated financial statements continued

27. 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[a]	27	–
Total non-current liabilities	**16,749**	**15,312**
Total loans and other borrowings	**18,521**	**16,185**

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: £15,700m) 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	2,532	(59)	2,473
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**	**15,302**	**(242)**	**15,060**
Total repayments	**18,532**	**(1,090)**	**17,442**	**16,175**	**(475)**	**15,700**
Non cash adjustments[a]	(11)			10		
Total loans and other borrowings	**18,521**			**16,185**		

a Fair value adjustments and unamortised bond fees.

28. Finance expense

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	–
Total finance expense before specific items	**889**	**833**
Specific items (note 9)[a]	5	101
Total finance expense	**894**	**934**

a Includes £13m credit (FY22: £8m charge) reclassification of cash flow hedge from other comprehensive income.

29. Financial instruments and risk management

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 Board. Group treasury activities are subject to a set of controls appropriate for the magnitude of borrowing, investments and group-wide exposures. The Board has delegated authority to operate these policies to a series of panels responsible for the management of key treasury risks and operations. Appointment to and removal from the key panels requires approval from two of the following: the Chairman, the Chief Executive or the Chief Financial Officer.

There has been no change in the nature of our risk profile between 31 March 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 Board, is to ensure that at least 70% of 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 who each have been delegated such authority from the 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 Board's policy for foreign exchange risk management defines the types of transactions typically covered, including significant operational, funding and currency interest exposures, and the period over which cover should extend for each type of transaction.

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

Hedging strategy

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

We enter into forward currency contracts to hedge foreign currency capital purchases, purchase and sale commitments, interest expense and foreign currency investments. The commitments hedged are principally denominated in US dollar, euro, Indian rupees and Hungarian forint. As a result, our exposure to foreign currency arises mainly on non-UK subsidiary investments and on residual currency trading flows.

Notes to the consolidated financial statements continued

29. **Financial instruments and risk management** continued

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	1,746	15,261
Euro	–	443	443	–	436	436
Other	–	16	16	–	3	3
Total	**15,210**	**2,232**	**17,442**	**13,515**	**2,185**	**15,700**
Ratio of fixed to floating	87%	13%	100%	86%	14%	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 and 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

We continue 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 our 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.

Our 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

29. Financial instruments and risk management continued

How do we manage liquidity risk?

Management policy

We maintain liquidity by entering into short and long-term financial instruments to support operational and other funding requirements, determined by using short- and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period. On at least an annual basis the Board reviews and approves the long-term funding requirements of the group and on an ongoing basis considers any related matters. We manage refinancing risk by limiting the amount of borrowing that matures within any specified period and having appropriate strategies in place to manage refinancing needs as they arise. The maturity profile of our loans and borrowings at 31 March 2023 is disclosed in note 27. 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 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	5,451	3	800	8,409
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**	**5,451**	**11**	**6,031**	**35,685**
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**	**5,451**	**10**	**5,359**	**29,341**
At 31 March 2022						
Due within one year	640	568	5,224	4	788	7,224
Between one and two years	935	564	–	4	784	2,287
Between two and three years	1,415	538	–	3	729	2,685
Between three and four years	2,532	515	–	–	626	3,673
Between four and five years	379	477	–	–	589	1,445
After five years	10,041	2,809	–	–	2,983	15,833
	15,942	**5,471**	**5,224**	**11**	**6,499**	**33,147**
Interest payments not yet accrued	–	(5,238)	–	–	–	(5,238)
Fair value adjustment	10	–	–	–	–	10
Impact of discounting	–	–	–	–	(739)	(739)
Carrying value on the balance sheet[a,b]	**15,952**	**233**	**5,224**	**11**	**5,760**	**27,180**

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 £920m (FY22: £624m) 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.

Notes to the consolidated financial statements continued

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

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

Operational management policy

Our credit policy for trading-related financial assets is applied and managed by each of the customer-facing units (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.

