We connect for good

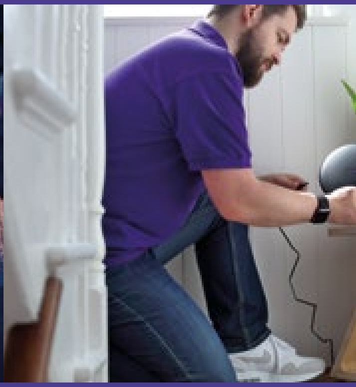
BT Group plc
Annual Report 2021

Staying connected has never been as important

When people connect, there's no limit to the good they can do. Today, that's truer than ever. The connections we make are helping solve the world's biggest challenges such as the global pandemic, climate change and cyber security. Through the power of technology, we're supporting customers to live, work and play together better. In these extraordinary times we are sharpening our focus and accelerating change.

We connect for good

Good for... our customers



EE tops the table

Delivering the best mobile experience remains our priority. Being recognised as the UK's best network for the fifteenth consecutive time reflects our continued investment in keeping our customers connected to the things that matter to them most.

Giving small businesses a boost

Last summer, we launched a support scheme for small businesses that promises to boost their connectivity, cash flow and confidence.

Unbreakable wi-fi connection

Innovation is at the heart of what we do. Our new unbreakable internet service brings together the combined power of BT and EE's networks.

the country

Gifting tablets and data to the NHS

Giving unlimited free data to EE customers who work for the NHS and providing tablets to hospital wards so patients could videocall friends and family are just two of the ways we supported the NHS in 2020.

Helped 10 million people in the UK to improve their digital skills

When we launched Skills for Tomorrow, we said we wanted to help 10 million people in the UK learn about tech. We've now achieved this aim, five years earlier than expected.

Beating loneliness with BT+1

In a year that has kept us apart from our loved ones, we started a movement to bring us closer to family and friends.

our colleagues

Better workplace

Our new workplaces are here to shape the direction of our business. A modern company that's better connected to colleagues and customers.

Celebrating the Colleague Board's first birthday

We launched the Colleague Board so we could give everyone here a voice. Through a tough year they've been inspiring change across our business.

tomorrow

Our aim to be Net Zero heroes

We've been leading on climate action for more than 25 years and we're now targeting net zero for the whole of BT by 2045.

Young scientists make exhibition of themselves

We've been sponsoring what's now the BT Young Scientist & Technology Exhibition for the past 21 years, proud to help cultivate and nurture Ireland's future scientists and engineers.

Taking 5G to school

We're bringing 5G into the heart of the classroom through immersive experiences.

Outer space, under the ocean or on top of Mount Everest, students can feel like they're right there with this new way of learning – the first of its kind in the UK.

There never has been a more crucial time to play such an important role in the lives of our customers. We have sharpened our focus, accelerated our digital drive and supported the nation in adapting to the new normal.

For more information read our Digital Impact and Sustainability Report at

bt.com/sustainabilityreport

To read these stories and more – visit our online annual review and see how we're connecting for good.

bt.com/annualreview

Contents

Strategic report

A message from our Chairman	2
A message from our Chief Executive	5
Executive Committee	8
About BT and our purpose	10
Our business model	12
Key trends influencing BT	14
Regulatory update	16
Our ambition and strategy	18
Strategic progress	20
Our stakeholders	34
Section 172 statement	42
Non-financial information	44
Our key performance indicators (KPIs)	46
Group performance	48
A letter from the Chair of Openreach	56
How we manage risk	57
Our principal risks and uncertainties	59
Task Force on Climate-related Financial Disclosures	67
Viability statement	68
Corporate governance report	69
Financial statements	111
Additional information	197

Look out for these throughout the report:

Reference to another page in the report

Reference to further reading online

This **Strategic report** was approved by the Board on 12 May 2021.

By order of the Board.

Jan du Plessis
Chairman
12 May 2021

Please see the **cautionary statement regarding forward-looking statements** on **page 200**.

Pages 1 to 68 form the **Strategic report**. It includes our business model, strategic progress, our key performance indicators, group performance and our principal risks and uncertainties.

The **Corporate governance report** on **pages 69 to 110** forms the **Report of the Directors** and includes the **Report on directors' remuneration**.

A message from our Chairman

This has been a year like no other. Competitive pressures across all of BT's business areas have intensified, the pace of technological change has accelerated further and dependency on the connectivity we provide our customers has become absolute. To keep pace with this changing landscape, business transformation at BT has become a constant.

A year like no other

> The vital services we provide helped to improve things for those in their time of greatest need, keeping friends, families, businesses and crucial Government services – including the NHS – connected.

Net zero

we have pledged to be a net zero business by 2045 and we're working with our suppliers to help them reduce their carbon emissions

10m

this year – five years ahead of target – we hit our goal of reaching 10m people with help to improve their digital skills

This year, though, the greatest driving force of transformation – whether temporary or permanent – at any organisation has been Covid-19. The pandemic has been gruelling for everybody and BT has more than played its part in the national and international effort to deal with its consequences.

The vital services we provide helped to improve things for those in their time of greatest need, keeping friends, families, businesses and crucial Government services – including the NHS – connected. We also undoubtedly played a role in helping the online retailers who have become so important to many of us.

The way BT has managed through the pandemic whilst progressing its business modernisation programme is a significant achievement. It is the commitment of the whole BT team that made this possible, best illustrated by the award of no fewer than eight MBEs to colleagues in recognition of their efforts during the pandemic.

Despite the resilience of our colleagues and our networks, and the dependency of our customers on the service we provide, our financial performance during the year has been impacted by the pandemic. Although in line with expectations, adjusted revenue and EBITDA were both down 6% compared to last year and normalised free cash flow was 27% lower than the previous year.

We know our investors and our customers understand that BT must modernise to maintain its leadership position and return to financial strength. Doing so will improve our offer to customers and in turn we will generate value for our shareholders. Modernising BT is a core part of the company's revised strategic framework which was launched this year – and on which you will find more detail in Philip Jansen's message on page 6.

Building our networks

At the heart of BT lie its networks. Investing in our broadband and mobile networks is investing in the future of BT. The 2020/21 financial year was of vital importance in this regard: we committed to make investments that will be the foundation of BT's success over the long-term and which will in turn underpin much of the UK's future economic prosperity.

In May 2020 we set out our target, subject to the right conditions – and critically the outcome of Ofcom's Wholesale Fixed Telecoms Market Review (WFTMR) – to build full fibre broadband to 20m premises across the UK by the mid- to late-2020s.

To facilitate this significant investment – and to help us navigate the uncertainties caused by the pandemic without compromising our credit rating – we took the tough but necessary decision last year to suspend the 2019/20 final dividend and all dividends for this year and rebase it. The Board expects to resume dividend payments in 2021/22 at 7.7 pence per share, with 30% payable at the interim stage later this year.

In March 2021, Ofcom published the outcome of the WFTMR. With it came the regulatory certainty we required on behalf of our shareholders to confirm our FTTP[a] build investment and we have since further increased and accelerated our target from 20m to 25m premises by December 2026. This will be the single largest investment in the country's digital infrastructure for a generation and it will support the UK's transition to a gigabit economy.

Ofcom has clearly moved to a regulatory regime that encourages network builders to invest in the UK's digital infrastructure. This should be welcomed by everybody, including investors, given the importance of outstanding connectivity to the UK's future prosperity.

Climate pledge and digital skills

Investing for the future must also include the collective and individual steps we take on climate change and in supporting our society and communities. As we build back better from this awful pandemic, progress against both these imperatives couldn't be more important.

BT has pledged to be a net zero business by 2045 and we're working with our suppliers to help them reduce their carbon emissions by 42% by March 2031. In November, we reached the milestone of sourcing 100% of electricity, worldwide, from renewables. At the same time, we announced our ambition to move nearly all of BT Group's vehicles – the UK's second largest commercial fleet at almost 33,000 in total, including 28,000 Openreach vehicles – to electric and alternative fuels by 2030.

While climate change has been high on the agenda for many years, 2020 put digital inclusion at the heart of UK politics. Our Lockdown Learning and Standout Skills campaigns are examples of the support we provided customers on digital inclusion and skills training during the year.

These initiatives have been a success. This year – five years ahead of target – we hit our goal of reaching 10m people with help to improve their digital skills by 2026. We have now extended that target to a more stretching ambition to reach 25m people by the end of March 2026.

a Fibre-to-the-premises, also known as full fibre.

A message from our Chairman continued

We have now seen almost five years of consecutive improvements in our quarterly customer satisfaction surveys and, most recently, record Net Promoter Scores for both the BT and EE brands.

Board changes

We welcomed two new directors during the year: Adel Al-Saleh joined on 15 May 2020 as a non-independent, non-executive director and Deutsche Telekom's nominated representative, and Sara Weller CBE joined on 16 July 2020, immediately before the AGM.

Mike Inglis has decided not to put himself forward for re-election as a non-executive director at our 2021 AGM. Our thanks go to Mike for his six years of service and as a highly active member of the Board, sitting at various times as a member of virtually all our committees – the *Audit & Risk*, *Nominations*, *Remuneration*, *BT Compliance* and *Digital Impact & Sustainability Committees*.

As announced on 1 March 2021, I will be retiring as chairman of the company later in the year. Chairing the Board of BT has been a tremendous privilege. Although it's a much over-used word, it really is true that BT is a unique business. With it come a unique set of challenges but navigating the complexity is as rewarding as it is demanding, because what this great company does, really matters to so many people. However, having served as chairman of significant FTSE companies for 17 years, I know that personally the time is now right for me to focus on other interests.

The search for my successor is being led by Iain Conn, the senior independent director, and shareholders should know that I have assured the Board that I am fully committed to serve as chairman as part of an orderly transition process until my successor is in place.

Prospects

If, in my fourth and final letter to shareholders, I wanted to reflect on events since I stepped up as chairman, there can be no denying the overall decline in our share price – a decline which in fact stretches back a full five years. I know shareholders will derive little comfort from the knowledge that much of this decline reflects trends seen across our sector, but I am pleased that our share price has performed much better over the last year, increasing by about 50% from the depressed levels at which we traded for much of last year.

Much of that recovery reflects the tremendous dedication and hard work of the management team in recent years, together with some real improvements in the fundamental prospects of our business.

Our relationship with Ofcom has improved significantly since 2017 and the business case for FTTP is now clearly positive. In a few short years, the number of premises passed by Openreach has increased more than tenfold from 420,000 premises to 4.6m. And Openreach is now building at pace – aiming to ramp up its build rate to 4m homes and businesses a year.

Our Global business has fully recovered from its significant problems some years ago. A new leadership team with a new strategy has worked tirelessly to divest networks and operations in around 20 countries globally and are successfully executing their strategy to focus capabilities on today's software-defined world. Global is now fully stabilised and making a positive and valuable contribution to the group.

In our Consumer business we are seeing the benefits of some significant long-term investments aimed at improving customer experience. We have on-shored our customer service teams; we are levelling up the gap between new and existing customer pricing; and we are now starting to see the first wave of truly converged products that use the combined power of BT's fixed and mobile networks coming to market. We have now seen almost five years of consecutive improvements in our quarterly customer satisfaction surveys and, most recently, record Net Promoter Scores for both the BT and EE brands.

Looking to the future, the Board and management do not for a moment under-estimate the scale of the challenge we face in further modernising BT to ensure that we can provide brilliant service to our customers in a highly competitive industry. At the same time, we are excited by the opportunities ahead of us.

BT has a strong and diverse Board at the helm, an outstanding leadership team under our chief executive, Philip Jansen, and a clear strategic purpose and vision that is being well executed. I am proud to have played a part in helping to achieve these strong building blocks and I have every confidence that BT is well placed for the next stage in its development towards consistent and sustainable growth over the long term.

Jan du Plessis
Chairman
12 May 2021

A message from our Chief Executive

In a year when so much has been reappraised across business and society, BT's purpose has shone through as a clear guiding principle: we connect for good. Globally, our colleagues have gone the extra mile for our customers this year, keeping them, their families, friends and businesses connected.

We launched a range of customer initiatives to help people during the pandemic, including our digital skills and inclusion campaigns, Top Tips on Tech and our Lockdown Learning support package; our free unlimited data offer for EE customers working in the NHS; the launch of our Small Business Support Scheme; and we provided high-speed fibre and wi-fi connectivity to over 200 vaccination centres, connecting mass testing centres and 17 temporary NHS hospitals in England, Scotland and Wales.

A pivotal year

A message from our Chief Executive continued

> Our record high customer service ratings reflect the outstanding efforts of all our colleagues. We've still got progress to make but these are good signs, demonstrating the value our customers place on the critical connectivity we provide them.

Our record high customer service ratings reflect the outstanding efforts of all our colleagues. We've still got progress to make but these are good signs, demonstrating the value our customers place on the critical connectivity – as well as the improvements in experience and service – we've provided them this year. Customer ratings are positive across virtually all parameters and BT's customer satisfaction is the highest it's ever been.

That doesn't mask the fact that the pandemic has been hard for our colleagues. At the start of the year we gave our frontline key workers a 1.5% pay rise and froze pay for managers; we guaranteed no job losses directly resulting from the pandemic in the first three months of the year; and we took the decision not to use the Government's furlough scheme. For the current financial year we have frozen pay for all colleagues but plan to pay a special bonus for our frontline colleagues of £1,000 in cash and £500 in shares to recognise and thank them for their efforts.

We also supported colleagues around the world by setting up a dedicated wellbeing portal, providing weekly updates from our chief medical officer, listening and responding to colleagues' concerns and massively ramping up our internal communications to ensure they felt supported wherever they are.

Despite the outstanding operational performance of our colleagues in the face of the pandemic, our financial performance during the year was significantly impacted by Covid-19. Revenue alone was around £1.6bn lower than the previous year and this had a knock-on effect on our EBITDA and normalised free cash flow.

Importance of our networks

Without connectivity as we know it today, the global impact of Covid-19 would have been unthinkable. BT's leading networks have been a lifeline throughout the pandemic for our customers. Daytime data traffic over our broadband network doubled from an average of five terabits per second (Tbps) to around 10 Tbps with more people at home during the day.

2020 will be the year we look back on as the moment society truly understood the value of good connectivity. In 2021, we're stepping up to deliver the next generation of infrastructure and we will be increasing and accelerating our FTTP build plan by an additional 5m premises, from 20m to 25m by December 2026. We have the capacity to fund this additional build from internal resources. However, we believe we can deliver further value to shareholders by funding the additional 5m premises through a joint venture with external parties and we will begin exploring options.

In mobile, we have extended our 4G coverage, and hit our target of doubling our 5G network which now reaches 160 towns and cities with broader and more highly rated coverage than any other operator. Following the conclusion of Ofcom's 5G spectrum auction in March 2021 – securing the spectrum we need at a lower than expected cost – we will be able to continue growing our position as the UK's number one 5G network.

The investments we make in these two leading networks over the next decade or so mean we'll be able to combine them to create the UK's leading smart converged network, the power of which will deliver economic prosperity for decades to come.

Improved investment case

The confirmation of our FTTP investment, based on our confidence of being able to achieve a fair return; the completion of the 5G spectrum auction; and the successful conclusion of the 2020 triennial BT Pension Scheme valuation have cleared up some significant uncertainties for our shareholders. This clarity now allows us to focus on executing our strategy and returning BT to growth.

Refreshed strategic direction

In July 2020, we introduced BT's new strategic framework. It comprises three pillars which support our ambition to be the world's most trusted connector of people, devices and machines: build the strongest foundations; create standout customer experiences; and lead the way to a bright sustainable future.

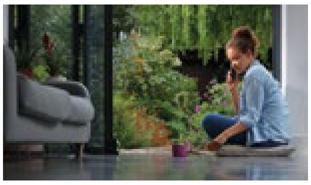
Our network investments form a key part of our work to build the strongest foundations for the company. During the year, I also made changes to the *Executive Committee* and to the way we operate across the organisation to ensure we are best placed to continue delivering for our customers.

160

We continued to invest in our mobile network, hitting our target of doubling our 5G footprint and reaching 160 towns and cities with EE's mobile network

Halo 3+

We're providing customers with the seamless connectivity they need: we launched Halo 3+, the UK's first unbreakable broadband connection



x2

Daytime data traffic over our broadband network doubled from an average of five terabits per second (Tbps) to around 10 Tbps with more people at home during the day

In January 2021, we announced Mike Sherman's departure and the formation of two new units: Digital, led by Harmeen Mehta, who joined from Bharti Airtel, in the newly created role of chief digital and innovation officer; and Networks, led by Howard Watson, chief technology officer. Rob Shuter joined as CEO of Enterprise in February 2021 from MTN, replacing Gerry McQuade who retired from BT. In March we announced that Sabine Chalmers will become general counsel and director of regulatory affairs, following the departure of Cathryn Ross who will leave BT in June 2021 for a new role outside our sector.

With this much strengthened executive team now in place, we are set to accelerate our progress to modernise BT and return this business to top-line, profitable growth. Last year we set our target of £1bn annualised cost savings by 2023, rising to £2bn by 2025. We've made very good progress in the first year, achieving £764m of gross annualised savings in 2020/21.

During the year we also broke new ground with the introduction of exciting products that will provide customers with the seamless connectivity they need: we launched Halo 3+, the UK's first unbreakable broadband connection; EE had a great launch of the Apple iPhone 12 in the autumn; and Global launched Eagle-i, our new security platform that will transform our managed services through proactive, predictive cyber security protection.

To see Philip in conversation visit our online annual review.

bt.com/annualreview

Looking forward

In March 2021, our chairman, Jan du Plessis, announced his intention to retire from the Board. On behalf of everyone at BT, including the Board and the *Executive Committee*, I wish Jan all the very best for his retirement, thanks for his wise counsel and congratulations on a truly outstanding and accomplished career.

We are investing heavily in the future of the business, including the expansion and acceleration of our full fibre build plan. This additional investment reflects the scale of our ambition to reinforce the foundations for growth, both for the company and the nation.

During this financial year we'll start our pivot to growth in revenue and EBITDA. We'll continue to grow both metrics predictably and consistently into the future, underpinning the reintroduction of our progressive dividend this year.

Although the scale of the investments we are making will inevitably press on cash flow over the next few years, they will not impact our ability to pay a dividend and they are designed to deliver enduring success for all BT stakeholders. Furthermore, once we are through the peak investment phase, we will see a very material increase in cash flow creating further options for BT in the future.

We've achieved a huge amount this year, and while there's still a lot more to do, BT is now on the front foot and driving growth and value for all our investors and stakeholders.

Philip Jansen
Chief Executive
12 May 2021

Executive Committee

The *Executive Committee* provides input and recommendations to assist the chief executive with strategy development and operational management. It is chaired by the chief executive.

The *Executive Committee* assists the chief executive to:

- develop group strategy and budget for approval by the Board
- execute the strategy once the Board approves it
- give assurance to the Board on overall performance and how we're managing risks.

The chief executive, or his delegate, take all decisions. This is so there is a single point of accountability.

***Executive Committee* changes**

The following changes to the *Executive Committee* took place during the year:

- Gerry McQuade left BT and therefore ceased as CEO, Enterprise
- Rob Shuter joined BT as CEO, Enterprise
- Michael Sherman left BT and therefore ceased as chief strategy and transformation officer
- Harmeen Mehta joined BT as chief digital and innovation officer.

The following changes have been announced to the *Executive Committee* that will take effect from 1 June 2021:

- Cathryn Ross will leave BT and therefore cease as regulatory affairs director
- Sabine Chalmers will become general counsel and director of regulatory affairs.

Philip Jansen
Chief executive
Appointed as chief executive in February 2019 and to the Board in January 2019.

Philip joined BT from Worldpay where he had been CEO since April 2013. Before that he was CEO and then chairman at Brakes Group between 2010 and 2015. Philip spent the previous six years at Sodexo where he was group chief operating officer and chief executive, Europe, South Africa and India. Prior to that he was chief operating officer at MyTravel Group from 2002 to 2004 and managing director of Telewest Communications (now Virgin Media) from 2000 to 2002, after starting his career at Procter & Gamble.

Simon Lowth
Chief financial officer
Appointed July 2016.

Simon was CFO of BG Group before the takeover by Royal Dutch Shell in February 2016. Prior to that he was CFO of AstraZeneca, and finance director and executive director of ScottishPower. Simon was also previously a director of McKinsey & Company.

Ed Petter
Corporate affairs director
Appointed November 2016.

Ed was formerly deputy director of corporate affairs at Lloyds Banking Group. Prior to that he held corporate affairs roles at McDonald's Europe, McKinsey & Company and the Blue Rubicon communications consultancy, having previously worked as a news producer and editor at the BBC.

Howard Watson
Chief technology officer
Appointed February 2016 as chief technology and information officer and became chief technology officer in March 2021.

Howard was formerly chief architect and managing director, global IT systems and led the technical teams behind the launch of BT Sport in 2013.

Howard joined BT in 2011 and has 30 years of telecoms experience having spent time at Telewest Communications (now Virgin Media) and Cartesian, a telecommunications consultancy and software company.

Marc Allera
CEO, Consumer
Appointed September 2017.

Marc was previously CEO, EE and prior to that chief commercial officer for EE from 2011 to 2015. He spent ten years at Three UK as sales and marketing director and chief commercial officer. Prior to that, Marc was general manager of Sega UK and Europe.

Bas Burger
CEO, Global
Appointed June 2017.

Bas was formerly president, BT in the Americas, Global Services. Bas joined BT in 2008 as CEO Benelux.

Before joining BT, Bas was executive president and a member of the management committee of Getronics NV, where he ran global sales, channels and partnerships, developing the company's international business. He was also CEO and managing director of KPN Entercom Solutions.

Sabine Chalmers
General counsel
Appointed April 2018.

Before joining BT, Sabine was chief legal and corporate affairs officer and company secretary of Anheuser-BuschInBev for 12 years. She also held various legal leadership roles at Diageo. Sabine is qualified to practise law in England and Wales and New York State.

Harmeen Mehta
Chief digital and innovation officer
Appointed March 2021.

Before joining BT, Harmeen was group CIO and head of cloud & security business at Bharti Airtel. Harmeen has experience leading digital, engineering, IT and innovation transformation. Harmeen has previously been CIO at Bank of America Merrill Lynch, BBVA and HSBC.

Cathryn Ross
Regulatory affairs director
Appointed January 2018.

Cathryn was formerly chief executive of Ofwat, the independent economic regulator for the water and wastewater sector in England and Wales. Cathryn is an experienced regulatory and competition economist and has worked across a number of different sectors advising on economic, regulatory and competition issues.

Rob Shuter
CEO, Enterprise
Appointed February 2021.

Before joining BT, Rob was group president and CEO of MTN Group. Prior to joining MTN, Rob was CEO of the Europe cluster of Vodafone Group having worked there from 2009 to 2016. Earlier in his career, Rob held various roles in the financial sector in South Africa sector including managing director of retail banking at Nedbank and head of investment banking at Standard Bank.

Alison Wilcox
HR director
Appointed July 2015.

Alison was formerly regional HR director for Vodafone Europe and, before that, regional HR director for Vodafone's Africa, Middle East and Asia Pacific footprint. Alison joined Vodafone in 2006 as group director of leadership following a career in consulting.

Clive Selley
Invitee
CEO, Openreach
Appointed February 2016.

Clive was formerly CEO, Technology, Service & Operations, CEO innovate & design and before that president, Global Services portfolio & service design. The CEO, Openreach cannot be a member of the *Executive Committee* under the provisions of the Commitments. Clive attends *Executive Committee* meetings as appropriate.

Rachel Canham
Company secretary & general counsel, governance

Rachel is company secretary of BT Group plc. She joined BT in 2011 as a senior commercial lawyer before becoming chief counsel for mergers & acquisitions in 2013. Rachel was appointed company secretary & general counsel, governance in November 2018. Rachel or her delegate attends all *Executive Committee* meetings.

About BT and our purpose

We're one of the world's leading communications services companies. The solutions we sell are integral to modern life. Our **purpose** is as simple as it is ambitious: **we connect for good**. There are no limits to what people can do when they connect. And as technology changes our world, connections are becoming even more important to everyday life.

We connect for good

We champion these connections and empower people and organisations to get more from this emerging world, removing limits and unlocking potential. We harness the power of technology to help solve some of the world's biggest challenges such as cyber security, the global pandemic and climate change.

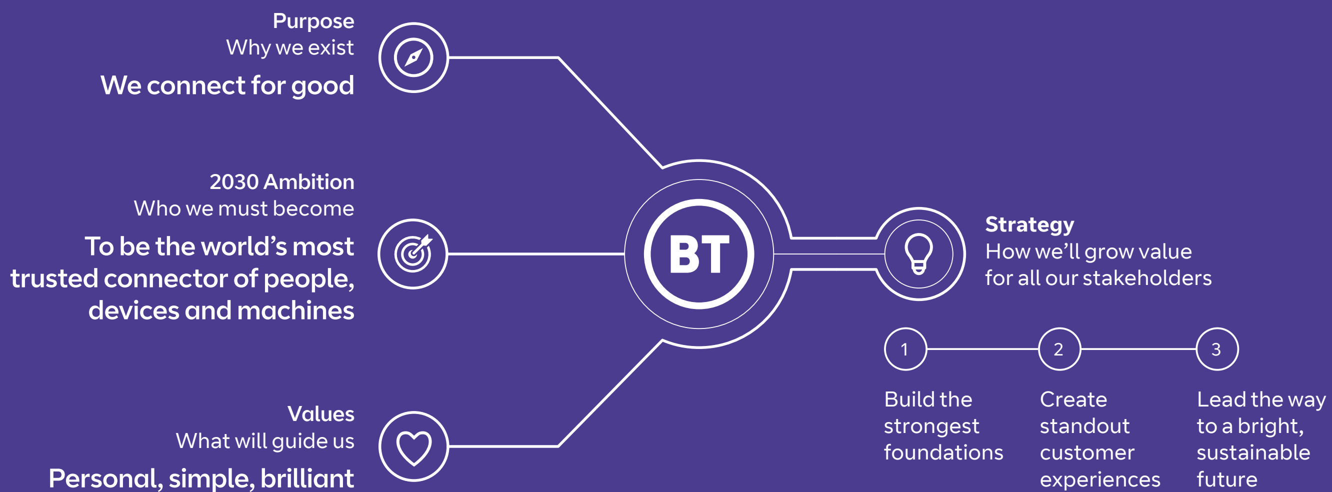
Our **ambition** is to be the world's most trusted connector of people, devices and machines. Technology is rapidly and fundamentally changing our lives, businesses and societies, and trust will play a critical part in our customers being able to take advantage of these changes. We want to keep showing our customers they can trust and depend on us – that we're by their side, fixing their problems, innovating to make their lives easier and better.

Guiding how we deliver our purpose and ambition, our **values** of personal, simple, brilliant help us do the right thing for our customers, colleagues and country.

We're one of the UK's best-known companies. And we're also a global organisation, able to provide solutions for our customers in over 180 countries. 2021 marks our 175th birthday, making us the world's oldest communications company too.

We provide fixed, mobile and converged connectivity solutions. They include broadband, mobile, TV, networking, IT services and related services and applications. We're responsible for building and operating networks and delivering the connectivity-based solutions that are essential to modern lives, businesses and communities.

We're made up of organisational units. There are customer-facing units that sell solutions to our customers and corporate units that support the whole group. Openreach is a separate but wholly-owned customer-facing unit which is operationally independent.



See page 19 for more information on our strategy.

Financial highlights

Revenue
£21.3bn (7)%
(2019/20: £22.9bn)

Profit before tax
£1.8bn (23)%
(2019/20: £2.4bn)

Adjusted[a] EBITDA
£7.4bn (6)%
(2019/20: £7.9bn)

Cash flow from operating activities
£5.3bn (16)%
(2019/20: £6.3bn)

Normalised free cash flow[b]
£1.5bn (27)%
(2019/20: £2.0bn)

Basic earnings per share
14.8p (15)%
(2019/20: 17.5p)

Capital expenditure
£4.2bn 6%
(2019/20: £4.0bn)

a Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense), as explained on page 198.
b Normalised free cash flow as defined on page 199.

Our customer-facing units

Consumer

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

Global

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

Enterprise

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

Openreach

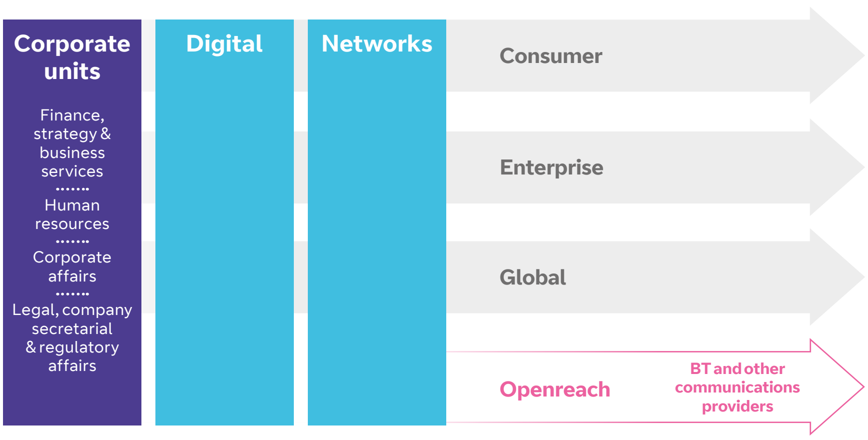
Openreach runs the UK's main fixed connectivity access network, connecting homes, mobile phone masts, schools, shops, banks, hospitals, libraries, broadcasters, governments and big and small businesses to the world. To make sure everyone in the UK benefits from being connected, we want to build the best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

How we're organised

Digital innovation and our network are at the heart of our ambition. We launched our new Digital and Networks units on 1 April 2021. Digital is responsible for driving our own digital transformation – and rapidly developing and delivering innovative solutions and outcomes for our customers. Networks has clear accountability for building and operating our networks and protecting network leadership. These two technology units will work together to lead and drive a unified technology strategy and architecture to underpin our transformation and growth.

Our operating model

Our operating model shows how our organisation is designed to deliver our strategy. It describes the business units, their accountabilities and interfaces. It also explains the intent, purpose and spirit of our operating model.



Mandate

Corporate units
Run activities on behalf of the business where it's beneficial to do things once, for everyone

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

Customer-facing units
Own the customer relationships and deliver solutions, outcomes and services to our customers

Openreach
Runs the UK's main fixed connectivity access network for all its customers with greater strategic and operational independence

Our business model

We build, own and operate the UK's largest fixed and mobile networks which support the country's digital ambitions. We design, market, sell and support differentiated, innovative and compelling solutions to our customers – often working with partners.

We operate in wholesale and retail markets. Our customers are consumers, businesses, multinational corporations, public sector organisations and other communications providers.

We keep our customers at the heart of everything we do. Our portfolio of solutions delivers standout customer experiences – helping customers connect, communicate, share, be entertained and do business more effectively.

Consumers buy solutions from our BT, EE and Plusnet brands. They include landline, mobile, broadband and TV services, coupled with supplementary propositions like handsets, accessories and insurance.

Businesses buy similar solutions from us, but with more focus on complex managed network solutions, IT services and cyber security.

Most customers buy BT products and services on monthly, recurring subscriptions or contracts. Individuals, households and small and medium-sized enterprises (SMEs) are typically on 12–24 month contracts. Larger UK and international business customers usually buy managed solutions on multi-year contracts. Wholesale customers buy contracts ranging from one month to five or more years. All these contracts and subscriptions provide ongoing revenue and help build long-term, trusted customer relationships.

Pages 59 to 66 explain how our group risk categories could affect our business model.

Our distinctive assets

We have a unique combination of people, technology, content, networks and other assets. This helps us stand out from the competition and provides opportunities to create value for all our stakeholders.

Customers

Our trusted relationships with our large customer base help us understand their current and future needs and put us in a strong position when developing and launching new solutions and propositions. We have a diverse customer base including over 14m households, 1.2m UK and Republic of Ireland business and public sector organisations and almost 4,000 global customers. More than 1,400 UK communications providers buy our network solutions and propositions too.

Colleagues

We realise our ambitions through our colleagues. This was especially clear during the pandemic as colleagues everywhere kept the UK and our global customers connected. We have 99,700 full-time equivalent colleagues globally, 80,400 of whom are in the UK. Their knowledge, behaviours, skills and expertise are vital to delivering on our purpose to connect for good.

Innovation

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

Retail footprint

With more than 580 UK BT/EE retail stores, we have the largest retail footprint of any communications provider. It gives us a uniquely broad reach to engage with, support and grow our customer base.

Financial strength

Strong, recurring cash flows help us invest in long-term, value-creating initiatives. This year, we generated £1.5bn in normalised free cash flow[a], after investing £2.3bn in our network to continue delivering the best experiences to our customers.

Data

Our vast, rich data sets help us create more personalised and meaningful experiences for our customers. As we apply AI and machine learning, we'll be able to work smarter, provide customers with better solutions and outcomes, and open up new growth opportunities.

Networks and physical assets

We own and operate the UK's largest fixed network. More than 660 communications providers use it to connect their customers. We also hold significant stakes in mobile spectrum, with extensive UK geographic and population coverage. EE has been RootMetrics' No. 1 UK mobile network for seven years in a row and we have a leading integrated core network. Our unique network and physical assets help us deliver reliable and superior service to our customers.

Our brands

We serve end customers through three distinct, well-established and trusted brands – BT, EE and Plusnet. They help us win and keep a wide range of customers across different market segments, through solutions targeted to meet their needs. In addition, the Openreach brand serves communications providers.

Suppliers and partners

We work closely with a wide range of established partners and suppliers. Without them, we couldn't deliver the solutions that best meet our customers' needs.

You can find out more about how we engage with colleagues, customers, suppliers and other stakeholders on **pages 34 to 41**.

a Normalised free cash flow as defined on page 199.

Key trends influencing BT

Intense competition

Many of our markets are mature and highly contested by well-known and new competitors. This can drive prices down. But there are still opportunities. Deploying new or more advanced connectivity technologies and solutions creates more value for customers, and for us.

Economic uncertainty

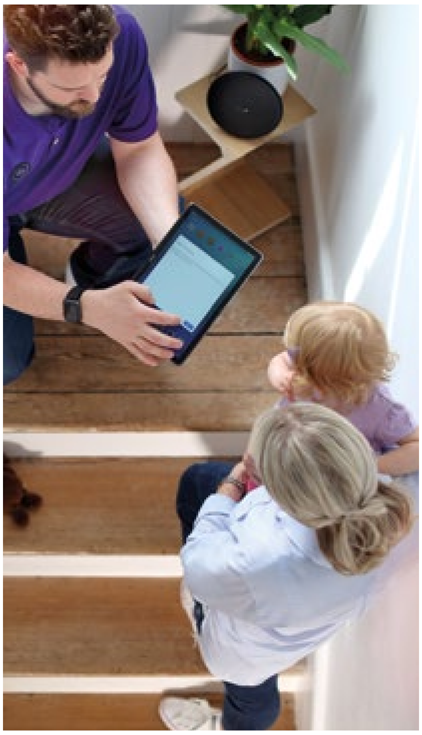
The Covid-19 pandemic led to unprecedented economic uncertainty. The UK economy has shrunk. Unemployment has gone up.[a] Although a recovery is predicted in 2021, it's by no means certain. But while Covid-19 has caused financial concern for many consumers, most expect to spend the same or more on communications.

Increasing importance of connectivity and digitalisation

a Monetary Policy Report – February 2021 *Bank of England.*

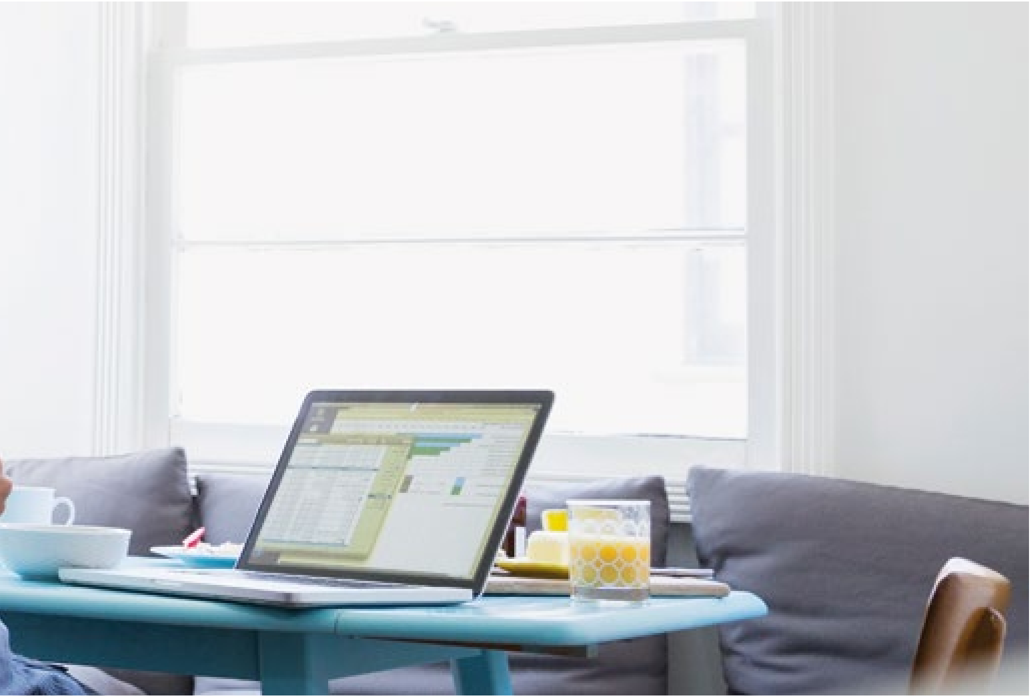
New technologies

FTTP and 5G will help networks handle the demand of more connected devices and higher data use, combined with ever-higher speed and reliability expectations. They will also open up new growth opportunities like edge computing, cloud computing, AI and machine learning. And with the increased reliance on connectivity and these new technologies comes a need for stronger and more dependable cyber security.



Shifting customer expectations

Customers continue to care more about getting extra value. With so many more connected devices at home and work, things like flexibility and security become even more important. Most important of all is reliability. Customers need strong and consistent connectivity that isn't affected by family members, colleagues or anyone else's activity.



Covid-19 underlined the importance of being connected. There was a huge rise in the number of people working from home and businesses had to accelerate their digital transformations. While the core network is still essential, we'll keep evolving the solutions we offer to meet our customers' changing needs. As consumers and businesses adapt to the post-pandemic socio-economic climate, they'll need reliable yet flexible connectivity more than ever.

Convergence

Indoors or outdoors, rural or urban, on the move or at home, wherever people or businesses are based, today the need for a consistent connection is universal. Whatever the underlying technology, service must be seamless, and converged propositions that combine fixed and mobile services also create richer customer experiences.

Regulatory update

UK Government and Ofcom's investment focus

The Government recognises how important it is to invest in gigabit-capable networks, with their potential to deliver big economic and societal benefits. In line with the Government's strategic priorities, Ofcom has continued working to create a regulatory framework for fixed communications that encourages investment.

Wholesale Fixed Telecoms Market Review (WFTMR)

Ofcom's WFTMR sets out a clear and long-term framework that promotes and rewards network investment by everyone. It also ensures that consumers will continue to have access to affordable broadband as new networks and services become available. This is positive for BT and our customers. It supports our target to deliver 25m full fibre homes by December 2026 – meaning our customers will get the faster and more reliable services they need.

Ofcom's investment support comes in a number of forms. The new regulatory framework provides greater stability by virtue of having five-year market review periods instead of three and looking across all of the wholesale fixed telecoms markets instead of considering business and residential connectivity separately.

To support competitive investment, wholesale access prices for fixed final mile legacy services will remain stable in real terms across the country until at least 2031. Similarly, Ofcom does not expect to regulate wholesale prices of full fibre final mile services until at least 2031 – depending on prevailing customer outcomes, investment levels and competition. Any regulation beyond that point won't strip away any upside we have earned up to then, and won't cap our investment returns below what is needed to compensate for the downside risk our investors are taking when they decide to invest in fibre today. This is otherwise known as Ofcom's 'fair bet' commitment.

We'll keep working constructively with Ofcom to implement the new regulatory framework. At the same time we'll make sure we can compete fairly so that Openreach can offer attractive terms to all its downstream communications providers, helping them quickly deliver new services to customers. Implementing the framework will need further work with industry to make duct and pole use simpler, complying with new rules on quality of service, and delivering on our commitment to a 'balanced build' across the UK.

Government support for fibre

We continue to believe there is more the Government could do to reduce the cost of building full fibre networks, for us and other providers. That would speed up full fibre rollout and catalyse economic and social benefits. Cumulo rate relief (relief on the rates charged against our network assets such as ducts and poles) and 'barrier busting measures' to make wayleaves and planning easier would help fibre investment go faster.

The Government says it will provide at least £1.2bn to support full fibre rollout. This may potentially increase to £5bn if our industry can build gigabit-capable networks to the UK's 'final 20%' of premises over the next five to ten years to support its target. We expect this money to be available through Government procurement, helping us invest in places that wouldn't normally be commercially viable. When we have more details, we'll decide whether to bid for funds in line with our business investment criteria.

Shared Rural Network

We're making great progress extending our rural 4G coverage as part of the Shared Rural Network initiative. We're upgrading hundreds of existing sites to meet the new coverage obligations in our spectrum licence – including reaching 88% UK geographic coverage by 2024. The Department for Digital, Culture, Media & Sport should announce grant funding soon which will enable new, shared infrastructure in areas where today there's no 4G on any network – making sure 95% of the UK will be able to get 4G from at least one provider.

All-IP

UK phone services will move from our legacy public switched telephone network (PSTN) to IP-based services by the end of 2025. This is a key enabler for the wider move to full fibre in the UK.

We've started moving customers off the PSTN and we're working with Government, Ofcom and industry to minimise any disruption. It's a sensitive project because of the need to look after vulnerable customers and the UK's Critical National Infrastructure.

Broadband Universal Service Obligation

Launched in March 2020, the broadband Universal Service Obligation gives individuals the right to a decent broadband connection, where connection costs do not exceed £3,400 or where the end customer agrees to pay any excess costs. That means at least a 10Mbps download speed and 1Mbps upload speed. As designated universal service provider (alongside KCom in Hull), we're upgrading the network to reach more than 5,500 homes and businesses. On top of that, another 400,000 premises can now get better broadband via a 4G wireless hub.

Getting decent broadband to hard-to-reach homes and businesses can be expensive. So we've introduced a cost-sharing scheme that lets customers close to other premises club together and save money on getting connected.

However, it's true that getting a good connection is prohibitively costly for some homes and businesses, and we don't believe this will be fixed by the broadband Universal Service Obligation scheme. We're committed to playing our part, alongside others in industry, Ofcom and Government, to finding new ways to get decent broadband to those hardest to reach.

In October 2020, Ofcom opened an investigation into the way BT quotes excess costs to individual premises on a shared infrastructure. The investigation is ongoing.

Consumer fairness

UK regulators rightly prioritise consumers' interests. We support that. We want regulation which delivers better outcomes for all customers, while providing support for those who are vulnerable. We've continued to work with Ofcom to show how we're sticking to their Fairness for Customers commitments we signed up to in June 2019. That includes:

- supporting customers and helping them engage with the market
- making sure services work like they should
- making it quick and easy for customers to switch communications providers
- ensuring everyone gets fair treatment.

We've brought in protections voluntarily for customers who don't take up a new deal at the end of their contract. BT broadband customers get a capped price increase, and BT Halo customers keep paying the same.

EE mobile handset customers who've been out of contract for more than three months get a price discount from then on. And when their broadband or mobile contract is ending, we offer existing BT, EE and Plusnet customers equivalently-priced deals to new customers if they choose to re-contract.

For customers we know are vulnerable, we've committed to regular account reviews to help them get the best deal for what they need. And we're soon launching a new, easier to access tariff for financially vulnerable customers with wider eligibility.

In 2020 we also completed upgrading around 700,000 customers from copper to superfast broadband at no extra cost.

We're faithful to Ofcom's Fairness for Customers commitments, and therefore, from 1 April 2021, this will receive Board-level oversight from the *BT Compliance Committee*.

You can find more about the *BT Compliance Committee* on **page 86**.

European Electronic Communications Code

In October 2020, Ofcom confirmed a package of new customer protections based on new European Electronic Communications Code (EECC) rule changes. Ofcom and Government have given us until December 2021 to follow most of the rules, and until June and December 2022 for the remainder. This phased approach is mainly because of the impact of Covid-19 combined with the implementation efforts required.

The rules should give customers enhanced rights. For example, from December 2021, all mobile devices must be sold unlocked. And from June 2022, before they order something, customers will be able to get an easily readable contract summary that allows comparison to other providers and services. On top of that, from December 2021, vulnerable customers with a specific need will get better access to the relevant information in a format they choose.

We're implementing these rules and have responded to Ofcom's further consultation on making it easier for home customers to switch providers. We support Ofcom's proposals, which will benefit our home and business customers.

We agree with the EECC rules and what they're trying to achieve. But some of the rules are really complicated. An example of this is the rule on the customer's ability to end any or all elements of bundled services contracts for any non-beneficial change made to any element of that bundle. Our systems need to be able to recognise Ofcom's broad definition of 'linked contract' across any combination of our fixed and mobile services, and sometimes across brands, in order to offer customers this right. We'll keep working through business and systems requirements to comply with this, while simultaneously planning how to minimise unintended consequences.

Spectrum auction

In March 2021, we bid successfully for extra 5G mobile spectrum in Ofcom's auction in the 700MHz and 3.6GHz bands, securing a total of 80MHz for £475m. Following the assignment phase of the auction we secured our preferred positions within the 700MHz and 3.6GHz bands and will rapidly bring the spectrum into use for provision of additional coverage and capacity of 5G services.

Ofcom has now consulted on its 2020s spectrum management strategy. We've supported a number of its proposals, including the development of a spectrum roadmap. We expect Ofcom will issue a number of consultations relating to spectrum in the coming year, including future annual fees for 2100MHz licences and the award of 26GHz spectrum.

Northern Ireland Public Sector Shared Network contract

In December 2020, Ofcom found that we failed to provide information to telecommunications company eir, related to Fibre on Demand on an 'equivalence of inputs' basis, compared with BT's own downstream Enterprise business unit. This related to the bidding process for a public sector fibre contract in Northern Ireland in 2018. We cooperated with and accepted Ofcom's findings, settling with them to pay a fine of £6.3m. We have put measures in place to prevent this happening again. Ofcom recognised that these errors weren't deliberate and that we took a number of steps to comply with the regulatory obligations. Based on Ofcom's decision, we don't believe this impacted the tender outcome of the contract in question.

Brexit

Brexit has changed the UK's relationship with the EU. We have been planning for Brexit for a number of years and there has been no immediate impact from the Brexit trade deal on our operations and service offerings to our customers. We continue to monitor the evolution of the Brexit trade deal. We have teams working on implementing changes needed to work seamlessly for our customers and with our partners in the EU to ensure our services operate as normal.

Our ambition and strategy

Purpose
Why we exist
We connect for good

2030 Ambition
Who we must become
To be the world's most trusted connector of people, devices and machines

Values
What will guide us
Personal, simple, brilliant

Our strategy underpins our ambition: to be the world's most trusted connector of people, devices and machines.

To deliver our ambition we've refreshed our strategic framework so it explains more clearly how our strategy will generate value for all our stakeholders.

The framework is based on three pillars:

Strategy
How we'll grow value for all our stakeholders

1 2 3

Build the strongest foundations

Ambitions are only as strong as the foundations they're built on. That's why we continue to strengthen ours.

Technologically, we're building the **best converged network.** We'll keep investing in full fibre, 5G, network capabilities and extended access. We want to build the best, most reliable converged network to help our customers do more.

Pages 20 to 21

Operationally, we're building **a simpler, more dynamic BT**. We're simplifying our processes and products and modernising our technology. We want to be more efficient and responsive and be easier to deal with and work for.

Pages 22 to 23

Internally, we're building a culture **where people can be their best**. We're stripping away complexity and giving our colleagues the chance to learn and grow. We want to be a destination employer. One that attracts and retains a diverse and talented mix of colleagues who are able to focus on what's important to our customers.

By taking these actions, we'll build strong foundations that our stakeholders can count on.

Pages 24 to 25

Create standout customer experiences

We're relentlessly focused on creating standout customer experiences. We're doing that through the solutions we sell, the outcomes we deliver and how we engage with our customers.

We're moving from selling products and services to delivering better, smarter, **differentiated solutions and outcomes**. We're connecting more customers to new technologies. And we're investing in and innovating across our portfolio of solutions, to meet our customers' current and future needs and to make sure they experience the full benefits that new technologies offer.

Pages 26 to 27

We want to deliver **outstanding experiences and service** for our customers when they use our solutions and when they engage with us across all our channels. We want to always put our customers' needs first – acting transparently, keeping them and their data safe and secure and delivering brilliant service every time. We want them to feel we're a strong and supportive partner that they can trust and rely on.

Pages 28 to 29

Lead the way to a bright, sustainable future

We're looking to tomorrow too. Leading the way to a bright, sustainable future means two things for us:

Firstly, **incubating new technology-driven growth opportunities** where we have a strong right to play and can deliver outstanding outcomes for customers and country.

Page 30

Secondly, being a **sustainable and responsible business** by helping people build better digital lives, championing responsible tech and human rights, and tackling climate change and environmental challenges.

Pages 31 to 33

We want what we do to benefit everyone, and how we do it to build trust between us and all our stakeholders.

We set out the key performance indicators we use to track progress against our strategy on **pages 46 to 47**.

Our directors' annual bonus scorecard measures are linked to our strategic pillars, see **page 95**.

Pages 59 to 66 explain how our group risk categories could affect our strategy.

Strategic progress

Our ambition is bold and stretching. Our strategy guides us on that journey. There will always be more work to do, but this year we've made excellent progress against our strategic priorities.

1

Build the strongest foundations

The best converged network

For us, building the strongest foundations starts with the network. The need for people and businesses to connect has never been greater. As the number of connected devices keeps growing, we need a converged network that uses the best of our mobile and fixed networks to seamlessly support our customers' needs.

To achieve this goal, we continue to invest in existing and new technologies. This year we have made progress against four key priorities:

5G by default

EE is the UK's best mobile network. In 2020, RootMetrics awarded EE UK Best Mobile Network for the seventh consecutive year, including for 5G. So far, we've launched 5G in 160 towns and cities. It's giving our customers faster speeds, a more reliable service and near-instant connections to content. We've also further improved our backhaul links by building almost 3,000 10G links to support enhanced peak speeds for 4G and 5G customers.

To support our business customers we're building and managing 5G private networks, as we have done with Belfast Harbour where we will help accelerate their digital transformation and smart port ambitions with a state-of-the-art 5G ecosystem.

160
towns and cities with 5G

Fibre by default

Our total full fibre footprint now reaches 4.6m premises, over 2m of which were passed in the last 12 months. That's an average of almost 40,000 a week, and in the final week of March 2021 Openreach's build rate surpassed 100,000.

Given Openreach's build confidence, regulatory clarity, the Government's recent tax super-deduction and a positive 5G spectrum auction outcome, we have decided that the conditions are right to increase and accelerate our full fibre build. We have increased our target from 20m to 25m premises, and will accelerate rollout to deliver this by December 2026.

Our accelerated build has three massive benefits: it allows us to go faster, beefing up our capacity to build fibre to households and businesses; it will allow us to go further, getting fibre to more people including in rural communities; and it will help fuel UK economic recovery, delivering better connectivity and creating new jobs.