29. 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	24	3,577	2,713
Trade and other receivables[a]	17	1,821	1,489
Contract assets	5	1,934	1,915
Cash and cash equivalents	26	392	777
Total		**9,203**	**7,985**

a The carrying amount excludes £503m (FY22: £337m) of non-current trade and other receivables which relate to non-financial assets, and £1,239m (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 17, 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.

Notes to the consolidated financial statements continued

29. 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's risk management strategy and there must be an economic relationship based on the currency, amount and timing of the respective cash flows of the hedging instrument and hedged item. This is assessed at inception and in subsequent periods in which the hedge remains in operation. Hedge accounting is discontinued when it is no longer in line with BT's risk management strategy or if it no longer qualifies for hedge accounting.

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

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

Other derivatives

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting, some derivatives may not qualify for hedge accounting, or may be specifically not designated as a hedge because natural offset is more appropriate. 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 24.

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 27).

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.

29. 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 dollar, euro, Indian rupees and Hungarian forint[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 dollar, euro and Indian rupees[c]	946	30	(3)	(21)	(51)	(10)
Energy contracts[d]		31	(3)	(28)	(64)	–
Total cash flow hedges	**12,756**	**955**	**(737)**	**(104)**	**(204)**	**54**
Deferred tax		–	–	16		
Derivatives not in a designated hedge relationship		136	(133)	–		
Carrying value on the balance sheet		**1,091**	**(870)**	**(88)**		

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 dollar, euro, Indian rupees and Hungarian forint 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.

Notes to the consolidated financial statements continued

30. Other reserves

	Capital redemption reserve £m	Other comprehensive income Cash flow reserve[a] £m	Fair value reserve £m	Cost of hedging reserve[b] £m	Translation reserve[c,d] £m	Total £m
At 1 April 2021	**27**	**(90)**	**–**	**59**	**440**	**436**
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	**27**	**(148)**	**(1)**	**236**	**505**	**619**
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	**27**	**377**	**(4)**	**(37)**	**594**	**957**

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 23).
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 (FY22: £204m) 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 28).
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.

31. Related party transactions

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

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

Associates and joint ventures related parties include the Sports JV formed in August 2022 (see note 23). 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-term borrowings. The outstanding balance under the RCF of £268m is treated as a loan receivable and held at amortised cost, see note 17. 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 27.

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.

32. 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 23); 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 19, 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.

Guarantees

BT plc

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

Legal and regulatory proceedings

See note 19 for contingent liabilities associated with legal and regulatory proceedings.

33. Post balance sheet events

No material post balance sheet events have been identified.

BT Group plc company balance sheet

Registered number 4190816

At 31 March	Notes	2023 £m	2022 £m
Non-current assets			
Investment in subsidiary undertaking	2	11,278	11,201
Other investments[a]		–	585
		11,278	**11,786**
Current assets			
Cash and cash equivalents		8	5
		8	**5**
Current liabilities			
Trade and other payables[b]		80	32
		80	**32**
Total assets less current liabilities		**11,206**	**11,759**
Non-current liabilities			
Loans and other borrowings[c]		303	–
Other payables[b]		26	26
		329	**26**
Equity			
Ordinary shares		499	499
Share premium		1,051	1,051
Capital redemption reserve		27	27
Own shares		(422)	(274)
Profit and loss account[d]		9,722	10,430
Total equity		**10,877**	**11,733**
		11,206	**11,759**

a Other investments consists of loan to group undertakings of £nil (FY22: £580m) and accrued interest of £nil (FY22: £5m). In FY22 the loan attracted interest of LIBOR plus 37.5 basis points and was measured at amortised cost using the effective interest rate method. The expected credit loss provision against long-term loan to group undertakings is immaterial.

b Current trade and other payables consists of loans from group undertakings of £15m (FY22: £16m) and other payables of £65m (FY22: £16m). Other payables (current and non-current) mostly comprise the obligation to purchase own shares into trust via a forward contract.

c Loans and other borrowings consist of a loan from group undertakings of £303m (FY22: £nil). The loan attracts interest of SONIA plus 60 basis points.

d As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The loss for the financial year, dealt with in the profit and loss account of the company was £1m (FY22: profit of £2m).

The financial statements of the company on pages 224 to 227 were approved by the Board of Directors on 17 May 2023 and were signed on its behalf by:

Adam Crozier
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

BT Group plc company statement of changes in equity

	Called up share capital[a] £m	Share premium account £m	Capital redemption reserve £m	Own shares[b] £m	Profit and loss account[b,c] £m	Total £m
At 1 April 2021	**499**	**1,051**	**27**	**(143)**	**10,610**	**12,044**
Profit for the financial year	–	–	–	–	2	2
Dividends paid	–	–	–	–	(227)	(227)
Unclaimed dividends over 10 years	–	–	–	–	2	2
Share-based payments	–	–	–	–	3	3
Capital contribution in respect of share-based payments	–	–	–	–	105	105
Net buyback of own shares	–	–	–	(131)	(65)	(196)
At 31 March 2022	**499**	**1,051**	**27**	**(274)**	**10,430**	**11,733**
Loss for the financial year	–	–	–	–	(1)	(1)
Dividends paid	–	–	–	–	(753)	(753)
Share-based payments	–	–	–	–	3	3
Capital contribution in respect of share-based payments	–	–	–	–	77	77
Net buyback of own shares	–	–	–	(148)	(34)	(182)
At 31 March 2023	**499**	**1,051**	**27**	**(422)**	**9,722**	**10,877**

a The allotted, called up and fully paid ordinary share capital of the company at 31 March 2023 was £499m (31 March 2022: £499m), representing 9,968,127,681 (31 March 2022: 9,968,127,681) ordinary shares of 5p each.

b In FY23, 18,984,595 shares (FY22: 19,672,628) were issued from Own shares to satisfy obligations under employee share schemes and executive share awards at a cost of £38m (FY22: £43m). At 31 March 2023, 36,190,551 shares (FY22: 41,429,938) with an aggregate nominal value of £2m (FY22: £2m) were held at cost as treasury shares and 193,798,578 shares (FY22: 94,120,883) with an aggregate nominal value of £10m (FY22: £5m) were held in the Trust.

c As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The loss for the financial year, dealt with in the profit and loss account of the company was £1m (FY22: profit of £2m).

Notes to the company financial statements

1. BT Group plc accounting policies

Principal activity

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

Accounting basis

As used in these financial statements and associated notes, the term 'company' refers to BT Group plc (a public company limited by shares). These separate financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Financial statements

The financial statements are prepared on a going concern basis and under the historical cost convention. Refer to page 155 for further details of this assessment.

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

New and amended accounting standards effective during the year

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 BT Group plc legal entity, and concluded that its impact is not material. Contracts in scope of the standard are restricted to parent company guarantees, which we have assessed to have no material impact.

Exemptions

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

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

The BT Group plc consolidated financial statements for the year ended 31 March 2023 contain a consolidated cash flow statement. Consequently, as permitted by IAS 7 'Statement of Cash flows', the company has not presented its own cash flow statement.

The BT Group plc consolidated financial statements for the year ended 31 March 2023 contain related party disclosures. Consequently, the company has taken advantage of the exemption in IAS 24 'Related Party Disclosures' not to disclose transactions with other members of the BT Group.

The BT Group plc consolidated financial statements for the year ended 31 March 2023 contain financial instrument disclosures which comply with IFRS 7 'Financial Instruments: Disclosures'. Consequently, the company is exempt from the disclosure requirements of IFRS 7 in respect of its financial instruments.