4.6m
total full fibre footprint (premises)

25m
we've increased our full fibre build target from 20m to 25m premises and will accelerate rollout to deliver this by December 2026

7
number of years that EE has been awarded UK Best Mobile Network by RootMetrics

100,000+
full fibre premises passed in the final week of March 2021

2m+
premises passed with full fibre during 2020/21

Extended access

Today our mobile network covers over 99% of the UK population – helping customers connect, wherever they are. But we're also investing in extending our reach further, growing our access network so customers get a brilliant experience in buildings, on the go and in remote places. This investment is focused on:

- expanding our public wi-fi network to reach 5.8m active hotspots, up from 5.6m
- rolling out 58 new sites in rural and remote locations
- acquiring new spectrum. The results of the recent spectrum auction mean that we will get 700MHz spectrum, which will further boost indoor coverage in buildings and venues, and increase our coverage overall
- deploying a fixed wireless network for new fixed wireless and hybrid broadband propositions. In February 2021, we launched our first hybrid broadband device. It uses fixed and mobile networks, giving our customers a more reliable service and an instant connection when setting up their broadband for the first time.

5.8m
active public wi-fi hotspots

99%
of the UK population covered by our mobile network

Network capabilities

Our focus remains on building secure, flexible and robust core capabilities that ultimately let our customers do more. We're continuing to evolve our core network towards a common cloud-based solution that can manage 4G and 5G. We're running pilot 'use cases' to explore edge-enabled services. We worked with Worcester Bosch to enable smart manufacturing via a private 5G network and a BT-managed edge computing infrastructure. For consumers, we're testing edge-based solutions to enable low latency, real-time uses such as the augmented reality experiences we are exploring as part of the 'Green Planet 5G AR' consortium. The lower latency of these new network capabilities means virtually no waiting. It also delivers a much better experience for consumers and businesses and opens up new ways of connecting and working.

c.3,000
10G links built to support enhanced peak speeds for 4G and 5G customers

Strategic progress continued

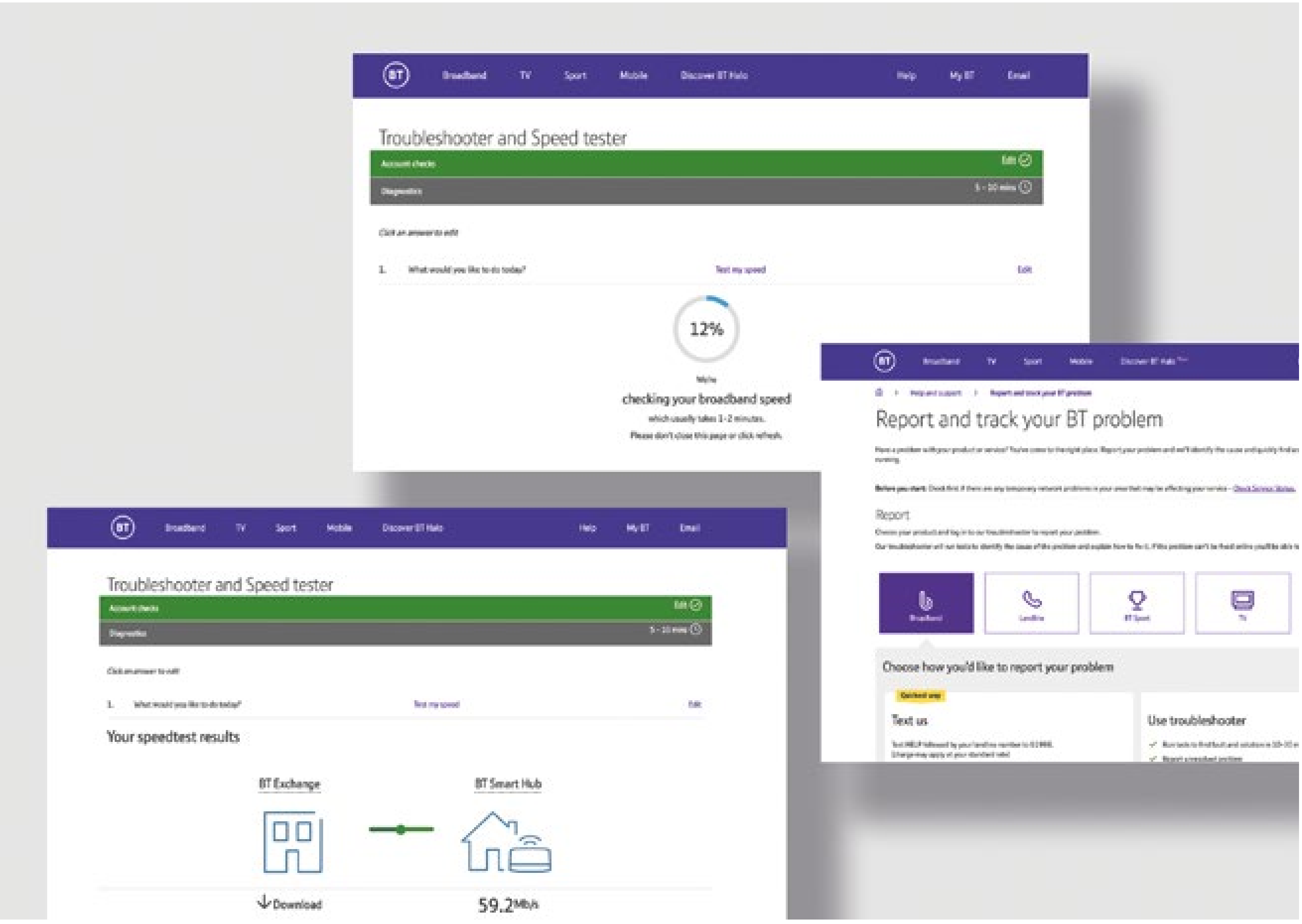
1 Build the strongest foundations continued

A simpler, more dynamic BT

In May 2020, we announced the next phase of our transformation: to modernise our business. To do that, we're focusing on four key missions:

Mission 1. Transforming our customer journeys

At the core of our transformation is building simpler and more automated processes so we can deliver more quickly and efficiently for our customers. So, we're investing in speeding up customer journeys and reducing the number of failures and manual interventions. This will make our operations more productive and radically improve our customer experience. We have launched the first digital journeys for our SME customers, who can now order many of our Halo for Business packages online. This means less effort for our customers, and for our SME sales advisers. We have also built new full fibre journeys, supported by components of our new strategic IT architecture, which will go live early in 2021/22. Most importantly, customers are telling us they're getting a better experience.



By reducing the complexity of our product portfolio – particularly products with outdated features, slow speeds, or data caps – we will be able to deliver a better customer experience.

Mission 2. Simplifying our product portfolio

Reducing the complexity of our product portfolio – particularly products with outdated features, slow speeds, or data caps – is better for us and our customers. It makes offers simpler for us to manage and easier for customers to understand. In the past year, we've removed over half of our older consumer broadband products. We also reduced the number of Global product variants we sell by 34%.

50%+

reduction in our older consumer broadband products

Mission 3. Migrating our customers onto our strategic networks

Our new strategic networks are more capable and reliable, with lower running costs than our legacy infrastructure. Moving customers to new, converged propositions helps us gradually retire these legacy networks. This year, we have launched a number of strategic propositions; for example our consumer customers can now get our IP-based Digital Voice service. We now have 1.5m IP voice connections (mainly businesses), a nearly 40% increase this year.

c.40%

increase in IP voice connections during 2020/21

Mission 4. Moving to a modern, modular IT architecture

We want to launch market-leading products and features to our customers faster. To do that, we're radically simplifying our IT estate, embracing cloud solutions and common components. Over the last year we've been building the foundations of our new IT architecture, based on modern, modularised software components deployed on industry standard platforms. We've now deployed a number of major software platforms such as ServiceNow, Salesforce and Vlocity. And we've started building new, highly automated customer journeys on these platforms, for example to support our Halo for Business and full fibre products.

On top of the progress across these four missions, we've also delivered productivity improvements and managed costs through initiatives like:

- new operating models for our Consumer call centres and Enterprise regional sales teams
- improved use of data insights and advanced analytics to identify the most challenging customer order and fault journeys to proactively respond to potential issues
- operational productivity improvement programmes
- enhanced procurement supported by digital tools
- rigorous functional cost control and Covid-19 mitigating actions.

Our modernisation programme is a key driver for delivering annualised gross cost savings. Last year we announced a target of £1bn in gross cost savings by March 2023, increasing to £2bn by March 2025. We anticipated each target would cost £900m and £1.3bn to deliver, respectively. We're already ahead of schedule, having delivered gross annualised savings of £764m with an associated cost of £438m.

£764m

gross annualised savings delivered during 2020/21

Strategic progress continued

1 Build the strongest foundations continued

A culture where people can be their best

Our colleagues are central to delivering our ambition so our people strategy aims to make BT a brilliant place to work. This year, we focused on continued skills development, diversity and inclusion, and health, safety and wellbeing.

20,000+
colleagues attended masterclasses led by learning and business experts

1.5m
video views on our new digital learning management system

Skills development

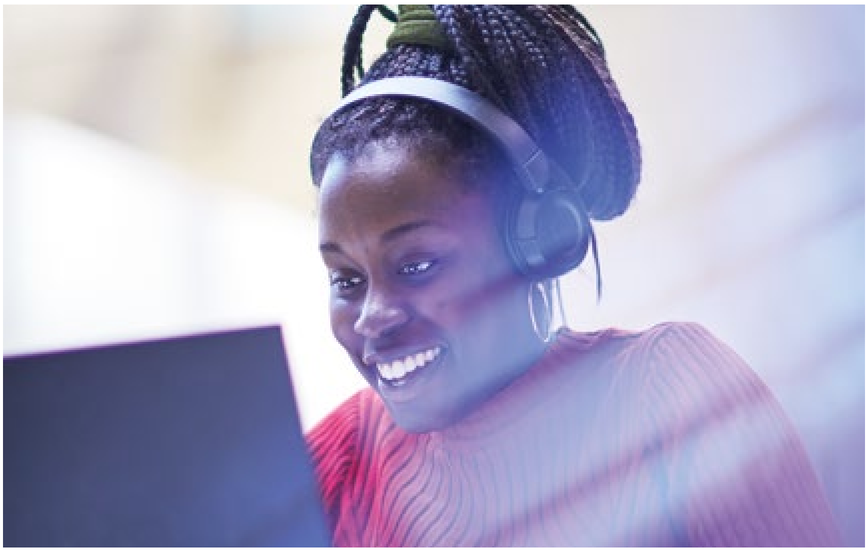
Nurturing future skills creates a culture where people continually want to be their best. We continue to invest in skills development for all colleagues, including technical skills, agile ways of working, resilience and adaptability.

As part of our commitment to unlimited learning, this year we deployed a new digital learning management system. Since launch, there have been more than 1.5m video views. And more than 20,000 colleagues have attended masterclasses led by learning and business experts.

We want to understand and match skill supply to future demand. So we're integrating workforce and skills planning capabilities, and using AI tools, to include data-driven external benchmarks in our skills development. This will help us find opportunities to reskill colleagues to areas of demand.

We also launched a programme to support frontline colleagues who want to transfer into other areas of BT and continued to host and expand networks like TechWomen.

Despite the pandemic, we continued to attract fresh talent – with our graduate and apprentice programmes playing a big part. This year, we hired over 8,700 colleagues. 6,700 of them are in the UK, including more than 1,800 new apprentices and over 200 graduates. At the same time c.14,200 colleagues left BT – c.7,900 through natural attrition, c.4,200 through paid leaver programmes and c.2,100 through divestments.



Diversity and inclusion

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

This year, we increased our focus on race equality, particularly around addressing issues of systemic racism and instances of prejudice across our business. We launched our Ethnicity Rapid Action Plan, and made significant progress in the areas where we could make the biggest immediate differences. We're proud to be a Lifetime Visionary Partner of Race Equality Matters. As at 31 March 2021, nearly 10% of our UK employees[a] declared they were from a Black, Asian or minority ethnic background.

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

Further information on our approach to diversity on our Board as well as our Board Diversity and Inclusion Policy can be found in the **Corporate governance report** on **page 81**.

You can find more about our diversity and inclusion strategy at **bt.com/diversity-and-inclusion**

Health, safety and wellbeing

Covid-19 presented new and far greater day-to-day challenges to customers' and colleagues' health, safety and wellbeing. We're offering a lot more support to our colleagues, to promote their ongoing health and resilience.

During the pandemic, we have delivered preventative wellbeing services, supported shielding workers with a bespoke rehabilitation service and launched an online medical support programme. Our chief medical officer has provided regular updates, with content on topics like remote working, emotional resilience and communication.

Putting effective Covid-19 management measures in place helped our operational, customer and field teams keep working

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

safely while following Government guidelines and legislation.

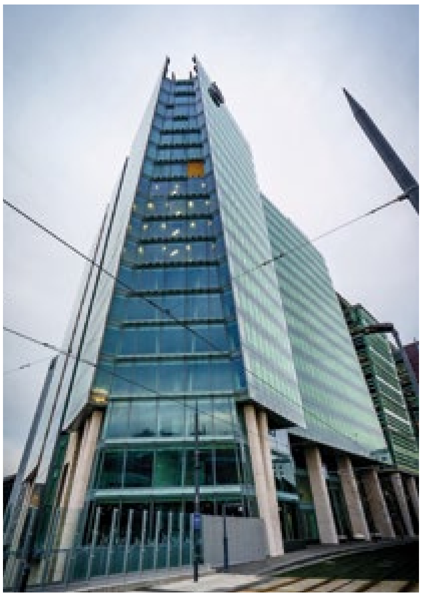
Over 50,000 key workers continued to work from our buildings and out in the field during the pandemic, alongside more than 3,000 retail colleagues who staffed our shops when they were allowed to open.

Sickness absence fell this year, with 2.85% calendar days lost per colleague (a reduction from 3.00% last year). Our workforce had 203 lost time injuries as a result of accidents this year (compared to 198 last year); whilst the annual injury volume is down more than 26% from just five years ago. When our colleagues need support, BT-funded rehabilitation returns nearly 95% of them to full duties.

Tragically we suffered one fatality in 2020 involving an Openreach field engineer. The field engineer had been attempting to provide a fix to a line passing over a river following a period of high rainfall. We are deeply saddened by this loss and continue to focus all our efforts on reducing the risks to our workforce and others affected by our activities.

Workspaces

We're continuing to improve our workspaces to make them brilliant places for our colleagues to work. Our Better Workplace Programme is going well, consolidating offices into fewer buildings that are fit-for-the-future. Once Covid-19 allows, our new Birmingham hub is ready for colleagues to go back to and will eventually host around 3,500 people. In Manchester, building work is about to start at a new and prestigious office location. Construction work at our new London headquarters and Bristol office is also well underway. In Warrington, we've bought a new contact centre. And as part of the plan, we've also exited several sites across the UK.



Pay and benefits

To attract and retain the best talent, and reward our colleagues for their work, we regularly review pay and benefits in the context of competitiveness, sustainability and fairness. For all BT managers eligible for a bonus, we use a group-wide scorecard with a mix of financial and non-financial measures. It means our bonuses match our strategic priorities and stakeholder responsibilities. In line with the Commitments, bonuses for Openreach colleagues are linked solely to Openreach's performance.

We have once again this year announced that all eligible colleagues will receive an annual award of £500 worth of shares through yourshare. Yourshare gives eligible colleagues an opportunity to be a shareholder and share in our success. Colleagues also have the opportunity to participate in our all-employee share plans, save as you earn plan and a share incentive plan, to the extent these are operated each year.

Additionally, we have announced a special one-off cash bonus of £1,000 for our frontline colleagues and key workers, to recognise their commitment and contribution during an extraordinarily challenging year.

Gender pay gap

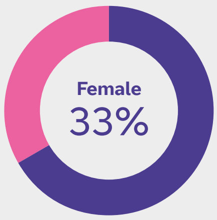
Our 2020 gender pay gap is stable, with our median and mean gender pay gaps both well below national and industry averages. We'll keep using evidence-based interventions to shift the dial on gender equality.

You can find details of progress on our gender pay gap at **bt.com/genderpaygap**

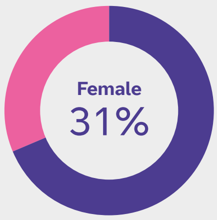
5.0%
our overall median gender pay gap (UK colleagues)

4.9%
our mean gender pay gap (UK colleagues)

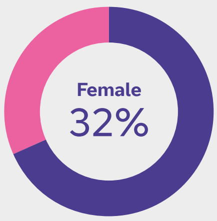
Our people[a]



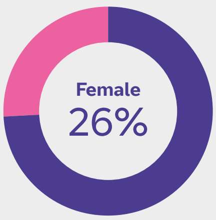
BT Group plc Board
- **Male** 8
- **Female** 4
- **Total** 12



Leadership[b]
- **Male** 81
- **Female** 37
- **Total** 118



Senior management[c]
- **Male** 603
- **Female** 279
- **Total** 882



Employees
- **Male** 75,717
- **Female** 26,320
- **Total** 102,037

a Numbers presented are as at 31 March 2021 and exclude approximately 600 colleagues located in jurisdictions where local labour laws restrict reporting of gender.
b For the purpose of the UK Corporate Governance Code 2018, our leadership comprises the *Executive Committee* (excluding executive directors on the Board but including the CEO, Openreach and the company secretary) and all of their direct reports.
c For the purpose of the Companies Act 2006, our senior management comprises those employees responsible for planning, directing and controlling the activities of the group, or a strategically important part of it (being members of our senior leadership and senior management teams, and directors of the group's subsidiaries but excluding executive directors on the Board).

2

Create standout customer experiences

Our customers are at the heart of everything we do. This year, we focused on two specific areas to make sure we created standout experiences for our customers: offering differentiated solutions and outcomes, and delivering outstanding experiences and service.

Differentiated solutions and outcomes

We continue to evolve our portfolio of solutions, enabling customers to stay connected and get more from their digital lives.

5G network

We've pioneered 5G ever since we launched it in May 2019. We now have the UK's largest 5G network and over 3.2m 5G-ready EE consumer customers. This year, we launched the exclusive iPhone Full Works Plan, with access to Apple Music, Apple TV+ and Apple Arcade included. On top of this, we offered customers access to the market-first augmented reality BT Sport Match Day Experience.

3.2m+

5G-ready EE consumer customers

Halo 3+

We launched BT Halo 3+ this year. It's our latest convergence innovation and was the UK's first 'unbreakable' home wi-fi product, backed up by the EE mobile network. Halo 3+ customers get Complete Wi-Fi for a reliable connection in every room, a no-extra-cost full fibre upgrade and support from our Home Tech Experts.

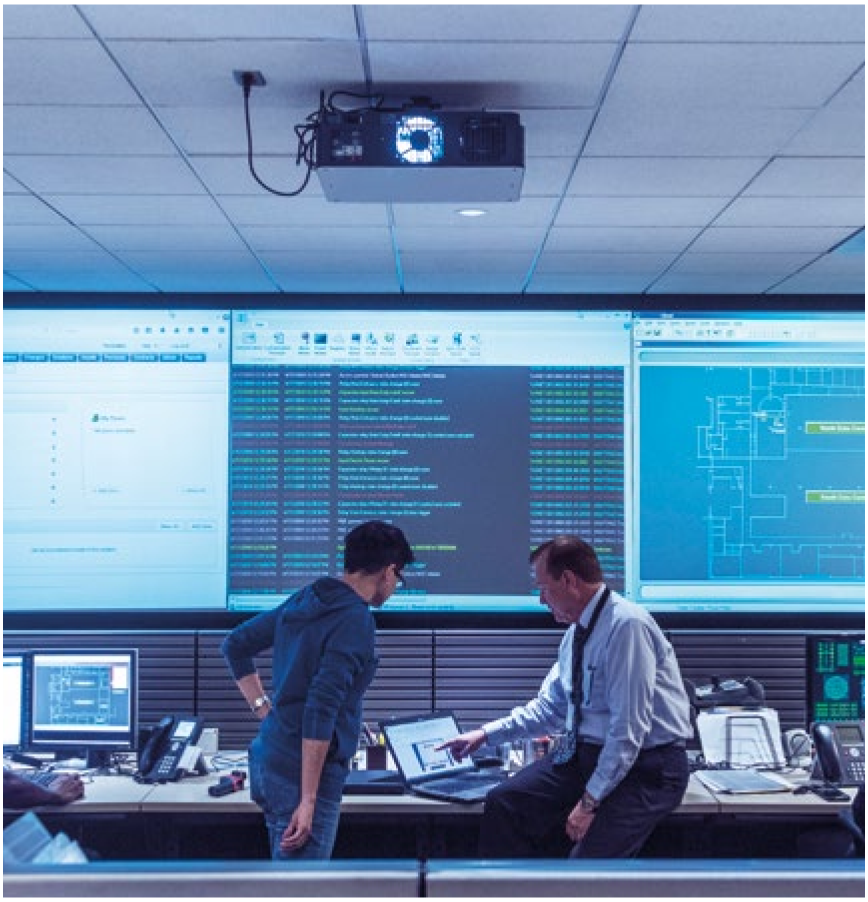
Gaming

In 2020 EE and BT were the only UK mobile and fixed network providers to offer customers PS5 and Xbox Series X next generation consoles. In January 2021, customers signing up to an EE Smart Plan with the new 5G Samsung Galaxy S21 smartphone got EE's exclusive Gaming Unleashed bundle for free, including access to Xbox Game Pass Ultimate.

BT Sport

BT Sport was available on more TV platforms this year, with customers able to get it on Fire TV, Android TV and Roku. On top of that, our monthly pass provides quick, unrestricted no-contract access for fans to enjoy their favourite sports content on new devices.

BT Sport was available on more TV platforms this year, with customers able to get it on Fire TV, Android TV and Roku.



Halo for Business

For business customers we launched Halo for Business, with three services in one – full fibre broadband with a 4G back-up service (4G Assure), a digital phone line and unlimited mobile data. Since its launch, almost 70% of customers are taking enhanced broadband bundles with features like 4G Assure and enhanced IT support.

c.70%

business customers taking enhanced broadband bundles

Intelligent Connectivity

Our Intelligent Connectivity solution helps enterprise customers achieve smarter, digital futures by offering a suite of products from SD-WAN (Software Defined Wide Area Network), SD-LAN (Software Defined Local Area Network), cloud, security and managed services. We've seen an encouraging level of interest in our SD-WAN solutions which offer secure, flexible, high-bandwidth connections across multiple sites using both fixed and mobile technologies.

Security

Leading security expertise is critical to protect us and our customers from cyber attack. This year, we invested in a programme blending BT's tradecraft, unique threat intelligence from the global network, and the latest analytical, automation and orchestration technologies to transform how we deliver advisory and managed services. As part of this programme, we launched new services helping customers understand and react to increasing cyber security risks. We also grew our advisory services team. It's now made up of approximately 300 security professionals around the globe helping customers with their security requirements. Our solution portfolio has been enhanced by over 30 product launches this year.

30+

security solution product launches this year

Zoom Meetings

This year, we were the first international service provider to offer a fully managed Zoom Meetings service. We provide a managed service on top of the core solution. It includes service management, monitoring and user adoption – all critical for multinational companies. In addition, we integrate our world-leading voice networks to provide extended reach for customers and ensure that security is embedded into the core solution. Our unique resources help us combine exceptional customer experiences with flexibility and security in one easy-to-use platform.

Network solutions

In Global, we launched a new generation of software-defined managed network solutions that will provide customers with increased choice and flexibility as they optimise their networks for cloud services. The first service – based on VMWare's industry-leading solution and delivered over our new digital platform – is available to all customers worldwide.

Strategic progress continued

2 Create standout customer experiences continued

Outstanding experiences and service

We've made good progress on continuing to improve our customers' experience. Our group Net Promoter Score (NPS) has improved for 19 consecutive quarters. It continues to be an area of focus, and is a group KPI (page 46).

Customer experience

Over the last year, Global's NPS rose almost 20 points. In Consumer, NPS for the BT brand is at an all-time high. The latest figures published by Ofcom show sustained falling complaint levels over the last four years with a 50% drop in Ofcom complaints for EE mobile and BT fixed products, and an 80% drop in complaints in EE fixed. EE leads the way, with the industry's fewest landline and broadband complaints of all major providers and the equal lowest complaints rate of any major mobile network operator. BT landline and broadband complaints are now lower than the industry average.

Against the backdrop of Covid-19, we've paid even closer attention to creating outstanding customer experiences.

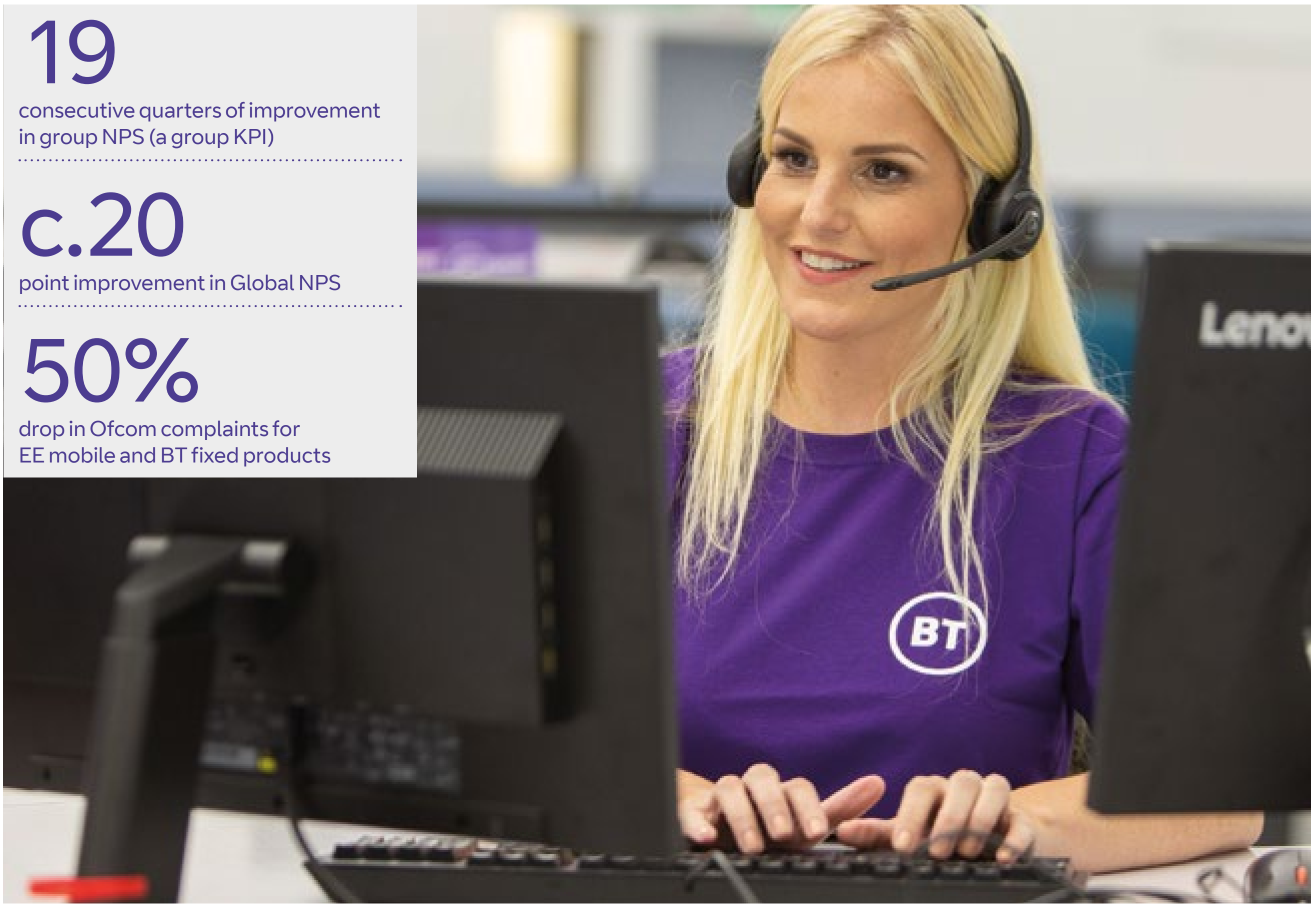
Lockdown Learning

With UK schools closed due to lockdown restrictions during the year we introduced our Lockdown Learning support package. It's a free scheme for families, carers and children to help them join virtual classrooms and stay connected to their teachers, classmates and schoolwork. It gives those most in need unlimited mobile data, BT Wi-Fi vouchers and free mobile access to BBC Bitesize and Oak National Academy educational content without using up data.

19
consecutive quarters of improvement in group NPS (a group KPI)

c.20
point improvement in Global NPS

50%
drop in Ofcom complaints for EE mobile and BT fixed products



NHS

We've helped the NHS respond to the pandemic by connecting a number of the Nightingale hospitals and over 180 vaccination centres across England and Wales with high-speed fibre and wi-fi. This has allowed clinicians to easily access and update patient records via secure mobile devices.

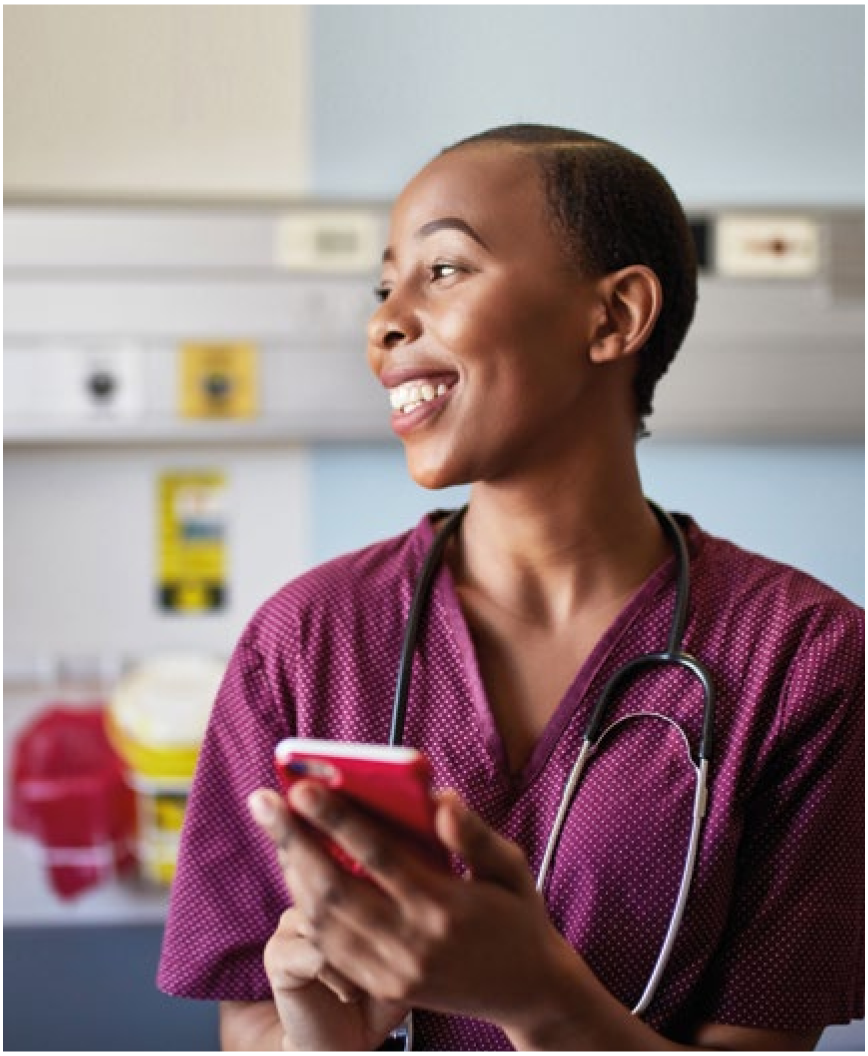
From April 2020, we provided NHS workers and vulnerable customers with free unlimited mobile data on pay monthly plans. Today more than 300,000 NHS staff are benefiting from unlimited data on our EE network. And EE customers can now access NHS online services without using any mobile data – even if they've run out.

300,000+

NHS staff are now benefiting from unlimited data on our EE network

Life Lines

We've also worked with Guy's and St Thomas' NHS Trust on their Life Lines Project enabling families to reach patients at their bedsides virtually. So far, it's allowed more than 100,000 virtual NHS hospital visits – almost 700,000 minutes of much-needed video conversation in 180 hospitals.



Small Business Support Scheme

To support business customers during the pandemic, we launched the Small Business Support Scheme to help them boost their connectivity, cash flow and confidence. Since launch, we've helped more than 2,000 small businesses fund the cost of high-speed business or Ethernet lines. With the shift to digital ways of working we've supported almost 250 small businesses with a free one-to-one coaching session and more than 270,000 people in businesses with free digital skills training.

270,000+

people in small businesses supported through digital skills training

Openreach

Covid-19 had a major impact on Openreach, with customer expectations higher than ever due to an increasing reliance on broadband with the move to working and schooling from home. Through the year, Openreach supported millions of customers working from home by increasing capacity to deliver record repair completions and get homes and businesses back up and running quickly and safely.

Openreach repaired copper and fibre faults on time 84% of the time – unchanged on last year. Missed appointments (where Openreach was responsible) happened just 3% of the time. 93% of customers got a first provision appointment within 10 days, up 10% compared to last year. This performance was recognised in best-ever NPS results for copper, fibre and Ethernet access.

84%

copper and fibre faults repaired on time

93%

customers offered a first appointment for provision within 10 days

3

Lead the way to a bright, sustainable future

We have always been committed to a more sustainable future. Today we are focusing on incubating new technology-driven growth opportunities and being a sustainable and responsible business.

Incubating new technology-driven growth opportunities

We want to find new areas to grow, while delivering better, smarter outcomes for our customers. We'll do this by incubating new technology-driven growth opportunities where we have a strong right to play and can deliver outstanding outcomes for customers and country.

Data is an example of an adjacent opportunity where we've recently been able to help customers and the country.

Over the course of the pandemic, we've provided aggregated and anonymised network data at the UK Government's request. For example, generalised data on the pattern of people's movements gave vital and timely insight into the effects of Covid-19 lockdowns and helped the Government test and improve its approach.

Governments, communications providers and regulators in the UK and worldwide all recognise the importance of this type of data in fighting the spread of the virus.

We believe our vast and rich data sets are important assets for future growth. But we also understand we have to closely protect and safeguard them to respect citizens' and businesses' fundamental rights and freedoms – especially privacy.

Our digital impact and sustainability strategy

Our strategic focus areas	**Building better digital lives**	**Championing responsible tech and human rights**	**Tackling climate change and environmental challenges**
Our ambitions	Reach 25m people in the UK with help to improve their digital skills, by end of March 2026	Develop, use, buy and sell technology in a way that benefits people and minimises harms	Adopt a sector-leading approach to climate action, with a target to become a net zero carbon emissions business by 2045
Supporting the UK's ambitions	The UK Government's Digital Strategy includes giving everyone access to the digital skills they need	The UK Government is committed to world-leading online safety measures that also support innovation and a thriving digital economy	The UK Government's target is to achieve net zero emissions by 2050
Contributing to the UN Sustainable Development Goals			

For more details about our digital impact and sustainability strategy and how we're performing against it, see our Digital Impact and Sustainability Report at **bt.com/sustainabilityreport**

Sustainable and responsible business

We believe the best way forward is paved with bold action, and being a sustainable and responsible business is critical to our ambition. For us, this is captured in our digital impact and sustainability strategy: helping people build better digital lives, championing responsible tech and human rights, and tackling climate change and environmental challenges.

Building better digital lives

We want to empower people to make the most of the digital world by supporting their daily lives, families, careers and businesses, and to help bridge the digital divide. Our programmes and campaigns enable customers to get the most from our products and services and strengthen relationships with all our stakeholders. At the same time, we're helping to create a tech-savvy workforce for the country and develop the talent we need for the future.

10m+

people reached with help to improve their digital skills since 2014/15 (a group KPI)

Skills for Tomorrow

Launched in 2019, our Skills for Tomorrow programme aims to help give people the skills and confidence they need to get the most from the digital world. The original aim was to help 10m people by the end of March 2026. We've made strong progress this year, and have already achieved that goal, reaching over 10m people since 2014/15. The pandemic led us to adapt our programmes to have a greater online focus, and consequently we've been able to reach many more people than we had originally anticipated. As a result of meeting our original goal, we've now extended the target, aiming to reach 25m people by the end of March 2026.

Work Ready

To boost social mobility and economic productivity, our Work Ready programme is helping jobseekers succeed in an increasingly digital world of work.

We reached over 10,300 people this year through webinars and events. Overall we've supported more than 13,700 people with employability skills since 2014. This year we also launched our Stand Out Skills campaign, reaching over 468,000 people – giving free support to job hunters to help build their confidence.

468,000+

people reached through our Stand Out Skills campaign

Small businesses

As part of our 25m Skills for Tomorrow target, we want to offer help to one million people working in small businesses to improve their digital skills. This year, we ran over 200 webinars and virtual workshops with Google, Small Business Britain and the Great British Entrepreneur Awards.

We launched a mentoring scheme in partnership with Digital Boost to support small businesses, with free advice from BT colleagues.

5.7m+

people learnt or did something new as a result of our Top Tips on Tech TV campaign

Top Tips on Tech

Launched during the first UK national lockdown, our Top Tips on Tech TV campaign taught viewers basic but vital digital skills. These included making a WhatsApp video call, keeping children safe online, getting a business online, and finding physical and mental wellbeing services on the web. As a direct result of the campaign, more than 5.7m people learnt or did something new. And 2.1m of them continued to put what they learned into practice afterwards.

Families

Barefoot, our partnership with Computing at School, is equipping children with key computing and problem-solving skills to help them thrive, through free resources and training provided to teachers. Barefoot has reached more than 3m children and teachers since 2014/15. This year, we extended Barefoot's scope to support children in their early years. And in response to the pandemic, we've introduced new home learning resources, including interactive learning games and activities, and expanded the free online resources for families available on our Skills for Tomorrow portal.

bt.com/skillsfortomorrow

We're helping older, more vulnerable, and digitally excluded people build confidence and skills too. Our partnership with Good Things Foundation (GTF) sponsored more than 80 online centres, providing skills training within local communities.

In order to focus our impact, we are scaling down our involvement in Barefoot and the online centres. We will continue to support the work of Computing at School and GTF, and help children and older and vulnerable groups in other ways.

Partnerships

Partnerships are central to our digital inclusion approach. We're a founding member of FutureDotNow, a coalition of leading companies and non-governmental organisations that aims to empower everyone to thrive in a digital UK.

With Microsoft and Cambridge University, we helped UNICEF scale up its pilot Digital Learning Passport campaign. It helped schoolchildren in need across five countries by providing free access to e-books, learning videos, recorded lessons and resources for teachers and children.

In India, we partner with the British Asian Trust to help boost youth skills, empowering more than 100,000 teenage girls through digital learning. And we continue to support the Quality Education India Development Impact Bond, which is boosting literacy and maths learning outcomes. Over 250 BT volunteers have supported these programmes.

Strategic progress continued

3 Lead the way to a bright, sustainable future continued

Championing responsible tech and human rights

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

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

We base our responsible tech approach on these key principles:

For Good

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

Accountable

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

Fair

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

Open

We listen, collaborate and are transparent about our actions.

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

We continue to champion human rights through partnerships and collaborations, including our work with the Global Network Initiative, Tech Against Trafficking, the Marie Collins Foundation, the Centre for Sport and Human Rights and UK charity Unseen.

Our processes and procedures identify and address potential and actual human rights impacts throughout our business. We have embedded checks in our sales processes to help us find and address potential risks. In our supply chain, we have mandatory contractual standards on working conditions – and we check that our suppliers stick to them.

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

Tackling climate change and environmental challenges

We've led on climate action for almost three decades. In 2016, we hit our first science-based target of cutting our carbon emissions intensity by 80% – four years early.

We've since set a target to reduce our carbon emissions intensity by 87%, by the end of March 2031 (compared to 2016/17 levels) and have pledged to be a net zero carbon emissions business by 2045. Furthermore, this year we've extended the scope of our net zero pledge to include our supply chain, as well as increasing our target of reducing supplier carbon emissions by 42% by the end of March 2031 (previously 29%).

Overall, we've cut total carbon emissions[a] from our global operations by a further 29% over the last year, largely as a result of completing the switch to 100% renewable electricity globally and, to a much lesser extent, as the impact of Covid-19 led to lower in-year emissions from travel and heating. Since 2016/17, we've cut our carbon emissions intensity by 57% to 13.7 tonnes of CO_2e per £m value added.

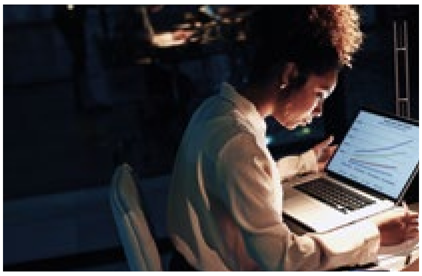
We're focusing on a number of things to support our ambitions:

- **Switching to renewable electricity –** 100% of what we consume worldwide in our networks, exchanges, offices and shops is renewably sourced[b]. We purchased over 2.5TWh of electricity this year.

- **Moving to a low carbon fleet –** BT and Openreach together operate the UK's second largest commercial fleet. Our almost 33,000 vehicles make up more than two thirds of our direct emissions (greenhouse gas scope 1). We're committed to switching nearly all our fleet to run on electric and alternative fuels by 2030. Joining forces with The Climate Group, we've launched a partnership (the UK Electric Fleets Coalition) to push for fleet decarbonisation and help develop policy measures that support electric vehicle uptake. We advocated for and supported the UK Government's ban on new petrol and diesel cars and light vehicles from 2030.
- **Decarbonising our buildings –** This year, our global energy consumption reduced by 123 GWh. This was mainly as a result of energy efficiency measures, including the reduction of our legacy network and our investments of nearly £21m in cooling projects, but also to a lesser extent due to the impact of Covid-19. Overall, our investments have helped us save £358m since 2009/10.

Last year we took action to increase energy efficiency through decarbonising our buildings. For more information, please see **page 39** of the Annual Report 2020. **bt.com/about**

- **Cutting supply chain emissions –** More than two thirds of our end-to-end carbon emissions come from our supply chain. We've cut our supply chain emissions by 19% since 2016/17, and are on track to meet our target of a 42% reduction by 2030/31. We're encouraging key suppliers to set their own net zero targets, buy renewable energy and talk to their own suppliers about climate action. We also have market-leading carbon emission reduction clauses into our key supplier contracts.



We're helping customers cut carbon too. Many of our products and services help them cut emissions by avoiding travel or by doing things more efficiently.

This year, we launched the green tech innovation platform, picking tech scale-ups iOpt and Everimpact to develop joint products and services that help public sector customers move to net zero. Using its Internet of Things platform to enable smart buildings, iOpt provides real-time information and alerts on the status of properties, with a focus on social housing. Everimpact is developing environmental monitoring for its smart streets proposition – air quality and CO_2 sensors will be integrated into street hub units to help monitor, report and verify climate actions, and in turn, sales of carbon offsets to finance climate action. We'll offer these products to UK local councils looking to adopt smart building and environmental monitoring solutions.

We're committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures. See **page 67** for more detail.

57%

reduction in our carbon emissions intensity since 2016/17 (a group KPI)

100%

of the electricity we consume worldwide is renewably sourced[b]

19%

reduction in our supply chain emissions since 2016/17, and on track to meet our 42% reduction target by 2030/31

Our worldwide energy use and greenhouse gas emissions[c]

Year ended 31 March

	2019				2020				2021			
	UK		Non-UK		UK		Non-UK		UK		Non-UK	
	Energy GWh[d]	CO_2e[e] Tonnes	Energy GWh	CO_2e Tonnes	Energy GWh	CO_2e Tonnes	Energy GWh	CO_2e Tonnes	Energy GWh	CO_2e Tonnes	Energy GWh	CO_2e Tonnes
Scope 1[f] (direct emissions)												
Gas and oil – heating	201	38,148	2	422	198	37,120	2	419	174	32,625	2	312
Gas and oil – generators	28	6,788	1	356	22	5,126	1	172	36	8,318	0.4	94
Fugitive emissions – refrigerants		1,049		1,040		1,571		628		1,150		2,433
Commercial fleet (converted from litres fuel)	498	123,358	NA	NA	512	125,263	3	723	506	121,733	3	723
Commercial travel (converted from mileage/cost/litres fuel)	33	8,259	23	5,462	29	7,298	20	4,847	9	2,229	8	1,805
Total scope 1	**760**	**177,602**	**26**	**7,280**	**761**	**176,378**	**26**	**6,789**	**725**	**166,055**	**13**	**5,367**
Scope 2[g] (electricity incl CHP[i])												
Total consumption (LBM[j])	**2,412**	682,935	**345**	128,319	**2,371**	605,976	**318**	111,955	**2,335**	544,279	**242**	80,399
Renewable consumption CO_2e MBM[k] adjustment	2,136	(604,771)	245	(92,702)	2,260	(577,672)	228	(82,887)	2,335	(544,279)	241	(80,136)
Nuclear consumption CO_2e MBM adjustment	–	–	0.04	(2)	–	–	0.03	(2)	–	–	0.02	(1)
Total scope 2 CO_2e MBM adjustment		**78,164**		**35,615**		**28,304**		**29,066**		**–**		**262**
Total scopes 1 & 2 (MBM)	**3,172**	**255,766**	**371**	**42,895**	**3,132**	**204,682**	**344**	**35,855**	**3,060**	**166,055**	**255**	**5,629**
Intensity metric scopes 1 & 2 worldwide emissions tonnes CO_2e per £m value added	**23.4**				**17.9**				**13.7**			
% change from baseline year 2016/17	**(26)%**				**(43)%**				**(57)%**			
Scope 3[h] worldwide emissions CO_2e tonnes	**3,405,146**				**3,471,692**				**3,454,525**			

NA: Not available
a Greenhouse gas scopes 1 and 2.
b 99.9% of the global electricity BT sources is renewable. The remaining 0.1% represents where markets don't allow due to non-availability of renewable electricity.
c We restate historical years' data when we think subsequent information is materially significant (e.g. replacing estimates with measured figures).
d For gas & oil based on GWh equivalent input value before combustion and GROSS calorific value.
e CO_2e: carbon dioxide equivalent emissions.
f Scope 1: direct emissions from our own operations (e.g. fleet/heating fuel combustion).
g Scope 2: indirect emissions from the generation of our consumed energy (mainly electricity) (excludes third party consumption).
h Scope 3: including supply chain, customer use of our products, and other indirect emissions (such as employee commuting).
i CHP: combined heat and power.
j LBM: location-based method for scope 2 emissions accounting – as defined in the Scope 2 Guidance amendment to the Corporate Standard.
k MBM: market-based method for scope 2 emissions accounting – as defined in the Scope 2 Guidance amendment to the Corporate Standard.

We report in line with the Greenhouse Gas Protocol (**ghgprotocol.org**).
For full methodology and further data see our Digital Impact and Sustainability Report **bt.com/sustainabilityreport**

Our stakeholders

Our internal and external stakeholders play a vital part in us building the strongest foundations, creating standout customer experiences and leading the way to a bright, sustainable future.

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

We engage with stakeholders in lots of different ways – from virtual meetings and conferences to reviews, forums and webcasts.

To understand how well we're engaging with different groups, the Board and its committees receive regular updates and use them to make better decisions, and provide feedback and constructive challenge on activities, programmes and initiatives being considered.

This year we introduced a new stakeholder management risk category, recognising just how important they are to our business. You can read more on page 59.

Our Section 172 statement on pages 42 to 43 includes examples of how the Board and its committees had regard for stakeholder interests through its discussions and decision-making during the year.

Colleagues

Our ambition is only as strong as the foundations we're built on, and our colleagues are absolutely central to this.

Engaging with them is critical to achieving a culture where they can be their best and fully contribute towards realising our purpose, ambition, strategy and BT's long-term success.

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

Our colleagues want us to:

- share their personal values
- provide flexible and agile ways of working
- provide great career opportunities, development and training
- reward performance with fair and competitive pay and benefits.

How we engage with colleagues, and the result

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

The Board uses the *Colleague Board* as its chosen method of engagement with the workforce under the UK Corporate Governance Code 2018 (Code). Isabel Hudson, as our designated non-executive director for workforce engagement, is the primary liaison and she has discussions with *Colleague Board* members both through the formal meetings and informal discussions. You can find more information on the work of the *Colleague Board* on the next few pages.

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

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

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

When we respond to feedback from colleagues, we first pick areas and initiatives that will make the biggest impact. Longer term, we continually shape and inform our overall people strategy to create a culture where colleagues can be their best – with a focus on skills development, diversity and inclusion, and health, safety and wellbeing. More on what we have done during the year as a result of engaging with our colleagues can be found on pages 24 to 25.

c.99,700

full-time equivalent colleagues employed in 44 countries

The *Colleague Board*

Who is the *Colleague Board*

Last year's Annual Report explained the Board's decision to create a *Colleague Board* as its chosen workforce engagement mechanism under the Code. The Board felt this was the right option for BT as it would allow for meaningful input from (and change for) colleagues across the group and give them a louder voice at the table. It also best represented our intent to bring our colleagues closer to decision-making and to engage with them to explore initiatives and proposals.

The *Colleague Board* comprises ten members representing all our business units, two Openreach invitees, Isabel Hudson, our designated non-executive director for workforce engagement, and the chief executive (the chair). Isabel was selected for this role due to her breadth of understanding and interest in employee and wider stakeholder matters. The chairman, HR director and general counsel are also invited and attend all formal meetings. The company secretary is secretary to the *Colleague Board* and she or her delegate attends all meetings. The HR, internal communications and company secretarial teams support Isabel Hudson and the *Colleague Board*. As part of engagement by other non-executive directors with our colleagues, Sara Weller has also decided to attend all meetings for the rest of 2021.

Colleague Board members have a two-year tenure. There will be an application process this year for new *Colleague Board* members from January 2022. For continuity, current members will be offered the opportunity to apply to remain on the *Colleague Board* for a further year.

Communication with the Board

As the designated non-executive director for workforce engagement, Isabel Hudson is the formal link between the *Colleague Board* and the Board, openly reporting back on key discussions and feedback to the Board and management, as appropriate. Outside of formal meetings, Isabel liaises with *Colleague Board* members, including attending their team meetings where appropriate. The minutes of each *Colleague Board* meeting are also shared with the Board and Isabel also reports back on *Colleague Board* feedback on any initiatives that the Board or its committees are considering, to allow the Board and management to use it to shape thinking.

Communications with our colleagues

Throughout the year, *Colleague Board* members gave feedback on their discussions and activities, and received input from colleagues across the business, in a number of ways:

- all colleagues are provided with the opportunity to feed into future *Colleague Board* agenda items and raise 'hot topics' via *Colleague Board* members for discussion at meetings
- summaries are posted on the intranet after each formal meeting and *Colleague Board* members also publish video messages on Workplace from Facebook (our internal communication platform) updating colleagues on proposals and initiatives and the *Colleague Board's* views and contributions
- *Colleague Board* members use a number of internal channels to exchange views and feedback. In addition to a Workplace group, which they manage themselves and use to talk directly and openly with other colleagues, *Colleague Board* members also hold group-wide all-hands calls
- colleagues also connect with BT's People Networks and forums to understand internal trends and priorities.

The chief executive also invites *Colleague Board* members to his regular leadership calls.