Investment in subsidiary undertaking

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

Investment impairment is assessed at each reporting date. Estimating value in use and key assumptions used (discount rate and growth rate) in performing the impairment assessment are in line with how we assess the group's goodwill in note 13 to the consolidated group financial statements. There is significant headroom between the carrying value of the investment and the calculated value in use.

Taxation

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

Dividends

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

Share capital

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

Cash and cash equivalents

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

Share-based payments

The issuance by the company of share options and awards to employees of its subsidiaries represents additional capital contributions to its subsidiaries. An addition to the company's investment in subsidiaries is recorded with a corresponding increase in equity shareholders' funds. The additional capital contribution is determined based on the fair value of options and awards at the date of grant and is recognised over the vesting period.

2. Investment in subsidiary undertaking

Cost	Total £m
At 1 April 2021	**11,096**
Additions	105
At 31 March 2022	**11,201**
Additions	77
At 31 March 2023	**11,278**

Additions of £77m (FY22: £105m) comprise capital contributions in respect of share-based payments.

The company held a 100% investment in BT Group Investments Limited, a company registered in England and Wales, throughout FY23 and FY22.

3. Other information

Dividends

An interim dividend of 2.31p per share amounting to £226m was paid on 6 February 2023 (FY22: interim dividend of 2.31p per share amounting to £227m paid). A final dividend of 5.39p per share amounting to approximately £534m is proposed in respect of the year ended 31 March 2023 (FY22: final dividend of 5.39p per share amounting to £527m paid in respect of the year ended 31 March 2022).

Employees and directors

The Chairman and Executive and Non-Executive Directors of BT Group plc were the only employees and directors of the company during FY23 and FY22. The costs relating to qualifying services provided to the company's principal subsidiary, British Telecommunications plc, are recharged to that company.

Related undertakings

Company name	Group interest in allotted capital[a]	Share class
Held directly		
United Kingdom		
1 Braham Street, London, E1 8EE, United Kingdom		
BT Group Investments Limited	100%	ordinary
BT Group Nominees Limited	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
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, P.O. 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
Bermuda		
Century House, 16 Par-la-Ville Road, Hamilton, HM08, Bermuda		
Communications Global Network Services Limited	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		
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		
Building 16, 6th Floor, Room 602-B, No. 269 Wuyi Road, Hi-tech Park, Dalian, 116023, China		
BT Technology (Dalian) Company Limited	100%	registered
No. 3 Dong San Huan Bei Lu, Chao Yang District, Beijing, 100027, China		
BT Limited, Beijing Office[b]	100%	–
Room 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		
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%	–

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

Company name	Group interest in allotted capital[a]	Share class
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
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
BT Italia S.p.A.	99%	ordinary
Jamaica		
Suite #6, 9A Garelli Avenue, Half way tree, St. Andrew, Kingston 10, Jamaica		
BT Jamaica Limited	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Japan		
ARK Mori Building, 12-32 Akasaka, 1-Chome, Minato-Ku, Tokyo, 107 – 6024, Japan		
BT Japan Corporation	100%	ordinary
Jersey		
26 New Street, St Helier, JE2 3RA, Jersey		
Ilford Trustees (Jersey) Limited	100%	ordinary
PO Box 264, Forum 4, Grenville Street, St Helier, JE4 8TQ, Jersey		
BT Jersey Limited	100%	ordinary
Jordan		
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, P O 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, P.O.BOX 165126, Lebanon		
BT Lebanon S.A.L.	100%	ordinary
Lithuania		
Aludariu str 2-33, LT-01113 Vilnius, Lithuania		
UAB BTH Vilnius	100%	ordinary
Luxembourg		
12 rue Eugene Ruppert, L 2453, Luxembourg		
BT Global Services Luxembourg SARL	100%	ordinary
BT Broadband Luxembourg Sàrl	100%	ordinary
Malawi		
KEZA Office Park Blocks 3, First Floor, Near Chichiri, Shopping Mall, Blantyre, Malawi		
BT Malawi Limited	100%	ordinary

Related undertakings continued

Company name	Group interest in allotted capital[a]	Share class
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 Nederland N.V.	100%	ordinary
BT Professional Services Nederland B.V.	100%	ordinary
Global Security Europe Limited[b]	100%	–
New Zealand		
c/o Deloitte, Level 18, 80 Queen Street, Auckland Central, Auckland, 1010, New Zealand		
BT Australasia Pty Limited – New Zealand Branch[b]	100%	–

Company name	Group interest in allotted capital[a]	Share class
Nicaragua		
De donde fué el Restaurante Marea Alta Ahora quesillos, El Pipe, 2 cuadras al este, 10 Metros al norte, frente al, Hotel El Gran Marquez, Casa #351, Nicaragua, 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

Company name	Group interest in allotted capital[a]	Share class
Poland		
126/134 Marszalkowska St., Room 128, 00-008 WARSAW, Warsaw, Poland		
BT Poland Spółka Z Ograniczoną Odpowiedzialnością	100%	ordinary
Portugal		
Rua D. Francisco Manuel de Melo 21-1, 1070-085 Lisboa, Portugal		
BT Portugal – Telecomunicações, Unipessoal Lda	100%	ordinary
Puerto Rico		
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
5th Floor, 2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Ireland		
The Faraday Procurement Company 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

Company name	Group interest in allotted capital[a]	Share class
Singapore		
Level 3, #03-01/02 & #03-04, Block B, Alexandra Technopark, 438B Alexandra Road, Singapore, 119968		
BT (India) Private Limited Singapore Branch[b]	100%	–
BT Global 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%	–

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, P.O. BOX 25205, United Arab Emirates		
BT UAE Limited – Dubai Branch (1)[b]	100%	–
BT UAE Limited – Dubai Branch (2)[b]	100%	–
United Kingdom		
1 Braham Street, London, E1 8EE, United Kingdom		
Autumnwindow Limited	100%	ordinary
Autumnwindow No.2 Limited	100%	ordinary
Autumnwindow No.3 Limited	100%	ordinary
Belmullet (IoM) Limited[b]	100%	–
BPSLP Limited	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
British Telecommunications plc	100%	ordinary
Bruning Limited	100%	ordinary
BT (International) Holdings Limited	100%	ordinary
BT (RRS LP) Limited	100%	ordinary
BT Communications Ireland Group Limited – UK Branch[b]	100%	–
BT Corporate Trustee Limited	100%	limited by guarantee
BT European Investments Limited	100%	ordinary
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 Holdings Limited	100%	ordinary
BT IoT Networks Limited	100%	ordinary
BT Limited	100%	ordinary
BT Ninety-Seven Limited	100%	ordinary
BT Nominees Limited	100%	ordinary
BT OnePhone Limited	100%	ordinary
BT Property Holdings (Aberdeen) Limited	100%	ordinary
BT Property Limited	100%	ordinary
BT Sixty-Four Limited	100%	ordinary
BT SLE Euro Limited	100%	ordinary
BT SLE USD Limited	100%	ordinary
BT Solutions 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 Group Investments 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
Pelipod Ltd	100%	ordinary
Radianz Limited	100%	ordinary
Southgate Developments Limited	100%	ordinary

Related undertakings continued

Company name	Group interest in allotted capital[a]	Share class
Tudor Minstrel	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, 5 Temple Square, Temple Street, Liverpool, L2 5RH, United Kingdom		
BT Lancashire Services 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
EE Finance Limited	100%	ordinary
groupBT Limited	100%	ordinary
Kelvin House, 123 Judd Street, London, WC1H 9NP, United Kingdom		
Openreach Limited	100%	ordinary
The Balance, 2 Pinfold Street, Sheffield, S1 2GU, United Kingdom		
Plusnet plc	100%	ordinary
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%	–

Associates (note 25)

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 25)

Company name	Group interest in allotted capital[a]	Share class
Held via other group companies		
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%	-
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 23 and 25 for more details.