We are fortunate to have established the *Colleague Board* at a time when, given the tremendous challenges being faced as a result of the pandemic, hearing the views and experiences of colleagues is paramount. I have particularly enjoyed the 'hot topic' sessions at meetings, where there have been no holds barred!

Isabel Hudson, our designated non-executive director for workforce engagement and a member of the *Colleague Board*

It is inspiring to be able to share the positive feedback and concerns of our colleagues so that they genuinely feel heard.

Tom Hannibal, site support lead analyst, Consumer and *Colleague Board* member

Our stakeholders continued
The *Colleague Board* continued

The *Colleague Board* made an outstanding contribution in helping to shape our approach in a number of significant areas during their first year. I'm delighted with their engagement and involvement in a number of initiatives. It's exceeded my expectations in many ways!

Philip Jansen, chief executive and chair of the *Colleague Board*

We have been constantly involved in the plans for the Better Workplace Programme this year. Everything from the design of colleague surveys and discussing workplace habits, spaces and the technology we will use, through to Covid-19 measures and our wellbeing. I am really proud to have played a part in shaping BT's future workplaces for our colleagues to love.

Kate MacNicol, Senior service desk analyst, Enterprise and *Colleague Board* member

Activities in 2020/21

The *Colleague Board* held four formal meetings this year. It also held a number of informal meetings and briefings with relevant internal teams. In its first 15 months, the *Colleague Board* has successfully contributed to, and shaped, some of our key initiatives by sharing views and different perspectives. Through both formal meetings and informal sessions, our senior leaders seek the *Colleague Board's* views on business-wide programmes (including how they align with our values and culture), how we communicate with our colleagues and the effectiveness of wider colleague engagement mechanisms (like the Your Say employee engagement survey). The meeting agendas are primarily driven by the *Colleague Board* members, working with the company secretarial team.

The *Colleague Board's* main highlights to date are:

- helping the Board understand employee sentiment through the pandemic, including the importance to colleagues of receiving regular communications. It also shaped the content, approach and communication of wellbeing campaigns to support our colleagues through the pandemic
- giving advice to the chief executive and *Executive Committee* on our new purpose and reaffirmed values and taking an active role in the subsequent communications to colleagues
- discussing the need to simplify and improve our systems, and accelerate our transformation programme and digitalisation agenda
- assisting the development and shaping of the Better Workplace Programme (see page 25). That included giving feedback on key design principles to reflect different colleagues' needs, shaping our communications and engagement and helping to design success measures for the programme
- helping expand our Ethnic Diversity Network and create a new Americas arm to support our diversity and inclusion strategy and giving feedback on our Ethnicity Rapid Action Plan (see page 24). The *Colleague Board* was also one of the key internal promoters to encourage our colleagues to complete the UK-wide self-declaration campaign on the diversity of our UK colleagues. The composition of our UK colleagues from a diversity perspective has been invaluable in helping the Board and management shape our diversity and inclusion strategy
- highlighting key issues and colleagues' concerns as part of 'hot topics' open discussion sessions at meetings during the year. This has included insights into the importance of timely and regular communications from senior management on key business developments and the impact of restructuring plans on colleagues, as well as the need for communications and initiatives to better reflect the perspectives of our global colleagues, and to ensure our sales teams have better insight into the product and services roadmaps for different customers
- launching the *Colleague Board's* ambition with a focus on:
  - diversity and inclusion bringing an equilibrium
  - being your best self
  - being proud to be at BT
  - making wellbeing part of our DNA
- discussing BT's role and plans as a sustainable and responsible business, and how to increase colleague involvement, as well as sharing feedback on our digital impact and sustainability strategy
- providing feedback on how to better communicate career and reskilling opportunities for our colleagues in line with the shifting focus of the business over the medium to long term and the need to have clearer development programmes for mid-level managers
- suggesting improvements to our communication methods across the business, particularly in relation to changes in areas such as policies, share plans and recognition.

Customers

We want to give all our customers standout experiences by delivering brilliant solutions and outcomes.

We have a large and diverse customer base including consumers, businesses, multinational corporations, public sector organisations and communications providers. Engaging with our customers and understanding their needs is critical to delivering on our strategy, ambition and purpose.

Our customers want us to:

- give them an outstanding experience and deliver outcomes that meet their needs
- provide reliable solutions and propositions to keep them connected
- protect their security and data.

How we engage with customers, and the result

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

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

See pages 26 to 29 for things we have done during the year to create standout experiences for our customers.

Our Global Advisory Board enables us to talk directly with senior leaders at our major global customers. It helps us understand their short-, medium- and long-term priorities, so we can design

solutions that match them – delivering better business outcomes.

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

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

There's more information on these initiatives and others on **pages 28 to 29**.

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

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

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

This year, as part of her Board induction, Sara Weller joined two customer inclusion panel sessions. These are BT forums where groups representing vulnerable customers and people with disabilities help improve our products and services. Sara has also observed a number of customer research panels with Consumer and SME customers to hear their views on current service and future priorities. This type of engagement gives us valuable insights for Board and committee discussions and decision-making.

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

To enhance our commitment to protecting consumers' interests, the Board approved proposals to enhance our consumer fairness governance framework with Board-level oversight provided by the *BT Compliance Committee* on consumer fairness matters (see page 86 for more details).

There's more information on consumer fairness within our Section 172 statement on **page 43**.

7.8pp

percentage points improvement in group NPS (a KPI)

Our stakeholders continued

Shareholders

We have two main groups of shareholder: institutional and retail investors. As owners of the business, engagement with them is important.

Because of our privatisation in 1984, a lot of our c.783,000 shareholders are individuals, although institutional investors hold the biggest volume of shares. We also have debt investors.

Our shareholders want us to:

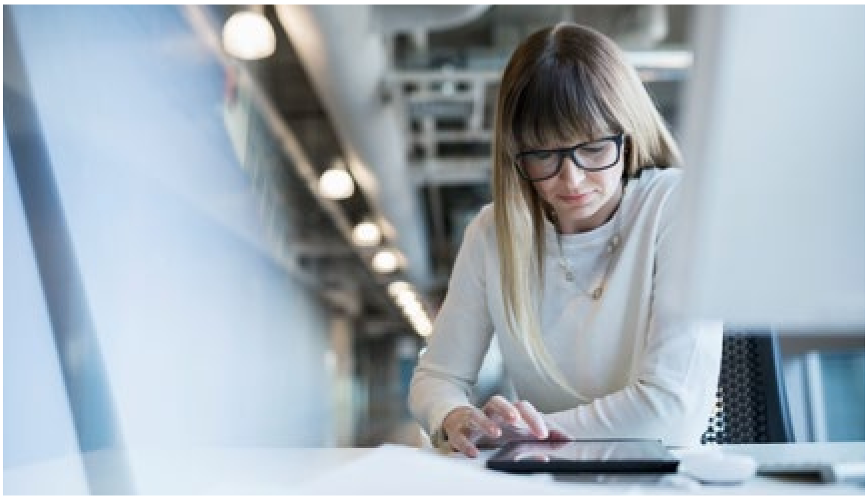
- deliver a return on their investment through dividends or capital growth
- perform well against our outlook and long-term strategy.

How we engage with shareholders, and the result

We communicate regularly with shareholders through our website, the Annual Report and our quarterly financial results and trading statements.

The AGM is normally a chance for the Board to meet and engage with shareholders in person. However, as a result of the pandemic, the 2020 AGM had to be held as a closed meeting in line with Government restrictions on public gatherings. We gave shareholders the opportunity to ask questions in advance and the responses were made available on our website via an audio recording alongside video messages from the chairman and the chief executive and an audio recording of the meeting itself. For the 2021 AGM, we continue to monitor the situation and we will publish the arrangements in the Notice of meeting (see page 77).

The company secretary communicates with individual investors, making sure we respond properly to questions in relation to their shareholding. Our share registrar Equiniti also has a team to take care of shareholders' needs.



We manage relationships with institutional investors through an investor relations programme. It includes one-to-one conversations, roadshows, group meetings, conferences and industry events. The chairman, senior independent director and other directors also spend time with investors.

The pandemic has meant significant changes to the way we interact with institutional shareholders. All our meetings were virtual, and this meant that it was easier for more investors to attend each group meeting, leading to fewer meetings over the course of the year.

During 2020/21, the Board, the chief executive, chief financial officer, other executives and the investor relations team held 262 meetings with investors. Conversation topics included financial and operational performance, capital investment, pension deficit funding plans, capital allocation policy and prospective governmental and regulatory policy decisions.

During the year, the chairman also met investors to discuss any governance related matters. The senior independent director also engaged with investors in relation to the ongoing search for the new chairman.

Ahead of the 2020 AGM, the *Remuneration Committee* chair consulted extensively with our largest shareholders and their representative bodies and their feedback was used to help shape the Directors' Remuneration Policy.

The Board receives regular reports on shares being bought and sold, share price performance and how we're engaging with institutional investors and analysts. The Board also discusses any shareholder issues with management.

We maintain a strong relationship with debt investors (mainly financial institutions who invest in our publicly-traded bonds) and meet with them regularly as part of our investor relations programme. They're crucial to making sure we have access to debt capital to finance our business.

We have an investment-grade credit rating based on the strength of our balance sheet.

262

meetings with investors during the year

Communities

Our products, services, networks and people are at the heart of the communities we operate in, and help bring them together.

Building and preserving relationships with all the communities we serve isn't just core to our commercial success. It's also key to the way we operate as a responsible and sustainable business and supports our purpose of connecting for good.

Communities rely on us to:

- give them reliable and secure connections
- help local people and enterprises get more from the digital world
- protect the environment, help tackle issues like climate change and do business ethically and responsibly.

How we engage with communities, and the result

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

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

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

On top of what we invest through our day-to-day business, we aim to invest 1% of profit before tax, as a mixture of cash and in-kind investments, in our sustainability activities and communities. This year, we invested £18m or 0.63% of adjusted profit before tax – below our 1% target. That was because of our 'in-kind contributions' falling, with Covid-19 severely restricting volunteering activity. We remain committed to the target – having invested £147m into our sustainability activities and communities, at an average of 0.89% of profit before tax over the last five years.

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

To track how we're doing, we measure reputational performance and trust, as well as our progress on the group KPI to reach 25m people in the UK with help to improve their digital skills by the end of March 2026. You can find out more about what we've done this year in the strategic progress section. Page 31 explains the contributions we've made to building better digital lives, and pages 32 to 33 set out how we're tackling climate change and environmental challenges for the benefit of the communities we operate in.

10m+

people reached with help to improve their digital skills since 2014/15

£147m

invested in communities and our sustainability activities over last five years

Suppliers

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

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

Our suppliers want us to:

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

How we engage with suppliers, and the result

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

- choose suppliers based on principles that make sure we act ethically and responsibly
- undertake due diligence on them before and after we sign a contract – covering financial health, anti-corruption and bribery, and whether they meet our standards on areas such as quality management, security and data privacy
- check the things we buy are made, delivered and disposed of in a socially and environmentally responsible way
- measure suppliers' energy use, environmental impact and labour standards, and work with them to improve these.

Our stakeholders continued

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

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

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

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

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

The *Digital Impact & Sustainability Committee* considers and approves our modern slavery initiatives on behalf of the Board, which we subsequently disclose in our annual modern slavery statement.

We engage with suppliers on a range of proactive initiatives – for example progress towards net zero carbon emissions, including the increased uptake in renewable energy, and cutting plastic packaging and waste. This is a key part of our digital impact and sustainability strategy (see page 30) and therefore initiatives are regularly discussed by the *Digital Impact & Sustainability Committee* with feedback shared to continue to test and enhance our approach.

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

We're keen to make sure we engage with as broad a range of suppliers as we can. We're discussing how we create a more diverse supplier selection process with software suppliers, and next year we'll increase the purpose/diversity weighting we use in the procurement adjudication process.

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

- assesses the potential effects of transport logistics disruption and manufacturing slowdowns
- monitors suppliers' financial viability and tracks incremental costs due to disruption
- continuously monitors their business continuity plans to make sure they can keep delivering services.

£13.1bn
spent with suppliers, more than two thirds of our total costs

71%
spent with top 100 suppliers

UK Government

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

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

Government stakeholders want us to:

- keep investing in our network infrastructure
- provide the fastest, most reliable and secure connection possible, to the widest possible range of communities
- invest in the best products and services, at fair prices, with high levels of customer service.

How we engage with the Government, and the result

We operate the UK's Critical National Infrastructure and support national security. Our priority is fulfilling our responsibilities and obligations for the country and our customers.

Our policy and public affairs team manages our relationships with Government and other politicians.

Our Enterprise team delivers and looks after public sector contracts and services such as the Emergency Services Network.

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

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

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

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

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

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

Regulators

Communications and TV services are regulated. This ensures consistent rules and standards within each jurisdiction, protecting consumers and promoting competition.

If we don't engage effectively with our regulators we risk unnecessary regulatory intervention that could stand in the way of us achieving our strategy.

Our main regulatory relationship is with Ofcom in the UK. The main source of Ofcom's powers and duties is the Communications Act 2003, which gives it general competition powers for the sector and helps it enforce consumer law.

We also engage with other regulatory bodies like the Competition and Markets Authority.

Ofcom wants to:

- advance citizens' and consumers' interests, often by promoting competition
- encourage investment and innovation
- support investment in the UK's critical digital infrastructure.

How we engage with Ofcom, and the result

We have a positive and open dialogue with Ofcom through our chairman, chief executive and senior leaders.

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

There are more details of the main regulatory topics we cover with Ofcom on **pages 16 to 17**.

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

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

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

The *BT Compliance Committee's* annual review can be found at **bt.com/btcc**

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

Section 172 statement

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

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

The likely consequence of any decision in the long term:

The directors recognise that the decisions they make today will affect BT's long-term success. During the year, the Board had particular regard to the long-term success of the company in its discussions on the evolution of the company's purpose and strategic framework, as set out in the Board activities section on pages 74 to 77. Our purpose and strategy demonstrate how we will realise our ambition and grow value for all our stakeholders. This in turn guides the Board's decisions, specifically the balance between short- and long-term investments (more details on page 43). The third pillar of our strategy (lead the way to a bright, sustainable future) incorporates our aim to identify and develop new business opportunities that will help us grow sustainably in the future. More information on our strategy can be found from page 19.

The impact of BT's operations on the community and environment:

The *Digital Impact & Sustainability Committee* monitors progress on the digital impact and sustainability strategy and supporting goals for digital skills, responsible tech and human rights, and climate change and the environment. During the year, the committee reviewed and endorsed the Skills for Tomorrow programme and its pivot to become 'digital-first' during the Covid-19 pandemic. Our digital impact and sustainability strategy incorporates responsible tech and human rights, and our sector-leading approach to climate action, with a target to become a net zero carbon emissions business by 2045, as well as our two related group KPIs (see pages 30 to 33).

We are also committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). See page 67 for our response to TCFD.

The desirability to maintain a reputation for high standards of business conduct:

The Board acknowledges its responsibility for setting and monitoring the culture, values and reputation of the company. Our colleagues are central to us achieving our ambition and we are building a culture where our colleagues can be their best. During the year, the Board considered BT's culture in its decision-making and discussions; further details on this can be found on page 76. The *Digital Impact & Sustainability Committee* reviewed and endorsed BT's new responsible tech and human rights approach which aims to develop, use, buy and sell technology in a way that benefits people and minimises harms (see page 87 for more details on the activities of the *Digital Impact & Sustainability Committee* and page 30 for our digital impact and sustainability strategy).

The *Audit & Risk Committee* also received and considered regular reports from the group ethics and compliance director on BT's ethics and compliance priorities, including Speak Up, our confidential, whistleblowing hotline (see page 85).

We set out our commitment to high standards of business conduct in The BT Way (our Ethics Code), see **bt.com/ethics**

The interests of our colleagues, and the need to foster business relationships with our key stakeholders:

The Board and its committees understand the strategic importance of stakeholders to BT's business. When making decisions, the directors have regard to the interests of colleagues, and the need to foster business relationships with other key stakeholders. We acknowledge that not every decision we make will necessarily result in a positive outcome for all our stakeholders; the Board therefore has to balance competing interests in reaching its decisions.

While the Board engages directly with stakeholders on some issues, the size and distribution of BT and our stakeholder groups means that stakeholder engagement often happens below Board level. However, the Board considers information from across the organisation to help it understand how our operations affect our stakeholders' interests and views. There are more details on how we engage with key stakeholders (including customers and suppliers) on pages 34 to 41 and on the chief executive's role in reporting engagement feedback to the Board through his chief executive's report on page 75. For further details on how the Board operates and makes decisions, and its activities this year, see pages 71 to 77.

Our colleagues are key to our success and they are always considered as part of the Board's discussions and decision-making. Their wellbeing, especially during the Covid-19 pandemic, as well as diversity and inclusion, our culture, transformation programme and employee relations, have been a prominent focus of Board discussions this year (see page 76 for more details). The Board engages with colleagues primarily through the *Colleague Board* and via Isabel Hudson, our designated non-executive director for workforce engagement (see pages 35 to 36 for more details on the *Colleague Board*). Isabel provides feedback after each formal *Colleague Board* meeting and also discusses any topics raised by members at relevant Board and committee meetings.

Our other employee communication channels are set out on page 34. As explained on page 76, the Board also discussed with HR and the chief executive the findings from other colleague engagement mechanisms during the year.

The need to act fairly as between BT's shareholders

During 2020/21, the Board, the chief executive and chief financial officer, other executives and the investor relations team held various meetings with investors (see page 38 for more detail on our engagement with shareholders). These meetings gave investors the opportunity to discuss views on financial and operational performance, capital investment, pensions, capital allocation policy, as well as prospective governmental and regulatory policy decisions.

Decisions made during the year:

The following are some of the decisions made by the Board this year which demonstrate how colleague interests, the need to foster business relationships with other key stakeholders, and other section 172 matters have been taken into account in discussions and decision-making:

Decision	What happened
Suspending our final dividend for 2019/20 and all dividends for 2020/21	As set out in last year's report, the Board made the exceptionally difficult decision to suspend the final dividend for 2019/20 and the dividends for 2020/21 and rebase future dividends at a more sustainable level. The Board considered the advantages and disadvantages of the decision and the change to the distribution policy, including whether suspending our dividend was the right action to ensure our long-term success. The views of our stakeholders, particularly the expected reactions of our equity investors, which includes our colleagues, and the nominated representative for Deutsche Telekom (BT's largest shareholder), as well as our brokers' opinions on the expected reactions from the market, were taken into account. The Board carefully considered the short term negative effect on our shareholders, but determined that taking the decisive action to suspend our dividends now would position BT positively for the future and help us create capacity for value-enhancing investment opportunities, including full fibre and 5G, our major modernisation and simplification programme, and to navigate the shorter term impact and unprecedented consequences of the Covid-19 pandemic.
Strategic intent to accelerate full fibre build to 20m premises by mid-to-late 2020s, subject to the critical enablers being resolved	The Board had a number of discussions on its commitment to the level and pace of the full fibre build, capital expenditure required, the risks involved, how it would flow through into our medium term plan and the regulatory enablers required from Ofcom as part of the WFTMR. The Board carefully considered how a commitment to accelerate our full fibre build to 20m premises by the mid-to-late 2020s would affect our ability to pay a dividend to our shareholders in the short term, balanced against benefits to other stakeholders in the long term, including customers, colleagues, shareholders and the country as a whole. This included the importance of the full fibre rollout to our purpose, we connect for good, and our reputation as a national champion. Despite us not obtaining regulatory clarity until the publication of the WFTMR in March 2021, the Board recognised the importance of providing clarity to shareholders, the market, our regulator, Ofcom and the UK Government on our proposed intention to invest, ahead of the final publication of the WFTMR. For more details on the WFTMR and our target to increase and accelerate our FTTP build plan by an additional 5m from 20m to 25m premises by December 2026, please see pages 16 and 20.
Endorsement of proposed diversity and inclusion targets	The Board received and considered management's proposal in relation to the planned publication of our diversity and inclusion targets and commitments in relation to gender, ethnicity and disability. The Board was supportive of this and the voluntary publication of our ethnicity pay gap, through our inaugural Diversity and Inclusion Report (which we expect to publish in early summer 2021), having reflected on how targets and commitments would support the progress of our strategy and our approach to valuing diversity, embedding inclusion and progressing equality. The Board discussed that having clear targets will also help support cultural shifts and drive a more inclusive workforce, and accordingly recommended that BT should be bold in its ambitions in this area, which management also agreed with. The Board advised that as part of meeting our targets, it was important to consider all aspects of our colleague journey, talent pipeline, recruitment and the ongoing support provided to under-represented groups as they progress through the organisation. The *Colleague Board*'s feedback on how we improve diversity was also shared with the Board by Isabel Hudson, our designated non-executive director for workforce engagement, including the importance of diversity on assessor panels for graduate and apprenticeship assessment centres to ensure we recruit in line with the diverse skills we need for the future. The Board considered the interests and expectations of our stakeholders as part of this decision, including those of our colleagues and investors, and the UK Government given their recent reviews in this area.
Enhancing our consumer fairness governance framework	The Board approved proposals to enhance our consumer fairness governance framework during the year. In considering these proposals, the Board had regard to both the importance that BT places on consumer fairness for our customers, as well as Ofcom's and the UK Government's expectation to see greater commitment to a culture of consumer fairness at all levels by communications providers. This enhanced governance in relation to consumer fairness is aligned with BT's purpose and ambition and the Board's broader recognition of the importance of proactively protecting our customers' interests as set out on page 86. Having considered a number of options in relation to enhanced governance, the Board decided that the remit of the *BT Compliance Committee* should be widened to include the oversight of consumer fairness matters on its behalf. Therefore, from 1 April 2021, the *BT Compliance Committee* shall monitor whether BT is living up to Ofcom's Fairness for Customers commitments, whether the culture and behaviours of colleagues are conducive to BT being trusted in relation to consumer fairness, and the extent to which BT is meeting the desired outcome of being trusted in relation to consumer fairness. More details on consumer fairness can be found on page 17.

Non-financial information

The table below (and sections referred to) form our non-financial information statement – as required by sections 414CA and 414CB of the Companies Act 2006.

	Environment (see pages 32, 33, 42, 47 and 67)	Colleagues (see pages 24, 25, 34 to 36, 42 and 43)	
Description of policies	Our **Environmental Policy** supports our aim of cutting our environmental impact and helping customers cut theirs. It sets out guiding principles to get us to our ambition of becoming a net zero carbon emissions business by 2045. And it describes how we engage with stakeholders on environment issues and monitor and report on progress. It supports our strategy by describing how we'll realise our ambition to create a more sustainable future for ourselves and our customers. Our Environmental Policy can be found at **bt.com/ourpolicies**	Our **Health, Safety and Wellbeing Policy Statement** promotes a safe and healthy workplace and aims to prevent work related injuries, ill health and diseases. It supports our strategy to build the strongest foundations. It does this by integrating health, safety and wellbeing considerations into all aspects of our work to benefit colleagues, contractors and members of the public. Our Health, Safety and Wellbeing Policy Statement can be found at **bt.com/ourpolicies**	Our **Diversity and Inclusion Strategy** supports our aim to build the strongest foundations. It does that by ensuring we apply an inclusion lens across how we operate – and by promoting a culture where all our colleagues can thrive. It sets out a programmatic, evidence-based approach to understanding and removing bias and other cognitive barriers from BT policies, processes, systems and decision-making. Our Diversity and Inclusion Strategy can be found at **bt.com/diversity-and-inclusion**
Description of due diligence	We monitor and manage our environment strategy and risks through the *Digital Impact & Sustainability Committee*, and also through our Environmental Management Governance Group, which reports to the *Executive Committee*. We measure progress on different environment goals, one of which is a group KPI (page 47). We review and update the policy every year.	We allocate suitable resources to build a safe and healthy workplace. That includes policies, training, processes and effective risk controls. We monitor safety and wellbeing with a 'three lines of defence' model. We track and review accidents, near misses and reasons for sickness absence. We look at why accidents, injuries and near misses happen, to stop them happening again. We monitor sickness absence trends, adapting processes to better support colleagues. We review policies annually and update them as appropriate.	We regularly report to the *Executive Committee* on the strategy's relevance and effectiveness, including robust monitoring against our Ethnicity Rapid Action Plan and broader strategy.
Description of outcomes	See pages 32 to 33 for our plans and performance on the environment and tackling climate change, including progress made towards becoming a net zero carbon emissions business. Additionally, details of performance against our group KPI target to cut our carbon emissions intensity of our operations by 87% by the end of March 2031 is on page 47.	There are details of actions taken in pursuance of our policy, along with sickness absence rates and time lost from injuries, on pages 24 to 25.	Our strategy creates an environment and workplace that embraces diversity and inclusion and includes it in all decision-making. Details of the things we've done this year to support our strategy, together with some of our latest diversity and inclusion statistics, can be found on pages 24 to 25.
Description of risks	We consider the impacts of climate-related risks across our whole business, for example in our stakeholder management and service interruption group risk categories on pages 59 and 62. We're taking action to mitigate key physical climate risks and our impact on the environment in a number of areas. See pages 32 to 33 and our TCFD statement on page 67 for more details.	We capture health, safety and wellbeing risks within a dedicated group risk category, as set out on page 64.	We reflect diversity risk within our people group risk category, as set out on page 64.

We describe our business model on pages 12 to 13. And we set out the non-financial KPIs relevant to us on pages 46 to 47.

Social and community (see pages 31 to 33, 39, 42 and 47)	Human rights (see pages 32 and 42)	Anti-bribery and corruption
Our **Shared Value Policy** explains how we invest in society, including our aim to invest at least 1% of our adjusted profit before tax each year. Investments under this policy support areas like digital skills through a mix of cash and in-kind contributions. Investing in society helps us be a more responsible and sustainable business leader. It also supports our purpose; we connect for good. Our Shared Value Policy can be found at **bt.com/ourpolicies**	Our **Human Rights Policy Commitment** explains our commitment to respecting and championing human rights across BT and in our relationships with others. It describes our approach to respecting rights and freedoms, positioning these in a digital context. Being a human rights leader and having strong ethical standards builds trust. So it's key to our ambition to be the world's most trusted connector of people, devices and machines. Our Human Rights Policy Commitment can be found at **bt.com/ourpolicies**	**The BT Way** (our **Ethics Code**) sets out our zero tolerance approach to bribery and corruption. It's supported by a specific Anti-Bribery and Corruption (ABC) Standard. It describes our values and behaviours, and how we expect everyone who works for us (or on our behalf) to do business. It also covers additional key policy areas like human rights, and equality and diversity. The code provides an ethical framework for our ambition to become the world's most trusted connector of people, devices and machines. It demonstrates, through our commitment to doing the right thing, that our stakeholders can depend on us. The BT Way (Our Ethics Code) can be found at **bt.com/ethics**
The *Digital Impact & Sustainability Committee* oversees this policy. It also reviews our strategy and progress on societal programmes and targets. You can read more about the role of the *Digital Impact & Sustainability Committee* on page 87. The *Digital Impact & Sustainability Committee* monitors progress against the revised group KPI of reaching 25m people with help to improve their digital skills by the end of March 2026. We review and update the policy every two years.	We have processes to identify and address potential and actual human rights impacts across our business. They include embedded checks in sales processes, and in how we manage suppliers. We also provide targeted training to those teams most likely to encounter human rights issues. We identify, measure and tackle human rights impacts through people surveys, supplier questionnaires and risk assessments and through the Speak Up whistleblowing service.	All BT colleagues complete mandatory training on the code and get periodic communications that reinforce policies – including targeted 'teaser' questions. Our annual Your Say employee engagement survey includes questions on ethical perception, with results shared with senior management. Our Speak Up service lets anyone who works for, or with, BT to confidentially report anything that goes against our Ethics Code – including bribery, corruption, human rights violations, bullying or harassment. We undertake due diligence on third parties, engage external providers to assess higher risk areas, and use an integrity risk dashboard to identify potential focus areas. We review and update the code regularly.
We report on how we invest in initiatives and communities on page 39, and there are details of what we've done this year on pages 31 to 33, including progress made in helping people improve their digital skills and in reducing our carbon emissions intensity (both group KPIs).	This year, we carried out a self-review against the Global Network Initiative principles, in preparation for an external assessment next year. We've used what we found to strengthen our human rights governance and processes.	We track discipline case numbers and their outcomes, including colleagues who leave BT for ethical misconduct. This year, 95,825 colleagues completed training on the parts of the Ethics Code that are relevant for them, and 23,738 colleagues completed our ABC course for higher risk roles. We are using the results of an external ABC risk assessment conducted this year to enhance and better target our compliance activities. Speak Up received 491 reports this year. You can find more details on these in our Digital Impact and Sustainability Report at **bt.com/sustainabilityreport**
We consider digital inclusion risks as part of our stakeholder management group risk category on page 59.	We consider human rights risk as part of our stakeholder management group risk category on page 59.	We consider risks on ABC and ethical conduct relating to our suppliers within the third party management group risk category, and within the legal compliance group risk category where risks apply across our operations generally. You can read more on pages 66 and 61 respectively.

Our key performance indicators (KPIs)

We hit our operational targets for the year, but we want to go further. Overall our financial results were in line with the guidance we gave in July 2020[a].

This year, we continued to refine the KPIs we use to track progress against our strategy. We use 11 KPIs – five operational and six financial.

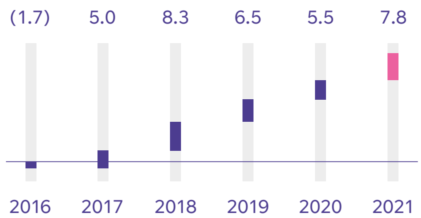
We reconcile financial measures to the closest IFRS measure on **pages 197 to 199**.

Operational At 31 March

R The annual bonus and long-term incentive plans that comprise our directors' remuneration are linked to certain KPIs. See the **Report on directors' remuneration** on pages 88 to 104.

a We gave our original outlook in July 2020 and updated it in September 2020 to raise the lower end of the adjusted[b] EBITDA range. We updated it again in February 2021 to raise the lower end of the normalised free cash flow outlook range. Our final outlook was adjusted[e] revenue down 5%–6%, adjusted[b] EBITDA £7.3bn–£7.5bn, capital expenditure £4.0bn–£4.3bn and normalised free cash flow[c] £1.3bn–£1.5bn.
b Adjusted EBITDA as stated is before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense, as explained on page 198.
c Normalised free cash flow as defined on page 199.
d Restated from 42% as presented in the Annual Report 2020 following review of our carbon emissions.
e Adjusted measures exclude specific items, as explained on page 197.

Group Net Promoter Score (NPS) R
pp



Definition

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

Link to strategy

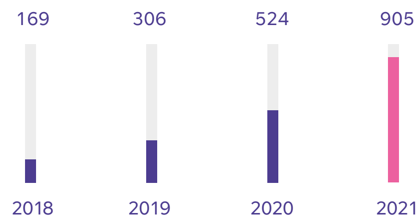
2

Performance

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

You can read more about our approach to customer experience on **pages 26 to 29**.

Total Openreach FTTP connections R
'000



Definition

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

Link to strategy

1

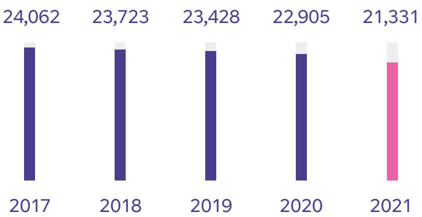
Performance

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

You can read more about the full fibre rollout on **page 20**.

Financial Year ended 31 March

Reported revenue
£m



Definition

This is our revenue as reported in our income statement.

Link to strategy

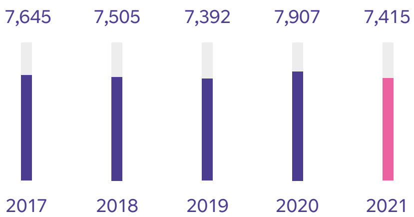
1 2 3

Performance

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

You can read more about how our customer-facing units performed on **pages 54 to 55**.

Adjusted[b] EBITDA R
£m



Definition

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

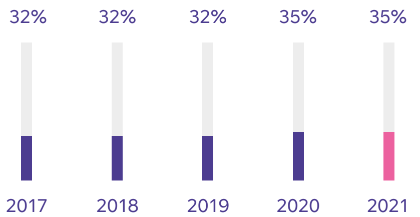
Link to strategy

1 2 3

Performance

Adjusted[b] EBITDA was £7,415m (2019/20: £7,907m). The decrease was mainly driven by the fall in revenue, special frontline bonus, increased service costs and continued investment in copper-to-fibre migration and our full fibre base, partly offset by sports rights rebates and cost savings including our modernisation programme, tight cost control and Covid-19 mitigation actions.

Adjusted[b] EBITDA margin
%



Definition

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

Link to strategy

1 2 3

Performance

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

Link to strategy

Each KPI measures how we're doing against at least one of our strategic pillars.

You can read more about these, and our progress against them, from **page 19**.

1 Build the strongest foundations

2 Create standout customer experiences

3 Lead the way to a bright, sustainable future

Total 5G connections
'000

Definition

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

Link to strategy

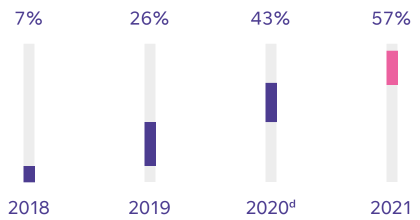
1

Performance

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

You can read more on our 5G rollout on **page 20**.

Percentage reduction in carbon emissions intensity
% reduction



Definition

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

Link to strategy

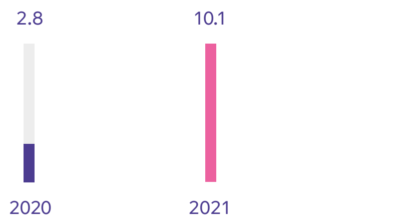
3

Performance

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

You can find more information on how we're tackling environmental challenges on **pages 32 to 33**.

Cumulative number of people reached to help improve their digital skills
m



Definition

This measures the number of people we've reached with help to improve their digital skills through our Skills for Tomorrow programme.

Link to strategy

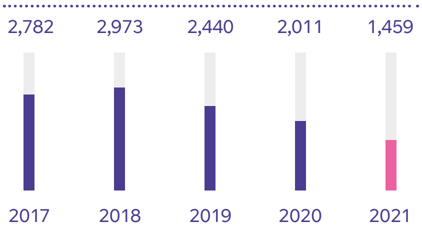
3

Performance

At 31 March 2021 we had helped a total of 10.1m people improve their digital skills (2019/20: 2.8m). We hit our initial ambition of reaching 10m people in the UK five years early, so we've extended our target and now want to reach 25m people by the end of March 2026.

You can read more about how we managed to help so many people build better digital lives on **page 31**.

Normalised free cash flow[c]
£m



Definition

This measures free cash flow (net cash inflow from operating activities after capital expenditure) after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.

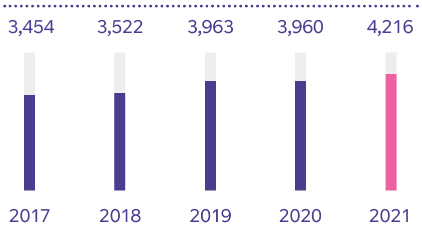
Link to strategy

1 2 3

Performance

We generated £1,459m of normalised free cash flow[c]. This was down 27% from last year and in line with our guidance range of £1.3bn to £1.5bn. The fall mainly reflects reduced EBITDA, higher cash capital expenditure and adverse working capital.

Reported capital expenditure
£m



Definition

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

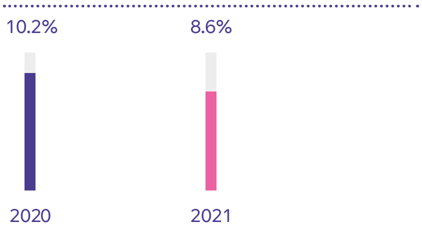
Link to strategy

1 2 3

Performance

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

Return on Capital Employed (ROCE)
%



Definition

ROCE is adjusted earnings before interest and tax as a percentage of equity, debt and debt-like liabilities excluding balances associated with tax and management of financial risk. For a full definition and a reconciliation to the nearest IFRS measure see page 198.

Link to strategy

1 2 3

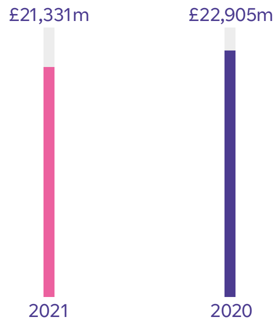
Performance

ROCE for the year was 8.6% (2019/20: 10.2%). The decline is attributable to the reduction in revenue and our investment in full fibre deployment, which will suppress ROCE in the short to medium term but will generate value-creating long-term returns.

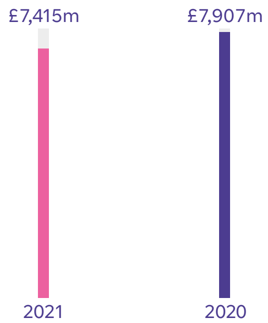
Group performance
Introduction from our Chief Financial Officer

Alternative performance measures
We assess the performance of the group using various alternative performance measures. As these are not defined under IFRS they are termed 'non-GAAP' or 'alternative performance' measures. We reconcile these to the nearest prepared measure in line with IFRS on pages 197 to 199. The alternative performance measures we use may not be directly comparable with similarly titled measures.

Revenue
£21,331m
(7)%

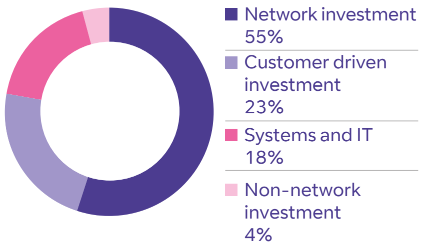


Adjusted[a] EBITDA
£7,415m
(6)%

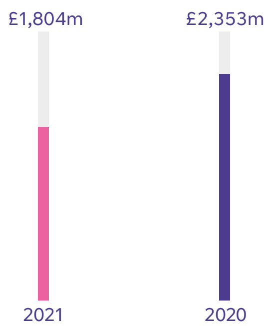


2020/21 Capital expenditure[c]

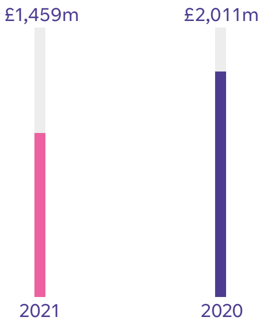
£4,216m



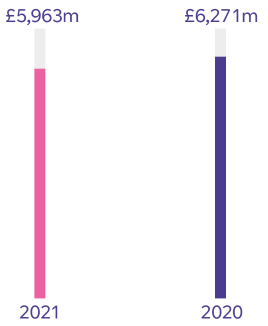
Profit before tax
£1,804m
(23)%



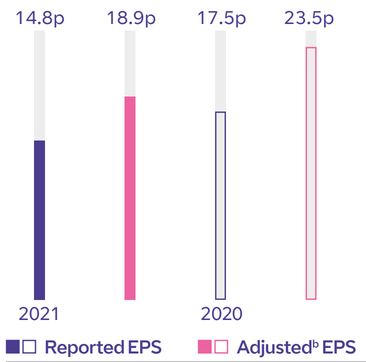
Normalised free cash flow[d]
£1,459m
(27)%



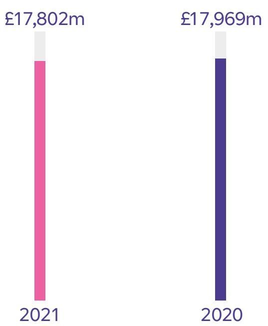
Operating cash flow
£5,963m
(5)%



Earnings per share



Net debt[f]
£17,802m



	Outlook[e]	Result	Performance in line with outlook
Change in adjusted[b] revenue	Down 5%–6%	Down 6%	✓
Adjusted[a] EBITDA	£7.3bn–£7.5bn	£7.4bn	✓
Capital expenditure[c]	£4.0bn–£4.3bn	£4.2bn	✓
Normalised free cash flow[d]	£1.3bn–£1.5bn	£1.5bn	✓

Performance

Overall our results for the year were in line with guidance.

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

Reported profit before tax was £1,804m, down 23% primarily reflecting the decline in adjusted[a] EBITDA.

Adjusted[a] EBITDA of £7,415m was down 6%. This was primarily due to the fall in revenue, special frontline bonus, increased service costs and continued investment in copper-to-fibre migrations and our full fibre base, partly offset by sports rights rebates and cost savings including our modernisation programme, tight cost control and Covid-19 mitigation actions.

Outlook

We continue to expect adjusted[a] EBITDA of at least £7.9bn in 2022/23, with sustainable growth from this point forward.

For 2021/22 we expect adjusted[b] revenue to be broadly flat year on year, dependent on the speed of Covid-19 recovery. We expect to deliver adjusted[a] EBITDA between £7.5bn and £7.7bn, benefiting from a Covid-19 recovery, price indexation in Openreach and our retail businesses, and continued cost transformation, more than offsetting legacy declines and normal inflation in our cost base.

We intend to capitalise on Openreach's build capability, a positive spectrum auction outcome and the expected benefit from the Government's tax super-deduction which is likely to reduce our UK tax payable to zero over the next two years. We are therefore utilising this to accelerate immediately our FTTP investment. As such we expect capital expenditure[c] to increase to around £4.9bn in 2021/22. We expect normalised free cash flow[d] to be between £1.1bn–£1.3bn with the increase in capital expenditure[c] relative to 2020/21 only partially offset by the increase in adjusted[a] EBITDA and the impact of the Government's tax super-deduction.

Dividend

As communicated in May 2020, the Board decided that it was appropriate to suspend all dividends for 2020/21 reflecting the need to create capacity for BT's value-enhancing investment opportunities, including our strategic intent for an accelerated FTTP build and our extensive transformation and modernisation programme, coupled with the shorter-term impact of Covid-19. The Board expects to resume dividend payments in 2021/22 at 7.7 pence per share with 30% payable at the interim stage.

The Board expects to continue with a progressive dividend policy from this re-based level for future years, and to declare two dividends per year with the interim dividend being fixed at 30% of the prior year's full year dividend. The Board believes that suspending and re-basing the dividend and then maintaining a progressive dividend policy is the right thing to do for the long-term future of BT and that the headroom generated by this decision is prudent given the Covid-19 pandemic, while the investments will create significant additional value for shareholders.

Simon Lowth
Chief Financial Officer
12 May 2021

a Adjusted EBITDA is stated before specific items, share of post tax profits/losses of associates and joint ventures. and net non-interest related finance expense, as explained on page 198.
b Adjusted measures exclude specific items, as explained on page 197.
c Additions to property, plant and equipment and intangible assets in the period.
d Normalised free cash flow as defined on page 199.
e Outlook originally provided in July 2020 was updated in September 2020 to raise the lower end of the adjusted[a] EBITDA range from £7.2bn to £7.3bn, and again in February 2021 to raise the lower end of the normalised free cash flow range from £1.2bn to £1.3bn.
f Net debt as defined on page 197. Please refer to note 26 for reconciliation from the nearest IFRS measure.

Group performance continued

Summarised income statement

Year ended 31 March	2021 £m	2020 £m
Revenue	**21,331**	**22,905**
Operating costs[a]	(14,397)	(15,348)
Depreciation and amortisation	(4,347)	(4,274)
Operating profit	**2,587**	**3,283**
Net finance expense	(791)	(897)
Share of post tax profit/(loss) of associates and ventures	8	(33)
Profit before tax	**1,804**	**2,353**
Tax	(332)	(619)
Profit for the period	**1,472**	**1,734**

Revenue

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

You can find details of revenue by customer-facing unit on pages 54 and 55. Note 5 to the consolidated financial statements shows a full breakdown of revenue by all our major product and service categories.

Operating costs

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

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

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

You can read more about how we're modernising our business on **pages 22 and 23**.

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

Adjusted[c] EBITDA

Adjusted[c] EBITDA of £7,415m was down 6%, mainly driven by the fall in revenue and increased costs as described above. You can find details of adjusted[c] EBITDA by customer-facing unit on pages 54 and 55.

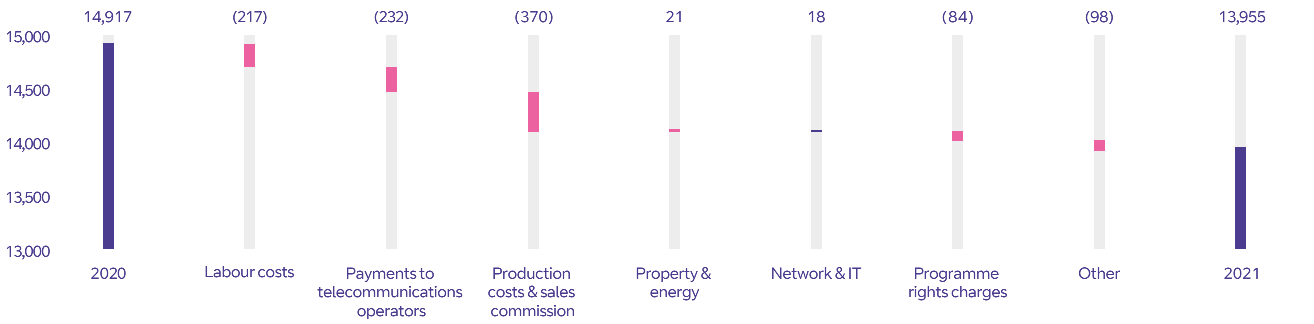
Profit before tax

Reported profit before tax of £1,804m was down 23%, primarily reflecting the decline in adjusted[c] EBITDA.

Specific items

As we explain on page 197, we separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence. We call these specific items. Specific items are used to derive the adjusted results as presented in the consolidated income statement. Adjusted results are consistent with the way that financial performance is measured by management and assists in providing an additional analysis of the reported trading results of the group.

Adjusted[b] operating costs before depreciation, amortisation and specific items
Year ended 31 March
£m



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

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

Taxation

Our effective tax rate was 18.4% (2019/20: 26.3%) on reported profit and 18.6% (2019/20: 18.7%) on profit before specific items. We paid income taxes globally of £288m (2019/20: £210m).

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

Our tax expense recognised in the income statement before specific items was £428m (2019/20: £536m). We also recognised a £1,051m tax credit (2019/20: £892m tax charge) in the statement of comprehensive income, mainly relating to our pension scheme.

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

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

Earnings per share

Reported earnings per share was 14.8p, down 2.7p, while adjusted[a] earnings per share fell 4.6p to 18.9p.

Capital expenditure

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

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

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

Cash flow

Net cash inflow from operating activities was down 5% to £5,963m, mainly driven by reduced operating profit partly offset by a reduction in pension deficit payments. Normalised free cash flow[d] was down 27% to £1,459m due to reduced EBITDA, higher lease payments, cash capital expenditure and adverse working capital; offset by a cash receipt from the monetisation of a non-strategic revenue stream generated from our building infrastructure and the timing of tax payments.

The net cash cost of specific items adjusted from normalised free cash flow[d] was £390m (2019/20: £112m), primarily relating to restructuring payments of £428m (2019/20: £350m) and regulatory payments of £11m (2019/20: £39m). The prior year benefited from one-off cash inflows relating to £210m income on disposal of BT Centre and £87m annual licence fee refund from Ofcom. In addition, net cash proceeds from divestments were £164m (2019/20: £60m).

Normalised free cash flow[d]

Year ended 31 March	2021 £m	2020 £m
Cash generated from operations	6,251	6,481
Tax paid	(288)	(210)
Net cash inflows from operating activities	**5,963**	**6,271**
Net purchase of property, plant and equipment and intangible assets[e]	(4,818)	(3,889)
Free cash flow	**1,145**	**2,382**
Interest received	6	30
Interest paid	(770)	(736)
Add back pension deficit payments	955	1,274
Remove cash tax benefit of pension deficit payments	(181)	(434)
Dividends from associates	5	1
Add back net cash flow from specific items	390	112
Add back net sale of non-current asset investments	(11)	33
Add back prepayment in respect of spectrum licence auction	702	–
Remove payment of lease liabilities	(782)	(651)
Normalised free cash flow[d]	**1,459**	**2,011**

You can see a reconciliation to normalised free cash flow[d] from net cash inflow from operating activities (the most directly comparable IFRS measure) on page 199.

a Excluding depreciation and amortisation.
b Adjusted measures exclude specific items, as explained on page 197.
c Adjusted EBITDA is stated before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense, as explained on page 198.
d Normalised free cash flow as defined on page 199.
e Consists of additions of £4,197m, movements in capital accruals of £4m and prepayments of £702m in respect of spectrum which will be recognised as an asset in 2021/22, net of disposals of £85m.

Group performance continued

Summarised balance sheet

Year ended 31 March	2021 £m	2020 £m
Intangible assets	13,357	13,889
Property, plant and equipment	19,397	18,474
Right-of-use assets	4,863	5,391
Derivative financial instruments	1,235	2,489
Cash and cash equivalents	1,000	1,549
Investments	3,683	5,112
Trade and other receivables	3,571	3,185
Contract assets	1,859	1,721
Deferred tax assets	989	300
Other current and non-current assets	923	957
Total assets	**50,877**	**53,067**
Loans and other borrowings	16,685	19,334
Derivative financial instruments	1,283	1,012
Trade and other payables	6,662	6,548
Contract liabilities	1,092	1,151
Lease liabilities	6,152	6,560
Provisions	715	719
Retirement benefit obligations	5,096	1,140
Deferred tax liabilities	1,429	1,608
Other current and non-current liabilities	84	232
Total liabilities	**39,198**	**38,304**
Total equity	**11,679**	**14,763**

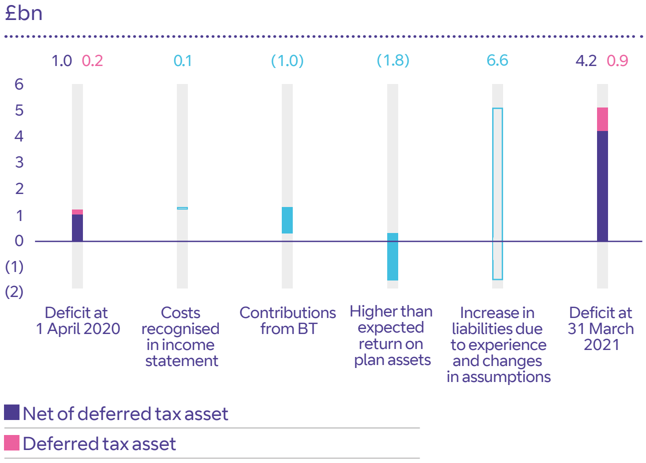
Pensions

Accounting position under IAS 19

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

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

The movements in the deficit for the group's defined benefit plans are as follows:



BT Pension Scheme (BTPS) funding valuation and future funding obligations

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

The deficit will be met as follows:

- £2bn of deficit met through an asset backed funding arrangement over 13 years with annual cash payments of £180m pa, secured against the EE business
- The balance being met over the existing 10 year period with annual cash contributions reducing from £900m initially to £600m from 1 July 2024.

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

Note 20 to the consolidated financial statements gives more information on our pension arrangements.

Net debt and net financial debt[a]

Net financial debt[a] (which excludes lease liabilities) at 31 March 2021 was £11.7bn, £0.3bn higher than at 31 March 2020, with net capital expenditure, net interest payments and payment of lease liabilities offsetting net cash inflow from operating activities and net proceeds from disposal of subsidiaries.

Net debt[a] (which includes lease liabilities) was £17.8bn at 31 March 2021, £0.2bn lower than at 31 March 2020 (£18.0bn). The difference to the movement in net financial debt primarily reflects the lease payments.

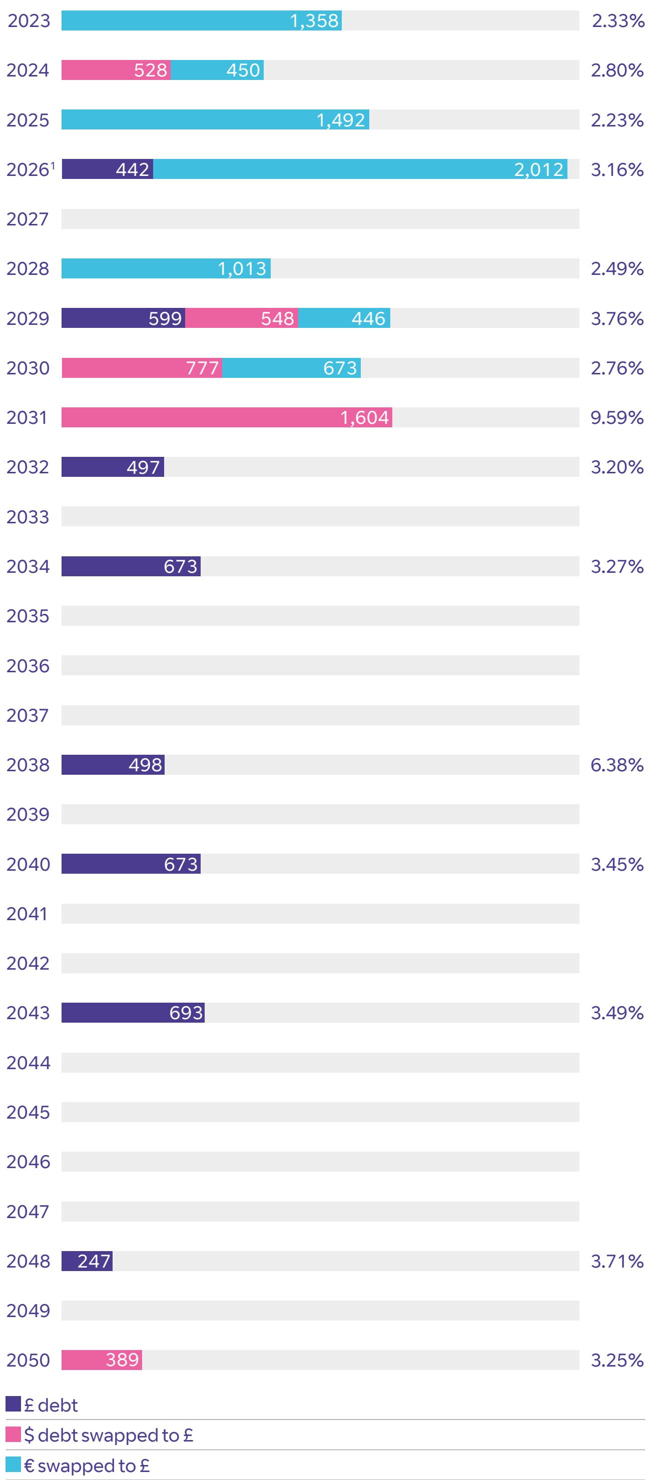
At 31 March 2021 the group held cash and current investment balances of £4.7bn. The current portion of loans and other borrowings of £0.9bn includes no term debt repayable during 2021/22. Our £2.1bn facility, which matures in March 2026, remains undrawn at 31 March 2021.

Gross debt translated at swap rates and excluding accrued interest and fair value adjustments was £22.5bn at 31 March 2021. This comprises term debt of £15.4bn, lease liabilities of £6.2bn and other loans of £0.9bn.

Debt maturity

The graph below shows the maturity profile for our term debt. Currency denominated balances are translated to sterling at swapped rates where hedged.

£m



Note 26 to the consolidated financial statements gives more information on our debt arrangements.

Contractual obligations and commitments

The table below shows our principal undiscounted contractual financial obligations and commitments at 31 March 2021.

As at 31 March 2021	**Total £m**	Less than 1 year £m	Between 1 and 3 years £m	Between 3 and 5 years £m	More than 5 years £m
Loans and other borrowings[b]	**16,301**	692	2,336	3,944	9,329
Pension deficit obligations	**8,800**	1,121	1,776	1,562	4,341
Lease liabilities	**6,970**	724	1,553	1,302	3,391
Programme rights commitments	**1,691**	727	935	29	–
Capital commitments	**1,370**	1,154	145	71	–
Other commitments	**263**	263	–	–	–
Total	**35,395**	**4,681**	**6,745**	**6,908**	**17,061**

We have unused committed borrowing facilities totalling £2.1bn. We expect that these resources, combined with the future cash we generate, will allow us to settle our obligations as they fall due.

Notes 15, 20, 26 and 31 to the consolidated financial statements give further information on these items.

Share buyback

We spent £14m (2019/20: £86m) on our share buyback programme. We received proceeds of £1m (2019/20: £2m) from people exercising their share options.

1 Reflects exercise of call option attached to 1.874% €500m bond due in 2080.

a Net debt and net financial debt as defined on page 197. Please refer to note 26 for reconciliations from the nearest IFRS measure.
b Principal repayments at hedged rates.

Group performance continued
Our customer-facing units

Consumer

Year ended 31 March	2021 £m	2020 £m	Change £m	Change %
Adjusted[a] revenue	9,885	10,388	(503)	(5)
Adjusted[a] operating costs	7,757	7,962	(205)	(3)
Adjusted[b] EBITDA	**2,128**	**2,426**	**(298)**	**(12)**
Depreciation & amortisation	1,281	1,278	3	–
Adjusted[a] operating profit	**847**	**1,148**	**(301)**	**(26)**
Capital expenditure	1,082	948	134	14
Normalised free cash flow[c]	714	1,065	(351)	(33)

Adjusted[a] revenue

£9,885m
(5)%

Adjusted[a] operating profit

£847m
(26)%

Revenue[a] declined due to the continued impact of Covid-19 which resulted in the closure of retail stores and pubs & clubs (impacting BT Sport revenue) for large parts of the financial year. There has been pressure on mobile revenue through reduced roaming and out of bundle usage, reduced prepaid activity and increased SIM-only mix diluting postpaid ARPC; which were partially offset by higher equipment revenue driven by increased direct volumes and a higher mix of premium handsets. Fixed revenue declined due to lower out of contract price rises and copper price reductions to address back book pricing, combined with a continued decline of our voice only customer base and call volumes.

EBITDA[b] declined due to lower revenue, continued customer investment in both copper-to-fibre migrations and the growth of our full fibre base, along with the bonus provided to our frontline staff. This has been partially offset by sports rights rebates, improved mobile margin with lower indirect commissions, increased equipment margin and tight cost management throughout the year.

Depreciation and amortisation was flat year on year. Capital expenditure was up due to higher network and equipment investment.

Normalised free cash flow[c] declined due to lower EBITDA[b] and higher capital expenditure.

Broadband churn has improved year on year by 0.1ppts to 1.1% due to significant investment in customer experience. Postpaid churn has improved year on year by 0.2ppts to 1.0%.

Our full fibre and 5G bases, award-winning mobile network, low churn, growing customer base on index-linked contracts, strong NPS and continued converged growth with Halo 3+, provide us with strong foundations for the future. This is further strengthened by the Government's roadmap to lift Covid-19 restrictions, the re-opening of our retail stores, the planned full re-opening of pubs & clubs and the possibility of a return to foreign travel.

Enterprise

Year ended 31 March	2021 £m	2020[d] £m	Change £m	Change %
Adjusted[a] revenue	5,449	5,952	(503)	(8)
Adjusted[a] operating costs	3,745	4,017	(272)	(7)
Adjusted[b] EBITDA	**1,704**	**1,935**	**(231)**	**(12)**
Depreciation & amortisation	740	712	28	4
Adjusted[a] operating profit	**964**	**1,223**	**(259)**	**(21)**
Capital expenditure	492	496	(4)	(1)
Normalised free cash flow[c]	1,352	1,363	(11)	(1)

Adjusted[a] revenue

£5,449m
(8)%

Adjusted[a] operating profit

£964m
(21)%

Revenue[a] declined due to continued declines in legacy products, in particular traditional fixed voice volumes and usage, the ongoing impact of Covid-19 and divestments. Fixed voice revenue declined by 13% with a decline in traditional voice lines partly offset by continued growth in VoIP seats.

Mobile revenue declined primarily due to lower roaming and out of bundle usage in retail mobile, offsetting a 4% increase in our retail customer base. The fall in retail revenue was partly offset by an increase in wholesale mobile revenue reflecting a higher average MVNO base. Excluding divestments in the prior year, revenue was down 7%.

Operating costs[a] declined by 7%, primarily reflecting the decline in revenue and our cost transformation programmes, partially offset by investment to support our growth areas. The decline in EBITDA[b] was mainly a result of the declines in legacy products and Covid-19, partly offset by cost savings from our transformation programme. Excluding divestments in the prior year, EBITDA[b] was down 11%.

Capital expenditure decreased by 1%. Normalised free cash flow[c] decreased 1%, with the fall in EBITDA[b] partially offset by the benefit generated from the monetisation of a non-strategic revenue stream generated from our buildings infrastructure.

Retail order intake fell 27% to £2.6bn and wholesale order intake fell 27% to £0.9bn for the year. The declines in both retail and wholesale orders are largely due to major contract extensions in the prior year.

Despite extension of financial support for businesses in the latest Government budget, we expect Covid-19 to continue to have an impact going into 2021/22, particularly on our direct and indirect SME customers.

Global

Year ended 31 March	2021 £m	2020 £m	Change £m	Change %
Adjusted[a] revenue	**3,731**	4,361	(630)	(14)
Adjusted[a] operating costs	**3,135**	3,727	(592)	(16)
Adjusted[b] EBITDA	**596**	**634**	**(38)**	**(6)**
Depreciation & amortisation	**405**	479	(74)	(15)
Adjusted[a] operating profit	**191**	**155**	**36**	**23**
Capital expenditure	**188**	223	(35)	(16)
Normalised free cash flow[c]	**187**	255	(68)	(27)

Adjusted[a] revenue

£3,731m

(14)%

Adjusted[a] operating profit

£191m

23%

Revenue[a] declined by 14% due to the negative impact of Covid-19, divestments of domestic businesses in Spain, Latin America and France, mature and legacy portfolio declines and a £28m negative impact from foreign exchange movements. Revenue excluding divestments and foreign exchange declined by 9%.

EBITDA[b] declined by £38m reflecting the impact of divestments and a £11m negative impact from foreign exchange movements. EBITDA[b], excluding divestments, foreign exchange and one-offs increased by 3%. The negative impact of Covid-19 on revenue was more than offset by lower operating costs[a] reflecting ongoing transformation, rigorous cost control and Covid-19 mitigation actions.

Depreciation and amortisation declined by 15% due to the impact of divestments and reductions in capital investment over the last few years.

Capital expenditure declined by 16% due to lower project spend, Covid-19 related deferrals of customer spend and the impact of divestments. Normalised free cash flow[c] declined by £68m reflecting adverse working capital and lower EBITDA[b], partly offset by lower capital expenditure.

Order intake for the year was £3.7bn, down 15% year on year as customers continued with a more cautious approach, with ongoing delays to purchasing processes and lower than expected levels of demand and non-contracted spend. In addition, order intake in the prior year benefited from a number of large renewals and the current year was reduced by the divestments.

The current challenging market conditions resulting from Covid-19 are expected to continue into the next financial year impacting both order intake and trading performance.

Openreach

Year ended 31 March	2021 £m	2020 £m	Change £m	Change %
Adjusted[a] revenue	**5,244**	5,112	132	3
Adjusted[a] operating costs	**2,307**	2,254	53	2
Adjusted[b] EBITDA	**2,937**	**2,858**	**79**	**3**
Depreciation & amortisation	**1,707**	1,712	(5)	–
Adjusted[a] operating profit	**1,230**	**1,146**	**84**	**7**
Capital expenditure	**2,249**	2,108	141	7
Normalised free cash flow[c]	**486**	670	(184)	(27)

Adjusted[a] revenue

£5,244m

3%

Adjusted[a] operating profit

£1,230m

7%

Revenue[a] growth was primarily due to higher rental bases in fibre-enabled[e] products, up 15%, and Ethernet, up 7% at year end. This was partially offset by declines in legacy copper products.

EBITDA[b] grew 3% driven by revenue growth. Operating costs[a] increased with higher service costs as we continue to deliver against our customers' increasing service expectations, increased full fibre provisions and pay inflation and a special frontline bonus partially offset by ongoing efficiency programmes.

Capital expenditure was up 7% due to investments in the network and connecting our customers, predominantly fibre-enabled infrastructure, partly offset by efficiency savings and lower non-fibre spend.

Normalised free cash flow[c] declined by 27% due to flow through of EBITDA[b] and capital expenditure and timing of working capital and lease payables.

The UK lockdowns have had some impact on our trading. The first few months of the year were characterised by lower provision and upgrade activity, partly offset by lower churn. The impact in the last few months was limited to lower full fibre and Gfast sales as we temporarily paused non-essential work inside customer premises. We have now recommenced entering customer premises for most services and are expecting to clear backlogs by summer 2021.

a Adjusted measures exclude specific items, as explained on page 197.
b Adjusted EBITDA is stated before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense, as explained on page 198.
c Normalised free cash flow as defined on page 199.
d The prior year comparatives for Enterprise have been restated for the transfer of Supply Chain and Pelipod to the central procurement team on 1 April 2020. For more information please see note 1 to the financial statements on page 123.
e FTTP, FTTC and Gfast, including Single Order Migration.

A letter from the Chair of Openreach

To say this has been a challenging year would be an understatement. The pandemic has dominated the last 12 months. We've all learned more than we ever expected about viruses, vaccines, social distancing and how best to wash our hands.

Unsurprisingly Covid-19 affected our working lives too, and we certainly saw that here at Openreach.

Keeping the UK connected

In March 2020, millions of us switched to working and schooling from home and our engineers were given key worker status, meaning they could keep building and maintaining our network.

From connecting the health service, to schools and critical infrastructure, we also maintained links between loved ones and made sure people could continue to work from home and keep the country going.

UK broadband use more than doubled from 22,000 petabytes in 2019 to 50,000 petabytes in 2020 as people relied on digital connections more than ever.

Our priority was keeping our colleagues and customers safe and we swiftly re-engineered processes so we could work safely and keep the country connected.

And of course, we can't ignore the impact of Brexit. In any other year, such a seismic shift would've dominated our thoughts and actions, but we didn't let it derail progress. And now our focus shifts to the future.

Building back better

Despite everything, we sped up our full fibre build this year, reaching one million homes and businesses in just over six months. This was – and will continue to be – instrumental in maintaining a strong and sustainable business for our shareholder BT, Openreach colleagues and customers. Even in a year like no other.

We're now making our fastest, most reliable broadband technology available to another home or business every 14 seconds and recently reached 4.6m premises.

Our build includes millions of homes in the country's toughest-to-reach areas as we do everything we can to connect rural communities.

We're in a strong position to build back better, supporting the wider economy as well as our shareholder, customers and the UK, to help the nation recover.

Supercharging the recovery

'Building back better' sounds good. But as we take stock of what the UK needs to bounce back strongly, we have to deliver substance.

At Openreach, we know that full fibre broadband has a huge role to play in the recovery, and the Centre for Economics and Business Research (Cebr) has reinforced that.

In its recent updated study, Cebr highlights how better broadband can be a massive platform for economic growth, social cohesion and positive environmental change. It could deliver a £59bn boost to UK productivity by 2025 and help an extra 400,000 people live and work where they choose, stimulating regional and rural economic growth.

The Government wants at least 85% of the UK to have gigabit capable broadband in the same timeframe. But getting as close to 100% as possible has to be the aim – and we're passionate about doing our bit.

Building back greener

Based on Cebr's research, nationwide full fibre broadband could save 300m commuting trips each year, with three billion fewer kilometres travelled by car and 360,000 fewer tonnes of carbon emissions. That's a terrific dividend. But our focus on sustainability doesn't end with the network.

With more than 28,000 vehicles, Openreach operates the UK's second largest commercial van fleet. Our engineers travel more than 220m miles a year – producing more than 95,000 tonnes of CO_2.

We have to tackle this. So we're aiming to switch a third of the fleet to electric or zero emissions by the middle of this decade and want to be all-electric or zero emissions by 2030.

Continued progress on service

Over the last four years we've been recognised for making huge strides in delivering a better customer experience, but 2020 was an unusual year. Despite completing record volumes of provisions and fixes, we couldn't maintain every Minimum Service Level set for us by Ofcom.

However, the regulator has recognised the impact of the pandemic and it won't be taking enforcement action as long as we keep doing the right thing for our customers.

Looking forward

We're a £5bn revenue business, employing more than 35,000 colleagues across the UK, and I'm proud to say this year we bucked the economic trend by creating 5,300 new engineering jobs across Openreach and our supply chain.

I am encouraged by Ofcom's final statement in its WFTMR, which establishes the regulatory framework for the next five years. The regulator's emphasis on investment and its recognition of the need to create a regulatory environment encouraging the renewal of our country's access network across all four nations is very welcome.

As we work to speed up adoption, we know that educating people about the benefits of full fibre will be key to the success of this new network. We're working closely with communications providers to raise awareness, stimulate demand and make sure upgrades are smooth and affordable.

We're pressing on with building full fibre at pace. We're increasing and accelerating our build from 20m to 25m homes and businesses by December 2026. We believe we can ramp our build up to 4m premises a year – going harder and faster than previously thought possible, whilst doing everything we can to build fairly across the whole of the UK. It's the right thing for our business, our shareholder, our colleagues, and our customers.

Mike McTighe
Chair, Openreach
12 May 2021

How we manage risk

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

Our risk management framework

This year, we operated an enhanced risk management framework to support us on our journey to be the world's most trusted connector of people, devices and machines.

The framework gives us extra confidence to tackle risks and uncertainties that crop up – as we execute our strategy, transforming and modernising the business to deliver on our ambition.

How the framework helps us achieve our ambition

The framework strengthens our foundations and helps our leaders make smarter choices. Both things are vital to help building trust among colleagues, customers and other stakeholders.

Being smart with risk

The framework identifies key attributes of a 'risk-smart' culture: individual mindset, attitude to risk and the right behaviours.

These attributes, in combination with having a robust risk process, help us make the right risk decisions, knowing which risks to take and having the courage to take them.

Operational discipline

The framework helps us set simple and clear requirements through our policy landscape, key controls and assurance activities which result in smoother operations through an enhanced control environment.

The diagram below illustrates how our framework supports us in delivering our strategy and achieving our ambition by putting these elements into action.

How we identify and assess risks

Group risk categories

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

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

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

Point risks

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

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

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

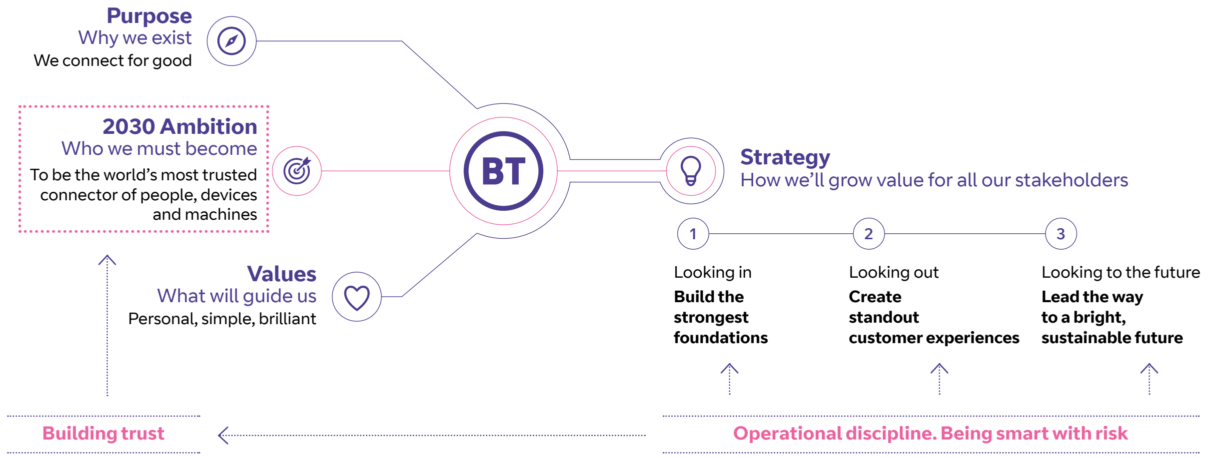
Emerging risks

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

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

The diagram on the next page illustrates how the different components of our framework come together.

Risk and discipline underpin the key parts of our strategy allowing us to achieve our ambition to become the world's most trusted connector of people, devices and machines



How we manage risk continued

How we manage risks

Group risk categories are assigned a member of the *Executive Committee* as owner, which helps us make sure all risks across each category get considered consistently across the group.

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

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

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

How risk links to strategy

On the previous page we show how risk and discipline underpin our strategy, which includes building the strongest foundations, creating standout customer experiences and leading the way to a bright sustainable future.

To achieve each of the "pillars", we need to manage risks, operate with discipline and make smart choices in all of our group risk categories. Some categories contribute more strongly to particular pillars than others.

For example, we need to manage cyber security and service interruption risks in building the strongest foundations; we need to manage risks related to customer service and major contracts in delivering standout customer experiences; and we need to manage risks associated with strategy, technology and competition to lead the way to a bright sustainable future.

We cover our full risk landscape in detail over the next pages, including how each group risk category could affect our strategy and/or business model.

You can find out more about our strategy on **page 19**, and our business model on **pages 12 to 13**.

Our framework explained

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

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

Some risks or risk themes are high-profile topics that cut across different categories and warrant central coordination and oversight.

Strategic
- Strategy, technology and competition
- Stakeholder management

Financial
- Financing
- Financial control

Compliance
- Legal compliance
- Data regulation
- Regulation

Operational
- Service interruption
- Cyber security
- Transformation delivery
- People
- Health, safety and wellbeing
- Major contracts
- Customer service
- Third party management

Units

Consumer | Enterprise | Global | Openreach | Digital | Networks | Programmes | Other

Point & emerging risks

Covid-19 ‹ Risk themes › Brexit

Two of our risk themes are currently widely represented across the group risk categories:

Covid-19

The pandemic is having, and will continue to have, a big impact across our entire risk landscape. Responding to the effects of Covid-19 has become part of our day-to-day operations and that response is overseen by an *Executive Committee* level steering group. However, there's still huge uncertainty in terms of the timing, extent and length of national or regional lockdowns and their impact on our operations, colleagues and customers.

Covid-19 has reinforced how critical our networks are. They supported large-scale switches to home working. And they've allowed us to give extra communications support to UK central government and the devolved administrations in their pandemic response activities.

Brexit

The UK and EU agreed a trade deal which came into force on 1 January 2021 and established a new trading relationship. We've been planning for Brexit for four years and the outcome of the trade deal negotiations hasn't had any operational impact on BT services. Our movement of goods, people, data and services are operating normally.

We're monitoring developments on both sides to measure any potential impacts.

Our principal risks and uncertainties

Strategic

Strategy, technology and competition

Owner: Chief financial officer

What this category covers

We could fail to properly respond to an uncertain economic outlook, intensifying competition, rapid technology developments, or fail to develop products and services that match changing market dynamics or customer expectations.

How it could affect our strategy and/or business model

- Increased competition might challenge our market share, revenue or profit, or could make it harder for us to grow the value of our business.
- New technology developments could make it harder for us to monetise our network investment and could potentially force us to invest more to meet the needs of customers.
- Major economic uncertainty could have a big effect on our customers – weakening demand, making them less willing to pay for premium services and increasing the risk of bad debts.

How we manage it

- Investing in becoming a network leader with the best converged network.
- Transforming ourselves to be fitter for the future through upgrading older services and technologies.
- Investing in differentiated solutions that give us opportunities to grow and deliver standout customer experiences.
- Monitoring technology developments and competitor activity.
- Working with regulators and key stakeholders.

Point risks that could affect this category

- Stronger competition in the converged market.
- Increasing competitive intensity.
- A shrinking global economy.

Emerging risks that could affect this category

- New disruptive technologies which substitute our products.
- Over-the-top players joining the connectivity market.

Stakeholder management

Owner: Corporate affairs director

What this category covers

We might fail to properly manage our stakeholders, which may affect our significant risks, for instance those around buying, using, selling or developing new or emerging technologies responsibly.

How it could affect our strategy and/or business model

- Not effectively managing our stakeholders' expectations, or failing to anticipate the potential effects of certain risks on the communities we serve, might damage their trust in us. That could affect our performance, shareholder value, licence to operate and might also limit new growth opportunities.
- Our future strategy and growth plans could be undermined.
- There might be legal liabilities for the company or individual colleagues.

How we manage it

- Tracking trust and reputation across our main stakeholder groups to inform our plans.
- Proactively engaging with key stakeholders to build stronger relationships and support a better understanding of risks.
- Exploring more positive outcomes for BT in a fair and transparent way.
- Operating a responsible and sustainable business, maintaining our top quartile position on environmental, social and governance criteria.

Point risks that could affect this category

- Full fibre build commitments and rural connectivity.
- Misinformation on 5G health concerns.
- Developments from the UK withdrawing from the EU.

Emerging risks that could affect this category

- Evolving trade tensions between the US and China.
- Climate change policy agenda and perceptions of our sector's role in carbon emissions.
- Growing focus on the digital divide and its implications.
- Potential for misuse of our products or technologies, in the context of our commitments to human rights.

Our principal risks and uncertainties continued

Financial

Financing

Owner: Chief financial officer

What this category covers

We could find ourselves not able to fund our business or pension schemes, or to refinance debt.

How it could affect our strategy and/or business model

- Not generating enough cash, being unable to access capital markets, or a big increase in our pension scheme obligations could stop us from being able to fund our business cash flows or meet our payment commitments.

How we manage it

- Regularly reviewing actual and forecast cash flow performance.
- Performing annual viability assessments and conducting scenario analysis.
- Issuing hybrid debt.
- Having a pension investment approach that lowers our risk over time, making contributions less volatile.
- Analysing our pension schemes' funding position and investment performance regularly, and negotiating funding valuations.
- Responding to any relevant pensions consultations.

Point risks that could affect this category

- Lack of access to capital and liquidity because of the economic downturn.
- Our credit rating being downgraded.
- An increase in our pension deficit.

Emerging risks that could affect this category

- Pension regulator review of funding regulations, risking bigger pension liabilities or giving us less time to make deficit payments.
- Future debt capital markets might not suit all our debt needs.

Financial control

Owner: Chief financial officer

What this category covers

One or more of our financial controls could fail to prevent fraud (including misappropriation of assets) or inaccurate reporting, resulting in financial losses or causing us to misrepresent our financial position.

How it could affect our strategy and/or business model

- Failings in how we design or operate our financial controls might lead to financial loss, misstatement and/or wrong business decisions. On top of that, it could give rise to fraud, dissatisfied stakeholders, breaches and associated penalties, legal action and damage to our reputation.
- Not modernising our business and financial processes by simplifying and automating our controls could make it harder for us to be agile, proactive and customer-centric.

How we manage it

- Maintaining an internal controls framework with clear accountability across the three lines of defence.
- Performing quarterly control attestations.
- Conducting annual testing covering all key controls, including relevant IT general controls.
- Continuing to enhance processes, systems and controls, for instance by investing in enterprise-wide SAP to deliver improved and automated accounting and controls.

Point risks that could affect this category

- Failing to simplify and modernise our finance processes.
- Impact of complex legacy systems on our internal controls.
- Ability to maintain sound internal controls following our deregistration from the US Securities and Exchange Commission.

Emerging risks that could affect this category

- Changes to controls framework requirements as a result of changes to regulation and legislation.

Compliance

Legal compliance

Owner: General counsel[a]

What this category covers

We could fail to comply with legal requirements that apply to our business, including law relating to anti-bribery and corruption, competition, trade sanctions and corporate governance obligations.

How it could affect our strategy and/or business model

- Not following laws that apply to us might lead to fines and penalties. That could affect our operations and shareholder value, as well as damaging the public's trust in us.
- Serious breaches could lead to prosecution, litigation or to the regulator stepping in. And that might lead to fines or affect our ability to operate, especially if the breaches were deemed criminal.

How we manage it

- Assessing risks regularly when providing legal advice on strategic projects and commercial operations.
- Scanning the horizon to prepare for legislative changes and developing policies to address them.
- Ensuring compliance with laws and regulations when signing off new business.
- Training and communication so our colleagues are aware of legal risks, controls needed and expected standards of conduct as set out in our Ethics Code.
- Running discipline and reward incentives to encourage the right behaviour in managing risks.
- Carrying out monitoring and assurance, both internally and externally, on some of our high-risk suppliers.
- Fostering a culture where our colleagues can speak up, so we can identify problems and stop them happening again.

Point risks that could affect this category

- Post-Brexit changes to UK laws and regulations.

Emerging risks that could affect this category

- Increased reliance on third parties following the divestment of assets.
- The geopolitical risks of further sanctions in high-risk territories.

Data regulation

Owner: Chief digital and innovation officer

What this category covers

We could fail to follow data regulations, or not anticipate and adequately prepare for future ones.

How it could affect our strategy and/or business model

- Failing to comply with global data protection laws or regulations that apply to us could damage our reputation, affect our stakeholders' trust in us and harm our colleagues, customers and suppliers.
- It also means that we could face potential litigation and big fines and penalties.

How we manage it

- Continuously enhancing our data governance programme to tackle existing and future data regulatory risks.
- Reviewing the use of personal data across the business to make sure our data protection policies are followed.
- Running data protection and data handling training, and providing tools to help our colleagues make better, more risk-aware day-to-day decisions.
- Monitoring the post-Brexit regulatory landscape and making contingency plans to keep data flowing where it's needed.

Point risks that could affect this category

- The UK losing data adequacy status from the EU.
- Preventing data loss in remote working environments.
- Complying with data protection laws and regulations, while seeking innovative uses for data.

Emerging risks that could affect this category

- Changes to data protection laws and regulations that apply to us wherever we operate.
- Increased regulator focus on governance and ethics around data propositions and processes.

a Owner will change to general counsel and director of regulatory affairs from 1 June 2021, see page 8.

Our principal risks and uncertainties continued

Compliance (continued)

Regulation

Owner: Regulatory affairs director[a]

What this category covers

We could face an adverse regulatory environment to execute our strategy. Or we could fail to stick to the guidance and regulation set by our telecommunications and financial services regulators (Ofcom and the FCA, respectively).

How it could affect our strategy and/or business model

- An overly strict or inflexible regulatory environment might make it harder for us to innovate and develop new products and services.
- Unsupportive regulation could stop us investing at pace and scale in our full fibre rollout, 5G, converged connectivity and financial services.
- An unclear or unpredictable regulatory environment could make it harder to deliver what customers and society expected from us while growing our value.
- Not following regulations applying to us could lead to regulator action. That might damage our reputation or public trust, or make it harder to have a say in regulatory and governmental policy development.

How we manage it

- Making sure the Commitments are always front of mind for all colleagues, including training those in high-risk roles.
- Proactively engaging with our regulators at different levels and on different policy topics.
- Creating brilliant customer experiences, for example when moving customers on to our new networks.
- Maintaining processes that ensure we follow regulations carefully, building trust and enabling positive future dialogue with policymakers.
- Supplying timely and accurate information to our regulators.

Point risks that could affect this category

- Uncertainty around the broadband Universal Service Obligation.
- Shutting down our legacy networks as required.

Emerging risks that could affect this category

- Increased regulation for new technology may not support good customer experience.
- New or extended customer fairness regulation.

Operational

Service interruption

Owner: Chief technology officer

What this category covers

Our customers could face disruption to the services we provide if we failed to fix vulnerabilities in our networks or IT infrastructure, or didn't make them resilient enough.

How it could affect our strategy and/or business model

- An interruption to service, like one of our networks going down, would affect our customers directly. It could also make it harder for us to deliver critical services, which could damage our reputation.

How we manage it

- Regularly testing our business continuity and disaster recovery plans and keeping them up-to-date.
- Planning how to deal with the effects of climate change globally, including network and IT resilience to face more severe weather events.
- Responding quickly to incidents and reducing their impact through quickly-deployable and geographically dispersed emergency response teams.
- Continually scanning the horizon and doing more proactive monitoring across our network and IT estate.

Point risks that could affect this category

- The ability to remove high-risk vendors from our network.
- Our suppliers' performance.

Emerging risks that could affect this category

- Increasing frequency and severity of extreme weather events.
- Transforming ourselves and our technology without disrupting service.

a Owner will change to general counsel and director of regulatory affairs from 1 June 2021, see page 8.

Cyber security

Owner: Chief technology officer

What this category covers

We might fail to protect ourselves, or our customers, from harm caused by intended or unintended cyber security events.

How it could affect our strategy and/or business model

- If we didn't stop a cyber attack, it could lead to business disruption or compromised data. And that could lead to penalties, financial loss, cancelled contracts or regulatory sanctions.
- If our reputation were damaged by a cyber security issue, it would also have a negative effect on our security credentials in the marketplace.

How we manage it

- Monitoring external threats and gathering intelligence on evolving cyber techniques, tactics and capabilities.
- Keeping ourselves in a heightened state of preparedness to quickly detect and respond to cyber threats before they become incidents.
- Promoting good security 'hygiene' and behaviour in our colleagues, through communications, campaigns and training.
- Continuing to invest in our cyber defences and security tooling to improve our ability to protect BT and our customers.

Point risks that could affect this category

- Being exposed to suppliers with security vulnerabilities.
- Relying on externally hosted cloud services.
- Increasing levels of remote working during and after the pandemic.

Emerging risks that could affect this category

- AI and machine learning being weaponised as security threats.
- Growing numbers of connected home devices need more focus on protecting customers.

Transformation delivery

Owner: Chief digital and innovation officer

What this category covers

We could fail to effectively implement the changes needed to radically simplify our processes and products, and modernise our technology.

How it could affect our strategy and/or business model

- Not realising the benefits of our transformation could negatively impact customer and colleague experience.
- It could also affect our operational efficiency and make it harder for us to make future investments.
- Not having the right processes, tools and techniques to transform ourselves might stop us realising benefits, like improving our productivity through simplification.

How we manage it

- Having a strong governance model, with senior leaders owning major transformation activities.
- Monitoring operational performance using financial and non-financial measures to make sure we generate value.
- Investing in new capabilities, and developing matching skills in our colleagues, so that we have the right resources to deliver change effectively.
- Collaborating across the group in a way that properly reflects our customers' end-to-end journeys.

Point risks that could affect this category

- Migrating to digital platforms.
- Allocating the right resources, capabilities and organisational design to maximise value creation.

Emerging risks that could affect this category

- Delays to our full fibre build might make it harder to simplify our portfolio.
- Switching off the PSTN in December 2025.

Our principal risks and uncertainties continued

Operational (continued)

People

Risk Owner: HR director

What this category covers

Our organisational structure, or the diversity, skills, engagement and culture of our workforce, could fall short of what is needed to deliver for customers in the short or longer term.

How it could affect our strategy and/or business model

- A less diverse workforce could lead to poorer decision-making, and might make it harder for us to attract and retain talent.
- If our colleagues weren't engaged, it might cut productivity, hinder innovation and slow down the pace of our transformation. It could also potentially lead to industrial action.
- Failing to attract and retain talent in critical roles or with critical skills, and to foster a culture where everyone felt able to be their best, could affect our overall capabilities.

How we manage it

- Following a diversity and inclusion strategy to raise awareness, address bias and promote people networks and support for underrepresented groups.
- Listening to colleagues through things like employee engagement and pulse surveys, the *Colleague Board*, town halls or social platforms, and maintaining close relationships with formal employee representative groups.
- Investing in group-wide workforce and talent planning, training and development, with both role-specific and future skills in mind.
- Providing fair and competitive remuneration to colleagues that promotes smart risk taking, supports engagement and retention and aligns colleagues' interests with those of shareholders.

Point risks that could affect this category

- The post-Brexit employment environment.
- Social disruption and challenges around post-pandemic return to workplaces.

Emerging risks that could affect this category

- Long-term social and workplace effects from the pandemic.
- Growing colleague activism on social or environmental topics.

Health, safety and wellbeing

Owner: HR director

What this category covers

We could fail in our duty of care to make sure our colleagues are safe, healthy and fulfilled in a culture where they feel they can be and perform their best.

How it could affect our strategy and/or business model

- Failing to promote and embed a culture of continual improvement could stop us building a safe and compliant business that protects our colleagues at work. This would affect their morale and make us a less attractive employer.
- If we don't meet leading health, safety and wellbeing standards, and reduce avoidable harm incidents to zero, we could face financial penalties and damage to our reputation.

How we manage it

- Training our colleagues and ensuring they are clear on their role and accountabilities with regards to health, safety and wellbeing practices.
- Monitoring our colleagues' health, safety and wellbeing through surveys and focus groups, supported by a dedicated portal and mental health awareness training for managers.
- Using an incident reporting system to monitor our performance on health, safety and wellbeing.
- Making sure all BT suppliers operate in line with our safety standards.

Point risks that could affect this category

- Maintaining secure workplace measures and controls.

Emerging risks that could affect this category

- The long-term physical and mental health effects of lengthy periods of social restriction and limited mobility.

Major contracts

Owner: Chief executive

What this category covers

We could fail to sign or retain high-value national or multinational customer contracts because we weren't able to deliver the critical services agreed. Or we might end up entering into contracts with unfavourable commercial or legal terms.

How it could affect our strategy and/or business model

- Failing to meet our contractual commitments – or respond to changing customer needs – while ensuring productivity and avoiding cost over-runs, could affect our future revenues, profitability and cash generation.
- Service failures could damage our brand and reputation, particularly if they affected critical infrastructure contracts or security and data protection services.
- Profits could be impacted following the pandemic as customers' businesses shrink or face consolidation or financial failure.

How we manage it

- Using a clear governance framework to manage the bid process and in-life management of contract risks.
- Following a cycle of regular contract reviews, led by senior management or our specialist independent review team.
- Using advanced contract management tools to support frontline contract managers.

Point risks that could affect this category

- The complexities associated with handling multiple customer obligations.
- Delivering complex critical national infrastructure contracts.
- Moving customers away from end-of-life products and services.

Emerging risks that could affect this category

- Fast-changing customer needs in a post-Brexit business environment.
- Changes to the geopolitical landscape affecting growth prospects in certain regions.

Customer service

Owner: CEO, Consumer

What this category covers

We might fail to give our customers the good-value, outstanding service they expect, making it harder for us to build personal and enduring relationships with them.

How it could affect our strategy and/or business model

- If we don't satisfy our customers with modern, competitive products and solutions, combined with outstanding service, they might leave BT for a competitor and, as a result, damage our reputation.
- Failing to transform our customer experience could negatively affect customer satisfaction and retention, colleague pride and advocacy, our group revenues and brand value.
- If we miss our regulatory commitments, we could face associated financial penalties.

How we manage it

- Delivering on our promises about the service levels customers should expect from us, and tracking a range of customer experience performance metrics.
- Planning with all our suppliers how we'll manage the impact of a potential future pandemic resurgence.
- Piloting schemes and testing customer equipment to minimise the impact of new hardware, services or platforms.
- Making sure we won't be short on key skills by following a colleague retention and skills development plan.

Point risks that could affect this category

- Drops in service level because of reduced retail presence.
- Migrating to new service platforms.

Emerging risks that could affect this category

- Long-term changes in customer needs and expectations.

Our principal risks and uncertainties continued

Operational (continued)

Third party management

Owner: Chief financial officer

What this category covers

We might fail to select the right suppliers and partners, or there might be failures in how we manage the relationships with the third parties we rely on.

How it could affect our strategy and/or business model

- Selecting suppliers who couldn't meet our needs, or depending too much on too few suppliers, could lead to poor third party commercial terms. That could damage our strategic, market or competitive position.
- Picking suppliers who weren't up to the job might lead to failed deliveries, lost revenue or investment, fines or damage to our reputation.
- Managing suppliers poorly could disrupt our business and lead to regulatory fines and brand damage. For example if we discovered a supplier was involved in modern slavery, or was vulnerable to a cyber attack that could compromise BT sensitive data.

How we manage it

- Applying ethical and responsible business principles when picking suppliers.
- Conducting pre-contract checks on our suppliers covering their financial health and their ability to meet our standards on anti-bribery and corruption, security or data privacy.
- Monitoring suppliers' performance on energy use, environmental impact and labour standards and supporting their improvement plans.
- Getting assurance that the goods and services we buy are made, delivered and disposed of in a socially and environmentally responsible way.
- Continuing to invest in AI and machine learning tools to give us greater transparency to supplier risk across our top suppliers, and to help develop category-specific strategies.

Point risks that could affect this category

- Disruption due to worldwide shortages of critical supplies.
- Supplier-related cyber and data security threats.
- Being sure of ethical business practices across our whole supply chain.

Emerging risks that could affect this category

- Political tensions in regions where we have a high concentration of suppliers.
- Single-source vendors' delivery performance.
- Driver shortages affecting our suppliers' delivery models.

Task Force on Climate-related Financial Disclosures

We're committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). They're a big step towards a net zero carbon economy and will help manage the future impact of climate change on BT. This is our second year of disclosure aligned to TCFD recommendations.

Climate change governance

The Board has overall responsibility for how we identify and manage climate-related risks, delegated to the *Digital Impact & Sustainability Committee* which oversees our climate change strategy, programme and goals, chaired by non-executive director Leena Nair.

The *Executive Committee* sets operational strategy on climate change and sustainability and monitors the associated risks, supported by our digital impact and sustainability team.

Our *Environmental Management Governance Group* manages day-to-day climate-related compliance and risk issues on behalf of the *Executive Committee*, reporting back regularly.

This year, we commissioned an independent review based on the World Economic Forum's Principles for effective climate governance on corporate boards. We got high 'maturity ratings' across four of the eight principles, with useful improvement plans laid out for the other four (which got moderate to good ratings). The review helped us set our internal governance priorities, including integrating climate change better within our risk management framework.

Five percent of the annual bonus available to eligible managers, including executive directors, is linked to our target of cutting the carbon emissions intensity of our operations by 87% by the end of March 2031.

For more on our climate strategy, see **pages 32 to 33**.

Climate-related risks and opportunities

Identifying the risks

We identify all risks, including those around climate change, within our risk management framework. Last year we reviewed the climate-related risks around transitioning to a lower-carbon economy, and the physical impacts of climate change by using TCFD's different reference scenarios.

We've taken steps to consider climate change risks and opportunities across the whole group and reflect them in our group risk categories. Risk owners are getting training to improve their awareness of the issues. We're also developing a process to review climate change risks as a whole across all risk categories as we continue to implement the TCFD recommendations.

You can read more on our risk management framework on **pages 57 to 58**.

Analysing scenarios

This year, we continued analysing scenarios to understand the potential financial impact of climate change to BT in 2030 and 2050. Impacts were considered under a range of scenarios reflecting different rises in global temperatures above pre-industrial levels by 2100. The Intergovernmental Panel on Climate Change's shared socioeconomic pathways (which look at how various climate policies influence greenhouse gas emissions) and transition scenarios from the Network for Greening the Financial System, also helped inform our analyses.

We've used a core scenario (2°C to 3°C) that we think is most likely, and then reviewed more extreme 'what if?' transition and physical scenarios (1.5°C and 4°C).

Responding to our main physical risks

Flooding: Longer term, our full fibre rollout will mean fewer physical network sites, cutting our overall exposure to physical climate change risks. We've analysed possible risks from large-scale flooding at 150 business critical sites. In the scenarios we explored, the potential financial impacts aren't material – partly because of the flood defence work we've already done in 19 high-risk locations. We expect our flood defence programme to cost around £6m once we complete it next year. In 2021 we'll continue our flood analysis and consider the potential effects of weather-related repairs across our UK estate.

Heat: In most scenarios in 2030 and 2050, the UK will see a rise in extreme heat days. The risk of these days damaging our network sites is very low – largely because of cooling system upgrades in our metronode sites which are effective up to a 45°C external temperature. Once complete, we expect the upgrades program to cost us £119m. So higher temperatures should not have a material impact on repair or cooling costs.

Outside the UK, extreme weather could affect our customers and disrupt service, as well as affecting colleagues in key operational sites. In particular, our India sites are already being affected by extreme heat, set to increase in future.

Our supply chain reaches nearly 100 different countries. But a significant proportion of raw materials for our products are concentrated in China where flood risks are predicted to increase under future warming scenarios. This is a shared concern across our sector – however we'll keep monitoring our supply chain risks and work to minimise them.

Managing transition risks and reaching net zero

We've promised to become a net zero carbon emissions business[a] by 2045. This year, we extended the scope to include our supply chain as well as our operations. This reduces the potential impact of transition risks. There are details of our strategy for achieving that target on pages 32 to 33. This section focuses on how the different elements of that strategy affect transition risks.

100% renewable electricity: All the electricity we use worldwide is renewable[b]. Under the scenarios we've considered, we know there are risks from potential gaps in UK renewable electricity supply. We'll keep monitoring this.

Moving to a low carbon fleet: We're committed to switching as much of our fleet as we can to run on electric and alternative fuels by 2030. This largely cuts any risks around policies designed to reduce vehicle carbon emissions.

Decarbonising our buildings: This year, we invested nearly £21m in energy efficiency projects, contributing to a global energy reduction of 123 GWh. This, together with our commitment to renewables, minimises any transition risks around carbon pricing.

Helping suppliers cut carbon: If our suppliers fail to cut their emissions, it could lead to carbon costs being passed on by 2030 under a 2°C scenario. That risk applies to our whole sector. To respond, we want to cut supply chain emissions by 42% by the end of March 2031 (compared to 2016/17 levels) and to reach net zero by 2045. We'll keep monitoring possible carbon pricing risks, tracking how they might be affected by the growing number of net zero commitments and China's plans for carbon neutrality (where many of our raw material suppliers are based).

Metrics and targets

Performance on our climate targets and emissions reporting can be found in our tackling climate change and environmental challenges section on **pages 32 to 33**.

a Measures for scopes 1, 2 and supply chain greenhouse gas emissions.
b 99.9% is renewable – the remaining 0.1% represents markets where renewable electricity isn't available (eight countries).

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code 2018, the Directors have assessed the prospects and viability of the group.

The assessment has been based on the company's strategy, balance sheet and financing position, including our £2.1bn undrawn committed borrowing facility which matures in March 2026, and the potential impact of 'Our principal risks and uncertainties'. The Board has chosen to conduct its review for a period of three years to 31 March 2024. It believes this is an appropriate timeframe as it aligns with the primary focus of our business planning and the time cycles shared by some of our major internal and external risks and uncertainties, for example the pension scheme funding valuation and the interval between significant sports rights auctions. We are reviewing the focus of our planning period to determine if we are able to make this statement over a longer five year period in future years, as our business and financial planning already takes into account our longer-term obligations.

The assessment of viability is based on our medium term plan which forecasts the group's profitability, cash flows and funding requirements, and is approved by the Board at the end of each year. The medium term plan is built from bottom-up forecasts of each of our customer-facing units, supplemented by items managed at a group level and assumptions such as macro-economic activity and exchange rates. The performance of the group and our customer-facing units against these forecasts is monitored monthly and this is supplemented each quarter through a series of quarterly business reviews of each business unit conducted by the chief executive and chief financial officer.

Beyond our medium term plan horizon, the group also makes investments that have business cases covering a longer time period, such as our network investments. Significant capital expenditure investment cases are approved by the chief executive and, where appropriate, the Board, after taking into account longer-term risks and opportunities such as the economy, technology and regulation.

In support of our viability statement we've stress tested our forecast cash flows by assessing the impacts our principal risks and uncertainties, as set out on pages 59 to 66, could have on our forecasts. In this assessment we've adopted a number of assumptions designed to stress test our resilience, in particular, we have not automatically assumed that, should the need arise, we would be able to raise new debt; we have instead considered this as part of any mitigating action.

Our assessment considered the following:

Individual risks

What: the potential financial impact of severe but plausible scenarios quantified for each of our principal risks and uncertainties

Why: to test viability under any individual risk and uncertainty

How: we produced a scenario for each of our principle risks and uncertainties, including a Covid-19 scenario assuming another nationwide lockdown

Outcome: our stress testing confirmed that existing projected cash flows and cash management activities provide us with a buffer against the impact of any individual risk

Combined risks

What: a combination of the full financial impact of individual scenarios materialising simultaneously

Why: to test viability should a combination of multiple risks materialise in parallel

How: we have combined a number of risks including another lockdown due to Covid-19, a revaluation of the BT Pension Scheme (BTPS) and enforcement action from Ofcom. We have also assumed that industrial action takes place and a scenario where we are unable to prevent a cyber attack which leads to a class action due to loss of customer data

Outcome: in this most extreme combined scenario we would need to take further action to mitigate the negative cash flow impact and ensure additional liquidity

Mitigations: should we be able to raise new debt in line with our normal treasury funding policies we would fully mitigate any downside. If this was not possible other actions management could take include limiting or delaying discretionary capital expenditure and marketing activities, and/or not reintroducing dividend payments. A reasonable combination of these actions would also fully mitigate any downside

Probabilistic risk modelling

What: a model estimating the impacts of the individual severe but plausible scenarios

Why: a test of viability under multiple occurrences of severe scenarios

How: we have modelled a probabilistic analysis of the potential financial impact of each individual risk if they materialise together with their likelihood of occurrence using a Monte Carlo simulation

Outcome: in extreme probabilistic modelled scenarios we would need to take further action to mitigate the negative cash flow impact and ensure additional liquidity

Mitigations: should we be able to raise new debt in line with our normal treasury funding policies we would fully mitigate any downside. If this was not possible other actions management could take include limiting or delaying discretionary capital expenditure and marketing activities, and/or not reintroducing dividend payments. A reasonable combination of these actions would also fully mitigate any downside

Based on the results of this analysis, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Corporate governance report

We are committed to delivering our strategy and creating long-term value for our stakeholders and the communities we operate in through effective Board leadership and strong corporate governance.

Compliance with the 2018 UK Corporate Governance Code (the Code)

In respect of the year ended 31 March 2021, BT Group plc was subject to the Code, which was published by the Financial Reporting Council in July 2018 (available at **frc.org.uk**). BT complied with the provisions of the Code throughout the year. Details explaining how we have applied principles A-R of the Code can be found in the table opposite.

US Securities and Exchange Commission (US SEC) deregistration

On 24 September 2020, BT Group plc deregistered from the US SEC. We are therefore no longer required to produce a Form 20-F (or make the associated filings) alongside this report.