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, adjusted profit before tax, adjusted earnings per share, return on capital employed, normalised free cash flow and net debt. We also reference adjusted revenue and adjusted EBITDA on a Sports JV pro forma basis. 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 Board and the *Executive Committee* and assists in providing an additional analysis of our reporting trading results.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. 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, reported profit before tax and reported earnings per share are the equivalent IFRS measures. A reconciliation from these can be seen in the group income statement on page 150.

Net debt and net financial debt

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

Currency-denominated balances within net debt are translated to sterling at swap rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed. Amounts due to joint ventures held within loans and borrowings are also excluded.

Net debt is a measure of the group's net indebtedness that provides an indicator of overall balance sheet strength. It is a key indicator used by management to assess both the group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

Net financial debt is net debt excluding lease liabilities. It allows for the comparison to net debt measures reported before the introduction of IFRS 16 on 1 April 2019, and reflects a view that lease liabilities are operational debt in substance, rather than financing transactions.

Net debt and net financial debt are considered to be alternative performance measures as they are not defined in IFRS. A reconciliation from loans and other borrowings, lease liabilities, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures to net debt and net financial debt, is set out in note 27.

Return on Capital Employed

We use a return on capital employed (ROCE) measure that serves as an indicator of how efficiently we generate returns from the capital invested in the business. It is a group KPI that is directly relatable to the outcome of investment decisions.

ROCE represents the group's returns as percentage of capital employed.

Returns are defined as adjusted earnings before interest and tax. We use an adjusted measure (before specific items) for the reasons explained in the 'specific items' section above.

Capital employed represents equity, debt and debt-like liabilities. We net the derivative financial instruments and cash and cash equivalent balances that we use to manage financial risk against gross debt, and exclude current and deferred tax balances as the measure is determined on a pre-tax basis.

While our long-term capital investment programmes such as our full fibre rollout deliver value-creating long-term returns, they suppress ROCE in the short-to medium-term.

Additional information continued

The following table sets out the calculation of our ROCE measure. In doing so it reconciles returns to operating profit, the most directly comparable IFRS measure, and presents the components of capital employed.

Year ended 31 March	2023 £m	2022 £m
Reported operating profit for the period	2,619	2,885
Share of post tax profits (losses) of associates and joint ventures	(59)	–
Specific items (non-finance and tax)	556	287
Return for the period	**3,116**	**3,172**
Equity, debt and debt-like liabilities		
Loans and other borrowings	18,521	16,185
Lease liabilities	5,359	5,760
Retirement benefit obligations	3,139	1,143
BDUK grant funding deferral	427	488
Total equity	14,514	15,296
Adjust for balances used to hedge financial risk		
Cash and cash equivalents	(392)	(777)
Investments	(3,577)	(2,713)
Net derivative financial instruments	(1,096)	(221)
Adjust for tax balances		
Net deferred tax liabilities	911	1,671
Net current tax receivable	(349)	(406)
Capital employed	**37,457**	**36,426**
Return on capital employed	**8.3%**	**8.7%**

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	**1,905**	**1,274**
Tax	(176)	689
Reported profit before tax	**1,729**	**1,963**
Net finance expense	831	922
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	**7,928**	**7,577**

Normalised free cash flow

Normalised free cash flow is one of the group's key performance indicators by which our financial performance is measured. It is primarily a liquidity measure. However, we also believe it is an important indicator of our overall operational performance as it reflects the cash we generate from operations after capital expenditure and financing costs, both of which are significant ongoing cash outflows associated with investing in our infrastructure and financing our operations.