* Further details on the key roles within BT can be found on our website **bt.com/governance**

Contents

Corporate governance report	
Chairman's governance letter	70
Our governance framework	71
Board of directors	72
Board leadership	74
Board activities in 2020/21	74
Board composition, succession and evaluation	77
Nominations Committee chair's report	80
Audit & Risk Committee chair's report	82
BT Compliance Committee chair's report	86
Digital Impact & Sustainability Committee chair's report	87
Report on directors' remuneration	88
– Committee chair's letter	88
– Focus on remuneration	91
– Annual remuneration report	94
– Remuneration in context	103
Statement of directors' responsibilities	105
Report of the Directors	106
Financial statements	**111**
Additional information	**197**

Further information on the application of the Code's Principles can be found on the following pages:

1. Board leadership and company purpose	
A: Leadership, long-term success, value generation and societal contribution	30–33, 67, 70–74, 87
B: Purpose, values, strategy and culture	42, 70, 74, 76, 81, 85, 87
C: Resources and controls	43, 46–55, 57–58, 74–76, 87
D: Stakeholder engagement	34–41, 70, 75–76, 87
E: Workforce policies and practices	24–25, 44, 76, 85
2. Division of responsibilities*	
F: The chairman	70, 72, 74, 77
G: Board composition and division of responsibilities	71–73, 79
H: Role and time commitment of non-executive directors	72–73, 74, 77, 79
I: Board function and the company secretary	71, 72, 74, 77, 81
3. Composition, succession and evaluation	
J: Board appointments and succession planning	80–81
K: Board and committee skills, experience and knowledge	72–73, 77, 79, 80–81
L: Board evaluation	70, 79
4. Audit, risk and internal control	
M: Internal and external audit independence and effectiveness	85
N: Fair, balanced and understandable assessment of position and prospects	77, 84, 105
O. Risk management, internal control framework and principal risks	57–58, 82–85, 107
5. Remuneration	
P: Remuneration policies and practices	91
Q: Executive remuneration	88–104
R: Independent judgement and discretion in remuneration outcomes	89, 92, 95

Chairman's governance letter

This year, in response to the continuing challenges caused by Covid-19, the Board discussed with our executives how we would mitigate the impact of the pandemic on the group, our stakeholders and on our current and long-term operations. Central to this is ensuring that the various services BT provides continue to keep everyone connected. We also considered the macroeconomic environment and related uncertainties.

After much deliberation, I took the decision to retire as chairman from the BT Board in March. After 17 years of demanding roles as chairman of significant FTSE companies, I know the time is now right for me to step down and focus on other interests. Until I hand over to my successor, I remain fully committed to BT and helping Philip continue to deliver for all our stakeholders.

It has been a pleasure to lead a Board that believes that strong corporate governance is critical to how we make decisions and providing oversight in order to generate long-term sustainable value for all our stakeholders, including investors, colleagues, customers, the regulators, the Government and the communities in which we operate. Central to the delivery of our strategy is the group's culture, underpinned by the values and behaviours expected of our colleagues. This corporate governance report for the year ended 31 March 2021 sets out our approach to governance and how it supports our strategy, the Board and its committees' key focus areas during the year and the decisions we have made in line with the group's new purpose, we connect for good, whilst considering the interests of our stakeholders as well as our contribution to society as a national champion.

Changes to the leadership

The Board welcomed two new non-executive directors during the year, Adel Al-Saleh and Sara Weller, with Sir Ian Cheshire joining the Board in March 2020. All three directors have added to the breadth of experience, skills and diversity of the Board. Together, they bring knowledge and experience in retail, fast moving consumer goods, financial services and eCommerce both in the UK and internationally, as well as within the telecommunications sector.

As recently announced, Mike Inglis will cease being a non-executive director at the conclusion of the 2021 AGM. I'd like to thank Mike for his contribution to BT and the Board. As stated in last year's Annual Report, Tim Höttges stepped down from the Board on 15 May 2020 and Nick Rose stepped down at the conclusion of the 2020 AGM. There were also a number of changes to the membership and chairmanships of each of the committees and to the role of senior independent director. Through the *Nominations Committee,* we have continued to review the composition of the Board to ensure we have the right balance of skills, independence, experience and diversity in line with the current and future needs of the group.

The search for my successor, led by Iain Conn as the senior independent director, is underway. Further to the announcement that Mike Inglis will step down and the external Board evaluation, we believe the Board requires more technology expertise. We have decided to wait until a successor is identified before making any future non-executive director appointments to ensure the Board's skills as a whole are reviewed with the new chairman in role. As part of reviewing the leadership of the business, the *Nominations Committee* considered a number of changes to the *Executive Committee* (see page 80). These changes have sought to further strengthen our senior leadership, bringing the fresh perspective required for the future long-term growth of our business.

Diversity and inclusion

The Board continues to recognise the importance of diversity within our organisation. I am pleased to report that female directors continue to make up 33% of our Board with Isabel Hudson and Leena Nair chairing two of our committees, and Isabel acting as our designated non-executive director for workforce engagement. We have two directors from an ethnic minority background on our Board exceeding the Parker Review recommendation. I am pleased that our *Executive Committee* also currently comprises 33% female members and one member from an ethnic minority background.

Stakeholders

Engagement with our key stakeholders was vital this year given the pandemic. The existing mechanisms for feedback to the Board concerning engagement both within the group and between the group and its stakeholders have proved effective, ensuring the continuous flow of information between the Board, senior management and the wider workforce throughout the pandemic, despite much of this taking place virtually. Details of the engagement undertaken during the year and its impact on the Board's decision-making can be found on pages 34 and 76 and in our **Section 172 statement** on pages 42 to 43.

The *Colleague Board*, established at the start of 2020, has strengthened the voice of our colleagues at board-level and given the Board valuable insights into colleague sentiment, with Isabel Hudson reporting back to the Board on key discussions and feedback from the members (see pages 35 to 36). Reflecting on its first year, we continue to believe that this is the right mechanism for BT.

During the year, in order to enhance BT's commitment to protecting the interests of consumers and promoting a culture of consumer fairness, the Board decided to delegate board-level oversight of consumer fairness to the *BT Compliance Committee* from 1 April 2021 (see page 86).

Evaluation

Clare Chalmers Limited undertook our externally facilitated Board and committee evaluation this year. Overall, the evaluation acknowledged the benefit of the Board comprising a highly experienced group of non-executive directors with a strong skillset, a diverse range of viewpoints, an environment of healthy challenge and an appreciation of the stakeholder context in which BT sits. Further details about the process and the proposed focus areas for 2021/22 can be found on page 79.

I would like to thank my fellow Board members and the executive team for their ongoing support and the commitment of our entire workforce during this exceptional year.

Jan du Plessis
Chairman
12 May 2021

Our governance framework

The Board

Responsible for the stewardship of the group, overseeing its conduct and affairs to deliver on our strategic objectives and creating long-term success in order to generate sustainable value for our shareholders and the interests of other stakeholders. The Board has established certain committees to assist it in discharging its responsibilities and delegates day-to-day responsibilities to the chief executive.

Board leadership on **page 74**

Audit & Risk Committee

Oversees, assesses and reviews our financial and narrative reporting, internal controls and risk management, including internal and external audit and pan-BT finance, control and compliance-related transformation programmes.

Audit & Risk Committee chair's report on **pages 82 to 85**

Nominations Committee

Considers the structure, size and composition of the Board and its committees and advises on succession planning for the Board and the *Executive Committee*. It ensures the Board is diverse, with the appropriate balance of skills, experience, independence and knowledge.

Nominations Committee chair's report on **pages 80 to 81**

Remuneration Committee

Agrees the remuneration framework for the chairman, executive directors and certain senior executives and monitors remuneration practices and policies for the wider workforce.

Remuneration Committee chair's letter and Report on directors' remuneration on **pages 88 to 104**

BT Compliance Committee

Oversees our adherence to the Commitments we made as part of the 2017 Digital Communications Review with Ofcom and consumer fairness matters.

BT Compliance Committee chair's report on **page 86**

Digital Impact & Sustainability Committee

Provides oversight and direction to bring our purpose to life through our digital impact and sustainability strategy.

Digital Impact & Sustainability Committee chair's report on **page 87**

Colleague Board

Discusses and inputs into significant proposals and initiatives impacting our colleagues. Our designated non-executive director for workforce engagement reports back to the Board on its activities.

Colleague Board on pages 35 to 36

Investigatory Powers Governance Committee

Oversees our role in the use of official investigatory powers.

Chief executive

Responsible for running the business and setting and executing the group strategy.

Executive Committee

Assists the chief executive to develop and execute the group strategy and budget, and monitors overall performance and how we're managing risks.

BT Investment Board

Provides input and recommendations that support the chief executive's decision-making on investment budgets and cases.

Disclosure Committee

Ensures BT meets its disclosure obligations and reviews and approves regulatory and other announcements before publication.

Matters reserved to the Board and its committees' terms of reference can be found on our website at **bt.com/governance**

Each committee chair formally reports to the Board following their meetings and makes any recommendation to the Board in line with that committee's terms of reference.

Papers and minutes are circulated to all Board and committee members as appropriate, other than to those with a potential conflict of interest. Deutsche Telekom's nominated representative owes a fiduciary duty to both BT and Deutsche Telekom. The *Conflicted Matters Committee* reviews all papers ahead of sharing these with him to identify potential or actual conflicts of interest.

Board of directors

IP N D

Jan du Plessis
Chairman
Appointed chairman in November 2017 and to the Board in June 2017. Age 67.

Experience
Jan was chairman of Rio Tinto from 2009 to 2018 and chairman of SABMiller from 2015 until 2016. He was also a director and later senior independent director of Marks & Spencer from 2008 until 2015. Before that he served as chairman or non-executive director of a number of public companies. Prior to that, until 2004, Jan was group finance director of Richemont.

Relevant skills and contribution to the Board
Significant experience serving as chairman and as a non-executive director on the boards of FTSE 100 international companies across varying sectors. Jan has the knowledge and insight to lead an effective board and an in-depth understanding of UK corporate governance requirements.

External appointments
None.

C E IP

Philip Jansen
Chief executive
Appointed chief executive in February 2019 and to the Board in January 2019. Age 54.

Experience
From April 2013 until joining BT, Philip was CEO of Worldpay. Before that he was CEO and then chairman at Brakes Group between 2010 and 2015. Philip spent the previous six years at Sodexo where he was group chief executive, Europe, South Africa and India. Prior to that he was chief operating officer at MyTravel Group from 2002 to 2004 and managing director of Telewest Communications (now Virgin Media) from 2000 to 2002 after initially starting his career at Procter & Gamble.

Relevant skills and contribution to the Board
Extensive experience of leading and growing large private and publicly listed UK and international businesses, delivering transformational change and large technology programmes.

External appointments
Senior adviser at Bain Capital and trustee of Wellbeing of Women.

E

Simon Lowth
Chief financial officer
Appointed chief financial officer and to the Board in July 2016. Age 59.

Experience
Simon was CFO of BG Group before the takeover by Royal Dutch Shell in February 2016. Prior to that, he was CFO of AstraZeneca from 2007 to 2013. He was an executive director of ScottishPower from 2003 to 2007 having been appointed as the finance director in 2005. Before 2003, Simon was a director of McKinsey & Company.

Relevant skills and contribution to the Board
A strong background in finance, accounting, risk, corporate strategy and mergers and acquisitions. Experience and implementation of cost transformation and performance improvement programmes provide valuable expertise.

External appointments
None.

Membership key

- ● Committee chair
- A Audit & Risk Committee
- C BT Compliance Committee
- C Colleague Board
- D Digital Impact & Sustainability Committee
- E Executive Committee
- IP Investigatory Powers Governance Committee
- N Nominations Committee
- R Remuneration Committee

Our directors share collective responsibility for the activities of the Board. There is a clear division of responsibilities between the chairman and the chief executive as required by the Code. The responsibilities of the chairman, chief executive, chief financial officer and senior independent director and other key roles within BT, along with the matters reserved to the Board, are set out on our website at **bt.com/governance**

A C D N

Mike Inglis
Independent non-executive director
Appointed to the Board in September 2015. Age 61.

Experience
Mike served as non-executive chairman of Ilika until January 2019 and was on the board of ARM Holdings from 2002 to 2013. His roles at ARM included chief commercial officer, executive vice president and general manager of the processor division and executive vice president of sales and marketing. Prior to joining ARM, Mike worked in management consultancy with AT Kearney and held a number of senior operational and marketing positions at Motorola. Mike was previously a director of Pace and an independent director of Advanced Micro Devices.

Relevant skills and contribution to the Board
Significant experience in the technology industry and expertise in marketing, management and operations.

External appointments
None.

A N R

Matthew Key
Independent non-executive director
Appointed to the Board in October 2018. Age 58.

Experience
Matthew held various positions at Telefónica from 2007 to 2014 including as chairman and CEO of Telefónica Europe and chairman and CEO of Telefónica Digital. From 2002 to 2004 he was the CFO, strategy and regulation director of O2 UK before becoming CEO in 2004. Matthew has also served as finance director at Vodafone UK and chairman of Tesco Mobile. He has previously held positions at companies including Kingfisher, Coca-Cola and Schweppes Beverages and Grand Metropolitan.

Relevant skills and contribution to the Board
Strong strategic skills and a wealth of experience in finance and the telecoms sector.

External appointments
Non-executive director and audit committee chair of Burberry and chairman of Dallaglio Rugbyworks.

A C N

Allison Kirkby
Independent non-executive director
Appointed to the Board in March 2019. Age 53.

Experience
Allison was appointed President & CEO of Telia Company in May 2020. Allison was previously President & Group CEO of TDC Group until October 2019, and President & Group CEO of Tele2 AB from 2015 to 2018, having been Tele2 AB's Group CFO from 2014. She was chair of the audit committee and a non-executive director of Greggs until May 2019. She has also held financial and operational roles within 21st Century Fox, Virgin Media, Procter & Gamble and Guinness.

Relevant skills and contribution to the Board
Valuable and recent experience in finance and the international telecoms and media sector, combined with strong experience in driving performance, improving customer service and delivering shareholder value.

External appointments
President & CEO of Telia Company.

N

Adel Al-Saleh
Non-independent, non-executive director
Appointed to the Board in May 2020. Age 57.

Experience
Adel has been chief executive officer of T-Systems International GmbH (a subsidiary of Deutsche Telekom AG) since 2017 and is a member of the Management Board of Deutsche Telekom AG. Adel was chief executive officer of Northgate Information Solutions from 2011 to 2017, and before that held a variety of senior posts at both IMS Health (IQVIA today) and IBM.

Relevant skills and contribution to the Board
Significant experience in managing global technology companies, enterprise transformation and digitalisation.

External appointments
Member of the Boston University, College of Engineering Advisory Board.

C N R

Sir Ian Cheshire
Independent non-executive director
Appointed to the Board in March 2020. Age 61.

Experience
Ian was chairman of Barclays Bank UK until December 2020 and a non-executive director of Barclays until May 2021. Ian was also previously group chief executive of Kingfisher and senior independent director and remuneration committee chair of Whitbread. Ian held a variety of posts whilst at Kingfisher from 1998 to 2014, including chief executive of B&Q from 2005 to 2008 and group chief executive from 2008 to 2014. He was also previously the chairman of Debenhams and the lead non-executive director for HM Government and former chairman of the Corporate Leaders Group on Climate Change.

Relevant skills and contribution to the Board
A wealth of listed company experience, with a notable background in strategy, international retail and eCommerce.

External appointments
Ian is chairman designate of Spire Healthcare Group and will accede to the role of chairman following its annual general meeting in May 2021. Ian is also chairman of Menhaden, a UK investment trust.

A IP N R

Iain Conn
Senior independent non-executive director
Appointed to the Board in June 2014. Age 58.

Experience
Iain was group chief executive of Centrica for over five years from 2015 to 2020. Prior to that, Iain spent 29 years at BP and was a board director for ten years from 2004 to 2014 including as chief executive Downstream from 2007 to 2014, and a member of the executive committee from 2002 to 2014. Until May 2014, Iain was a non-executive director of Rolls-Royce for nine years and senior independent director. Iain also served as a member of Council of the Imperial College from 2010 to 2019 and was chairman of the advisory board of the Imperial College Business School from 2004 to 2020.

Relevant skills and contribution to the Board
Deep experience in the global energy markets, industrial operations, regulated consumer markets, and in finance, technology and engineering. Broad international experience.

External appointments
Senior adviser to Blackstone on energy, infrastructure and sustainability and to the Boston Consulting Group. Adviser to Oxford Sciences Innovation. Advisory Board member of Columbia University Center on Global Energy Policy.

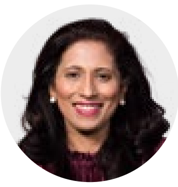
C C D N R

Isabel Hudson
Independent non-executive director
Appointed to the Board in November 2014. Age 61.

Experience
Isabel was previously non-executive chair of National House Building Council until May 2020. Isabel was also previously senior independent director of RSA Insurance, non-executive director of The Pensions Regulator, MGM Advantage, QBE Insurance, Standard Life and an executive director of Prudential Assurance Company in the UK.

Relevant skills and contribution to the Board
A wealth of experience in financial services, in the life, non-life and pensions industries as well as risk, control, governance and international business. Insight and expertise in regulatory, pensions and financial matters.

External appointments
Non-executive director and chair of the audit committee of Axa S.A. She is also chair of the remuneration committee and an advisory council member of University College Lady Margaret Hall, Oxford and an ambassador for the disability charity, SCOPE.



D N R

Leena Nair
Independent non-executive director
Appointed to the Board in July 2019. Age 51.

Experience
Since 2016, Leena has been the chief human resources officer at Unilever. She is responsible for Unilever's global people agenda, working across 160 markets to help deliver Unilever's business financial performance as well as its environmental and social impact objectives. Leena joined Unilever in 1992 and has held a wide variety of HR roles throughout her career, including senior vice president for leadership and organisational development and global head of diversity, executive director of Hindustan Unilever and vice president HR South Asia.

Leena was previously a non-executive director at the Department for Business, Energy and Industrial Strategy until December 2020.

Relevant skills and contribution to the Board
A deep understanding of the strategic and practical challenges of driving large-scale cultural transformation.

External appointments
Chief human resources officer at Unilever.

A C N D

Sara Weller CBE
Independent non-executive director
Appointed to the Board in July 2020. Age 59.

Experience
Sara's previous roles include managing director of Argos and various senior positions at J Sainsbury, including deputy managing director and serving on its board between 2002 and 2004. Sara was also a non-executive director of United Utilities Group until July 2020 and the lead non-executive director at the Department for Work and Pensions until April 2020. She has also previously been a non-executive director of Mitchells & Butlers and held senior management roles at Abbey National and Mars Confectionery.

Relevant skills and contribution to the Board
A broad perspective coming from a background in retail, fast moving consumer goods and financial services, as well as strong board experience at both executive and non-executive level.

External appointments
Non-executive director and chair of the responsible business committee of Lloyds Banking Group and a trustee of Lloyds Bank Foundation for England & Wales until May 2021.

Board changes
In line with our recent announcement, Mike Inglis has decided not to put himself forward for re-election as a non-executive director at the 2021 AGM. Accordingly, Mike will cease being a non-executive director on the Board at the conclusion of the 2021 AGM.

Rachel Canham
Company secretary & general counsel, governance
Rachel joined BT in 2011 and was appointed company secretary & general counsel, governance in November 2018.

Board leadership

Membership and attendance

We held nine scheduled Board meetings, two strategy meetings and two ad hoc Board meetings in 2020/21. The company secretary or her nominated delegate is secretary to the Board, and they attend all meetings. The chairman held private sessions with our non-executive directors before all Board meetings in 2020/21. As a result of the Covid-19 pandemic all Board and committee meetings this year were held remotely by video conference. We thought carefully about how meetings were organised to allow us to continue to maintain constructive levels of engagement and discussions, to challenge management, have robust debates as part of decision-making and in order to operate effectively. Unfortunately, given the restrictions, the Board was unable to have the usual informal interactions as part of pre-Board dinners and was also unable to meet colleagues across all levels of the organisation during visits to other operations and offices.

Board and committee members are provided with papers in advance of each meeting on a secure electronic portal. Directors are expected to attend Board and relevant committee meetings, of which they are a member, unless prevented from doing so by prior commitments, illness or a conflict of interest. All directors attended scheduled Board meetings during the year, as set out below, and the attendance for committee meetings is set out in each of the respective committee reports. If a director is unable to attend a meeting, they give their comments to the chairman or the committee chair in advance of the meeting so that these can be duly considered as part of the discussion at the meeting.

Member	Attended	Eligible to attend
Jan du Plessis (chairman)	9	9
Philip Jansen	9	9
Simon Lowth	9	9
Adel Al-Saleh[a]	7	7
Ian Cheshire	9	9
Iain Conn	9	9
Tim Höttges[b]	2	2
Isabel Hudson	9	9
Mike Inglis	9	9
Matthew Key	9	9
Allison Kirkby	9	9
Leena Nair	9	9
Nick Rose[c]	3	3
Sara Weller[d]	6	6

a Adel was appointed to the Board on 15 May 2020.
b Tim stepped down from the Board on 15 May 2020.
c Nick stepped down from the Board on 16 July 2020.
d Sara was appointed to the Board on 16 July 2020.

Section 172 statement and stakeholders

Our **Section 172 statement** on **pages 42 to 43** sets out how our directors have had regards to the matters in section 172 of the Companies Act 2006 in performing their duties. See the **Strategic report** on **pages 34 to 41** for details of how we engage with our key stakeholders.

For details of how the directors have engaged with our colleagues during the year, how they have had regard to their interests and the need to foster business relationships with suppliers, customers and others, together with a summary of the effect of that regard including on the Board's principal decisions, see **pages 34 to 43**.

Key responsibilities

The Board is responsible for establishing the group's purpose, values and strategy and satisfying itself that these align to our culture, long-term objectives and development, promoting the long-term sustainable success of the group, generating value for shareholders and contributing to wider society.

The Board also maintains oversight of the group's operations, performance and governance and ensures compliance with statutory and regulatory obligations. It determines the group's risk appetite and ensures that we have in place robust systems of risk management and internal control, and is responsible for ensuring that the group has an effective leadership team in place to efficiently execute BT's strategy.

A number of key decisions and matters are reserved for the Board and are not delegated to the chief executive or management. These are set out in the matters reserved to the Board and available on our website **bt.com/governance**

Board activities in 2020/21

Below are some of the matters that the Board focused on during the year, which should be read in conjunction with our Section 172 statement on pages 42 to 43

Strategy and operations

Purpose and strategy

The Board and management discussed the new corporate narrative, which comprises our new purpose (we connect for good), our new ambition (to be the world's most trusted connector of people, devices and machines), our reaffirmed values (personal, simple, brilliant) and the refreshed three strategic pillars of our strategy, and related KPIs. These were also discussed with senior colleagues and the *Colleague Board* for their feedback. The Board also considered how to embed the new corporate narrative into the organisation's culture and into our decision-making. Our new corporate narrative and strategy is used by the Board and management to align our actions and priorities and consider the interests of all our stakeholders. This year, in particular, we brought our purpose to life for the benefit of our stakeholders with the support we offered during the pandemic (see pages 28 to 29). BT continued to invest in our networks, our modernisation programme and our portfolio of solutions to deliver for our customers, in recognition of the ever increasing need for improved connectivity.

The Board discussed the group's strategy in detail with the customer-facing unit CEOs and chief technology officer at two full-day strategy meetings. These sessions considered long-term growth opportunities, strategic priorities and how these are built into the group's medium term plan, progress on key initiatives, the key challenges to achieving our priorities and the material risks to delivering them and plans to address or mitigate these. The Board also spent time considering Covid-19 as part of updates at Board meetings including the group's operational resilience given the impact of the pandemic on the different parts of the group, as well as discussing the strategic implications and potential value creation opportunities.

Transformation and modernisation

The Board received regular updates on the progress of BT's transformation and simplification programme particularly in the context of Covid-19 to drive pan-BT efficiencies, opportunities, continued cost reduction and consideration of reskilling our colleagues and new skills needed in line with the future needs of the business. There was a specific focus on BT's IT strategy and the need to drive digital transformation through the creation of the new Digital unit.

WFTMR and FTTP

The Board considered and approved the intention to invest in our full fibre build to reach 20m premises by the mid-to-late 2020s, subject to the required critical enablers, as discussed in our **Section 172 statement** on page 43. In May 2021, we agreed to increase our FTTP build target by an additional 5m from 20m to 25m premises by December 2026 (see page 20).

As part of the WFTMR consultation, the Board was kept updated on our continued engagement with Ofcom and on developments in relation to each of the required enablers, which it discussed and provided feedback on. The Board also considered the proposed response dependent on the outcomes. More details on the outcomes of the WFTMR publication in March 2021 can be found on page 16.

Chief executive's report

At each scheduled meeting, the chief executive discussed with the Board the group's overall performance and operations (including the impact of Covid-19), progress against our strategic pillars and priorities, progress on our transformation and simplification programme, the competitive and regulatory environment that BT is operating in, as well as engagement with, and the views of, our stakeholders including our investors, our colleagues, Ofcom and Government. Updates from the chief executive on key business operations through the year have focused on a range of stakeholder interests, including matters which are key to the group's reputation and being a national champion, as well as colleague considerations and support for our customers, suppliers and communities.

Stakeholders

The Board and each of its committees always have regard to wider stakeholder interests beyond those of our shareholders as part of discussions and decision-making. Details of our engagement with our key stakeholders is set out from page 34.

On behalf of the Board, the *Audit & Risk Committee* discussed our key stakeholder groups including their expectations, our engagement and the risks associated with managing these relationships as part of reviewing the group risk category report for this area. The committee considered engagement with our key stakeholder groups, in light of broader developments including in relation to Brexit, FTTP, rural connectivity and the growing consumer fairness agenda.

5G spectrum auction

The Board was kept updated on the timing of Ofcom's recent spectrum auction. Further to the approval of the maximum spend, the Board discussed balancing the capex investment with the long-term benefits of securing additional spectrum. These benefits include boosting BT's 5G network leadership position and enabling BT to deliver improved customer experience, particularly indoor coverage in buildings and venues, and increasing our coverage overall. More details on the outcome of the spectrum auction can be found on page 17.

Customer experience

The Board received updates on customer experience throughout the year focusing on the improvements in Net Promoter Score (NPS), a KPI, against our overall ambition for customer experience. There were detailed discussions on the NPS of each customer-facing unit, customer segment and brand, as well as on the initiatives and customer insights which are being used to drive improvement for our customers. Further details on customer experience can be found on pages 26 to 29 and on how BT is living up to Ofcom's Fairness for Customers commitments on page 17.

Suppliers

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

Responsible procurement and technology were also examined by the *Digital Impact & Sustainability Committee* with specific discussions with the procurement team on how we embed this into our processes and procedures as part of helping us to meet our ambition in this area.

Investigations and potential claims

The Board discussed any regulatory/competition investigations and litigation claims, including BT's response and the stakeholder and reputational impact of these. This included the challenges with the delivery of the broadband Universal Service Obligation and the class action in relation to standalone fixed voice services. More details on the broadband Universal Service Obligation can be found on page 16.

Finance and risk

Dividend policy

As set out in last year's report, in May 2020, having considered the various stakeholder interests, in particular the long-term interests of our shareholders and their likely reaction, the Board took the difficult but prudent decision to suspend the final dividend for 2019/20 and all dividends for 2020/21, and to re-base future dividends to a more sustainable level in 2021/22. This decision was made to create capacity for BT to invest in long-term, value-enhancing opportunities (see both our **Section 172 statement** on page 43 and Dividend (including our dividend policy) on page 49 for more details).

Financial performance

The chief financial officer discussed with the Board at each scheduled meeting BT's financial and trading performance for the period against budget and consensus, and the full year outlook for the group as a whole and for each business unit, in particular focusing on the impact of Covid-19 and the actions being taken to mitigate its impact. The Board reviewed and approved the financial statements and trading updates at year-end, half year and at each quarter. It also discussed the feedback from investors further to the publication of each set of results.

The Board considered and approved the going concern and viability statements and reviewed and approved the group's tax strategy.

Pensions

The Board was updated throughout the year on ongoing discussions with the BT Pension Scheme Trustee on the triennial valuation as at 30 June 2020. The Board considered the possible range of valuation outcomes and different approaches to future contribution and investment strategy. The Board reviewed these outcomes in the context of our overall business objectives and both the current and expected future regulatory and legislative environment.

In May 2021, the Board provided its agreement to an overall valuation package including an asset backed funding arrangement based on EE Limited shares, arrangements giving potential for some return of any future surplus to BT with downside protection for the BT Pension Scheme and the extension of existing legal protections.

Risk management

The Board discussed the new group risk management framework, which had been implemented during the year and comprises 15 group risk categories, and includes the point and emerging risks and uncertainties facing the group (including in

Board activities in 2020/21 continued

relation to Covid-19) and our risk appetite for each (set out from page 57). The Board and the *Audit & Risk Committee* continued to deepen its understanding of the group's business and the risks and opportunities it faces with detailed reviews into the different group risk categories with the Board focusing on cyber, financing and people and also biannual reviews of the entire risk landscape. On behalf of the Board, the *Audit & Risk Committee* also undertook detailed reviews of BT's risk management and internal control systems and provided regular updates to the Board on these discussions (see page 82 onwards).

Medium term plan

In May 2021, the Board approved the medium term plan 2021. It discussed the current market position of BT and the main opportunities and challenges, as well as considering how the medium term plan aligns to our strategy and group KPIs. The Board also reviewed progress against our EBITDA guidance for 2023.

Investor perceptions, shareholder relations and consideration of analysts' reports

The Board received regular reports outlining share register movement, our share price performance relative to the market, investor relations activities and engagement with shareholders. The Board also discussed investor feedback from the meetings following our full and half year financial results and quarterly trading updates.

Brexit

The Board received updates on BT's readiness and the actions being taken to mitigate the impact of Brexit on our operations.

Colleagues

Culture

The Board discussed the progress made against our people and cultural strategy in the context of a challenging year and any resulting changes to our ways of working in the short, medium and long term given the pandemic. We continue to believe that our offices will be critical to the way we work, and therefore have continued with progressing with our Better Workplace Programme but will maximise the lessons learned from remote working.

As discussed in the Purpose and strategy section above, the Board was updated on the launch of our new purpose and the reaffirmation of our values. The Board also looked at the communication of these and how these are being embedded in our culture through workforce policies and practices, for instance in relation to recruitment, reward and incentives and the performance of our colleagues. Our ambition remains to build a progressive and engaging culture, with the wellbeing of our colleagues at its centre. The Board monitored progress against this ambition throughout the year with detailed discussions on our people strategy with the HR director and her team. Further details on our culture, purpose and values can be found in the **Strategic report** on pages 10 and 18 to 33. The Board and its committees (as relevant) also continued to monitor key areas that we consider important indicators of BT's culture, such as health, safety and wellbeing, diversity and inclusion, customer experience, employee relations and whistleblowing.

Health, safety and wellbeing

The Board was regularly updated on, and discussed, the health, safety and wellbeing of our colleagues across the business, including those in Openreach. Given the Covid-19 pandemic, the Board has been focused on the measures taken to support our colleagues and customers, including ensuring our workplaces and BT/EE retail shops are Covid-19 secure, that we have the necessary protection measures and PPE for our frontline colleagues and key workers, that wellbeing support is provided for all colleagues throughout these challenging times, with a particular focus on mental wellbeing, as well as the return to the workplace plans for those who have been able to work from home.

Tragically we suffered one fatality in 2020 involving one of our Openreach field engineers (see page 25). The Board continues to focus all its efforts on reducing the risks to our workforce and others affected by our activities.

Diversity and inclusion

Our goal is to have a diverse workforce where inclusivity is valued and prioritised. The Board discussed with management the launch and progress of our Ethnicity Rapid Action Plan and the related commitments and the progress being made in this area as a whole. As described in our **Section 172 statement** on page 43, the Board discussed and was supportive of the proposed publication of diversity and inclusion targets and commitments, and the voluntary publication of our ethnicity pay gap, in our inaugural Diversity and Inclusion Report (which we expect to publish in early summer 2021). For more detail on our culture and our diversity and inclusion approach, see page 24.

Workforce engagement

As discussed on pages 35 to 36, the *Colleague Board* is the chosen method of engagement with the workforce under the Code and the Board is updated on the discussions from the formal *Colleague Board* meetings and any informal check-ins, by Isabel Hudson as the designated non-executive director for workforce engagement and a *Colleague Board* member. The Board continues to feel that this is the right method for BT to obtain invaluable direct insight into the views of colleagues across the business.

Directors liaise with colleagues outside of Board and committee meetings to provide their own insights and perspectives on matters or to learn more about our colleagues' sentiments. The Board also discussed with HR and the chief executive other mechanisms and initiatives used to engage with our colleagues and feedback on these, including our Your Say colleague engagement survey and regular Covid-19 pulse surveys. See page 34 for more details on our colleague engagement mechanisms.

Employee relations

The Board and the *Remuneration Committee* discussed the updates on employee relations matters including aligning and simplifying BT's paid leaver and redundancy arrangements across the UK workforce and the impact of our transformation programmes on colleagues. The Board discussed the rationale for the changes, alongside the associated risks, and management's engagement with colleagues and the unions in relation to the proposals, including possible strike action.

Governance

AGM

Given the UK Government's restrictions on public gatherings due to Covid-19 and to protect the health and wellbeing of our shareholders, colleagues and the wider communities in which we operate, the Board decided to hold a closed meeting for the 2020 AGM. Shareholders were able to pre-register their questions ahead of the meeting, which were then answered by the chairman and chief executive. An audio recording of the questions and answers, together with that of the AGM itself and video messages from our chairman and chief executive, were all made available on our website.

The Board continues to monitor developments in UK Government guidance relating to the Covid-19 situation in planning the approach for the 2021 AGM, ensuring we balance the need to engage with our shareholders, investor expectations and guidance, with their health and safety and that of our colleagues, the Board and the communities in which we operate. Information on the arrangements for the 2021 AGM will be published in our Notice of meeting 2021.

Annual Report

In May 2021, the Board reviewed and approved the Annual Report on the recommendation of the *Audit & Risk Committee* (see page 84), having considered that taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

Board, committee and directors' evaluations

During the year, we carried out an externally facilitated evaluation of the Board and its committees. The details of this external evaluation can be found on page 79. The chairman also held individual discussions with each director to make sure they continue to contribute effectively and are committed to their roles. The senior independent director led the evaluation of the chairman's performance through individual discussions with each of the directors and sharing feedback at a meeting without the chairman. The non-executive directors reviewed the performance of the chief executive during the year. The Board also reviewed progress against the actions agreed as part of last year's internal Board and committee evaluation.

Committee terms of reference

The Board and each of its committees carried out an annual review of the terms of reference of each committee to ensure they continue to be fit for purpose and reflect best practice. Changes were made as appropriate and these can be found on our website **bt.com/governance**

Board composition, succession and evaluation

Board induction

On appointment, directors take part in a comprehensive, induction programme designed to give them a thorough overview and understanding of the business. This is tailored to take into account the director's previous experience, their responsibilities and, for each non-executive director, specific responsibilities relevant to their committee memberships. The programme includes meetings with the chairman, the chief executive, the senior independent director and the company secretary (or her delegate), as well as other members of the Board, *Executive Committee* and senior management. Directors also receive key information on our governance framework, recent financial data and the policies supporting our business practices, including our Ethics Code. Directors are encouraged to visit our offices, contact centres and BT/EE retail shops, as well as spending a day with an Openreach engineer. As a result of the Covid-19 pandemic, we modified our induction meetings to be by video conference and non-executive directors appointed during 2020 were unable to visit any sites or offices. Once the restrictions ease in line with the Government roadmap, we will look to recommence these.

Ian Cheshire, Adel Al-Saleh and Sara Weller joined the Board as non-executive directors on 16 March 2020, 15 May 2020 and 16 July 2020 respectively. The details of Sara Weller's Board induction programme are set out on page 78.

Training and development

The chairman and the company secretary keep under review the training and development needs of directors. Non-executive directors meet with management, enhancing their understanding of the business through briefing sessions. We encourage all directors to keep their skills and knowledge up-to-date and to ask for any support they need. As part of ongoing development, the company secretary (or her delegate) briefs the Board at each meeting, and its committees as relevant, on any key legal, regulatory and corporate governance developments. During the year, these briefings included updates on the institutional investor guidelines, corporate reporting in relation to Covid-19 and environmental, social and governance considerations, the FRC's Company Reporting Expectations for 2020/21, the Hampton-Alexander Review 2021 and the guidance in relation to AGMs. Directors are updated as required on developments in the environment in which the business operates and internal and external advisers are invited to meetings to provide updates and discuss these as necessary. Each director may obtain independent professional advice at the company's expense as required. The Board and each committee are supported by the company secretary and her team and they are available to all directors to provide advice and support.

We encourage all directors to visit our sites and offices to meet our colleagues and broaden their understanding of the business and we usually also aim to have one Board offsite visit annually. As a result of the Covid-19 pandemic, this has not been possible in the last year.

Time commitment

On accepting their appointment, directors must confirm they are able to allocate sufficient time to discharge their responsibilities effectively.

Directors are expected to attend meetings of the Board and any committees of which they are members, as well as the AGM, and any Board offsites or away days. Directors are also expected to devote sufficient time to prepare for each meeting and to take part in at least one visit to one of our offices or other sites annually. Before accepting new external appointments, directors are required to obtain the prior approval of the Board.

Ian Cheshire's proposed appointment as chair of Spire Healthcare was considered by the Board in April 2021 in light of his other appointments and his role on the BT Board. Given that Ian would be stepping down as a non-executive director of Barclays in May 2021, it was concluded that becoming chair of Spire Healthcare would not be detrimental to his ability to perform his duties as a non-executive director of BT, and accordingly the Board gave its prior approval of Ian's appointment in line with the Code.

Board composition, succession and evaluation continued

Re-election of directors

The *Nominations Committee* considers, in respect of each director, their skills and experience, time commitment and tenure as part of the Board's recommendation to shareholders for the re-election of directors. The Board believes that each director who is being put forward for re-election at the 2021 AGM brings considerable knowledge, wide-ranging skills and experience to the Board, makes an effective and valuable contribution and continues to demonstrate commitment to their role. The Board also considered the continued independence of non-executive directors and the chairman as part of its consideration of the re-election of directors. The Board continues to consider all non-executive directors as being independent in line with the Code, with the exception of Deutsche Telekom's nominated representative. The chairman was judged to be independent at the time of his appointment.

Details of all directors' contracts or letters of appointment are in the **Report on directors' remuneration** on **page 102**.

Sara Weller's Board induction programme

Although it has been very strange to join the Board of BT during this year of remote working, my induction programme was able to cover a great deal of ground in a condensed time. Colleagues throughout BT have been both welcoming and generous in sharing their time and expertise with me so I can contribute to the Board across the full range of a very diverse agenda. I am, though, looking forward very much to the day when I can meet people face-to-face, and visit some of the locations where BT colleagues are based, to see first-hand their work to build out our network and to support our customers.

Sara joined the Board immediately before the AGM on 16 July 2020. Ahead of her appointment, Sara received an induction pack with key reference materials that provided a thorough understanding of BT, including our most recent financial results, and information on our business units, governance framework, director responsibilities, the Code, our ethical policies including our Ethics Code, and our Commitments. Sara met with the chairman, senior independent director and the chief executive in person in early 2020, before joining the Board. All other meetings to date have been held by video conference due to the Covid-19 restrictions.

Sara also had a number of induction meetings before joining the Board, and received briefings from each *Executive Committee* member and had introductory meetings with each of the other non-executive directors.

Given Sara's membership on the *Digital Impact & Sustainability* and *Audit & Risk Committees* on her appointment to the Board, she attended other briefings with the key attendees including the director of digital impact & sustainability; KPMG, our external auditor; the director, group finance; and the director of risk, compliance & assurance.

Sara also identified key members of senior management to meet with, including the managing director BT security; our chief medical officer; managing director applied research and Adastral Park; and the director of quality & customer resolutions, Consumer.

In addition, during Sara's first year on the Board, she has:

- joined a *Colleague Board* meeting to help understand the culture of the group and our colleagues' views. She will attend all *Colleague Board* meetings throughout the coming year (see pages 35 to 36 for information on the *Colleague Board*)
- attended a *BT Compliance Committee* meeting (ahead of becoming a member) for a better understanding of the Commitments and our relationship with Ofcom and other communications providers
- taken part in two BT customer inclusion panel sessions, where groups representing vulnerable customers and people with disabilities provide feedback to help us improve our products and services
- observed a number of customer research panels with Enterprise's SME customers and Consumer's customers, to hear their perspectives on service and future priorities
- attended a virtual tour of Adastral Park to gain an insight into BT's research and development focus.

Sara will continue to join future customer inclusion panels where possible and, as the Covid-19 restrictions ease, she plans to visit Adastral Park, a BT/EE retail shop and a customer contact centre, and to shadow an Openreach field visit to gain a broader insight into the work of our frontline colleagues.

2020/21: Externally facilitated Board and committee evaluation

In line with the Code, we annually undertake a formal and rigorous evaluation of the performance of the Board and all its committees (internally or externally facilitated), and the chairman and individual directors, which takes into account the Board's composition, diversity and effectiveness. In 2020/21 we undertook an external evaluation (given the last external evaluation was completed in 2017/18).

Appointment of the external evaluator: The chairman, supported by the company secretarial team, led a tender process, which resulted in Clare Chalmers Limited being appointed to undertake the evaluation, based on style and the best fit for the Board. Clare Chalmers Limited is considered to be independent, having no other connection (including any past business relationship) to BT or any of the individual directors. A brief and the key areas of focus were discussed and agreed by Clare, the chairman and the company secretarial team.

Process: Clare observed a meeting of the Board and each of the committees, and received the papers in advance. She also reviewed a selection of Board and committee papers from meetings during the year. Confidential one-to-one meetings were conducted with each director, certain senior management attendees and external advisers. The evaluation focused on composition, succession and chairmanship and how well placed the Board is to add value to the business, in terms of how it oversees strategy, risk management, people, culture and performance. Focus was also given to the Board's decision-making processes, as well as how it considers stakeholders as part of its decisions and discussions.

Final Report: Clare discussed the draft report, which included proposed recommendations and actions, with the chairman, and then with the whole Board at its March 2021 meeting. Clare felt that the Board comprises a highly experienced group of non-executive directors with a strong skillset and a diverse range of viewpoints and perspectives. There is healthy challenge and a good appreciation of the stakeholder context in which BT sits.

Agreed areas of focus and actions: There were certain areas of focus which the Board felt would continue to improve its performance and effectiveness. Accordingly, the directors agreed the areas of focus and suggested actions for 2021/22, as set out below. Progress against these will be reviewed by the Board and/or its committees as appropriate during the year, with any ongoing areas feeding into next year's internal evaluation process.

Areas of focus	Suggested actions
In reviewing Board composition, size and succession planning in light of potential Board changes and the future of the business, the *Nominations Committee* should consider the need for a new non-executive director with an understanding of technology trends and cyber.	The current focus of the *Nominations Committee* is on the search for a new chairman. Once a successor has been appointed, a review of the Board as a whole will be undertaken by the new chairman and the *Nominations Committee*, having regard to skills, experience and knowledge in line with the future needs of the business. This will allow a more focused brief for a future non-executive director appointment.
Management should increase their interaction with non-executive directors outside of Board meetings to get their perspectives dependent on their area of experience and expertise.	The chief executive will discuss this further with members of the *Executive Committee* to see how this is best achieved outside of formal Board meetings. Non-executive directors are also encouraged to liaise with relevant senior executives to share views and provide perspectives.
Non-executive directors should be included earlier in the decision-making process for large strategic projects being considered.	The chairman, chief executive and company secretary will consider how we use Board meetings and informal Board discussions to more effectively highlight potential material projects to gauge initial views from the Board.
Executive succession plans should include more depth and detail beyond the top tier, with an increased focus on talent, development and diversity.	This will be reviewed as part of the *Executive Committee* succession planning discussions undertaken by the *Nominations Committee*, with consideration given as to how non-executive directors can meet other talent in the organisation more often.
When possible, non-executive directors should be encouraged to visit different parts of the business individually to get a feel for the culture.	All non-executive directors are encouraged to visit different offices and sites. There is usually an annual offsite visit for the Board but this was not possible this year due to the pandemic. Once it is possible to recommence site visits, we will look to return to holding at least one offsite visit for the Board each year.
Whilst it is acknowledged that Board papers have improved in quality, there should be continued refinement of Board and committee papers, ensuring that the ask is clearer upfront, there is a more concise narrative and a focus on the key facts, figures, issues and risks.	The Board and committee paper templates have been updated and there will continue to be a focus with paper submitters on improving the clarity of the recommendation and information contained in papers.
Given the inability to hold pre-Board dinners during the year due to the pandemic, the Board has felt the absence of not being able to have informal discussions ahead of Board meetings. It is suggested that until the Covid-19 restrictions allow for face-to-face meetings, virtual informal Board sessions are utilised.	Informal Board sessions will be scheduled around Board meetings going forward until we are able to recommence face-to-face Board meetings and pre-Board dinners.

Nominations Committee
Chair's report

Jan du Plessis
Chair of the Nominations Committee
12 May 2021

This year, the committee has spent its time focusing on changes to the *Executive Committee* and continued to review the Board's composition and succession planning to ensure our leadership comprises the right diversity of skills, knowledge and experience in line with the future needs of the business. The committee's current priority is the search for a new chairman.

Membership and attendance

All non-executive directors are members of the committee. The chief executive attends meetings where appropriate. The company secretary or her appointed delegate acts as secretary to the committee, and they attend all meetings and provide advice and support as required. Committee members and attendees do not attend committee discussions where a conflict exists. For discussions in relation to the search for my successor, Iain Conn, our senior independent director, chairs the meeting.

Attendance

Member	Attended	Eligible to attend
Jan du Plessis (chair)	5	5
Adel Al-Saleh[a]	4	5
Ian Cheshire	5	5
Iain Conn	5	5
Isabel Hudson	5	5
Mike Inglis	5	5
Matthew Key	5	5
Allison Kirkby	5	5
Leena Nair	5	5
Sara Weller[b]	4	5

a Adel joined the committee on 15 May 2020. Adel was unable to attend one committee meeting due to a prior business commitment.
b Sara joined the committee on 16 July 2020. Sara was unable to attend one committee meeting due to a prior business commitment notified in advance of her appointment.

Tim Höttges and Nick Rose stepped down from the committee on 15 May 2020 and 16 July 2020 respectively and no scheduled committee meetings were held in this financial year for which they were eligible to attend.

Key responsibilities

On behalf of the Board, the committee is responsible for keeping under review the succession planning and appointments of executive and non-executive directors, the chairman, the composition of the Board and its committees, succession planning and changes to the *Executive Committee*. After each meeting, I report back to the Board on the committee's activities.

The committee's key responsibilities are set out in its terms of reference available at **bt.com/governance**

Committee activities in 2020/21

The committee held five scheduled meetings during the year and six ad hoc meetings. The ad hoc meetings have predominantly been focused on *Executive Committee* changes and the search for my successor.

During the year, the committee considered and, as appropriate, made recommendations to the Board regarding:

Board composition and succession planning

- Board composition and succession planning for directors with a focus on the skills, experience, independence, knowledge and diversity requirements in line with the current and future needs of the business. The committee continually keeps succession planning under review, particularly for our longer serving directors. Given the Board appointments during 2020, it is felt that there is a good balance of newer and longer serving directors who provide consistency of BT knowledge and experience. Given the focus of the committee is currently on the search for a new chairman, the committee has decided to undertake a comprehensive review of the skills, experience and diversity on the Board as a whole once a successor is in role. We recognise that both the Board evaluation and the recent announcement that Mike Inglis will cease being a non-executive director at the 2021 AGM, reiterate the need for us to appoint a director with technology experience.
- changes to the membership of the committees, the committee chairs and the senior independent director as a result of changes to the Board which took effect from the conclusion of the 2020 AGM.

Executive Committee

- a number of changes to the *Executive Committee* structure and roles and responsibilities of members, as recommended by the chief executive, in light of the continuing transformation of BT. These included the appointment of Rob Shuter, CEO, Enterprise, and Harmeen Mehta, chief digital and innovation officer (see page 8), the restructuring of the Technology unit into a Networks unit and a newly created Digital unit in line with our digital transformation and growth programme, the removal of a standalone Strategy & Transformation unit and the amalgamation of the regulatory affairs and legal and company secretarial functions under a combined role of general counsel and director of regulatory affairs. Recent appointments have sought to further strengthen the senior management of the group bringing fresh perspectives, experiences and skills required for the future long-term growth of our business.
- the performance and succession planning of *Executive Committee* members (including executive directors). The committee undertook a detailed review of succession planning, reviewing key talent at senior leadership level with the chief executive and the HR director. The committee reflected on the importance of identifying critical roles and building stronger diversity of experience, gender and ethnicity, as well as commercial, technology and transformation capabilities, both through potential external candidates and our internal talent pipeline.

– external appointments of *Executive Committee* members, in line with our policy on external interests for *Executive Committee* members (including executive directors) and the CEO, Openreach.

Search for new chairman

Further to our announcement in March 2021 of my intention to retire from the Board once a successor has been appointed, Iain Conn, our senior independent director, has been chairing the committee and leading the search process for my successor. I am not present for these discussions. As Ian Cheshire has expressed an interest in being considered as a potential candidate for the role of chairman, he is also not present for these discussions. After a formal tender process, MWM Consulting, an independent external search agency, who has no other connection to BT, or any of the directors, was appointed to facilitate the process. MWM Consulting is a signatory of the Voluntary Code of Conduct for Executive Search Firms (in line with our Board Diversity and Inclusion Policy).

Further to a committee discussion on the capabilities, skills and experience required, and having considered the future needs of the business, a search brief was agreed. In line with that brief, MWM Consulting prepared a longlist of candidates and was specifically requested by the committee to ensure that it comprised a diverse range of candidates including female candidates and those from ethnic minority backgrounds. The committee has agreed a shortlist of candidates to be formally approached by MWM Consulting for the purpose of further interviews and assessment. Feedback will be discussed by the committee to consider the relative merits of the candidates based on the criteria and brief for this appointment. Once the committee has identified a preferred candidate, the committee shall recommend that candidate to the Board for approval.

Diversity and inclusion

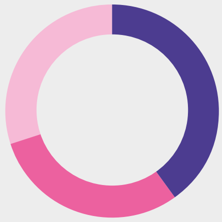
The Board Diversity and Inclusion Policy sets out our approach to Board diversity and our aim to have a well-balanced Board with the appropriate skills, knowledge, experience and diversity to meet our business needs and in support of our strategic aim of building the strongest foundations (see **bt.com/governance**). It reflects the recommendations of the Code, the Hampton-Alexander Review on gender diversity and the Parker Review of ethnicity for FTSE 100 companies. Diversity is considered in the broadest sense and all forms of difference are considered, including age, gender, nationality, independence, professional background, social and ethnic backgrounds, business and geographic experience, as well as cognitive and personal strengths. These are considered in reviewing the composition of the Board, and where possible, these should be appropriately balanced. Under the Board Diversity and Inclusion Policy, the *Nominations Committee* reviews progress against the policy's targets and objectives. As at 31 March 2021, four of our 12 Board directors were female (33%), in line with our target, and two directors were from an ethnic minority background (17%), exceeding the Parker Review recommendation. We continue to challenge our external search consultants to ensure that all forms of diversity, in particular ethnicity and gender, are considered when drawing up candidate shortlists.

This year, the Board prioritised diversity matters, discussing with management BT's proposed publication of diversity and inclusion targets and commitments, our Ethnicity Rapid Action Plan and the related commitments and the progress being made in this area as a whole (see page 24). The *Remuneration Committee* discussed our planned communications in relation to the ethnicity and gender pay gap reporting.

Details of our group-wide Diversity and Inclusion Strategy, including its objectives, link to strategy, implementation and progress can be found on pages 24, 25 and 44.

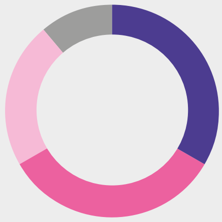
Chairman and non-executive directors' tenure

As at 31 March 2021



0–1 years	4	40%
2–3 years	3	30%
4–6 years	3	30%
7–9 years	0	0%
9+ years	0	0%

Post 2021 AGM



0–1 years	3	33%
2–3 years	3	33%
4–6 years	2	22%
7–9 years	1	12%
9+ years	0	0%

Diversity and independence

Male
Female

Board
As at 31 March 2021

Chairman*: 1

Executive directors: 2

Non-independent, non-executive director: 1

Independent non-executive directors: 8

* Independent on appointment to role.

Post 2021 AGM

Chairman*: 1

Executive directors: 2

Non-independent, non-executive director: 1

Independent non-executive directors: 7

* Independent on appointment to role.

Executive Committee (including CEO, Openreach)
As at 31 March 2021

8 (67%) 4 (33%)

Executive Committee, company secretary and direct reports
(including CEO, Openreach and excluding executive directors on the Board)
As at 31 March 2021

81 (69%) 37 (31%)

Audit & Risk Committee
Chair's report

Matthew Key
Chair of the Audit & Risk Committee
12 May 2021

Given the Covid-19 pandemic and the level of business-wide transformation, the committee has focused on detailed reviews of the group's risk categories and risk management framework and how these are being managed, with an emphasis on the foundations. The committee held a number of discussions on the progress of the finance transformation programme, which will enhance, automate and rationalise our financial controls landscape, key reporting and transactional processes and systems.

Membership and attendance

Our members are all independent non-executive directors with a range of skills, and the committee as a whole has experience relevant to the sector and acts independently of the executive. Allison and I have recent and relevant financial experience (as set out in our biographies on page 72) in line with the Code.

The committee met six times during the year in line with the financial reporting timetable. The company secretary or her appointed delegate acts as secretary to the committee, and they attend all meetings and provide advice and support as required. The chairman and chief executive attended all committee meetings during the year. Private committee sessions with the internal and external auditors were held at each meeting without management being present. The external auditor was not present at meetings where their performance and/or their remuneration was discussed.

Attendance

Member	Attended	Eligible to attend
Matthew Key (chair)[a]	6	6
Nick Rose[b]	1	1
Iain Conn	6	6
Mike Inglis	6	6
Allison Kirkby	6	6
Sara Weller[c]	4	5

a Matthew became chair on 16 July 2020.
b Nick stepped down from the committee and as chair on 16 July 2020.
c Sara joined the committee on 16 July 2020. Sara was unable to attend one committee meeting during the year due to a prior business commitment which she had notified us of prior to her appointment.

Other attendees

	Regular attendee	Attends as required
Chief financial officer	•	
Director, group finance	•	
Director of risk, compliance & assurance	•	
Group general counsel	•	
External reporting & financial controls director		•
Group risk director		•
Group internal audit director		•
Group ethics and compliance director		•

This is my first report as chair of the *Audit & Risk Committee* having taken over from Nick Rose at the conclusion of the 2020 AGM. I would like to thank Nick for his strong chairmanship of the committee.

Key responsibilities

The committee is responsible, on behalf of the Board, for monitoring the integrity of the financial statements and the group's risk management and internal control systems, including with regard to principal and emerging risks.

The committee's key responsibilities are set out in its terms of reference available at **bt.com/governance**

As committee chair, I meet with the KPMG lead audit partner and the regular attendees ahead of meetings to discuss the key areas of focus. After each meeting, I report back to the Board on the committee's activities, the main issues discussed and matters of particular relevance, with the Board receiving copies of the committee's minutes.

Committee activities in 2020/21

Internal controls and finance transformation

As a result of BT's deregistration from the US SEC, BT is no longer required to provide formal certification regarding the effectiveness of its controls over financial reporting, or make any corresponding public disclosures, to comply with Sarbanes-Oxley regulations. Notwithstanding this, management's financial controls objective continues to be to ensure that our overall controls framework is effective, and therefore management has followed a financial controls assurance approach this year similar to that adopted in previous years under Sarbanes-Oxley regulations. On behalf of the Board, and in line with the Code, the committee monitored and reviewed the effectiveness of our systems of risk management and internal control during the year.

Management has undertaken testing of the design and implementation of all key financial controls. Effective reliance on the systems tested was confirmed. A limited number of these controls are also within the scope of KPMG's audit work to support the current year audit. At the request of the committee, and in addition to external audit activities, KPMG also tested the design and operation of all IT general controls relevant to IT applications in-scope for management's internal controls over financial reporting.

The committee continued to monitor the implementation of the end-to-end finance transformation programme, which will enhance, automate and rationalise our financial controls landscape, key reporting and transactional processes and systems. The finance transformation programme supports the ongoing improvement of controls identified through management's testing and compliance monitoring programme, especially in relation to front end revenue processes and key data sources. When complete, the transformation programme will reduce the need for the existing mitigating manual controls including management review controls and data analytics. The committee received updates on the progress of the programme throughout the year, including the benefits, who is accountable, and the potential risks and mitigations, and continued to provide feedback in order to support the success and timeliness of the programme's conclusion. Progress during the year included go-lives of our management reporting and planning and forecasting tools for most of the business, including the deployment of our new information model and additional reporting capabilities. This has resulted in significant progress in terms of enhancing both our controls and quality of data.

Using the capabilities delivered through the finance transformation programme, management continues to build a more robust controls landscape. As reported last year, management implemented the SAP Governance, Risk and Compliance module to support the end-to-end monitoring of our financial controls. This reinforces access controls within SAP and the controls framework, and allows for the timely detection of access violations together with greater assurance over appropriate access in line with user roles and responsibilities.

BT Integrity and Compliance (BTIC) programme

As mentioned in last year's report, BTIC is a multi-year programme which aims to ensure that we have in place an enhanced framework of risk management, controls and assurance for dealing with our landscape of risks, and the right mindset to support it, in order to deliver our strategic outcomes. The programme is delivering the tools to enable BT to be smart with risk and improve operational and ethical discipline.

The two key areas of the BTIC programme are "Wiring" and "Mindset". Wiring relates to the governance, risk, compliance and assurance frameworks and processes that help ensure we know what our key risks are, who's accountable for their management, what we're doing about them, and how effective our efforts have been. Mindset refers to the capabilities and culture required to achieve our risk management goals, including how we measure and achieve them and how we can intervene throughout colleague lifecycle, from recruitment to development to reward, to deliver the improvements we need to take on risk with confidence.

The committee reviewed how the programme has improved risk management and assurance activities and reporting, specifically in relation to:

- a new risk management framework (see more details in the Risk management section below)
- a simplified policy, standards and key controls structure
- a common enhanced three lines of defence model clarifying accountabilities
- an improved governance framework including business unit audit and risk committees that bring the right discussions and decisions to the appropriate audiences
- the wider promotion of risk awareness, operational discipline and improved decision-making.

Risk management

A key focus this year has been to implement and enhance our new risk management framework and embed the output from this work into the day-to-day management, operations and culture of BT. Our risk management processes identify and monitor the risks facing the group. The *Executive Committee*, the Board and this committee regularly review the risks BT considers to be material.

We define our risk landscape in areas of enduring risk called group risk categories, covering strategic, financial, operational and compliance risks. In line with the Code, the Board monitored and reviewed the effectiveness of the group's systems of risk

Key matters considered in 2020/21 by the *Audit & Risk Committee*

- 2019/20 Full year results and Annual Report and Form 20-F 2020, including goodwill, viability statement and going concern statement
- 2020/21 quarterly trading updates
- 2019/20 regulatory financial statements
- Accounting judgements, IAS 19 pensions and corporate income tax accounting, internal controls over financial reporting assurance
- 2020/21 audit and assurance approach
- External audit and non-audit fees
- External auditor effectiveness
- External auditor engagement letter
- Internal and external auditors' quarterly reports
- Internal control requirements under the Code
- Group internal audit plan and internal audit charter
- Ethics, compliance and Speak Up reports
- BTIC programme, including progress on the implementation of a new risk management framework
- Major contentious matters reports
- Group risk report containing the status of the point and emerging risks, how we are trending against our desired risk appetite, and conformance with our control expectations
- Group risk category report deep dives including on major contracts, legal compliance, third party management, stakeholder management, financial control and data regulation
- Supplier risks and assurance
- Other risks including Covid-19, finance transformation, Brexit and data protection
- Finance transformation programme
- *BT Compliance Committee* chair's annual review and terms of reference
- Openreach Limited board audit, risk and compliance committee chair's annual update
- Duty to Report – payment practices
- Financial services compliance
- 2019/20 committee evaluation actions review
- Committee terms of reference

Audit & Risk Committee continued

management and internal control through detailed reviews of our group risk categories and consideration of reports from group internal audit and other assurance functions. Much of this work was undertaken by this committee on the Board's behalf and the committee considers progress made and where we need to develop. In these sessions, the committee held open and honest discussions with the *Executive Committee* risk owners to understand current and anticipated risk developments, including any impacts of Covid-19, and reviewed how effectively the risks are being managed. The committee used these discussions to assess both current specific concerns (point risks) and uncertainties that might become significant (emerging risks) and agree on actions required to manage the risks effectively. The committee also reviewed the definition of risk appetite and supporting metrics within each of the categories, the effectiveness of our controls, mitigation activities and any areas for improvement.

As chair, I subsequently reported the key points from each of these risk sessions to the Board, given that the Board is ultimately responsible for the group's systems of risk management and internal control. The above activities, including those described in the Internal controls and finance transformation section above, and consideration of the key matters reviewed by the committee, collectively enable the committee to confirm that the systems of risk management and internal control have been appropriately reviewed. Where required, improvements have been agreed and put into action.

Further information on risk management and our principal risks can be found in the **How we manage risk** section from **page 57** and the **Our principal risks and uncertainties** section from **page 59**.

Financial reporting

The committee monitors the financial reporting process and oversees its integrity. During the year, the committee considered:

- the full year and half year results, and quarterly trading updates, and subsequently recommended these to the Board for approval
- the quality of accounting policies and practices, as well as critical accounting estimates and key judgements for results and considered these to be appropriate.

In May 2021, the committee carried out a detailed assessment of the Annual Report, having previously provided comments and feedback throughout the drafting process. As part of this assessment, the committee reviewed the material matters reported, ensured that the report accurately reflected the company's performance and that it was consistent in its messaging throughout. The committee also considered whether the information was presented in a clear and concise manner.

The committee considered that, taken as a whole, the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position, performance, business model and strategy. This assessment formed the basis of the committee's recommendation on its advice to the Board in respect of this.

BT's significant accounting policies are set out on pages 124 and 125. The consistent application of these policies is subject to ongoing verification through management review and independent review by the internal and external auditors.

The processes supporting the preparation and consolidation of the financial statements have been documented and are subject to annual verification through the programme of testing completed by our internal auditor. This serves to confirm the operation of internal controls over financial reporting.

Significant issues considered relating to the financial statements

Group accounting policies, critical estimates and judgements

The committee considered the accounting policies and disclosures in the consolidated financial statements that relate to critical and key accounting estimates and significant judgements, including the critical estimates and judgements relating to the valuation of our pensions assets and obligations, those relating to taxation, and contingent liabilities associated with litigation; along with other key estimates and judgements relating to provisions and our goodwill impairment model; and significant judgements around lease term.

Going concern

The committee considered management's forecasts of group cash flows and net debt, as well as our liquidity requirements and borrowing facilities, including downside scenarios from our viability model as discussed below. Following this review and a discussion of the sensitivities, we confirmed that the going concern basis of accounting continues to be an appropriate basis of preparation for the financial statements. Further detail on the basis of our going concern assessment is set out on page 106.

Viability statement

The committee assessed the process and assessment of the group's prospects, the time horizon and how this aligned with the group's long-term forecasts, taking into account the company's current position and principal risks. The committee also considered the group risks in management's stress testing model, including the review of combined downside scenarios. We have combined a number of risks including another lockdown due to Covid-19, a revaluation of the BT Pension Scheme and enforcement action from Ofcom. We have also assumed that industrial action takes place and a scenario where we are unable to prevent a cyber attack which leads to a class action due to loss of customer data. The committee was satisfied that the viability statement could be provided and endorsed the continued selection of a three-year time horizon as a basis for the statement and the approach to its development. Further detail on the assessment of viability and the viability statement are set out on page 68.

Covid-19

The committee considered the impact of Covid-19 on the financial statements, including the adequacy of the provisions booked as a specific item in 2019/20 and their subsequent utilisation and release in 2020/21.

Regulatory reporting

The committee supported the continued changes across our colleagues, processes and systems that were put in place to ensure that we met our 2020/21 regulatory financial reporting obligations.

Pensions

The committee considered the assumptions underlying the valuation of the pension assets and liabilities in the financial statements, as summarised in note 20 to the financial statements, the sensitivities around the assumptions and the impact of the assumptions on the balance sheet, income statement and related disclosures. The committee was updated on the triennial funding valuation for the BT Pension Scheme, the possible range of valuation outcomes and our funding position.

Goodwill impairment

The committee considered and was satisfied with the key assumptions, including operating cash flow forecasts, resulting headroom and the sensitivity analysis performed by management and agreed that no goodwill impairment charges were required this year.

Major contracts

The performance of major contracts in Enterprise and Global were considered, including accounting judgements, assessments of the recoverability of dedicated contract assets, and any requirement for loss provisions.

Asset verification and asset lives

The committee assessed the results of management's annual asset life review, asset verification exercise and review of fully depreciated assets and the committee was satisfied that the judgements made, and the methodology applied, were appropriate.

Divestments

The committee reviewed the judgements made in relation to the group's divestments, including on whether the held for sale criteria had been satisfied and how goodwill should be allocated to divested or held for sale entities.

Other matters

The committee reviewed specific items quarterly, and considered and agreed that they were appropriately categorised. We also considered management's view of the quality of earnings and of the effective tax rate. At the half year and the full year, we considered a detailed assessment of provisions and the committee was satisfied with the analysis provided in relation to the results.

External audit

KPMG has been our external auditor since the conclusion of the 2018 AGM, following an audit tender process that took place in 2016 and 2017. John Luke was appointed as the lead audit partner for KPMG during the year, having been the audit partner for Openreach since 2018/19 (the date of his appointment as Openreach audit partner being the effective date for the purpose of determining his length of tenure to date). The company confirms that it complied with the provisions of the Competition and Markets Authority's Statutory Audit Services Order for the financial year under review. During the year, the committee reviewed, with the external auditor, the scope of work and the risk informing this, external audit findings and their letter of engagement. The committee approved KPMG's audit plan and management's letter of representation. The committee also considered and subsequently approved the proposed external audit fees for the year ended 31 March 2021, as well as the recurring audit fee for the regulatory financial statements and the interim review fee (see the **Independent auditor's report** on pages 112 to 117 for more details).

External auditor independence, objectivity and effectiveness

The committee discussed the external auditor's independence and potential areas that could give rise to a conflict of interest, and considered the safeguards in place to prevent compromising their independence and objectivity. Our non-audit services policy sets out the non-audit services that can be provided by the external auditor, in line with the latest ethical standards. The external auditor is not permitted to perform any work which they may later be required to audit, or which might affect their objectivity and independence, or create a conflict of interest. Internal procedures describe the approval process for work performed by the external auditor. This applied to KPMG throughout the year. The committee monitored compliance with the policies and procedures and considered business relationships with the external auditor, and the level and appropriateness of non-audit services and fees. Our non-audit services policy can be found at **bt.com/governance**

The nature of the non-audit services carried out by the external auditor during the year, including to review our in-scope IT general controls, are described in note 8 to the **consolidated financial statements** on page 134. These were carried out due to legal or regulatory obligations, contractual requirements, or represented areas of assurance work where it was materially more efficient for the external auditor to be engaged, as opposed to another third party, due to the work completed in relation to the audit, and which were permitted to be performed by an auditor under the Revised Ethical Standard 2019.

Audit-related assurance services, including the audit of the regulatory financial statements, as well as non-audit services performed by KPMG, are considered a low threat to auditor independence. The proportion of other non-audit services to total services carried out by the external auditor is therefore considered the most suitable measure of the non-audit services provided. These represented 0.8% of the total fees (2019/20: 2%).

The committee assessed the quality of the audit and the performance of the external auditor throughout the year and concluded that the audit contributed to the integrity of the group's financial reporting. The committee agreed that the external auditor continues to be independent and recommended to the Board (which was subsequently approved) that the reappointment of KPMG be put to our shareholders for approval at the 2021 AGM.

Internal audit

During the year, the committee:

- reviewed and approved the internal audit charter, establishing group internal audit's independence, authority, remit and reporting lines to conduct its work
- reviewed and approved the annual group internal audit plan (at the start of the year) and received regular updates on internal audit activities, progress against the plan, details of unsatisfactory audit findings and action plans to address these and progress
- discussed with executive management all internal audit reports where controls were assessed as "inadequate"
- reviewed the performance and effectiveness of the internal audit function, including consideration of whether the quality, experience and expertise of the function were appropriate for the business. An external effectiveness review of internal audit was previously conducted in 2018/19 by the Chartered Institute of Internal Auditors in accordance with our five-year cycle of such reviews
- reviewed the status of management actions arising from internal audits, including those that became overdue and ensured that these were tracked through to completion and subject to close monitoring by management.

Ethics and compliance

The committee considered reports from the group ethics and compliance director on BT's ethics and compliance priorities, including Speak Up, our confidential, whistleblowing hotline. As part of this, there was a focus on communications regulation in line with our group risk category, anti-bribery and corruption, international trade, compliance learning programmes and how these are embedded in our culture and financial services compliance. The committee ensures that arrangements are in place for the proportionate and independent investigation of these and other matters, including data privacy and governance.

BT Compliance Committee
Chair's report

Isabel Hudson
Chair of the BT Compliance Committee
12 May 2021

In responding to the unprecedented challenges of the Covid-19 pandemic, BT and Openreach have adhered well to the spirit and letter of the Commitments, evidencing the resilience of the governance arrangements and ways of working between them. Good progress continues to be made in delivering on the Commitments' objectives and as BT progresses with its transformation agenda, we will continue to monitor the arrangements with vigilance to ensure they continue to operate as intended.

Membership and attendance

The committee comprises independent non-executive directors only. The company secretary or her appointed delegate acts as secretary to the committee, and they attend all meetings and provide advice and support as required. The chairman, regulatory affairs director, general counsel, commitments assurance office (CAO) director and Openreach's commitments monitoring office director also attend all meetings as invitees.

Member	Attended	Eligible to attend
Isabel Hudson (chair)	4	4
Ian Cheshire[a]	3	3
Mike Inglis	4	4
Allison Kirkby[b]	3	4

a Ian joined the committee on 16 July 2020.
b Allison was unable to join one committee meeting during the year due to other business commitments and provided her comments to the chair ahead of the meeting.

Key responsibilities

This committee is responsible for monitoring whether Openreach's governance model is working as expected and achieving appropriate outcomes for consumers and industry. It ensures that Openreach is able to act with appropriate independence while BT is properly able to fulfil its parent company duties.

The committee reviews BT's compliance with the letter and spirit of the Commitments made as part of Ofcom's 2017 Digital Communications Review and reviews the culture and behaviours of colleagues. The committee continues to be supported by the CAO.

Having regard to the importance BT places on consumer fairness for our customers, the Board approved proposals to enhance BT's consumer fairness governance framework, widening the committee's remit to include oversight of consumer fairness matters on behalf of the Board. From 1 April 2021, the committee monitors whether BT is living up to Ofcom's Fairness for Customers commitments (see page 17 for more detail on consumer fairness).

The Board receives copies of the committee's minutes and I report to the Board after each committee meeting. Ofcom receives copies of minutes and each year we publish an annual review (available at **bt.com/btcc**). Further details on how we engage with Ofcom can be found on page 41.

The committee's key responsibilities are set out in its terms of reference available at **bt.com/governance**

Committee activities in 2020/21

The committee met four times during the year and has continued to focus on the letter and the spirit of the Commitments and how they are working in practice. The committee has focused on processes that may affect the balance of Openreach's independence and BT's oversight. I am pleased to note that the Commitments proved resilient in the face of the Covid-19 pandemic.

The committee reviewed and discussed:

- BT's second independent cultural maturity survey which reported significant improvements and that Openreach has become culturally more independent since 2018. While the Openreach/BT parent company relationship has improved, there needs to be continued focus on the Openreach/customer-facing units' dynamic. The committee has sought updates on the actions and has engaged with industry stakeholders on their perspectives on the Commitments.
- the outputs of an independent assessment on the effectiveness of BT's monitoring framework, tools and capabilities, which were generally found to be robust. The committee discussed recommendations to enhance these, including the effectiveness and proportionality of information sharing controls.
- how intended outcomes are being delivered including on BT's investment in fibre and the delivery of the broadband Universal Service Obligation. The regulatory affairs and CAO directors reported on key activities and priorities at each meeting. The CAO reviewed whether BT's responses to Covid-19 aligned with expectations. The committee was pleased to note that as BT adapted ways of working to safeguard colleagues and customers, and respond to operational and financial challenges, colleagues continued to adhere to the letter and spirit of the Commitments. As BT progresses its strategic initiatives and makes new senior appointments, the committee will continue to monitor the alignment of BT's leadership with the Commitments. The committee also considered the CAO's reviews of financial planning, strategy development and commercial processes, and the outcomes of its compliance "quick checks". The committee decided on all the potential Commitments breaches reported to the CAO by BT and where appropriate discussed remedial actions. Breaches and process non-conformances remain at a low level in nature and number.
- how Openreach and BT share commercial information and support management in improving the quality of the reporting on this. The committee invited BT and Openreach to brief it on the lessons learned and remedial actions in train following Ofcom's finding that Openreach had not given a competing company the same information as BT's own bid team during the tender for a public sector telecoms contract in Northern Ireland in 2017/18 (see page 17). The committee also considered reports from group internal audit focusing on Commitments focused audits.

Digital Impact & Sustainability Committee
Chair's report

Leena Nair
Chair of the Digital Impact & Sustainability Committee
12 May 2021

This year, it has been great to see the launch of the group's new purpose and strategy, which places digital impact and sustainability at the heart of everything the business does.

Membership and attendance

The committee comprises independent non-executive directors and the chairman. The company secretary or her appointed delegate acts as secretary to the committee, and they attend all meetings and provide advice and support as required. The HR director, corporate affairs director and director of digital impact & sustainability also attend all meetings as invitees.

Member	Attended	Eligible to attend
Leena Nair (chair)	4	4
Jan du Plessis	4	4
Isabel Hudson	4	4
Mike Inglis	4	4
Sara Weller[a]	2	3

a Sara joined the committee on 16 July 2020. Sara was unable to attend one committee meeting during the year, due to a prior business commitment which she had notified us of prior to her appointment.

Key responsibilities

This is my first full year as committee chair. During what has been a difficult year for so many, it's been encouraging to see BT step up to the challenge to help our colleagues, our communities and the country. This includes its support for critical health services, key workers and building digital skills for school children, small businesses and jobseekers. BT has continued to focus on tackling climate change, championing human rights and keeping people safe online through its responsible tech approach. As a core part of the strategy, with the outcome of related KPIs being annual bonus measures, progress in this area helps to build trust and create value for all stakeholders.

The committee is responsible for agreeing the digital impact and sustainability strategy for the group. It monitors progress on the strategy and supporting goals covering digital skills, human and digital rights, climate change and the environment, fundraising and volunteering.

After each meeting, I report back to the Board on the committee's activities and the main issues discussed, with the Board receiving copies of the committee's minutes.

The committee's key responsibilities are set out in its terms of reference available at **bt.com/governance**

Committee activities in 2020/21

The committee met four times during the year and, focused on our digital impact and sustainability strategy, considering and discussing:

Digital impact

The reach and impact of the Skills for Tomorrow programme and its pivot to become 'digital-first' during the Covid-19 pandemic, as well as the related KPI (see pages 31 and 47). The committee considered BT's role as a national enabler in helping people improve their digital skills, including our targeted programmes for school children, families, jobseekers, SMEs and vulnerable customers, and how the programme is helping to drive positive societal outcomes, as well as strengthening relationships with our customers and supporting their priorities.

Responsible tech and human rights

The progress on BT's human rights programme, how human rights are respected across the group's operations and supply chain, as well as efforts to tackle modern slavery, and the introduction of a forward-looking and principles-based approach to responsible tech. The committee endorsed BT's commitment to consistently develop, use, buy and sell technology in a way that benefits people and minimises harm.

Climate and the environment

The progress on BT's climate strategy and efforts to meet our decarbonisation target of an 87% reduction in carbon emissions intensity by the end of March 2031, Openreach's decarbonisation targets and the progress made in transitioning its commercial vehicle fleet to run on electric or alternative fuels (see pages 32, 33 and 47). The committee was also updated on the launch of the UK Electric Fleets Coalition, which has been co-founded by BT (including Openreach) and The Climate Group with the aim of influencing policy and to accelerate the transition to electric vehicles.

The committee also discussed the approach to the 2021 COP26 climate summit and BT's plans, including a presentation and discussion with an external expert. During the year, the committee also monitored BT's efforts to address the recommendations of the Task Force on Climate-related Financial Disclosures. Further details on how BT is implementing this can be found on page 67.

Vulnerable customers

The accessibility, inclusion and vulnerability programme within Consumer and the ongoing focus in this area. Further details on how BT supports our customers can be found on pages 26 to 29.

Stakeholder engagement

BT's approach to understanding the interests of our key stakeholders and how this is reflected in the digital impact and sustainability strategy, our external reporting, and our engagement with stakeholders going forward in a landscape of increasing focus on environmental, social and governance factors.

Supply chain

Programmes and initiatives that are in place across the group to manage risks within our supply chain. The committee was kept updated on how we mitigate risks within our supply chain and in ensuring BT remains a responsible and sustainable business. Further details on our engagement with suppliers can be found on pages 39 to 40 and more details on our digital impact and sustainability strategy and targets can be found on pages 30 to 33, and 47.

Report on directors' remuneration
Committee chair's letter

Sir Ian Cheshire
Chair of the Remuneration Committee
12 May 2021

During what has been an extraordinary year for everyone, not just for BT, the committee has recognised the commitment and contribution of our entire workforce. We've also ensured that any remuneration decisions taken during the year are in line with the new Directors' Remuneration Policy.

Contents

Committee chair's letter

Review of the year; committee decisions; key outturns and plans for the year ahead – pages 88 to 90.

Focus on remuneration

The key aspects of our remuneration structure, outcomes for 2020/21 and implementation of the Directors' Remuneration Policy (Policy) in 2021/22 – pages 91 to 93.

Annual remuneration report

More detail on how we have implemented our Policy during 2020/21 including the single figure of remuneration for each director – pages 94 to 102.

Remuneration in context

How we take account of remuneration conditions across the group – pages 103 to 104.

Membership and attendance

The committee comprises five independent non-executive directors only. The company secretary or her appointed delegate acts as secretary to the committee, and they attend all meetings and provide advice and support as required. The chairman, chief executive, group HR director and director of reward are typically invited to attend meetings. None of the above attends meetings where their own remuneration is discussed or in other circumstances where their attendance would not be appropriate.

Deloitte LLP, as the independent remuneration adviser to the committee, also attends all meetings.

The committee held four scheduled meetings during the year and four ad hoc meetings. The ad hoc meetings have predominantly been focused on remuneration arrangements as a result of changes to the *Executive Committee*.

Member	Attended	Eligible to attend
Ian Cheshire (chair)[a]	4	4
Iain Conn[b]	3	3
Isabel Hudson	4	4
Mike Inglis[c]	2	2
Matthew Key	4	4
Leena Nair	4	4
Nick Rose[d]	2	2

a Ian became committee chair on 16 July 2020.
b Iain joined the committee on 16 July 2020.
c Mike stepped down from the committee on 16 July 2020.
d Nick stepped down from the committee and as committee chair on 16 July 2020.

Key responsibilities

– Determines the salary and benefits for the executive directors, members of the *Executive Committee* and the company secretary, and monitors remuneration practices and policies for the wider workforce

– Operation of the annual bonus scheme for senior executives, including setting performance targets for the year ahead

– Determines awards under the annual bonus scheme for senior executives

– Governance of the company's long-term incentive plans

– Reviews and approves the Report on directors' remuneration for inclusion in the Annual Report

– Reviews and approves the Policy including seeking shareholder approval, on a binding basis, at least every three years

– Ensures that all remuneration decisions are made within the parameters of the approved Policy and align with our reward philosophy and our values. No senior executive is involved in any decision about their own remuneration.

After each meeting, I report back to the Board on the committee's activities and the main issues discussed.

The committee's key responsibilities are set out in its terms of reference available at **bt.com/governance**

This is my first letter since becoming the remuneration committee chair and I would like to start by thanking Nick Rose, the former committee chair, for his seamless handover and for securing strong shareholder support for BT's new Directors' Remuneration Policy (Policy) at the 2020 Annual General Meeting (AGM). I must admit that I had envisaged a relatively quiet year implementing the new Policy across the business. However, it has been an extraordinary year, and the committee has spent much of its time focused on five key areas: purpose, people, the pandemic, performance and Policy.

Purpose, people, and the pandemic

"We connect for good", BT's purpose, has really been brought to life during the pandemic. Despite the surge in demand on our fixed-line, broadband, and mobile networks, BT kept our customers and the country connected. BT also played a vital role in supporting the NHS by connecting the Nightingale hospitals and testing centres, rolling out our high-speed network to vaccination centres, keeping the Emergency Services Network working 24/7, and gifting unlimited data to NHS workers to show our appreciation of their valiant work.

Achieving this required an enormous amount of effort and commitment from our entire workforce. A special mention must be made of our frontline colleagues and key workers such as the Openreach engineers, who have worked around the clock to install services and repair technical faults, our call centre colleagues who assisted our customers, and the retail teams that kept our EE/BT retail shops running where possible.

At the start of the pandemic, the chief executive made a commitment that BT would support the wellbeing of our colleagues as best it could, and that no colleague would lose their job as a direct result of changing trading conditions brought about by Covid-19. I am pleased to say that we delivered on this promise. Despite the challenges we have faced, we have continued to invest in our network, we have not needed to make use of the Government's furlough scheme, and we have created new jobs in Openreach at a time when many companies have cut employees' pay, cut working hours and made redundancies. Like many other companies, we did expect our profits to be lower than last year given the impact of Covid-19 on the global economy, however the committee and the *Executive Committee* felt it was important to reward our colleagues and to recognise their commitment and contribution during an extraordinarily challenging year. All frontline colleagues and key workers will receive a special one-off cash bonus of £1,000, and all eligible colleagues will receive £500 worth of shares that vest after three years.

We took the difficult decision to freeze executive salaries for a second consecutive year and, despite the higher formulaic outturn of 129% of target, the committee exercised its discretion to cap executive bonuses at 100% of target in line with the chief executive's recommendation. In addition, all members of the *Executive Committee* have for a second year voluntarily agreed to defer all of their annual bonus into shares for three years. This means that executives have not received cash bonuses for the last two years. As announced in April 2020, the chief executive also donated six months of his salary to health charities and small businesses in his local community.

During the year, there were a few changes to the *Executive Committee* as mentioned by Philip Jansen in his introduction on page 7. The committee considered and approved competitive remuneration packages for the new joiners and the treatment to be applied for leavers.

Performance and executive remuneration outcomes for 2020/21

Annual bonus performance was based on a scorecard of seven key financial and non-financial measures that align to our strategic priorities. All targets were set at the start of the financial year based on a forecast impact of the Covid-19 pandemic. Acknowledging the significant uncertainty caused by the pandemic at the time the targets were set, the committee reviewed the measures and targets in the middle of the year. No adjustments to the targets were made as a result of the Covid-19 pandemic.

Financial performance accounts for 70% of the bonus scorecard:

- **EBITDA (35%)** – the outcome was in line with our expectations at £7,415m and came in between target and stretch. Despite pressures on our revenue, we continued to see benefits from our simplification and transformation programme.
- **Normalised free cash flow (35%)** – the outcome was £1,459m which was also between target and stretch.

Our non-financial measures account for 30% of the bonus scorecard and comprise the following:

- **Customer (10%)** – our colleagues have worked hard to deliver standout customer experience during the year, and the overall group Net Promoter Score (NPS) saw its 19th consecutive quarterly improvement, with Consumer and Global results at an all-time high.
- **Converged networks (10%)** – Openreach worked hard to maintain FTTP connection rates despite multiple lockdowns and delivered performance between target and stretch. We took advantage of new product launches to drive sales of our 5G tariffs and handsets and significantly exceeded our 5G customers stretch target.
- **Digital impact (5%)** – as Covid-19 hit, we successfully pivoted to a digital-first model for Skills for Tomorrow, delivering campaigns designed to help small businesses and families, as well as Stand Out Skills, focusing on providing support to jobseekers. We also launched our Top Tips on Tech TV campaign, which reached an incredible 5.7m people. As this campaign was not foreseen at the time the target was set, we removed it from our scorecard results – however the number of people reached through our other delivery channels still exceeded our stretch goal for the year.
- **Sustainability (5%)** – significant progress has been made towards reducing our carbon emissions intensity; putting in the foundations for accelerated fleet electrification and switching to purchasing 100% renewable electricity globally. While Covid-19 has had a positive impact on our emissions during the year due to factors such as increased homeworking and reduced vehicle usage, our underlying performance for the year excluding the impact of Covid-19 was still between target and stretch. We are on-track to meet our KPI of an 87% reduction in carbon emissions intensity by the end of March 2031.

When determining overall performance and bonus pay-outs, the committee also considers a number of other factors including share price performance, the external environment and overall affordability. Given ongoing cost constraints, pay freezes across the organisation and continued economic uncertainty, despite the formulaic outturn of the final bonus scorecard being 129% of target, the committee exercised its discretion to cap executive bonuses at 100% of target in line with the chief executive's recommendation. The committee also believes this is a fair outturn given the overall performance of the business under challenging conditions.

Report on directors' remuneration
Committee chair's letter continued

Accordingly, the chief executive and chief financial officer will be awarded bonuses of £1,320,000 and £882,526 respectively. As was the case last year, both executive directors have volunteered to defer their annual bonuses in full into shares for three years.

The 2018 Incentive Share Plan (ISP) award will lapse in full in May 2021 as we did not meet the threshold performance target in respect of each measure over the last three years.

Policy implementation in 2021/22

a) Salary

As outlined above, we have made the decision this year to not increase base salaries for the management population. Accordingly, the chief executive and the chief financial officer will not receive a salary increase in June 2021.

b) Pension

As set out in our Policy last year, Simon Lowth's pension allowance was reduced to 15% of salary from 1 April 2021 and will further reduce to 10% of salary from 1 April 2022, which will fully align him with the rate offered to the majority of our UK workforce. Philip Jansen's pension allowance remains at 10% of salary.

c) Annual bonus

We have reviewed the bonus scorecard measures and weightings and determined that they remain well-aligned to our strategic priorities for the coming year. The committee is satisfied that they represent a meaningful balance of financial performance measures and our broader strategic priorities, including the impact we make for our customers and society. The same group bonus scorecard applies to all eligible managers, so everyone is focused on and aligned to the same goals. Openreach managers have a similar bonus scorecard but it is based on Openreach performance to maintain independence and to reflect our Commitments.

No changes are proposed to the structure of the annual bonus plan: the on-target and maximum opportunity will remain at 120% and 200% of salary for both executive directors, with half deferred for a period of three years.

d) Long-term incentives

Awards will be made to both the chief executive and chief financial officer in June 2021 under our Restricted Share Plan (RSP). The committee considers the level of such awards each year, taking into consideration several factors, including the share price performance over the preceding year. In 2020, the level of awards granted was reduced from the normal Policy level of 200% of salary to 160% of salary due to share price performance and the decision to suspend the dividend until 2021/22. Since then, our share price has recovered, with performance above that of the FTSE 100 index, and the committee has therefore agreed that awards would be granted to both executive directors this year at the normal Policy level of 200% of salary.

Awards will vest in three equal tranches after three, four and five years, and no tranche may be sold until year five. As per last year, awards are subject to both return on capital employed (ROCE) and environmental, social and governance (ESG) underpins (see page 96), and the committee retains ultimate discretion to adjust the vesting outcome if considered appropriate.

Other matters

The committee receives regular updates on HR policies and reward practices for the wider workforce as well as updates on employee relations. The committee takes account of these factors when making decisions relating to executive remuneration.

During the year, Isabel Hudson, as the designated non-executive director for workforce engagement, also fed back any comments to the committee on sentiments being raised by our colleagues in relation to the remuneration of our workforce and related decisions, as raised by the *Colleague Board* through their 'hot topics' discussions at their meetings.

We increased our focus on race equality and launched our Ethnicity Rapid Action Plan, which was set up to help improve diversity and inclusion across BT. As part of this plan we have elected to voluntarily undertake our first ethnicity pay gap, in addition to the mandatory gender pay gap. The result of the ethnicity pay gap will be included in our inaugural Diversity and Inclusion Report, which is to be published in early summer 2021.

Following the Policy review, the change in the committee chair during the year and as agreed by the committee as part of last year's internal committee evaluation, we decided that it was timely and in good order to run a competitive tender for the appointment of advisers to the committee. Further to this, Deloitte were successful in retaining their appointment and the committee is satisfied that Deloitte continues to provide independent and objective advice.

As always, the committee and I wish to maintain an open dialogue on remuneration matters with our investors and I would welcome their comments or feedback and support at the forthcoming AGM.

Sir Ian Cheshire
Chair of the Remuneration Committee
12 May 2021

Focus on remuneration

Our remuneration principles are to maintain a competitive remuneration package that promotes the long-term success of the business, avoids excessive or inappropriate risk taking and aligns management's interests with those of shareholders.

Below is how remuneration is aligned with the principles of the Code.

Clarity

- Our remuneration framework is structured to support the financial and strategic objectives of the company, aligning the interests of our executive directors with those of our shareholders
- We are committed to transparent communication with all our stakeholders, including our shareholders
- Performance for senior management and all other managers is measured against a single consistent scorecard.

Predictability

- The long-term RSP reflects that we operate in a tightly regulated environment, ensuring a narrower but more predictable range of reward and performance outcomes to align with our business model.

Simplicity

- We operate a simple but effective remuneration framework which is applied on a consistent basis for all employees
- The annual bonus rewards performance against key performance indicators, while the RSP provides long-term sustainable alignment with our shareholders
- There is clear line of sight for management and shareholders.

Risk

- Our incentives are structured to align with the company's risk management framework
- The three-year deferral under the annual bonus and having no release of RSP awards until five years from the date of award create long-term alignment, as do our in- and post-employment shareholding requirements
- The annual bonus, deferred bonus and RSP also incorporate malus and clawback provisions, and there is overarching committee discretion to adjust formulaic outcomes.

Proportionality

- There is clear alignment between the performance of the company, the business strategy, and the reward paid to executive directors
- Target total compensation levels are set competitively compared to other companies of similar size and complexity to ensure we can attract and retain the executives needed to deliver the business strategy. However, the maximum total compensation levels are set lower than typical market practice to reflect the narrower and more predictable range of performance outcomes for BT
- Formulaic incentive outcomes are reviewed by the committee and may be adjusted having consideration to overall group performance and wider workforce remuneration policies and practices.

Alignment to culture

- When considering performance, the committee takes account of BT's values
- The committee receives regular updates on pay conditions across the company, and colleagues may provide feedback to the Board via the *Colleague Board* and the designated non-executive director for workforce engagement
- All-employee share plans help encourage our colleagues to become shareholders in the business.

Directors' Remuneration Policy (Policy)

The Policy as approved by shareholders at the AGM on 16 July 2020 in accordance with section 439A of the Companies Act 2006 can be found online at **bt.com/annualreport**

Legacy matters

The committee can make remuneration payments and payments for loss of office outside of the Policy where the terms of the payment were agreed (i) before the Policy came into effect, provided that the terms of the payment were consistent with any applicable policy in force at the time they were agreed, or (ii) at a time when the relevant individual was not a director of the company (or another person to whom the Policy applied) and that, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the company (or taking on such other applicable position). This includes the exercise of any discretion available to the committee in connection with such payments. For these purposes, payments include the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Minor amendments

The committee may make minor amendments to the arrangements for the directors as described in the Policy, for regulatory, exchange control, tax or administrative purposes, or to take account of a change in legislation.

Focus on remuneration continued

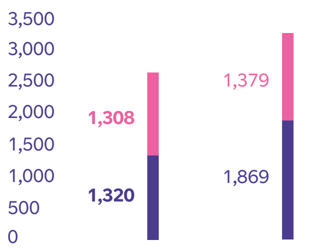
Look out for these icons in the Report on directors' remuneration to distinguish the different types of pay.

F Fixed pay
Base salary
Pension allowance
Benefits

V Variable pay
Annual bonus
RSP awards

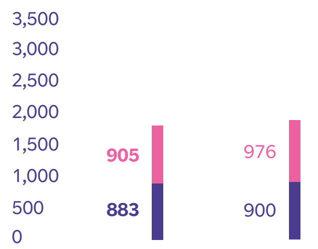
Remuneration earned in 2020/21

Philip Jansen
Chief executive
£000



	2020/21 £000	2019/20 £000
F Base salary	**1,100**	1,100
Pension	**110**	165
Benefits	**98**	114
Total fixed pay	**1,308**	1,379
V Annual bonus (shares)	**1,320**	1,320
Annual bonus (cash)[a]	**0**	0
ISP (shares)[b,c]	**0**	n/a
RSP (shares)[d]	**n/a**	549
Total variable pay	**1,320**	1,869
Total	**2,628**	3,248

Simon Lowth
Chief financial officer
£000



	2020/21 £000	2019/20 £000
F Base salary	**735**	732
Pension	**147**	220
Benefits	**23**	24
Total fixed pay	**905**	976
V Annual bonus (shares)	**883**	900
Annual bonus (cash)[a]	**0**	0
ISP (shares)[c]	**0**	0
Total variable pay	**883**	900
Total	**1,788**	1,876

a The executive directors have again voluntarily agreed to defer all their bonus for 2020/21 into shares for three years.
b Philip's first ISP award was made in February 2019.
c The group returned below threshold performance against all the performance measures for the 2018 ISP. The awards will lapse in full.
d The buyout award granted to Philip on appointment to compensate him for his loss in shares forfeited from Worldpay.

Performance outcomes in 2020/21

Annual bonus 2020/21

- Bonus was subject to seven measures of financial and non-financial performance
- EBITDA and cashflow performance was between target and stretch despite challenging circumstances
- Performance under each of the non-financial measures was either close to or above our stretch targets
- This resulted in a formulaic outcome of 129% of target. However, the committee exercised its discretion to cap executive bonuses at 100% of target in line with the chief executive's recommendation
- In line with the commitment made last year, the executive directors have again voluntarily agreed to defer all their bonus for 2020/21 into shares for three years.

Measure	Payout (% of max)
Adjusted EBITDA	70%
Normalised free cash flow	70%
Group Net Promoter Score (NPS)	99%
5G customers	100%
FTTP connections	87%
Carbon emissions	80%
Skills for Tomorrow	100%

2018 ISP

- Awards are subject to three performance measures
- Performance was below threshold, so the awards will lapse in full.

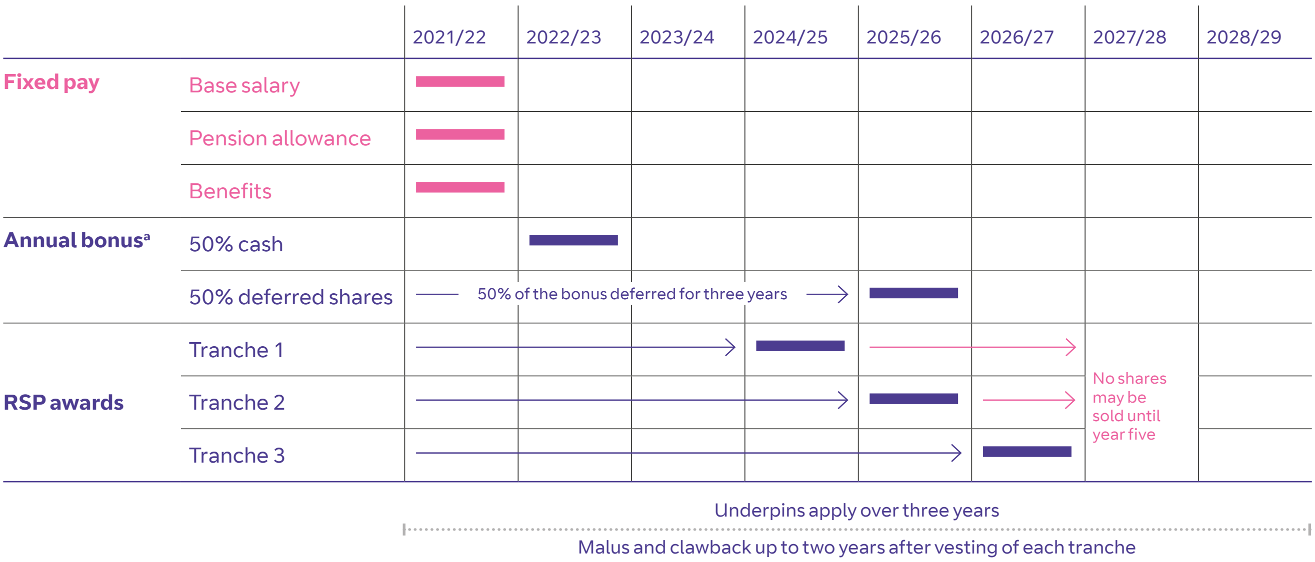
Measure	Payout (% of max)
Total shareholder return (TSR)	0%
Normalised free cash flow	0%
Underlying revenue growth (excluding transit)	0%

Implementation of the Policy in 2021/22

	F Fixed pay	V Annual bonus	V RSP
Philip Jansen (Chief executive)	Salary – £1,100,000 Benefits Pension – 10% of salary	Max. opportunity – 200% of salary Target opportunity – 120% of salary	2021 award – 200% of salary
Simon Lowth (Chief financial officer)	Salary – £735,438 Benefits Pension – 15% of salary[a]	Max. opportunity – 200% of salary Target opportunity – 120% of salary	2021 award – 200% of salary
Performance measures	n/a	Adjusted EBITDA (35%) Normalised free cash flow (35%) Customer experience (10%) Converged networks (10%) Digital impact & sustainability (10%)	Awards subject to two underpins over the initial three-year vesting period: – ROCE is equal to or exceeds WACC – No ESG issues resulting in material reputational damage
Framework	n/a	– 50% of any bonus payment for 2021/22 will be deferred into shares for three years – Malus and clawback provisions apply – Full committee discretion available	– Awards vest in three equal tranches after three, four and five years; no shares can be sold until year five – Malus and clawback provisions apply – Full committee discretion available

a This will reduce to 10% of salary in 2022/23.

Illustration of Policy



a All seven of the annual bonus measures are linked to our key performance indicators (KPIs) as set out on pages 46 to 47.

Annual remuneration report

This section summarises all elements of the directors' remuneration in 2020/21.

References to 'audited' refer to an audit performed in accordance with UK statutory reporting requirements.

Single total figure of remuneration (audited)

The following table sets out all emoluments received by directors for the financial years 2020/21 and 2019/20, including bonus and deferred bonus, long-term incentive plans and pension arrangements.

	Fixed pay								Variable pay							
	Basic salary and fees £000		Benefits[a] £000		Pension[b] £000		Total fixed pay £000		Annual bonus[c] £000		Long-term incentives £000		Total variable pay £000		Total £000	
	2020/21	2019/20	**2020/21**	2019/20	**2020/21**	2019/20	**2020/21**	2019/20	**2020/21**	2019/20	**2020/21**[d,e]	2019/20[f]	**2020/21**	2019/20	**2020/21**	2019/20
Chairman																
Jan du Plessis	700	700	8	18			708	718							708	718
Executive directors																
Philip Jansen	1,100	1,100	98	114	110	165	1,308	1,379	1,320	1,320	–	549	1,320	1,869	2,628	3,248
Simon Lowth	735	732	23	24	147	220	905	976	883	900	–	–	883	900	1,788	1,876
Non-executive directors																
Adel Al-Saleh[g]	–	–					–	–					–	–	–	–
Ian Cheshire	121	4					121	4					–	–	121	4
Iain Conn	150	112					150	112					–	–	150	112
Isabel Hudson[h]	145	139	1	3			146	142					–	–	146	142
Mike Inglis[h]	136	132		3			136	135					–	–	136	135
Matthew Key[h]	134	119		1			134	120					–	–	134	120
Allison Kirkby	124	117					124	117					–	–	124	117
Leena Nair	116	82					116	82					–	–	116	82
Sara Weller[i]	85	0					85	0					–	–	85	0
Sub-total	**3,546**	**3,237**	**130**	**163**	**257**	**385**	**3,933**	**3,785**	**2,203**	**2,220**	**0**	**549**	**2,203**	**2,769**	**6,136**	**6,554**
Former directors																
Tim Höttges[j]	–	–					–	–							–	–
Nick Rose[k]	52	178		2			52	180							52	180
Total	**3,598**	**3,415**	**130**	**165**	**257**	**385**	**3,985**	**3,965**	**2,203**	**2,220**	**0**	**549**	**2,203**	**2,769**	**6,188**	**6,734**

a Benefits provided to the executive directors and the chairman typically include (but are not limited to) car benefits (which may include any of a company provided car, cash allowance in lieu, fuel allowance, and driver), personal telecommunication facilities and home security, medical and dental cover for the directors and their immediate family, life cover, professional subscriptions, personal tax advice and financial counselling up to a maximum of £5,000 (excluding VAT) per year. For the chief executive, the value for 2020/21 includes a company provided car and personal driver to the value of c. £63,000.
b Pension allowance paid in cash for the financial year – see 'Total pension entitlements' on page 95.
c Annual bonus shown includes both the cash and deferred share element. The deferred element of the 2020/21 bonus includes the value of deferred shares to be granted in June 2021. Further details of the deferred element are set out below.
d The ISP 2018 granted in June 2018 to Simon and in February 2019 to Philip will lapse in full. Further details are provided on page 98.
e The ISP 2017 granted in June 2017 lapsed in full in May 2020.
f The RSP 2019 granted on Philip's appointment vested on 20 March 2020.
g Adel was appointed as a director on 15 May 2020. Under the terms of the Relationship Agreement between BT and Deutsche Telekom and Adel's letter of appointment, no remuneration is payable for this position.
h Value shown relates to reimbursement of reasonable travelling and other expenses (including any relevant tax) incurred in carrying out their duties.
i Sara was appointed as a director on 16 July 2020 and the figure represents her pro-rated remuneration during the year.
j Tim stepped down as a director on 15 May 2020.
k Nick stepped down as a director on 16 July 2020 and the figure represents his pro-rated remuneration during the year.

Additional disclosures relating to the single figure table (audited)

Salaries and fees

Executive directors' salaries are reviewed annually, with any increases typically effective from 1 June. No salary increases were made for our UK management population in June 2020 and accordingly Simon's base salary remained at £735,438. Philip Jansen's salary of £1,100,000 was fixed for five years at the time of his appointment in January 2019.

The fees for non-executive directors reflect committee-related or other additional responsibilities, including on a pro-rated basis for any appointments during the year. The chairman and executive directors reviewed the fees for non-executive directors during the year and agreed that there would be no fee increases for the non-executive directors. The chairman's fees were agreed to be fixed for five years on appointment as chairman in November 2017. A full breakdown of non-executive director fees is set out on page 100.