Normalised free cash flow is defined as free cash flow (net cash inflow from operating activities after net capital expenditure) after net interest paid and payment of lease liabilities, before pension deficit payments (including their cash tax benefit), payments relating to spectrum, and specific items. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends paid, share buybacks, acquisitions and disposals, and repayment and raising of debt, cash flows relating to short-term funding arrangements with joint ventures, and cash flows relating to the Building Digital UK (BDUK) demand deposit account which have already been accounted for within normalised free cash flow. For non-tax related items the adjustments are made on a pre-tax basis.

Normalised free cash flow is not a measure of the funds that are available for distribution to shareholders.

A reconciliation from cash inflow from operating activities, the most directly comparable IFRS measure, to free cash flow and normalised free cash flow, is set out below.

Year ended 31 March	2023 £m	2022 £m
Cash generated from operations	**6,588**	**5,962**
Tax paid	136	(52)
Net cash inflow from operating activities	**6,724**	**5,910**
Net purchase of property, plant and equipment and intangible assets	(5,307)	(4,607)
Free cash flow	**1,417**	**1,303**
Interest received	41	6
Interest paid	(709)	(755)
Payment of lease liabilities	(727)	(659)
Dividends received from joint ventures, associates and investments	9	1
Net purchase of non-current asset investments	(5)	(8)
Add back pension deficit payments	994	1,121
Remove cash tax benefit of pension deficit payments	–	–
Add back net cash flow from specific items	404	606
Add back refund in respect of spectrum licence auction	–	(223)
Remove cash flows relating to the BDUK demand deposit account	(96)	–
Normalised free cash flow	**1,328**	**1,392**

Below we reconcile normalised free cash flow by unit:

Year ended 31 March	2023 £m	2022 £m
Consumer	1,147	917
Enterprise	522	791
Global	63	131
Openreach	211	448
Other	(615)	(895)
Normalised free cash flow	**1,328**	**1,392**

From FY24 we are updating our normalised free cash flow metric to reflect the ongoing evolution of the business:

- We will include the sale of cash flows of contract assets related to mobile handsets where the performance obligations have been substantially delivered to the customer. This is a financing cash flow in the cash flow statement as certain performance obligations in the contract need to be fulfilled before the right to consideration is unconditional, but we believe that it is appropriate to include these cash flows in our normalised free cash flow metric because the sale of these cash flows is part of our working capital management, as handset costs are incurred up front but recovered throughout the customer contract term. The corresponding operating cash inflow received from customers will be excluded from normalised free cash flow if it has previously been included at the time of the sale of the contract assets.
- We will include monies received as prepayment for the forward sale of future redundant copper. This is a financing cash flow in the cash flow statement as certain benefits of the asset have not yet been transferred to the buyer, but we believe that it is appropriate to include these cash flows in our normalised free cash flow metric because the forward sale of this asset is in line with our operating activities and is similar in nature to cash flows arising from the net purchase of property, plant and equipment which are already included within normalised free cash flow.

Sports JV pro forma basis

On 3 September 2022 BT Group and Warner Bros. Discovery announced completion of their transaction to form a 50:50 sports joint venture (Sports JV) combining the assets of BT Sport and Eurosport UK. On 18 October 2022 we published unaudited pro forma financial information estimating the impact on the group as if trading in relation to BT Sport had been equity accounted for in previous periods, akin to the Sports JV being in place historically.

Within this Annual Report we reference pro forma information relating to the years ended 31 March 2023 and 2022. The table below provides a bridge between financial information on a reported basis and a Sports JV pro forma basis.

	Reported basis		Sports JV pro forma adjustment		Sports JV pro forma basis		
Year ended 31 March	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	Change %
Adjusted revenue							
Consumer	9,737	9,858	(238)	(539)	9,499	9,319	2
BT Group	20,669	20,845	(238)	(539)	20,431	20,306	1
Adjusted EBITDA							
Consumer	2,623	2,262	71	205	2,694	2,467	9
BT Group	7,928	7,577	71	205	7,999	7,782	3

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.

BT Group

We're committed to taking action on sustainability.

This annual report contains important information on our financial and operating performance which can also be found online.

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