Total pension entitlements

We closed the BT Pension Scheme (BTPS) for most members on 30 June 2018. None of the executive directors participate in future service accrual in the BTPS.

New UK employees are eligible to join a defined contribution scheme, typically a personal pension plan. For executive directors, the company agrees to pay a fixed percentage of their salary each year which can be put towards the provision of retirement benefits.

During the year, Philip Jansen received an annual allowance equal to 10% of salary in lieu of pension provision as set out in the table on page 94. BT also provides death in service cover consisting of a lump sum equal to four times his salary.

During the year, Simon Lowth received an annual allowance equal to 20% of salary in lieu of pension provision as set out in the table on page 94. This will further reduce to 15% of salary in 2021/22 and 10% of salary in 2022/23. BT also provides death in service cover consisting of a lump sum equal to four times his salary plus a dependants pension equal to 30% of his capped salary.

Annual bonus

Both executive directors were eligible for an on-target bonus in respect of 2020/21 of 120% of salary with a maximum opportunity of 200% of salary. The annual bonus is based on performance against a scorecard of seven key financial and non-financial measures.

Category	Measure	Weighting	Threshold	Target	Stretch	Actual	Payout (% of max)
Financial	**Adjusted EBITDA (£m)**	35%	6,936	7,301	7,849	**7,415**	70%
	Normalised free cash flow (£m)	35%	1,352	1,423	1,566	**1,459**	70%
Customer	**NPS**	10%	50	100	200	**199**	99%
Converged networks	**5G customers (000s)**	5%	587	664	730	**1,403**	100%
	FTTP connections (000s)	5%	720	861	927	**905**	87%
Digital impact & sustainability	**Carbon emissions**	5%	(50)%	(52)%	(54)%	**(53)%**	80%
	Skills for Tomorrow (people)	5%	2.9m	3.0m	3.1m	**4.3m**	100%

All targets were set at the start of the financial year based on a forecast impact of the Covid-19 pandemic. The committee reviewed the measures and targets in the middle of the year to ensure they remained appropriate. No adjustments to the targets were made as a result of the Covid-19 pandemic.

Performance under both financial measures was between target and stretch despite challenging circumstances. Likewise, performance against the non-financial measures was strong, with all measures coming either close to or above our stretch targets.

Significant progress was made towards reducing our carbon emissions intensity; putting in the foundations for accelerated fleet electrification and switching to purchasing 100% renewable electricity globally. The final outcome on our carbon emissions measure was a 57% reduction on our baseline. However, this included the positive impact of Covid-19 as a result of increased homeworking and reduced vehicle usage. For scorecard purposes we used the underlying figure of 53%, which was between target and stretch.

In addition to the 4.3m people reached through our Skills for Tomorrow programme, our successful Top Tips on Tech TV campaign also reached 5.7m people. This was not included in the scorecard results as it was not envisaged at the time the targets were set.

This resulted in a formulaic outcome of 129% of target. When considering bonus outcomes each year, the committee takes account of a number of factors including share price performance, the external environment and overall affordability. Given ongoing cost constraints, pay freezes across the organisation and continued economic uncertainty, the committee exercised its discretion to cap executive bonuses at 100% of target in line with the chief executive's recommendation. The committee also believes this is a fair outturn given the overall performance of the business under challenging conditions.

The final bonus outturns for the executive directors are set out in the table below:

	Formulaic outcome	Following discretion	% of max	Value
Philip Jansen	129% of target	100% of target	60%	£1,320,000
Simon Lowth	129% of target	100% of target	60%	£882,526

As previously agreed, the chief executive's and chief financial officer's bonus for 2020/21 will be deferred in full into shares for three years. This means that the executive directors have not taken any cash bonuses for two consecutive years. Other members of the *Executive Committee* have also voluntarily agreed to defer all of their annual bonus into shares for a second consecutive year.

Annual remuneration report continued

2018 ISP

The ISP is a conditional share award. The committee assesses the performance conditions to 31 March 2021 and the awards would ordinarily vest in May 2021. The performance conditions are based 40% on relative TSR, 40% on normalised free cash flow, and 20% on growth in underlying revenue (excluding transit) over a three-year performance period from 1 April 2018 to 31 March 2021. As set out in the table below, the threshold performance target in respect of each measure was not met and therefore the awards lapsed in full and no payment was made.

Measure	Weighting	Threshold	Maximum	Actual	Payout (% of max)
TSR (rank)	40%	9th	5th	14th	0%
Normalised free cash flow (£bn)	40%	£6.4	£7.4	£5.9	0%
Underlying revenue growth (excluding transit) (%)	20%	0.2	1.9	(7.1)	0%

Awards granted during the year (audited)

2020 RSP

The 2020 RSP awards were made in August 2020 as set out below and on page 98. An award of 160% of salary was made to both executive directors, which represented a 20% discount to the normal level permitted under the Policy. The face value is based on the BT share price at the date of grant of 106.11p. The grant price is calculated using the average middle-market price of a BT share for the three dealing days prior to grant.

Director	Date of award	RSP award (shares)	Face value of award
Philip Jansen	3 August 2020	1,658,656	£1,760,000
Simon Lowth	3 August 2020	1,108,944	£1,176,700

These awards are conditional share awards without any performance targets. Two underpins will apply over the initial three-year vesting period, as follows:

- ROCE is equal to or exceeds WACC over the same period
- there must have been no ESG issues which have resulted in material reputational damage for the company.

Should one or both underpins not be met, the committee may at its discretion reduce the number of shares vesting, including to nil.

The RSP awards will vest in three equal tranches after three, four and five years. A holding period will apply such that no shares may be sold until year five. When RSP awards vest, additional shares representing the value of reinvested dividends on the underlying shares are added.

RSP awards are subject to malus and clawback provisions as set out in the Policy, and the committee retains the ultimate discretion to adjust vesting levels in exceptional circumstances, should they not reflect the overall performance.

Details of all interests under the RSP are set out on page 98.

2020 deferred shares

The full bonus awarded for 2019/20 was deferred into shares. The awards were made in June 2020 as set out below and on page 98. The face value is based on the BT share price at the date of grant of 119.27p. The grant price is calculated using the average middle-market price of a BT share for the three dealing days prior to grant.

Director	Date of award	Number of deferred shares	Face value of award
Philip Jansen	25 June 2020	1,106,763	£1,320,000
Simon Lowth	25 June 2020	754,759	£900,176

Deferred shares are not subject to performance conditions and have a three-year vesting period. Details of all interests in deferred shares are set out on page 98.

When deferred share awards vest, additional shares representing the value of reinvested dividends on the underlying shares are added.

Payments for loss of office (audited)

No payments were made to directors during the year for loss of office.

Former directors (audited)

No payments were made to former directors during the year.

Directors' share ownership (audited)

The committee believes that the interests of the executive directors should be closely aligned with those of shareholders. The aim is to encourage the build-up of a meaningful shareholding in the company over time by retaining shares received through the executive share plans (other than shares sold to meet tax and other statutory deductions) or from purchases in the market.

The shareholding requirement for both executive directors increased to 500% of salary under the new Policy.

Executive directors must achieve the increased shareholding guideline within five years of the approval of the Policy or, in the case of any new executive directors appointed, within five years of their date of appointment.

The shareholding requirement will continue to apply for a period of two years post-cessation of employment, to the same value as in employment (or the total number of shares held immediately prior to cessation of employment, if lower). The post-cessation shareholding requirement will be calculated and expressed as a fixed number of shares by reference to the closing BT share price on the day immediately prior to the cessation date. The requirement is fixed as this number of shares for a period of two years and compliance will be measured at cessation and annually thereafter. In enforcing continued compliance post-cessation, the committee may request that the executive director transfers any shares subject to the shareholding requirement to be held in trust by the company until such time that they no longer need to be retained.

The company encourages the chairman and independent non-executive directors to purchase, on a voluntary basis, BT shares with an aggregate value of £5,000 on average each year (based on acquisition price) to further align the interests of non-executive directors with those of our shareholders. The directors are asked to hold these shares until they cease being a member of the Board. This policy is not mandatory.

This policy does not apply to the Deutsche Telekom nominated representative director appointed to the Board as a non-independent, non-executive director under the terms of the EE acquisition in January 2016. This helps avoid any conflict of interest.

Directors' interests at 31 March 2021 or on cessation (audited)

The following table shows the beneficial interests in the company's shares of directors and persons closely associated as at 31 March 2021 (or at the point of leaving for directors who left during the year).

The table includes interests held by the executive directors under the company's share plans. The numbers represent the maximum possible vesting levels. The ISP awards will only vest to the extent the performance conditions are met over the three-year period. Full details of all DBP, RSP and ISP awards, including performance periods and vesting conditions, are set out on page 98.

For executive directors we use the average BT share price over the preceding 12 months (or the share price at acquisition/vesting date if higher) to determine whether the minimum shareholding requirement has been reached.

During the period 1 April 2021 to 12 May 2021, there were no movements in directors' beneficial holdings or other interests in shares. The directors, as a group, beneficially own less than 1% of the company's shares.

	Beneficial holding owned outright at 1 April 2020	Beneficial holding owned outright at 31 March 2021	Unvested interests in share plans				Total shareholding at 31 March 2021[d]	Percentage of salary held[e]
			DBP[a]	RSP[a]	ISP[b]	Other[c]		
Chairman								
Jan du Plessis	502,475	1,004,138	–	–	–	–	1,004,138	n/a
Executive directors								
Philip Jansen	3,059,481	4,895,142	1,171,722	1,658,656	3,896,440	–	6,395,242	933%
Simon Lowth	582,436	609,886	1,094,754	1,108,944	2,748,082	10,975	1,788,821	361%
Non-executive directors								
Adel Al-Saleh[f]	n/a	0	–	–	–	–	0	n/a
Ian Cheshire	0	19,646	–	–	–	–	19,464	n/a
Iain Conn	19,442	69,442	–	–	–	–	69,442	n/a
Isabel Hudson	24,090	24,090	–	–	–	–	24,090	n/a
Allison Kirkby	25,000	75,000	–	–	–	–	75,000	n/a
Mike Inglis	29,091	29,091	–	–	–	–	29,091	n/a
Matthew Key	115,933	161,686	–	–	–	–	161,686	n/a
Leena Nair	0	50,000	–	–	–	–	50,000	n/a
Sara Weller[g]	n/a	7,000	–	–	–	–	7,000	n/a
Former directors								
Tim Höttges[h]	0	0	–	–	–	–	0	n/a
Nick Rose[i]	400,000	400,000	–	–	–	–	400,000	n/a
Total	**4,757,948**	**7,345,121**	**2,266,476**	**2,767,600**	**6,644,522**	**10,975**	**10,023,974**	n/a

a Subject to continued employment and, for the RSP, two underpins over the initial three-year vesting period.
b Subject to performance.
c Interests in saveshare, a HMRC-approved all-employee plan.
d The number of shares held for the purpose of satisfaction of the shareholding guideline. This includes all beneficial holdings, plus outstanding share awards that are subject to continued employment only included on a net-of-tax basis.
e For the purpose of determining the minimum shareholding guideline, the average BT share price over the preceding 12 months of £1.1937 has been used (or for shares owned outright, the share price at acquisition/vesting date if higher).
f Adel was appointed as a director on 15 May 2020.
g Sara was appointed as a director on 16 July 2020.
h Tim stepped down as a director on 15 May 2020 and the number reflects his holding at that date.
i Nick stepped down as a director on 16 July 2020 and the number reflects his holding at that date.

Annual remuneration report continued

Outstanding share awards at 31 March 2021 (audited)

The table below sets out share awards granted to the executive directors.

	1 April 2020	Awarded/ granted	Dividends re-invested	Vested	Lapsed	Total number of award shares at 31 March 2021	Vesting date	Price at grant	Market price at date of vesting	Market price at date of exercise	Monetary value of vested award £000
Philip Jansen											
DBP 2019	64,959	–	–	–	–	64,959	01/08/2022	207.45p	–	–	–
DBP 2020[a]	–	1,106,763	–	–	–	1,106,763	01/08/2023	119.27p	–	–	–
ISP 2018[b]	1,576,404	–	–	–	–	1,576,404	31/03/2021	233.56p	–	–	–
ISP 2019[c]	2,320,036	–	–	–	–	2,320,036	31/03/2022	207.45p	–	–	–
RSP 2020[d]	–	1,658,656	–	–	–	1,658,656	03/08/2023	106.11p	–	–	–
Simon Lowth											
DBP 2017	51,886	–	–	51,886	–	–	01/08/2020	286.40p	103.07p	–	53
DBP 2018	167,480	–	–	–	–	167,480	01/08/2021	211.01p	–	–	–
DBP 2019	172,515	–	–	–	–	172,515	01/08/2022	207.45p	–	–	–
DBP 2020[a]	–	754,759	–	–	–	754,759	01/08/2023	119.27p	–	–	–
ISP 2017[e]	1,056,494	–	–	–	1,056,494	–	31/03/2020	286.40p	–	–	–
ISP 2018[f]	1,390,845	–	–	–	–	1,390,845	31/03/2021	211.01p	–	–	–
ISP 2019[c]	1,357,237	–	–	–	–	1,357,237	31/03/2022	207.45p	–	–	–
RSP 2020[d]	–	1,108,944	–	–	–	1,108,944	03/08/2023	106.11p	–	–	–
saveshare (2019)[g]	10,975	–	–	–	–	10,975	01/08/2024	163.92p	–	–	–

a Awards granted on 25 June 2020. The number of shares subject to award was calculated using the average middle market price of a BT share for the three days prior to grant of 119.27p. Awards of deferred shares in respect of 2021 will be calculated using the average middle market price of a BT share for the three dealing days prior to grant.

b Award granted on 1 February 2019. The number of shares subject to award was calculated using the average middle-market price of a BT share for the three dealing days prior to grant of 233.56p. 40% of each award is linked to TSR compared with a group of 17 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years. Performance against the TSR, normalised free cash flow and revenue targets was below threshold so the award will lapse in full in May 2021.

c Awards granted on 19 June 2019. The number of shares subject to award was calculated using the average middle-market price of a BT share for the three dealing days prior to grant of 207.45p. 40% of each award is linked to TSR compared with a group of 16 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (including transit) over three years.

d Awards granted on 3 August 2020. The number of shares subject to award was calculated using the average middle market price of a BT share for the three dealing days prior to grant of 106.11p. Awards will vest in three equal tranches after three, four and five years. A holding period will apply such that no shares may be sold until year five. Two underpins will apply over the initial three-year vesting period as set out on page 96.

e Award granted on 22 June 2017. The number of shares subject to award was calculated using the average middle-market price of a BT share for the three dealing days prior to grant of 286.40p. 40% of each award is linked to TSR compared with a group of 21 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years. Performance against the TSR, normalised free cash flow and revenue targets resulted in the threshold targets not being met and none of the shares vesting under the 2017 ISP. The award lapsed in full in May 2020.

f Award granted on 19 June 2018. The number of shares subject to award was calculated using the average middle-market price of a BT share for the three dealing days prior to grant of 211.01p. 40% of each award is linked to TSR compared with a group of 17 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years. Performance against the TSR, normalised free cash flow and revenue targets was below threshold so the award will lapse in full in May 2021.

g Option granted on 14 June 2019 under the employee saveshare scheme, in which all employees of the company are entitled to participate.

Implementation of Policy in 2021/22

Base salary

Philip Jansen's base salary of £1,100,000 was agreed on appointment in January 2019 and is fixed for five years. Therefore, there is no increase for 2021/22.

In line with the agreed approach for our UK management population, Simon Lowth will not receive a salary increase effective 1 June 2021.

	2021/22	
Director	Base salary	% change
Philip Jansen	£1,100,000	0%
Simon Lowth	£735,438	0%

Benefits

For executive directors, the committee has set benefits in line with the Policy. No changes are proposed to the benefit framework for 2021/22.

Pension

In line with the Policy, both executive directors will receive an annual allowance in lieu of pension provision for 2021/22 as set out in the table below:

Director	% of salary
Philip Jansen	10% in lieu of pension provision
Simon Lowth[a]	15% in lieu of pension provision

a This will reduce to 10% of salary in 2022/23 (effective from 1 April).

Annual bonus

Both executive directors are eligible for an on-target and maximum bonus payment of 120% and 200% of salary. As per the Policy, 50% of any bonus payable will be deferred into shares for three years.

The committee has reviewed in full the measures, weightings and targets used in the annual bonus scorecard and agreed that the measures and weightings remain appropriate and aligned to our strategy for 2021/22.

The 2021/22 annual bonus structure measures and weightings are set out below.

Category	Measure	Weighting
Financial	Adjusted EBITDA	35%
	Normalised free cash flow	35%
Customer	NPS	10%
Converged networks	5G customers – the number of customers on our 5G network	5%
	FTTP connections – the number of connections in the Openreach FTTP network	5%
Digital impact & sustainability	Carbon emissions – progress towards an 87% reduction in carbon emissions intensity by the end of March 2031	5%
	Skills for Tomorrow – progress towards our ambition to reach 25m people in the UK with help to improve their digital skills by end of March 2026	5%

All seven of the annual bonus measures are linked to our key performance indicators as set out on pages 46 to 47.

We do not publish details of the targets in advance as these are commercially confidential. We will publish achievement against the targets at the same time as we disclose bonus payments in the 2022 Report on directors' remuneration so shareholders can evaluate performance against the targets.

RSP

Awards will be granted to both executive directors under the RSP in June 2021.

When considering grant levels each year, the committee takes account of share price performance over the preceding year. In 2020, the level of awards granted was reduced from the normal Policy level of 200% of salary to 160% of salary due to share price performance and the decision to suspend the dividend until 2021/22. Since then, our share price has recovered, with performance above that of the FTSE 100 index and the committee has therefore agreed that awards will be granted to both executive directors this year at the normal Policy level of 200% of salary.

Two underpins will apply over the initial three-year vesting period, as follows:

- ROCE is equal to or exceeds WACC over the same period
- there must have been no ESG issues which have resulted in material reputational damage for the company.

Should one or both underpins not be met, the committee may at its discretion reduce the number of shares vesting, including to nil.

The RSP awards will vest in three equal tranches after three, four and five years. A holding period will apply such that no shares may be sold until year five. When RSP awards vest, additional shares representing the value of reinvested dividends on the underlying shares are added.

RSP awards are subject to malus and clawback provisions as set out in the Policy, and the committee retains the ultimate discretion to adjust vesting levels in exceptional circumstances, should they not reflect the overall performance of the business over the vesting period, or for any other reason.

Annual remuneration report continued

Chairman and non-executive director remuneration

The fees for non-executive directors were reviewed during the year by the chairman and executive directors, taking into consideration the role and requirements of BT, together with the fees paid to non-executive directors at companies of a similar size and complexity, previous years' increases and in light of there being no salary increases for the UK management population. It was once again agreed that there would be no increase in fees.

The basic fee for non-executive directors is £77,000 per annum. There are additional fees for membership and chairing a Board committee, details of which are set out in the table below:

Committee	Chair's fee	Member's fee
Audit & Risk	£35,000	£25,000
BT Compliance	£ 25,000	£12,000
Digital Impact & Sustainability	£14,000	£8,000
Investigatory Powers Governance	n/a[a]	£8,000
Nominations	n/a[a]	£10,000
Remuneration	£30,000	£15,000

a Where the chairman or chief executive acts as chair of a board committee, no additional committee chair fee is payable.

The senior independent director receives an additional fee of £27,000 per annum.

The designated non-executive director for workforce engagement receives an additional fee of £10,000 per annum.

No element of non-executive director remuneration is performance related. Non-executive directors do not participate in BT's bonus or employee share plans and are not members of any of the company pension schemes.

The committee agreed a fee of £700,000 per year, fixed for five years, on the current chairman's appointment in November 2017 and therefore no review of his fee was undertaken.

Other remuneration matters

Advisers tender

Deloitte LLP have been advisers to the committee since 2012. As agreed as part of the 2019/20 internal committee evaluation, during the year the committee undertook a competitive tender exercise to review its advisers. This was led by the committee chair supported by members of the committee and representatives of the reward, HR and company secretarial teams.

A number of leading advisers were invited to submit a proposal, and a shortlist of candidates presented to a panel of committee and management representatives, focusing on the capability of the proposed team as well as the insight provided on the key issues faced by the committee.

Following a detailed evaluation of the proposals and discussion, Deloitte were reappointed as advisers to the committee in January 2021. The committee is comfortable that the Deloitte team have no connections with BT that may impair their independence or objectivity.

Advisers

During the year, the committee received independent advice on executive remuneration matters from Deloitte LLP. Deloitte received £202,375 (excluding VAT) in fees for these services. The fees are charged on a time-spent basis in delivering advice. That advice materially assisted the committee in their consideration of matters relating to executive remuneration and the new Policy.

Deloitte is a founder member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

In addition, during 2020/21, Deloitte provided the company with advice on corporate and indirect taxes, assistance with regulatory, risk and compliance issues and additional consultancy services.

Dilution

We use both treasury shares and shares purchased by the BT Group Employee Share Ownership Trust (the Trust) to satisfy our all-employee share plans and executive share plans. Shares held in the Trust do not have any voting rights.

As at 31 March 2021, shares equivalent to 5.12% (2019/20: 2.34%) of the issued share capital (excluding treasury shares) would be required to satisfy all outstanding share options and awards. Of these, we estimate that for 2021/22, shares equivalent to approximately 0.26% (2020/21: 0.26%) of the issued share capital (excluding treasury shares) will be required to satisfy the all-employee share plans.

External appointments held by *Executive Committee* members

The *Nominations Committee* determines the policy for, and if thought fit, agrees the taking up of external directorships and other significant external interests by members of the *Executive Committee*, including the executive directors, the CEO, Openreach and other senior direct reports to the chief executive.

Proposed external directorships and other significant external interests must not: be to an organisation that is a BT competitor/ major supplier to BT; create a conflict of interest for the individual with his/her BT role; involve significant amounts of BT working hours nor impede the ability of the individual to perform their BT role; or involve disproportionate incentives or remuneration, with reference to the time commitment of the role.

Any fees or other incentives arising from such appointments may be retained by the individual, subject to the amount being proportionate.

Previous AGM voting outcomes

The table below sets out the previous votes cast at the AGM in respect of the Annual remuneration report and the Policy.

	For % of votes cast Number	Against % of votes cast Number	Withheld votes Number
Annual remuneration report at the 2020 AGM	93.32 5,920,755,265	6.68 423,941,635	11,335,964
Policy at the 2020 AGM	95.04 6,036,920,089	4.96 315,057,559	4,101,574

Withheld votes are not counted when calculating voting outcomes.

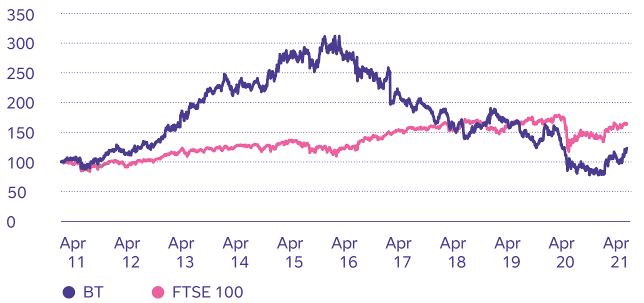
Committee evaluation 2020/21

Details of our 2020/21 Board and committee evaluation which was externally facilitated by Clare Chalmers Limited can be found on page 79.

Comparison of chief executive remuneration to TSR (unaudited)

TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends. The graph below illustrates the performance of BT Group plc measured by TSR relative to a broad equity market index over the past ten years. We consider the FTSE 100 to be the most appropriate index against which to measure performance, as BT has been a member of the FTSE 100 throughout the ten-year period.

BT's TSR performance vs the FTSE 100



Source: Datastream.
The graph shows the relative TSR performance of BT and the FTSE 100 over the past ten years.

History of chief executive remuneration

Year end	Chief executive	Total remuneration £000	Annual bonus (% of max)	ISP vesting (% of max)
2021	Philip Jansen	2,628	60%	0%
2020	Philip Jansen	3,248	50%	n/a
2019	Philip Jansen[a]	725	56%	n/a
	Gavin Patterson[b]	1,719	28%	0%
2018	Gavin Patterson	2,307	54%	0%
2017	Gavin Patterson	1,345	0%	0%
2016	Gavin Patterson	5,396	45%	82.0%
2015	Gavin Patterson[b]	4,562	58%	67.4%
2014	Gavin Patterson[c]	2,901	62%	78.7%
	Ian Livingston[d]	4,236	35%	63.4%
2013	Ian Livingston	9,402	65%	100%
2012	Ian Livingston	8,520	73%	100%

a Philip was appointed as a director on 1 January 2019 and became chief executive from 1 February 2019. His first ISP award was made in February 2019.
b Gavin stood down as chief executive at midnight on 31 January 2019 and Philip took over from 1 February 2019.
c The total remuneration figure includes the ISP award as CEO BT Retail and the first award as chief executive, granted in 2013.
d Ian stepped down on 10 September 2013 and Gavin took over from that date.

Annual remuneration report continued

Directors' service agreements and letters of appointment

The following table sets out the dates on which directors' service agreements/initial letters of appointment commenced and termination provisions:

Chairman and executive directors

	Commencement date	Termination provisions
Jan du Plessis	1 June 2017	Directors' service agreements do not contain fixed term periods and are terminable by the company on 12 months' notice and by the director on six months' notice.
Philip Jansen	1 January 2019	
Simon Lowth	6 July 2016	

Independent non-executive directors

	Commencement date	Termination provisions
Ian Cheshire	16 March 2020	Letters of appointment do not contain fixed term periods and are terminable by either party by three months' written notice.
Iain Conn	1 June 2014	
Isabel Hudson	1 November 2014	
Mike Inglis	1 September 2015	
Matthew Key	25 October 2018	
Allison Kirkby	15 March 2019	
Leena Nair	10 July 2019	
Sara Weller	16 July 2020	

Non-independent, non-executive director

	Commencement date	Termination provisions
Adel Al-Saleh	15 May 2020	Appointed as a non-independent, non-executive director under the terms of the Relationship Agreement between BT and Deutsche Telekom. The appointment is terminable immediately by either party.

There are no other service agreements, letters of appointment or material contracts, existing or proposed, between the company and any of the directors. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which any director or executive officer was selected to serve. There are no family relationships between the directors.

Non-executive directors' letters of appointment

Each independent non-executive director has an appointment letter setting out the terms of his or her appointment. We ask each non-executive director to allow a minimum commitment of 22 days each year, subject to committee responsibilities, and to allow slightly more in the first year in order to take part in the induction programme. The actual time commitment required in any year may vary depending on business and additional time may be required during periods of increased activity.

Inspection by the public

The service agreements and letters of appointment are available for inspection by the public at the company's registered office.

Remuneration in context

Consideration of colleague and stakeholder views

Our colleagues are vital to our business. At BT, we believe in fairness throughout the group. There are several general reward principles which we apply at all levels:

- We will provide a competitive package with reference to the relevant market for each colleague
- We will ensure colleagues can share in the success of the business, and through the operation of all-employee share plans, encourage colleagues to become shareholders
- Where appropriate, variable remuneration is provided to incentivise employees towards driving the strategic aims of the business. Performance is based on both individual performance and the performance of the group, measured on a consistent basis for senior executives and the majority of other colleagues
- We offer a range of employee benefits, many of which are available to all colleagues
- We aim for transparency and a fair cascade of remuneration throughout the group
- Employment conditions for all colleagues reflect our values and are commensurate with those of a large publicly listed company, including high standards of health and safety and equal opportunities.

The committee supports fairness and transparency of remuneration arrangements and the Policy has been designed to align with the remuneration philosophy and principles that underpin remuneration across the wider group. To support this, the committee receives regular updates on HR policies and reward practices for the wider workforce as well as updates on employee relations.

Whilst the committee does not directly consult with our employees as part of the process of determining executive pay, the Board does receive feedback from employee surveys that take into account remuneration throughout the organisation.

The designated non-executive director for workforce engagement also updates the committee on sentiments being raised by our colleagues in relation to the remuneration of our workforce and related decisions, as raised by the *Colleague Board* through their 'hot topics' discussions.

When setting executive directors' remuneration, the committee considers the remuneration of other senior managers and colleagues in the group more generally to ensure that arrangements for executive directors are appropriate in this context. When determining salary increases for executive directors, the committee considers the outcome of the wider pay review for the group.

Chief executive pay ratio

The table below sets out the chief executive pay ratios as at 31 March 2021, as well as those reported in respect of the prior two years. This report will build up over time to show a rolling ten-year period.

The ratios compare the single total figure of remuneration of the chief executive with the equivalent figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees.

A significant proportion of the chief executive's remuneration is delivered through long-term incentives, where awards are linked to share price movements over the longer term. This means that the ratios will depend significantly on long-term incentive outcomes and may fluctuate from year to year – for example, a higher total remuneration ratio was exhibited in 2020 due to the vesting of the chief executive's Worldpay buyout award. We believe that these ratios are appropriate given the size and complexity of the business, and are a fair reflection of our remuneration principles and practices.

We have used the 'Option B' methodology (based on gender pay reporting), as the most robust way to identify the individual reference points within an organisation with multiple operating segments.

Total remuneration

		Employee remuneration			Pay ratio		
	Chief executive	P25	P50	P75	P25	P50	P75
2019	£2,444,000	£34,281	£41,477	£51,594	71:1	59:1	47:1
2020	£3,248,012	£34,881	£42,173	£51,351	93:1	77:1	63:1
2021	**£2,628,107**	**£35,569**	**£41,600**	**£50,391**	**74:1**	**63:1**	**52:1**

Base salary

		Employee remuneration			Pay ratio		
	Chief executive	P25	P50	P75	P25	P50	P75
2019	£1,222,000	£30,090	£35,918	£41,740	37:1	31:1	27:1
2020	£1,100,000	£31,144	£37,321	£42,800	35:1	29:1	26:1
2021	**£1,100,000**	**£31,842**	**£35,606**	**£42,836**	**35:1**	**31:1**	**26:1**

The P25, P50 and P75 employees were identified from the company's gender pay reporting data, based on the April snapshot period at the start of each respective year. We then identified the 80 employees above and below each of the 'P' points to form enlarged groups. This approach is thought to be an appropriate representation – while there is a reasonable level of consistency given the size of the UK population, this methodology reduces volatility in the underlying data, and helps account for differences in the gender pay and pay ratio calculation methodologies. Other than the exclusion of a small number of data points for leavers and divestments, no other adjustments were made to the underlying data.

The total FTE remuneration paid during the year in question for each employee in each of the groups was then calculated, on the same basis as the information set out in the 'single figure' table for the chief executive. Bonus payments in respect of each year have been determined based on the latest available information at the time of analysis. The median total remuneration figure for each group was then used to determine the three ratios.

Remuneration in context continued

Percentage change in remuneration of the executive and non-executive directors and all employees

BT Group plc, our parent company, employs our executive and non-executive directors and company secretary only, and as such no meaningful comparison can be drawn based on the parent company alone, as is required by the reporting regulations.

Instead, we have chosen to present a comparison with our UK management and technical employee population, comprising around 25,000 colleagues.

We believe this is the most meaningful comparison given the nature of our workforce, as this group has similar performance-related pay arrangements as our executive directors. This is also consistent with prior year disclosures.

The salary/fee levels set out in the table below are in accordance with the Policy. Any increase in fees paid to the non-executive directors represents a change in role (and accordingly fees payable) over the relevant period. The decrease in benefits is as a result of the Board and committee meetings being held remotely by video conference due to the Covid-19 pandemic, and therefore a reduction in travel and other expenses.

	Salary/fees	Benefits	Annual bonus
Chairman			
Jan du Plessis	0%	(55)%	–
Executive directors			
Philip Jansen	0%	(14)%	0%
Simon Lowth	0%	(5)%	(2)%
Non-executive directors			
Adel Al-Saleh[a]	–	–	–
Ian Cheshire[b]	19%	–	–
Iain Conn	33%	–	–
Isabel Hudson	4%	(66)%	–
Mike Inglis	4%	(90)%	–
Matthew Key	13%	(83)%	–
Allison Kirkby	6%	–	–
Leena Nair	3%	–	–
Sara Weller[c]	–	–	–
UK management colleagues	0%	0%	18%

a Under the terms of the Relationship Agreement between BT and Deutsche Telekom and Adel's letter of appointment, no remuneration is payable for this position.
b Ian joined during the prior financial year and so any increase has been determined on a full-year equivalent basis.
c Sara joined during the year and so no relevant comparison can be presented.

Relative importance of the spend on pay

The table below shows the percentage change in total remuneration paid to all employees compared to expenditure on dividends and share buybacks.

Area	2020/21 (£m)	2019/20 (£m)	% change
Remuneration paid to all employees	**5,162**	5,327	(3)%
Dividends/share buybacks	**14**	1,607	(99)%

Gender pay gap reporting

At a group level, our median hourly pay gap between male and female colleagues has remained stable at 5% (4.8% in 2019). This compares favourably with the telecommunications industry median of 11.6% (ONS provisional), and the UK national median of 15.5%. In an organisation of our size, any change in workforce demographics might not be reflected in the pay gap figures in the short term, but over the course of several years.

Our Gender Pay Gap report is available on our website **bt.com/genderpaygap**

Diversity and inclusion

This year for the first time we will also be disclosing our ethnicity pay gap analysis, which has been completed in line with the gender pay gap methodology. The result of the ethnicity pay gap will be included in our Diversity and Inclusion Report which we expect to publish in early summer 2021.

It's important that our colleagues reflect the diversity of our customers, and that all our colleagues are given the opportunities to succeed. Across our business, our Diversity and Inclusion Centre of Excellence, comprising of subject matter experts and support colleagues, are partnering with workstream leads to ensure that we address this issue in an evidenced-based manner, with the broadest reach and widest impact. More information about our approach to diversity and inclusion, the progress we're making and our pay gaps, can be found in our Diversity and Inclusion Report, which we expect to publish in early summer 2021.

Sir Ian Cheshire
Chair of the Remuneration Committee
12 May 2021

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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

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

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

– select suitable accounting policies and then apply them consistently

– make judgements and estimates that are reasonable, relevant, reliable and prudent

– for the group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the 2006 Act and IFRSs as adopted by the EU

– for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements

– assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern

– use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations or have no realistic alternative but to do so.

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

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

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

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

We confirm that to the best of our knowledge:

– the **financial statements**, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole

– the **Strategic report** and the **Report of the Directors** include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

This responsibility statement was approved by the Board on 12 May 2021 and signed on its behalf by:

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

Report of the Directors

The directors present the **Report of the Directors**, together with audited financial information for the year ended 31 March 2021. The **Report of the Directors** also encompasses the entirety of our **Corporate governance report** on pages 69 to 110 for the purpose of section 463 of the Companies Act 2006 (the 2006 Act). The **Report of the Directors** together with the **Strategic report** on pages 1 to 68 form the Management Report for the basis of DTR 4.1.5R.

Critical accounting estimates, key judgements and significant accounting policies

Our critical accounting estimates, key judgements and significant accounting policies conform with IFRSs as adopted by the EU and IFRSs issued by the International Accounting Standards Board (IASB), and are set out on pages 124 and 125 of the consolidated **financial statements**. The directors have reviewed these policies and applicable estimation techniques, and have confirmed they are appropriate for the preparation of the 2020/21 consolidated financial statements.

Disclosure of information to the auditor

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

Going concern

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

The **Strategic report** on pages 1 to 68 includes information on the group structure, strategy and business model, the performance of each customer-facing unit and the impact of regulation and competition. The **Group performance** section on pages 48 to 55 includes information on our group financial results, financial outlook, cash flow and net debt, and balance sheet position. Notes 25, 26 and 28 of the consolidated **financial statements** include information on the group's investments, cash and cash equivalents, borrowings, derivatives, financial risk management objectives, hedging policies and exposure to interest, foreign exchange, credit, liquidity and market risks.

Our principal risks and uncertainties are set out on pages 59 to 66 including details of each risk and how we manage and mitigate them. The directors carried out a robust assessment of the emerging and principal risks affecting the group, including any that could threaten our business model, future performance, insolvency or liquidity.

This assessment is consistent with the assessment of our viability, as set out on page 68, in estimating the financial impact for a severe but plausible outcome for each risk, both individually, in combination and through probabilistic risk modelling. This stress testing confirmed that existing projected cash flows and cash management activities provide us with adequate headroom over the going concern assessment period.

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

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

Independent advice

The Board has a procedure that allows directors to seek independent professional advice at BT's expense. All directors also have access to the advice and services of the company secretary and her nominated delegate.

Directors' and officers' liability insurance and indemnity

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

As at 12 May 2021, and throughout 2020/21, the company's wholly-owned subsidiary, British Telecommunications plc, has provided an indemnity for a group of people similar to the group covered by the above insurance. Neither the insurance nor the indemnity provides cover where the individual is proven to have acted fraudulently or dishonestly.

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

Interest of management in certain transactions

During and at the end of 2020/21, none of BT's directors were materially interested in any material transaction in relation to the group's business. None are materially interested in any currently proposed material transactions.

Power to authorise conflicts

All directors have a duty under the 2006 Act to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. The company's Articles of Association include provisions for dealing with directors' conflicts of interest in accordance with the 2006 Act. The company has procedures in place, which it follows, to deal with such situations. These require the Board to:

– consider each conflict situation separately on its particular facts
– consider the conflict situation in conjunction with its other duties under the 2006 Act
– keep records and Board minutes on any authorisations granted by directors and the scope of any approvals given
– regularly review conflict authorisation.

The company secretary maintains a conflicts of interest register.

The *Conflicted Matters Committee* identifies to what extent Board and committee materials are likely to refer to a potential or actual conflict of interest between BT and Deutsche Telekom and, as a result, what materials should be shared with our non-independent, non-executive director and Deutsche Telekom nominated representative. He owes duties to both BT and Deutsche Telekom, and the *Conflicted Matters Committee* helps him comply with his fiduciary duties, although ultimate responsibility rests with him.

Systems of risk management and internal control

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

Our group risk management framework assists the Board in carrying out its duties as set above. The framework has been in operation throughout the year and up to the date on which this document was approved.

The framework provides the business with the tools to take on the right risks and make smart risk decisions, supports the identification, assessment and management of the principal risks and uncertainties faced by the group and is an integral part of the company's annual strategic review cycle. The framework was also designed in accordance with the FRC guidance on risk management, internal control and related financial and business reporting.

Further information on our group risk management framework can be found under the section **How we manage risk** on pages 57 to 58.

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

Furthermore, the *Audit & Risk Committee*, on behalf of the Board, reviews the effectiveness of the systems of risk management and internal control across the group. Further details on how the *Audit & Risk Committee* fulfils these duties can be found on pages 82 to 84.

Capital management and funding policy

The objective of our capital management policy is to target an overall level of debt consistent with our credit rating objectives, while investing in the business, supporting the pension fund and meeting our distribution policy.

The Board reviews the group's capital structure regularly. Management proposes actions which reflect the group's investment plans and risk characteristics, as well as the macroeconomic conditions in which we operate.

Our funding policy is to raise and invest funds centrally to meet the group's anticipated requirements. We use a combination of capital market bond issuance, commercial paper borrowing and committed borrowing facilities to fund the group. When issuing debt, in order to avoid refinancing risk, group treasury will take into consideration the maturity profile of the group's debt portfolio as well as forecast cash flows.

See note 28 to the consolidated **financial statements** for details of our treasury policy.

Financial instruments

Details of the group's financial risk management objectives, policies of the group and exposure to interest risk, credit risk, liquidity risk and foreign exchange are given in note 28 to the consolidated **financial statements**.

Credit risk management policy

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

Off-balance sheet arrangements

Other than the financial commitments and contingent liabilities disclosed in note 31 to the consolidated **financial statements**, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on:

- our financial condition
- changes in financial condition
- revenues or expenses
- results of operations
- liquidity
- capital expenditure
- capital resources.

Report of the Directors continued

Legal proceedings

The group is involved in various legal proceedings, including actual or threatened litigation and government or regulatory investigations. For further details of legal and regulatory proceedings to which the group is party please see note 31 to the consolidated **financial statements**.

Apart from the information disclosed in note 31 to the consolidated **financial statements**, the group does not currently believe that there are any legal proceedings, government or regulatory investigations that may have a material adverse impact on the operations or financial condition of the group. In respect of each of the claims described in note 31, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. Many factors prevent us from making these assessments with certainty, including that the proceedings or investigations are in early stages, no damages or remedies have been specified, and/or the frequently slow pace of litigation.

Other information – Listing Rules

For the purposes of the Listing Rule (LR) 9.8.4R, the information below is disclosed as follows:

Section information	Page
LR 9.8.4R(4)	49
LR 9.8.4R(12)	See below
LR 9.8.4R(13)	See below

In respect of LR 9.8.4R(12) and (13), the trustee of the BT Group Employee Share Ownership Trust (the Trust) agrees to waive dividends payable on the BT shares it holds for satisfying awards under the company's executive share plans. Under the rules of these share plans, the dividends are reinvested in BT shares that are added to the relevant share awards.

No other information is required to be disclosed pursuant to LR 9.8.4R.

Other statutory information – the 2006 Act

Certain provisions of the 2006 Act (or regulations made pursuant thereto) require us to make additional disclosures within the **Report of the Directors**. The disclosures referred to below are included elsewhere in this Annual Report and incorporated by reference into the **Report of the Directors**:

Section information	Page
Future developments	1 to 68
Particulars of any important events affecting the company or any of its subsidiary undertakings which have occurred since the end of the financial year	186
Research and development activities	13 and 20 to 21
How the directors have engaged with UK employees, had regard to UK employee interests, and the effect of that regard, including on principal decisions during the year	34 to 36 and 42 to 43
How the directors have had regard to the need to foster business relationships with suppliers, customers and others, and the effect of that regard, including on principal decisions during the year	37 to 43
Greenhouse gas emissions, energy consumption and energy efficiency action	32 to 33
Structure of BT's share capital (including the rights and obligations attaching to the shares)	121
Significant agreements to which BT Group plc is a party that take effect, alter or terminate upon a change of control following a takeover	n/a
Branches	191 to 196

The following disclosures are not covered elsewhere in this Annual Report:

- the company has two employee share ownership trusts that hold BT shares for satisfying awards under our various employee share plans
- the trustee of the BT Group Employee Share Investment Plan may invite participants, on whose behalf it holds shares, to direct it how to vote in respect of those shares. If there is an offer for the shares or another transaction that would lead to a change of control of the company, such participants may direct the trustee to accept the offer or agree to the transaction
- in respect of shares held in the Trust, the trustee abstains from voting those shares if there is an offer for the shares, does not have to accept or reject the offer but will have regard to the interests of the participants, may consult the participants to obtain their views on the offer, and may otherwise take any action with respect to the offer it thinks fair
- EasyShare is the company's corporate sponsored nominee service, which allows UK and European Economic Area resident shareholders to hold BT shares electronically. EasyShare is administered by Equiniti Financial Services Limited. As at 10 May 2021 384m shares were held in EasyShare (3.85% of issued share capital (3.87% excluding treasury shares)) on behalf of BT shareholders
- no person holds securities carrying special rights with regard to control of the company
- our share registrar, Equiniti must receive proxy appointment and voting instructions not less than 48 hours before any general meeting (see also page 110)
- the business of the company is managed by the Board. The powers of the company's directors are subject to UK legislation and the company's Articles of Association, and any requirement (consistent with UK legislation and the company's Articles of Association) approved by shareholders passing an ordinary resolution. The directors are authorised to issue and allot shares, and to undertake purchases of BT shares, subject to shareholder approval
- we have no agreements with directors providing for compensation for loss of office or employment as a result of a takeover. Similarly, there is no provision for this in our standard employee contracts
- we are not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights.

Articles of Association

The company's current Articles of Association were adopted pursuant to a resolution passed at the AGM of the company held on 16 July 2020 and contain, amongst others, provisions on the rights and obligations attaching to the company's shares. The Articles of Association may only be amended by special resolution at a general meeting of the shareholders in accordance with applicable legislation.

Directors' appointment, retirement and removal

The company's Articles of Association regulate the appointment and removal of directors, as does the 2006 Act and related legislation. The Board, and shareholders (by ordinary resolution), may appoint a person who is willing to be elected as a director, either to fill a vacancy or as an additional director. At every AGM, all directors must automatically retire. A retiring director is eligible for election or re-election (as applicable). In addition to any power of removal under the 2006 Act, the shareholders can pass an ordinary resolution to remove a director.

Adel Al-Saleh is appointed as a non-independent, non-executive director under the terms of the Relationship Agreement between BT and Deutsche Telekom. The appointment is terminable immediately by either party.

Share rights

(a) Voting rights

On a show of hands, every shareholder present in person or by proxy at any general meeting has one vote and, on a poll, every shareholder present in person or by proxy has one vote for each share which they hold.

There are no restrictions on exercising voting rights except in situations where the company is legally entitled to impose such a restriction (for example where a notice under section 793 of the 2006 Act has been served).

(b) Variation of rights

Whenever the share capital of the company is split into different classes of shares, the special rights attached to any of those classes can be varied or withdrawn either: (i) with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class; or (ii) with the consent in writing of the holders of at least 75% in nominal value of the issued shares of that class. The company can issue new shares and attach any rights and restrictions to them, as long as this is not restricted by special rights previously given to holders of any existing shares. Subject to this, the rights of new shares can take priority over the rights of existing shares, or existing shares can take priority over them, or the new shares and the existing shares can rank equally.

Transfer of shares

There are no specific restrictions on the transfer of shares in the company, which is governed by the Articles of Association and prevailing legislation.

Employee engagement

Engaging with our colleagues takes many forms including through our annual Your Say survey, union/employee representative engagement, pulse surveys, the *Colleague Board* and regular colleague communications. Colleagues are kept well informed on matters such as the strategy and performance of the group, including after certain key events such as quarterly trading updates. Please see further details of the *Colleague Board's* activities on page 36 and the other means by which we engage with our colleagues on page 34.

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

Employees with disabilities

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

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

Political donations

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

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

Substantial shareholdings

At 31 March 2021, the company had received notice, under the DTRs, in respect of the following holdings of 3% or more of the voting rights in the issued ordinary share capital of the company:

	Date of notification	Shares	% of total voting rights
T-Mobile Holdings	23 March 2018	1,196,175,322	12.06%
BlackRock, Inc.	27 January 2020	512,002,221	5.18%
Norges Bank	6 January 2021	297,729,786	3.002%

At 12 May 2021, the company had not received any further such notices under the DTRs.

Report of the Directors continued

AGM

Resolutions

At our AGM, we give our shareholders the opportunity to vote on every important issue by proposing a separate resolution for each.

Before the AGM, we count the proxy votes for and against each resolution, as well as votes withheld, and make the results available at the meeting. As at previous AGMs, we will take votes on all matters at the 2021 AGM on a poll.

The separate Notice of meeting 2021, which we send to all shareholders who have requested shareholder documents by post, contains the resolutions (with explanatory notes) which we will propose at the 2021 AGM on 15 July 2021. We notify all shareholders of the publication of these documents which are available on our website at **bt.com/annualreport**

At the 2021 AGM we will propose resolutions to re-appoint KPMG LLP as the company's auditor and to authorise the *Audit & Risk Committee* to agree their remuneration. We will also ask shareholders to vote on the Annual Report, the **Report on directors' remuneration**, allotment of shares in the company, the disapplication of pre-emption rights and new Articles of Association.

Authority to purchase shares

The authority given at last year's AGM for the company to purchase in the market 988m of its shares, representing 10% of the company's issued share capital (excluding treasury shares), expires at the conclusion of the 2021 AGM. We will ask shareholders to give a similar authority at the 2021 AGM.

During 2020/21 and up to 10 May 2021, no shares were purchased under this authority.

At the start of the year, 85.9m shares (having a nominal value of £4.3m, and constituting 0.86% of the company's issued share capital (0.87% excluding treasury shares)) were held by the company as treasury shares. During 2020/21, 35.2m treasury shares (having a nominal value of £1.8m, and constituting 0.35% of the company's issued share capital (0.35% excluding treasury shares)) were transferred to meet the company's obligations under its employee share plans. At 31 March 2021, a total of 50.7m shares (having a nominal value of £2.5m, and constituting 0.50% of the company's issued share capital (0.51% excluding treasury shares)) were held by the company as treasury shares.

Since 31 March 2021 (up to and including 10 May 2021), 245,047 treasury shares (having a nominal value of £12,252, and constituting 0.002% of the company's issued share capital (0.002% excluding treasury shares)) have been transferred to meet the company's obligations under its employee share plans.

At 10 May 2021, a total of 50.4m shares (having a nominal value of £2.5m, and constituting 0.50% of the company's issued share capital (0.50% excluding treasury shares)) were held by the company as treasury shares.

In addition, the Trust purchased 11.3m BT shares for a total consideration of £14m. The Trust held 9.1m shares both at 31 March 2021 and 10 May 2021.

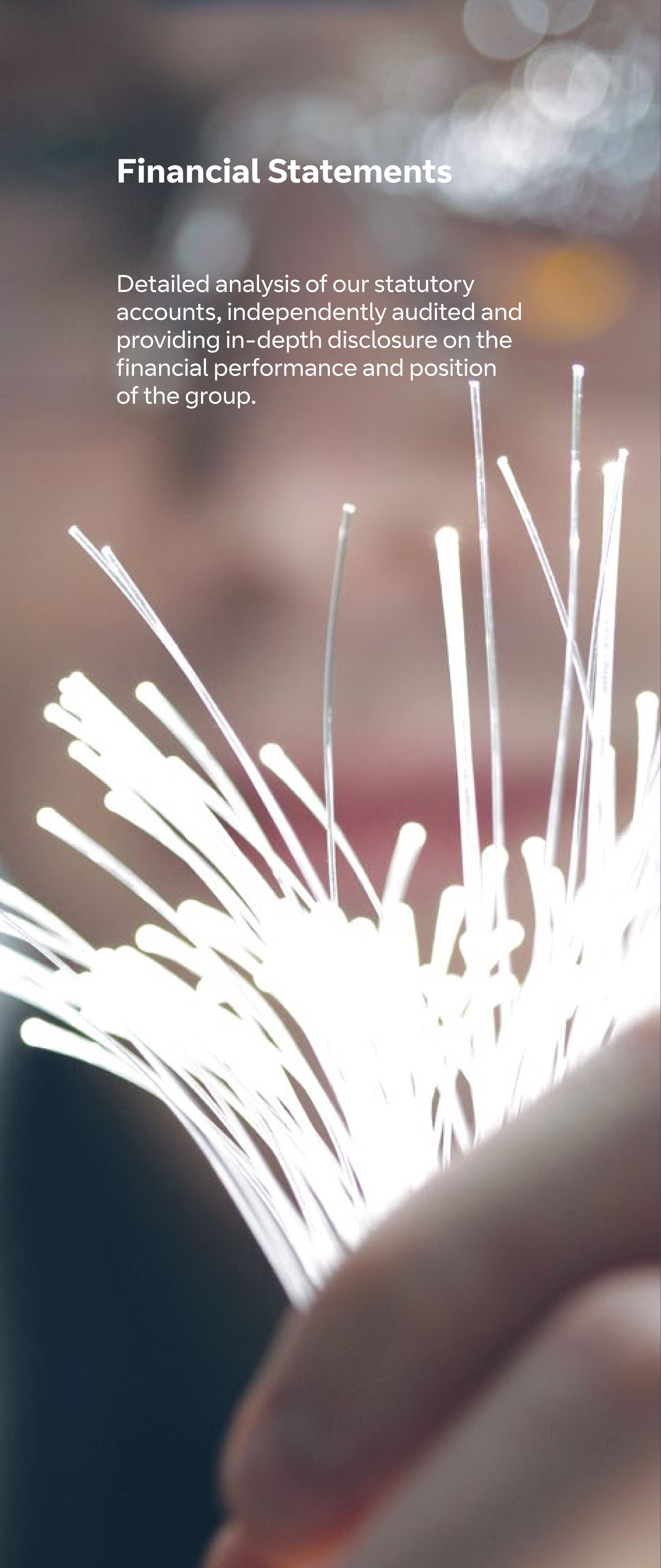
Cross-reference to the Strategic report

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

- an indication of likely future developments in the business of the company and its group (pages 1 to 68)
- an indication of our research and development activities (pages 13 and 20 to 21)
- information about how the directors have engaged with UK employees, had regard to UK employee interests, and the effect of that regard, including on principal decisions during the year (pages 34 to 36 and 42 to 43)
- information about how the directors have had regard to the need to foster business relationships with suppliers, customers and others, and the effect of that regard, including on principal decisions during the year (pages 37 to 43)
- information about greenhouse gas emissions, energy consumption and energy efficiency action (pages 32 to 33).

By order of the Board

Jan du Plessis
Chairman
12 May 2021



Financial Statements

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

Contents

Financial statements

Independent auditor's report	112
Group income statement	118
Group statement of comprehensive income	119
Group balance sheet	120
Group statement of changes in equity	121
Group cash flow statement	122

Notes to the consolidated financial statements

Basis of preparation	123
Critical & key accounting estimates and significant judgements	124
Significant accounting policies that apply to the overall financial statements	124
Segment information	126
Revenue	129
Operating costs	133
Employees	134
Audit, audit related and other non-audit services	134
Specific items	135
Taxation	136
Earnings per share	139
Dividends	139
Intangible assets	140
Property, plant and equipment	143
Leases	145
Programme rights	149
Trade and other receivables	149
Trade and other payables	152
Provisions	153
Retirement benefit plans	154
Own shares	166
Share-based payments	166
Divestments and assets & liabilities classified as held for sale	169
Investments	170
Cash and cash equivalents	171
Loans and other borrowings	172
Finance expense	176
Financial instruments and risk management	177
Other reserves	184
Related party transactions	184
Financial commitments and contingent liabilities	185
Post balance sheet events	186
Financial statements of BT Group plc	**187**
Related undertakings	**191**
Additional information	**197**

Look out for these throughout the financial statements:

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

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

1. Our opinion is unmodified

We have audited the financial statements of BT Group plc ("the Company") for the year ended 31 March 2021 which comprise the group income statement, group statement of comprehensive income, group balance sheet, group statement of changes in equity, group cash flow statement, company balance sheet, company statement of changes in equity, and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 11 July 2018. The period of total uninterrupted engagement is for the three financial years ended 31 March 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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

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

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

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

Risk vs 2020:

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

The risk

Subjective valuation:

The BTPS has unquoted plan assets in private equity, UK and overseas property, mature infrastructure, longevity insurance contracts, secure income and non-core credit assets. Significant judgement is required in determining the value of a portion of these unquoted investments which are valued based on inputs that are not directly observable.

In 2020, for certain private equity and non-core credit assets the latest asset valuations preceded the negative impact of the Covid-19 pandemic on financial markets, and as such significant judgement was required to evaluate the market indices used by the Group to estimate adjustments to those asset valuations. The same level of market turbulence has not occurred in 2021, therefore the judgement required in evaluating the asset values has reduced.

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

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of unquoted plan assets in the BTPS has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 20) disclose the sensitivities of key assumptions for the valuation of certain unquoted plan assets estimated by the Group.

Our response – our procedures included:

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

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

Longevity insurance contract

Comparing valuations: Challenging, with the support of our own actuarial specialists, the fair value of the longevity insurance contract by comparing it to an independently developed range of fair values using assumptions, such as the discount rate and projected future mortality, based on external data.

Property/infrastructure and certain secure income assets

Benchmarking assumptions: Challenging, with the support of our own valuation specialists, the key unobservable inputs, such as estimated rental value and market value, used in determining the fair value of a sample of UK and overseas property assets, and discount rates used in determining the mature infrastructure and certain secure income assets by comparing them to discount rates for comparable external assets.

Comparing valuations: Developed an independent expectation of the fair value for a sample of UK and overseas property based on changes in valuation for the relevant geography and asset type obtained from external market data and the historical valuation for each property.

Private equity, non-core credit assets and certain secure income assets

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

Test of details: Comparing the Group's fund managers' historical estimated net asset values to the latest audited financial statements of those funds to assess the Group's ability to accurately estimate the fair value of private equity and non-core credit assets.

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

Our results

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

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

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

Risk vs 2020:

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

The risk

Subjective estimate:

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

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the BTPS defined benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 20) disclose the sensitivity of key assumptions for the obligation estimated by the Group.

Our response – our procedures included:

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

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

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

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

Our results

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

Accuracy of revenue due to the complexity of the billing systems

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

Risk vs 2020:

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

The risk

Processing error

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

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

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

Our response

Our procedures included:

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

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

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

Our results

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

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

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

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

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

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

The risk

Low risk, high value

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

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

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

Our response

Our procedures included:

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

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

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

Our results

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

We continue to perform procedures over the adequacy of regulatory provisions. However, as there have not been significant changes in the judgements taken in the current year, and no new matters with a high degree of estimation uncertainty, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £105 million (2020: £115 million), determined with reference to a benchmark of group profit before tax from continuing operations normalised by averaging over the last 5 years due to fluctuations as a result of Covid-19 of £2,359 million (2020: benchmark of group profit before tax from continuing operations of £2,353 million), of which it represents 4.5% (2020: 4.9%).

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

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

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

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

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

The components within the scope of our work accounted for the following percentages:

	Group revenue	Group profit before tax	Group total assets
Audits for group reporting purposes	87%	78%	95%
2020	98%	97%	100%

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

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

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

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

At these meetings with the component auditor, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The impact of an additional lockdown as a result of Covid;
- The impact of a complete ban on certain high-risk vendors;
- The impact of a significant service interruption.

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

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

We also assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

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

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Remuneration Committee and Executive Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors including the EPS target for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

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

We did not identify any additional fraud risks.

We performed procedures including:

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

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

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

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

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

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, regulations affecting telecommunication providers, and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities (including compliance with Ofcom regulation) and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

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

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

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

Disclosures of emerging and principal risks and longer-term viability

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

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

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

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

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

Corporate governance disclosures

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

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

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

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

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

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

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

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 105, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

Group income statement

Year ended 31 March 2021

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

Year ended 31 March 2020

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

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

Group statement of comprehensive income

Year ended 31 March

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

Group balance sheet
At 31 March

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

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

Jan du Plessis
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

Group statement of changes in equity

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

a The allotted, called up, and fully paid ordinary share capital of BT Group plc at 31 March 2021 was £499m comprising 9,968,127,681 ordinary shares of 5p each (2019/20: £499m comprising 9,968,127,681 ordinary shares of 5p each).
b The share premium account, comprising the premium on allotment of shares, is not available for distribution.
c For further analysis of own shares, see note 21.
d The merger reserve balance at 1 April 2019 includes £998m related to the group reorganisation that occurred in November 2001 and represented the difference between the nominal value of shares in the new parent company, BT Group plc, and the aggregate of the share capital, share premium account and capital redemption reserve of the prior parent company, British Telecommunications plc. In addition, on 29 January 2016, the company issued 1,594,900,429 ordinary shares of 5p at 470.7p per share. These shares were used as part consideration for the acquisition of EE. As a result of this transaction the merger reserve was credited with £7,424m net of £3m issue costs. Following settlement of intercompany loans by qualifying consideration of £1,574m (2019/20: £1,575m), equivalent balances were transferred from merger reserve to realised profit.
e For further analysis of other reserves, see note 29.

Group cash flow statement

Year ended 31 March

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

a Other non-cash charges in 2019/20 include £58m goodwill impairment charge on assets associated with our domestic operations in France and selected domestic operations and infrastructure in 16 countries in Latin America that were classified as held for sale. See note 23.
b Excludes a prepayment of £702m (2019/20: £nil) in respect of the acquisition of spectrum which completes in 2021/22.
c Includes pension deficit payments of £955m (2019/20: £1,274m).
d Primarily consists of investment in and redemption of amounts held in liquidity funds.
e Relates to (purchase) disposal of fair value through equity investments.
f Consists of additions to property, plant and equipment and software of £4,197m, movements in capital accruals of £4m and prepayments of £702m in respect of spectrum which will be recognised as an asset in 2021/22.
g Repayment of borrowings includes the impact of hedging.
h Net of bank overdrafts of £104m (2019/20: £183m).

Notes to the consolidated financial statements

1. Basis of preparation

Preparation of the financial statements

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

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

This assessment is consistent with the assessment of our viability, as set out on page 68, in estimating the financial impact for a severe but plausible outcome for each risk, both individually, in combination and through probabilistic risk modelling. This stress testing confirmed that existing projected cash flows and cash management activities provide us with adequate headroom over the going concern assessment period.

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

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

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

New and amended accounting standards effective during the year

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

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)
- Covid-19-Related Rent Concessions (Amendment to IFRS 16)

New and amended accounting standards that have been issued but are not yet effective

The following new or amended standards and interpretations are applicable in future periods but are not expected to have a significant impact on the consolidated financial statements.

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

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

Presentation of specific items

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

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

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

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

Adjustments to prior year disclosures due to internal reorganisations

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

2. Critical & key accounting estimates and significant judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying our accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

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

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

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

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

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

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

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

Basis of consolidation

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

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

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

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

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

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

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

Inventories

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

Government grants

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

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

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

Foreign currencies

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

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

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

Research and development

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

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

Termination benefits

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

Notes to the consolidated financial statements continued

4. Segment information

Significant accounting policies that apply to segment information

Operating and reportable segments

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

Our organisational structure reflects the different customer groups to which we provide communications products and services via our customer-facing units (CFUs): Consumer, Enterprise, Global and Openreach. The customer-facing units are supported by an internal service unit, Technology, and corporate units including procurement and property management.

The customer-facing units are our reportable segments and generate substantially all of our revenue. Technology and the group's corporate units are not reportable segments as they did not meet the quantitative thresholds as set out in IFRS 8 'Operating Segments' for any of the years presented.

We aggregate the remaining operations and include within the 'Other' category to reconcile to the consolidated results of the group. The 'Other' category includes unallocated Technology costs and our corporate units.

Allocation of certain items to segments

Provisions for the settlement of significant legal, commercial and regulatory disputes, which are negotiated at a group level, are initially recorded in the 'Other' segment. On resolution of the dispute, the full impact is recognised in the results of the relevant customer-facing unit and offset in the group results through the utilisation of the provision previously charged to the 'Other' segment. Settlements which are particularly significant or cover more than one financial year may fall within the definition of specific items as detailed in note 9.

The costs incurred by Technology and corporate units are recharged to the customer-facing units to reflect the services it provides to them. Depreciation and amortisation incurred by Technology in relation to the networks and systems it manages and operates on behalf of the customer-facing units is allocated to the customer-facing units based on their respective utilisation. Capital expenditure incurred by Technology for specific projects undertaken on behalf of the customer-facing units is allocated based on the value of the directly attributable expenditure incurred. Where projects are not directly attributable to a particular customer-facing unit, capital expenditure is allocated between them based on the proportion of estimated future economic benefits.

Specific items are detailed in note 9 and are not allocated to the reportable segments as this reflects how they are reported to the *Executive Committee*. Finance expense and income are not allocated to the reportable segments, as the central treasury function manages this activity, together with the overall net debt position of the group.

Measuring segment performance

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

Revenue recognition

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

Internal revenue and costs

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

Geographic segmentation

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

4. Segment information continued

Segment revenue and profit

Year ended 31 March 2021	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Segment revenue	9,885	5,449	3,731	5,244	23	24,332
Internal revenue	(97)	(109)	–	(2,756)	–	(2,962)
Revenue from external customers[a]	**9,788**	**5,340**	**3,731**	**2,488**	**23**	**21,370**
Adjusted EBITDA[b]	**2,128**	**1,704**	**596**	**2,937**	**50**	**7,415**
Depreciation and amortisation[a]	(1,281)	(740)	(405)	(1,707)	(214)	(4,347)
Operating profit (loss)[a]	**847**	**964**	**191**	**1,230**	**(164)**	**3,068**
Specific items (note 9)						(481)
Operating profit						**2,587**
Net finance expense[c]						(791)
Share of post tax profit (loss) of associates and joint ventures						8
Profit before tax						**1,804**

Year ended 31 March 2020 (restated)	Consumer £m	Enterprise[d] £m	Global £m	Openreach £m	Other[d] £m	Total £m
Segment revenue	10,388	5,952	4,361	5,112	29	25,842
Internal revenue	(102)	(163)	–	(2,753)	–	(3,018)
Revenue from external customers[a]	**10,286**	**5,789**	**4,361**	**2,359**	**29**	**22,824**
Adjusted EBITDA[b]	**2,426**	**1,935**	**634**	**2,858**	**54**	**7,907**
Depreciation and amortisation[a]	(1,278)	(712)	(479)	(1,712)	(115)	(4,296)
Operating profit (loss)[a]	**1,148**	**1,223**	**155**	**1,146**	**(61)**	**3,611**
Specific items (note 9)						(328)
Operating profit						**3,283**
Net finance expense[c]						(897)
Share of post tax profit (loss) of associates and joint ventures						(33)
Profit before tax						**2,353**

a Before specific items.
b Adjusted EBITDA, defined as EBITDA before specific items, net non-interest related finance expense, and share of profits or losses of associates and joint ventures.
c Net finance expense includes specific item expense of £18m (2019/20): £140m. See note 9.
d On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result will now be reported in Group 'Other' financial results. The prior year comparative for the Enterprise and the Other CFU results has been restated to reflect this.

Internal revenue and costs

	Internal cost recorded by					
Year ended 31 March 2021	**Consumer £m**	**Enterprise £m**	**Global £m**	**Openreach £m**	**Other £m**	**Total £m**
Internal revenue recorded by						
Consumer	–	60	19	–	18	97
Enterprise	17	–	29	–	63	109
Global	–	–	–	–	–	–
Openreach	1,592	919	231	–	14	2,756
Total	**1,609**	**979**	**279**	**–**	**95**	**2,962**

	Internal cost recorded by[b]					
Year ended 31 March 2020	Consumer £m	Enterprise[a] £m	Global £m	Openreach £m	Other[a] £m	Total £m
Internal revenue recorded by						
Consumer	–	63	21	–	18	102
Enterprise[a]	11	–	51	34	67	163
Global	–	–	–	–	–	–
Openreach	1,559	932	247	–	15	2,753
Total	**1,570**	**995**	**319**	**34**	**100**	**3,018**

a On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result will now be reported in Group 'Other' financial results. The prior year comparative for the Enterprise and the Other CFU results has been restated to reflect this.
b Internal charges incurred by a corporate business unit and presented against 'Other' in prior years are now shown against the customer-facing unit that the costs are ultimately recharged to. As a result £1,416m costs presented against 'Other' in 2019/20 have been reclassified and are now presented against the relevant customer-facing unit.

Notes to the consolidated financial statements continued

4. Segment information continued

Capital expenditure

Year ended 31 March 2021	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Intangible assets[a]	311	192	95	101	84	783
Property, plant and equipment[b]	771	300	93	2,148	121	3,433
Capital expenditure	**1,082**	**492**	**188**	**2,249**	**205**	**4,216**

Year ended 31 March 2020	Consumer £m	Enterprise[c] £m	Global £m	Openreach £m	Other[c] £m	Total £m
Intangible assets[a]	291	216	123	103	57	790
Property, plant and equipment[b]	657	280	100	2,005	128	3,170
Capital expenditure	**948**	**496**	**223**	**2,108**	**185**	**3,960**

a Additions to intangible assets as presented in note 13.
b Additions to property, plant and equipment as presented in note 14, inclusive of movement on engineering stores.
c On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result will now be reported in Group 'Other' financial results. The prior year comparative for the Enterprise and the Other CFU results has been restated to reflect this.

Geographic segmentation

Revenue from external customers

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

a Before specific items.

Non-current assets

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

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

5. Revenue

Significant accounting policies that apply to revenue

Revenue from contracts with customers in scope of IFRS 15

Most revenue recognised by the group (excluding Openreach where most revenue is recognised under the scope of IFRS 16) is in scope of IFRS 15 and is subject to the following revenue recognition policy.

On inception of the contract we identify a "performance obligation" for each of the distinct goods or services we have promised to provide to the customer. The consideration specified in the contract with the customer is allocated to each performance obligation identified based on their relative standalone selling prices, and is recognised as revenue as they are satisfied.

The table below summarises the performance obligations we have identified for our major service lines and provides information on the timing of when they are satisfied and the related revenue recognition policy. Also detailed in this note is revenue expected to be recognised in future periods for contracts in place at 31 March 2021 that contain unsatisfied performance obligations.

Service line	Performance obligations	Revenue recognition policy
ICT and managed networks	Provision of networked IT services, managed network services, and arrangements to design and build software solutions. Performance obligations are identified for each distinct service or deliverable for which the customer has contracted, and are considered to be satisfied over the time period that we deliver these services or deliverables. Commitments to provide hardware to customers that are distinct from the other promises are considered to be satisfied at the point in time that control passes to the customer.	Revenue for services is recognised over time using a measure of progress that appropriately reflects the pattern by which the performance obligation is satisfied. For time and material contracts, revenue is recognised as the service is received by the customer. Where performance obligations exist for the provision of hardware, revenue is recognised at the point in time that the customer obtains control of the promised asset. For long-term fixed price contracts revenue recognition will typically be based on the satisfaction of performance obligations in respect of the achievement of contract milestones and customer acceptance, which is the best measure of progress towards the completion of the performance obligation.
Fixed access subscriptions	Provision of broadband, TV and fixed telephony services including local, national and international calls, connections, line rental, and calling features. Performance obligations exist for each ongoing service provided to the customer and are satisfied over the period that the services are provided. Installation services are recognised as distinct performance obligations if their relationship with the other services in the contract is purely functional. These are satisfied when the customer benefits from the service. Connection services are not distinct performance obligations and are therefore combined with the associated service performance obligation.	Fixed subscription charges are recognised as revenue on a straight line basis over the period that the services are provided. Upfront charges for non-distinct connection and installation services are deferred as contract liabilities and are recognised as revenue over the same period. Variable charges such as call charges are recognised when the related services are delivered. Where installation activities are distinct performance obligations, revenue is recognised at the point in time that the installation is completed.
Mobile subscriptions	Provision of mobile postpaid and prepaid services, including voice minutes, SMS, and data services. Performance obligations exist for each ongoing service provided to the customer and are satisfied over the period that the services are provided.	Subscription fees, consisting primarily of monthly charges for access to internet access or voice and data services, are recognised as the service is provided. One-off services such as calls outside of plan and excess data usage are recognised when the service is used.
Equipment and other services	Provision of equipment and other services, including mobile phone handsets and hardware such as set top boxes and broadband routers provided as part of customer contracts. Performance obligations are satisfied at the point in time that control passes to the customer. For other services, performance obligations are identified based on the distinct goods and services we have committed to provide.	Revenue from equipment sales is recognised at the point in time that control passes to the customer. Where payment is not received in full at the time of the sale, such as with equipment provided as part of mobile and fixed access subscriptions, contract assets are recognised for the amount due from the customer that will be recovered over the contract period. Revenue to be recognised is calculated by reference to the relative standalone selling price of the equipment. For other services, revenue is recognised when the related performance obligations are satisfied, which could be over time, in line with contract milestones, or at a point in time depending on the nature of the service.

Notes to the consolidated financial statements continued

5. Revenue continued

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

The fixed access and mobile subscription arrangements sold by our Consumer business is typically payable in advance, with any variable or one-off charges billed in arrears. Payment is received immediately for direct sales of equipment to customers. Where equipment is provided to customers under mobile and fixed access subscription arrangements, payment for the equipment is received over the course of the contract term. For sales by our enterprise businesses, invoices are issued in line with contractual terms. Payments received in advance are recognised as contract liabilities, amounts billed in arrears are recognised as contract assets.

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

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

We do not have any material obligations in respect of returns, refunds or warranties. Where we act as an agent in a transaction, such as insurance services offered, we recognise commission net of directly attributable costs. Where the actual and estimated costs to completion of the contract exceed the estimated revenue, a loss is recognised immediately.

We exercise judgement in assessing whether the initial set-up, transition and transformation phases of long-term contracts are distinct from the other services to be delivered under the contract and therefore represent distinct performance obligations. This determines whether revenue is recognised in the early stages of the contract, or deferred until delivery of the other services promised in the contract begins.

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

- Transaction volumes or other inputs affecting future revenues which can vary depending on customer requirements, plans, market position and other factors such as general economic conditions.
- Our ability to achieve key contract milestones connected with the transition, development, transformation and deployment phases for customer contracts.
- The status of commercial relations with customers and the implications for future revenue and cost projections.
- Our estimates of future staff and third-party costs and the degree to which cost savings and efficiencies are deliverable.

Revenue from lease arrangements in scope of IFRS 16

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

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

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

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

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

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

5. Revenue continued

Disaggregation of external revenue

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

Year ended 31 March 2021	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
ICT and managed networks	–	1,993	1,977	–	–	3,970
Fixed access subscriptions	4,089	1,762	321	2,426	–	8,598
Mobile subscriptions	3,492	1,262	87	–	–	4,841
Equipment and other services	2,207	323	1,346	62	23	3,961
Revenue before specific items	**9,788**	**5,340**	**3,731**	**2,488**	**23**	**21,370**
Specific items[b] (note 9)						(39)
Revenue						**21,331**

Year ended 31 March 2020 (restated)	Consumer £m	Enterprise[a] £m	Global £m	Openreach £m	Other[a] £m	Total £m
ICT and managed networks	–	2,109	2,199	–	–	4,308
Fixed access subscriptions	4,443	2,007	352	2,293	–	9,095
Mobile subscriptions	3,807	1,297	84	–	–	5,188
Equipment and other services	2,036	376	1,726	66	29	4,233
Revenue before specific items	**10,286**	**5,789**	**4,361**	**2,359**	**29**	**22,824**
Specific items[b] (note 9)						81
Revenue						**22,905**

a Following a review of a number of products, we have re-presented the classifications within Enterprise in the 2019/20 comparative. We have also transferred £28m of revenue from Enterprise to Other due to the Ventures reorganisation. Refer to note 1 for further details.
b Relates to regulatory matters classified as specific. See note 9.

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

Revenue recognised this year relating to performance obligations that were satisfied, or partially satisfied, in previous years was not material. Revenue related to customers' unexercised rights (for example, unused amounts on prepaid SIM cards) was not material.

Lease income

Presented within revenue is £2,496m (2019/20: £2,297m) income from arrangements classified as operating leases under IFRS 16 and which represent core business activities for the group. Income relates predominantly to Openreach's leases of fixed-line telecommunications infrastructure to external communications providers, classified as fixed access subscription revenue in the table above, and leases of devices to Consumer customers as part of fixed access subscription offerings, classified as equipment and other services.

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

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

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

Notes to the consolidated financial statements continued

5. Revenue continued

Contract assets and liabilities

Significant accounting policies that apply to contract assets and liabilities

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

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

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

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

Contract assets and liabilities recognised are as follows:

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

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

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

6. Operating costs

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

a Net of capitalised indirect labour costs of £748m (2019/20: £675m).
b Previously included in other operating costs in 2019/20. This consists of net impairment losses on trade receivables and contract assets in Consumer of £115m (2019/20: £92m), in Enterprise of £33m 2019/20: £31m),in Global of £0m 2019/20: £(1)m) and in Openreach of £2m (2019/20: £2m).
c 2019/20 comparative excludes £22m reversal of impairment on right-of-use assets presented as a specific item which relate to assets impaired on adoption of IFRS 16.
d Leaver costs are included within wages and salaries, except for leaver costs of £270m (2019/20: £197m) associated with restructuring costs, which have been recorded as specific items.
e Research and development expenditure reported in the income statement includes amortisation of £650m (2019/20: £599m) in respect of capitalised development costs and operating expenses of £69m (2019/20: £63m). In addition, the group capitalised software development costs of £519m (2019/20: £476m).

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

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

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

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

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

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

Notes to the consolidated financial statements continued

7. Employees

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

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

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

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

The following fees were paid or are payable to the company's auditors, KPMG LLP and other firms in the KPMG network, for the years ended 31 March 2021 and 2020.

Year ended 31 March	2021 £000	2020 £000
Fees payable to the company's auditors and its associates for:		
Audit services[a]		
The audit of the parent company and the consolidated financial statements	10,482	10,546
The audit of the company's subsidiaries	6,280	6,315
	16,762	**16,861**
Audit related assurance services[b]	**1,993**	**2,416**
Other non-audit services		
All other assurance services	155	228
All other services[c]	–	247
	155	**475**
Total services	**18,910**	**19,752**

a Services in relation to the audit of the parent company and the consolidated financial statements, including, in the prior year, fees for reports under section 404 of the Sarbanes-Oxley Act. This also includes fees payable for the statutory audits of the financial statements of subsidiary companies. This excludes amounts for the audit of BT Group Employee Share Ownership Trust and Ilford Trustees (Jersey) Limited amounting to £20,000 (2019/20: £20,000).
b Services in relation to other statutory filings or engagements that are required by law or regulation to be carried out by an appointed auditor. This includes fees for the review of interim results, the accrued fee for the audit of the group's regulatory financial statements and fees for reporting associated with the group's US debt shelf registration before de-registration from the New York Stock Exchange in November 2019.
c Fees payable for all non-audit services not included above, principally comprising other advisory services. This does not include fees for BT's I4 forum membership, which is facilitated by KPMG but not considered to be a service.

The BT Pension Scheme is an associated pension fund as defined in the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011. In the year ended 31 March 2021 KPMG LLP received total fees from the BT Pension Scheme of £1.5m (2019/20: £0.8m) in respect of the following services:

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

9. Specific items

Significant accounting policies that apply to specific items

Our income statement and segmental analysis separately identify trading results on an adjusted basis, being before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence.

This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the *Executive Committee* and assists in providing an additional analysis of our reporting trading results. Specific items may not be comparable to similarly titled measures used by other companies.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, retrospective regulatory matters, historical insurance or litigation claims, business restructuring programmes, significant out of period contract settlements, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items.

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

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

Retrospective regulatory matters

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

Restructuring charges

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

Notes to the consolidated financial statements continued

9. Specific items continued

Settlement with Dixons Carphone

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

Sale of spectrum

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

Divestment-related items

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

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

Property rationalisation costs

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

Covid-19

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

Spectrum annual licence fee refund

In 2019/20 we received a payment of £87m including interest of £5m from Ofcom, relating to overpaid fees that were charged during the period 2015–2017 under the previous 2015 fees regulation that was quashed by the Court of Appeal in 2017.

Provision for claims

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

Italian business investigation

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

Interest expense on retirement benefit obligation

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

Associates and joint ventures

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

Tax on specific items

A net tax credit of £96m (2019/20: net tax credit of £73m) was recognised in relation to specific items. In 2019/20, legislation was enacted to maintain the UK corporation tax rate at 19%. Accordingly the group re-measured its deferred tax balances which resulted in a charge of £156m.

10. Taxation

Significant accounting policies that apply to taxation

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

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

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

10. Taxation continued

Critical accounting estimates and significant judgements made in accounting for taxation

We seek to pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws are unclear, and it can take many years to agree an outcome with a tax authority or through litigation. We estimate our tax on country-by-country and issue-by-issue bases. Our key uncertainties are whether EE's tax losses will be available to us, whether our intra-group trading model will be accepted by a particular tax authority and whether intra-group payments are subject to withholding taxes. We provide for the predicted outcome where an outflow is probable, but the agreed amount can differ materially from our estimates. Approximately 79% by value of the provisions are under active tax authority examination and are therefore likely to be re-estimated or resolved in the coming 12 months. £200m (2019/20: £191m) is included in current tax liabilities or offset against current tax assets where netting is appropriate.

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

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

The value of the group's income tax assets and liabilities is disclosed on the group balance sheet on page 120. The value of the group's deferred tax assets and liabilities is disclosed below.

Analysis of our taxation expense for the year

Year ended 31 March	**2021 £m**	2020 £m
United Kingdom		
Corporation tax at 19% (2019/20: 19%)	(300)	(495)
Adjustments in respect of earlier years	6	41
Non-UK taxation		
Current	(65)	(58)
Adjustments in respect of earlier years	6	(1)
Total current tax (expense)	**(353)**	**(513)**
Deferred taxation		
Origination and reversal of temporary differences	6	55
Adjustments in respect of earlier years	12	–
Impact of change in UK corporation tax rate to 19% (2019/20: 19%)	–	(156)
Remeasurement of temporary differences	3	(5)
Total deferred taxation credit/(expense)	**21**	**(106)**
Total taxation (expense)	**(332)**	**(619)**

Factors affecting our taxation expense for the year

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

Year ended 31 March	**2021 £m**	2020 £m
Profit before taxation	**1,804**	**2,353**
Expected taxation expense at UK rate of 19% (2019/20: 19%, 2018/19: 19%)	(343)	(447)
Effects of:		
Lower/(higher) taxes on non-UK profits	15	(5)
Net permanent differences between tax and accounting[a]	(34)	(40)
Adjustments in respect of earlier years[b]	24	40
Prior year non-UK losses used against current year profits	12	11
Non-UK losses not recognised[c]	(9)	(17)
Re-measurement of deferred tax balances	3	(161)
Total taxation expense	**(332)**	**(619)**
Exclude specific items (note 9)	(96)	83
Total taxation expense before specific items	**(428)**	**(536)**

a Includes income that is not taxable or UK income taxable at a different rate, and expenses for which no tax relief is received. Examples include some types of depreciation and amortisation and the benefit of R&D tax incentives.
b Reflects the differences between initial accounting estimates and tax returns submitted to tax authorities, including the release and establishment of provisions for uncertain tax positions.
c Reflects losses made in countries where it has not been considered appropriate to recognise a deferred tax asset, as future taxable profits are not probable.

Notes to the consolidated financial statements continued

10. Taxation continued

Tax components of other comprehensive income

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

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

Tax (expense) credit recognised directly in equity

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

Deferred taxation

	Fixed asset temporary differences £m	Retirement benefit obligations[a] £m	Share-based payments £m	Tax losses £m	Other £m	Jurisdictional offset £m	Total £m
At 1 April 2019	**1,398**	**(1,210)**	**(6)**	**(70)**	**(54)**	**–**	**58**
Expense (credit) recognised in the income statement	191	(46)	(1)	2	(40)	–	106
Expense (credit) recognised in other comprehensive income	–	1,079	–	–	80	–	1,159
Exchange differences	1	1	–	2	(1)	–	3
Transfer to held for sale (note 23)	–	–	–	–	(4)	–	(4)
Transfer from current tax	–	–	–	–	(14)	–	(14)
At 31 March 2020	**1,590**	**(176)**	**(7)**	**(66)**	**(33)**	**–**	**1,308**
Non-current							
Deferred tax asset	(17)	(176)	(7)	(66)	(33)	(1)	(300)
Deferred tax liability	1,607	–	–	–	–	1	1,608
At 31 March 2020	**1,590**	**(176)**	**(7)**	**(66)**	**(33)**	**–**	**1,308**
Expense (credit) recognised in the income statement	(11)	(13)	(8)	2	9	–	(21)
Expense (credit) recognised in other comprehensive income	–	(737)	–	–	(111)	–	(848)
Expense (credit) recognised in equity	–	–	(5)	–	–	–	(5)
Exchange difference	8	–	–	(2)	–	–	6
At 31 March 2021	**1,587**	**(926)**	**(20)**	**(66)**	**(135)**	**–**	**440**
Non-current							
Deferred tax asset	–	(926)	(20)	(66)	(135)	158	(989)
Deferred tax liability	1,587	–	–	–	–	(158)	1,429
At 31 March 2021	**1,587**	**(926)**	**(20)**	**(66)**	**(135)**	**–**	**440**

a Includes a deferred tax asset of £1m (2019/20: £1m) arising on contributions payable to defined contribution pension plans.

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

10. Taxation continued

What factors affect our future tax charges?

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

What are our unrecognised tax losses and other temporary differences?

At 31 March 2021 we had operating losses and other temporary differences carried forward in respect of which no deferred tax assets were recognised amounting to £4.1bn (2019/20: £4.5bn). Our other temporary differences have no expiry date restrictions. The expiry date of operating losses carried forward is dependent upon the tax law of the various territories in which the losses arose. A summary of expiry dates for losses in respect of which restrictions apply is set out below:

At 31 March 2021	£m	Expiry
Restricted losses		
Europe	1	2022 – 2025
Americas	409	2022 – 2045
Other	3	2022 – 2030
Total restricted losses	**413**	
Unrestricted operating losses	3,302	No expiry
Other temporary differences	360	No expiry
Total	**4,075**	

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

At 31 March 2021 the undistributed earnings of non-UK subsidiaries were £1.8bn (2019/20: £2.5bn). No deferred tax liabilities have been recognised in respect of these unremitted earnings because the group is in a position to control the timing of any dividends from subsidiaries and hence any tax consequences that may arise. Under current tax rules, tax of £43m (2019/20: £36.0m) would arise if these earnings were to be repatriated to the UK.

11. Earnings per share

How is earnings per share calculated?

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

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

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

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

12. Dividends

What dividends have been paid?

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

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

Notes to the consolidated financial statements continued

12. Dividends continued

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

13. Intangible assets

Significant accounting policies that apply to intangible assets

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

Goodwill

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

Acquired intangible assets – customer relationships and brands

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

Telecommunications licences

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

Computer software

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

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

Other

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

Estimated useful economic lives

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

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

Impairment of intangible assets

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

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

13. Intangible assets continued

	Goodwill £m	Customer relationships and brands £m	Telecoms licences and other £m	Internally developed software[a] £m	Purchased software £m	Total £m
Cost						
At 1 April 2019	**8,006**	**3,417**	**3,067**	**4,518**	**1,505**	**20,513**
Additions	–	–	–	598	192	790
Disposals and adjustments[b]	(30)	(28)	(34)	(765)	(541)	(1,398)
Transfers	–	–	(2)	14	(3)	9
Exchange differences	52	8	1	2	10	73
Transfer to assets held for sale[c]	(83)	–	–	(13)	(45)	(141)
At 31 March 2020	**7,945**	**3,397**	**3,032**	**4,354**	**1,118**	**19,846**
Additions	–	–	–	596	187	783
Disposals and adjustments[b]	1	–	(19)	(240)	(122)	(380)
Transfers	–	–	–	46	(37)	9
Exchange differences	(108)	(14)	–	(3)	(11)	(136)
At 31 March 2021	**7,838**	**3,383**	**3,013**	**4,753**	**1,135**	**20,122**
Accumulated amortisation						
At 1 April 2019	**–**	**1,571**	**445**	**3,221**	**961**	**6,198**
Charge for the year	–	373	177	538	85	1,173
Disposals and adjustments[b]	–	(22)	(49)	(786)	(529)	(1,386)
Transfers	–	–	–	(15)	15	–
Exchange differences	–	8	1	1	9	19
Transfer to assets held for sale[c]	–	–	–	(8)	(39)	(47)
At 31 March 2020	**–**	**1,930**	**574**	**2,951**	**502**	**5,957**
Charge for the year	–	322	162	593	120	1,197
Disposals and adjustments[b]	–	–	(2)	(242)	(119)	(363)
Transfers	–	–	–	(1)	1	–
Exchange differences	–	(14)	–	(2)	(10)	(26)
At 31 March 2021	**–**	**2,238**	**734**	**3,299**	**494**	**6,765**
Carrying amount						
At 31 March 2020	**7,945**	**1,467**	**2,458**	**1,403**	**616**	**13,889**
At 31 March 2021	**7,838**	**1,145**	**2,279**	**1,454**	**641**	**13,357**

a Includes a carrying amount of £608m (2019/20: £538m) in respect of assets in course of construction, which are not yet amortised.
b Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £0.3bn (2019/20: £1.1bn).
c Assets transferred to held for sale during 2019/20 relate to our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. On reclassification to held for sale, goodwill associated with the France and Latin America disposals was impaired by £58m, and other intangible assets associated with these disposals were impaired by £1m. See note 23.

Impairment of goodwill

Significant accounting policies that apply to impairment of goodwill

We perform an annual goodwill impairment review.

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash generating unit (CGU) level. These CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. Our CGUs are deemed to be legacy BT Consumer, legacy EE, Enterprise, and Global.

We allocate goodwill to each of the CGUs that we expect to benefit from the business combination. Each CGU to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes.

The value in use of each CGU is determined using cash flow projections derived from financial plans approved by the Board covering a five-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. Cash flows beyond the fifth year have been extrapolated using perpetuity growth rates.

Notes to the consolidated financial statements continued

13. Intangible assets continued

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

Determining our CGUs

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

Estimating value in use

Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate for each CGU. Future cash flows used in the value in use calculations are based on our latest Board-approved five-year financial plans. Expectations about future growth reflect the expectations of growth in the markets to which the CGU relates. The future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money. The discount rate used in each CGU is adjusted for the risk specific to the asset, including the countries in which cash flow will be generated, for which the future cash flow estimates have not been adjusted.

We tested our goodwill for impairment as at 31 March 2021. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment and sensitivities are disclosed below.

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

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

The decrease in goodwill is driven by foreign exchange losses.

What discount rate have we used?

The pre-tax discount rates applied to the cash flow forecasts are derived from our post-tax weighted average cost of capital. The assumptions used in the calculation of the group's weighted average cost of capital are benchmarked to externally available data. The pre-tax discount rate used in performing the value in use calculation in 2020/21 was 8.1% (2019/20: 8.0%). We have used the same discount rate for all CGUs except Global where we have used 8.5% (2019/20: 8.6%) reflecting higher risk in some of the countries in which Global operates.

What growth rates have we used?

The perpetuity growth rates are determined based on the forecast market growth rates of the regions in which the CGU operates, and reflect an assessment of the long-term growth prospects of that market. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the expected average long-term growth rates for those markets or sectors. We used a perpetuity growth rate of 2.3% (2019/20: 2.4%) for Global and 2.0% (2019/20: 2.0%) for Enterprise and our legacy BT Consumer and EE CGUs.

What sensitivities have we applied?

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

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

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

13. Intangible assets continued

Has Covid-19 had a material impact on the impairment assessment?

Covid-19 is not considered to have a significant impact on the assessment of impairment as at 31 March 2021. Its impact on the group is considered to be relatively short-term, and it is not anticipated to have a significant impact on the terminal year which is a key driver of our value in use calculations.

14. Property, plant and equipment

Significant accounting policies that apply to property, plant and equipment

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

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

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

Estimated useful economic lives

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

Land and buildings

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

Network infrastructure

Transmission equipment	
– Duct	40 years
– Cable	3 to 25 years
– Fibre	5 to 20 years
Exchange equipment	2 to 13 years
Other network equipment	2 to 20 years

Other assets

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

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

Network share assets

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

Impairment of property, plant and equipment

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

Notes to the consolidated financial statements continued

14. Property, plant and equipment continued

Building Digital UK (BDUK) government grants

We receive government grants in relation to the BDUK programme and other rural superfast broadband contracts. Where we have achieved certain service levels, or delivered the network more efficiently than anticipated, we have an obligation to either re-invest or repay grant funding. Where this is the case, we recognise deferred income in respect of the funding that will be re-invested or repaid, and make a corresponding adjustment to the carrying amount of the related property, plant and equipment.

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

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

	Land and buildings £m	Network infrastructure £m	Other[a] £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2019	**1,026**	**51,893**	**1,722**	**1,191**	**55,832**
Additions[b]	7	83	69	2,978	3,137
Transfers	25	3,244	17	(3,295)	(9)
Disposals and adjustments[c]	(55)	(1,132)	(130)	42	(1,275)
Transfer to assets held for sale[d]	(69)	(255)	(24)	–	(348)
Exchange differences	11	60	8	–	79
At 31 March 2020	**945**	**53,893**	**1,662**	**916**	**57,416**
Additions[b]	10	(65)	69	3,401	3,415
Transfers	32	3,123	141	(3,305)	(9)
Disposals and adjustments[c]	(19)	(2,209)	(333)	(21)	(2,582)
Exchange differences	(22)	(146)	(19)	(1)	(188)
At 31 March 2021	**946**	**54,596**	**1,520**	**990**	**58,052**
Accumulated depreciation					
At 1 April 2019	**673**	**36,052**	**1,371**	**–**	**38,096**
Charge for the year	49	2,318	85	–	2,452
Transfers	1	–	(1)	–	–
Disposals and adjustments[c]	(68)	(1,128)	(91)	–	(1,287)
Transfer to assets held for sale[d]	(55)	(216)	(22)	–	(293)
Exchange differences	10	54	8	–	72
At 31 March 2020	**610**	**37,080**	**1,350**	**–**	**39,040**
Charge for the year	41	2,282	137	–	2,460
Transfers	(1)	2	(1)	–	–
Disposals and adjustments[c]	(20)	(2,209)	(332)	–	(2,561)
Exchange differences	(18)	(133)	(17)	–	(168)
At 31 March 2021	**612**	**37,022**	**1,137**	**–**	**38,771**
Carrying amount					
At 31 March 2020	**335**	**16,813**	**312**	**916**	**18,376**
Engineering stores	–	–	–	98	98
Total at 31 March 2020	**335**	**16,813**	**312**	**1,014**	**18,474**
At 31 March 2021	**334**	**17,574**	**383**	**990**	**19,281**
Engineering stores	–	–	–	116	116
Total at 31 March 2021	**334**	**17,574**	**383**	**1,106**	**19,397**

a Other mainly comprises motor vehicles, computers and fixtures and fittings.
b Net of government grants of £21m (2019/20: £98m).
c Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £2.3bn (2019/20: £0.7bn). Disposals and adjustments include adjustments resulting from changes in assumptions used in calculating lease-end obligations where the corresponding asset is capitalised.
d Transfers to assets held for sale during 2019/20 relate to our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. On reclassification to held for sale, assets associated with the France and Latin America disposals were impaired by £18m. See note 23.

14. Property, plant and equipment continued

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

- £13,032m (2019/20: £12,284m) of the carrying amount of the network infrastructure asset class represents Openreach's network infrastructure. The majority of the associated assets are used to deliver fixed-line telecommunications services that have been assessed as containing operating leases, to both internal and external Communications Providers.
- Other assets includes devices with a carrying amount of £128m (2019/20: £33m) that are made available to retail customers under arrangements that contain operating leases.

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

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

Network infrastructure

Some of our network assets are jointly controlled by EE Limited with Hutchison 3G UK Limited. These relate to shared 3G network and certain elements of network for 4G rural sites. The net book value of the group's share of assets controlled by its joint operation MBNL is £625m (2019/20: £600m) and is recorded within network infrastructure. Included within this is £95m (2019/20: £112m), being the group's share of assets owned by its joint operation MBNL.

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

15. Leases

Significant accounting policies that apply to leases

Identifying whether a lease exists

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

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

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

Lessee accounting

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

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

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

The incremental borrowing rate is the rate that we would have to pay for a loan of a similar term, and with similar security, to obtain an asset of similar value.

Lease payments include:

- fixed payments
- variable lease payments that depend on an index or rate
- amounts expected to be paid under residual value guarantees
- the exercise price of any purchase options that we are reasonably certain to exercise
- payments due over optional renewal periods where we are reasonably certain to renew
- penalties for early termination of the lease where we are reasonably certain to terminate early

Notes to the consolidated financial statements continued

15. Leases continued

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

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

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

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

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

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

Significant judgements made in accounting for leases

The lease term is a key determinant of the size of the lease liability and right-of-use asset recognised where the group acts as lessee; and the deferral period for any upfront connection charges where the group acts as lessor. Determining the lease term requires judgement to evaluate whether we are reasonably certain the lessee will exercise extension options or will not exercise termination options. Key facts and circumstances that create an incentive to exercise those options are considered, these include:

- Our anticipated operational, retail and office property requirements in the mid and long-term.
- The availability of suitable alternative sites.
- Costs or penalties associated with exiting lease arrangements relative to the benefits to be gained, including costs of removing leasehold improvements or relocating, and indirect costs such as disruption to business.
- Significant investments in leased sites, in particular those with useful lives beyond the lease term.
- Costs associated with extending lease arrangements including rent increases during secondary lease periods.

Our definition of 'reasonable certainty', and therefore the lease term, will often align with the judgements made in our medium-term plan, in particular for leases of non-specialised property and equipment on rolling (or 'evergreen') arrangements that continue until terminated and which can be exited without significant penalty.

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

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

Property

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

15. Leases continued

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

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

Cell sites

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

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

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

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

Right-of-use assets

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

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

a The 'other' asset class has been disaggregated to present motor vehicles and other types of leased asset separately. Balances disclosed in 2019/20 have been re-presented.
b Additions comprise increases to right-of-use assets as a result of entering into new leases, and upwards remeasurement of existing leases arising from lease extensions or reassessments and increases to lease payments.
c Other movements primarily relate to terminated leases and downwards remeasurements of right-of-use assets arising from reductions or reassessments of lease terms and decreases in lease payments.
d Other movements in 2019/20 include reclassification of right-of-use assets with a carrying amount of £65m to held-for-sale, see note 23. On reclassification to held for sale, assets associated with the France and Latin America disposals were impaired by £31m.
e Other movements in 2019/20 have also been re-presented to reclassify £25m downwards movements in leased property from 'other' to 'land and buildings' with a corresponding impact on opening right-of-use assets at 1 April 2020.
f Other movements in 2020/21 include derecognition of right-of-use assets with a carrying amount of £208m associated with a finance sub-lease arrangement.

Notes to the consolidated financial statements continued

15. Leases continued

Lease liabilities

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

In the prior year we reclassified lease liabilities with a carrying amount of £62m to held-for-sale, see note 23.

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

– Interest expense of £142m (2019/20: £140m) accrued on lease liabilities.

– Variable lease payments of £27m (2019/20: £29m) which are not dependent on an index or rate and which have not been included in the measurement of lease liabilities.

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

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

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

Other information relating to leases

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

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

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

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

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

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

16. Programme rights

Significant accounting policies that apply to programme rights

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

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

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

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

17. Trade and other receivables

Significant accounting policies that apply to trade and other receivables

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

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

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

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

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

Notes to the consolidated financial statements continued

17. Trade and other receivables continued

At 31 March	2021 £m	2020 £m
Current		
Trade receivables	1,209	1,375
Prepayments[a]	1,357	607
Accrued income	130	57
Deferred contract costs	348	422
Other receivables	213	243
	3,257	**2,704**

At 31 March	2021 £m	2020 £m
Non-current		
Other assets[b]	103	222
Deferred contract costs	211	259
	314	**481**

a Prepayments include £702m (2019/20: £nil) relating to funds prepaid to Ofcom for the recent Spectrum auction.
b Other assets comprise prepayments and leasing debtors.

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

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

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

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

			Past due and not specifically impaired				
At 31 March	Not past due £m	Trade receivables specifically impaired net of provision £m	Between 0 and 3 months £m	Between 3 and 6 months £m	Between 6 and 12 months £m	Over 12 months £m	Total £m
2021	845	36	205	40	51	32	**1,209**
2020	903	25	308	45	49	45	**1,375**

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

17. Trade and other receivables continued

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

			Past due and not specifically impaired				
At 31 March	Not past due £m	Trade receivables specifically impaired net of provision £m	Between 0 and 3 months £m	Between 3 and 6 months £m	Between 6 and 12 months £m	Over 12 months £m	Total £m
2021							
Expected loss rate %	4%	29%	15%	38%	47%	87%	24%
Gross carrying amount	880	51	240	65	97	254	1,587
Loss allowance	(35)	(15)	(35)	(25)	(46)	(222)	(378)
Net carrying amount	845	36	205	40	51	32	1,209
2020							
Expected loss rate %	4%	26%	12%	36%	42%	86%	24%
Gross carrying amount	944	34	351	70	84	316	1,799
Loss allowance	(41)	(9)	(43)	(25)	(35)	(271)	(424)
Net carrying amount	903	25	308	45	49	45	1,375

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

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

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

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

Deferred contract costs

Significant accounting policies that apply to deferred contract costs

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

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

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

Notes to the consolidated financial statements continued

17. Trade and other receivables continued

The following table shows the movement on deferred costs:

	Deferred connection costs £m	Deferred contract acquisition costs – commissions £m	Deferred contract acquisition costs – dealer incentives £m	Transition and transformation £m	Total £m
At 1 April 2019	**31**	**86**	**432**	**140**	**689**
Additions	10	86	451	21	568
Amortisation	(9)	(75)	(426)	(27)	(537)
Impairment	(1)	(4)	(7)	(21)	(33)
Other	1	1	(1)	(7)	(6)
At 1 April 2020	**32**	**94**	**449**	**106**	**681**
Additions	10	76	301	26	413
Amortisation	(9)	(68)	(391)	(19)	(487)
Impairment	(1)	(4)	(11)	(15)	(31)
Other	–	(4)	–	(13)	(17)
At 31 March 2021	**32**	**94**	**348**	**85**	**559**

18. Trade and other payables

Significant accounting policies that apply to trade and other payables

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

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

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

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

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

19. Provisions

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

Significant accounting policies that apply to provisions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

19. Provisions continued

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

a Transfers in 2019/20 include £5m on provisions associated with held-for-sale assets during the period. See note 23.
b We have re-presented previously reported Insurance provisions as their own category. Previously these were included within 'Other'.

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

Included within 'Other' provisions are contract loss provisions of £2m (2019/20: £10m) relating to the anticipated total losses in respect of certain contracts. Last year we identified £7m of contract loss provisions in respect of revenue contracts that are expected to become loss-making as a result of Covid-19 impacts. This increase above our standard contract loss provisioning policies was recorded as a specific item (note 9). In 2020/21 this provision has been fully released. This release has been classified as a specific item.

20. Retirement benefit plans

Background to BT's pension plans

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

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

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

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

	What are they?	Future implications for BT?
Defined contribution plans	Benefits in a defined contribution plan are linked to the value of each member's fund, which is based on: – contributions paid – the performance of each individual's chosen investments	The group has no exposure to investment and other experience risks.
Defined benefit plans	Benefits in a defined benefit plan are determined by the plan rules and are: – dependent on factors such as age, years of service and pensionable pay – not dependent on actual contributions made by the company or members.	The group is exposed to investment and other experience risks and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions, expected investment income and assets held.

20. Retirement benefit plans continued

Significant accounting policies that apply to retirement benefit plans

Defined benefit plans

The Retirement Benefit Obligations in respect of defined benefit plans is the liability (the present value of all expected future benefit cash flows to be paid by each plan, calculated using the projected unit credit method by professionally qualified actuaries) less the fair value of the plan assets.

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

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

Remeasurements of the Retirement Benefit Obligations are recognised in full in the group statement of comprehensive income in the year in which they arise. These comprise:

- The impact on the liabilities of changes in financial assumptions, which are based on market conditions at the reporting date, and demographic assumptions, such as life expectancy, compared with those adopted the start of the year;
- The impact on the liabilities of actual experience being different to assumptions made at the start of the year, for example, from members choosing different benefit options at retirement or actual benefit increases being different to the pension increase assumption; and
- The return on plan assets being above or below the amount included in the net finance income or expense.

Defined contribution plans

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

Amounts in the financial statements

Group income statement

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

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

a All employees impacted by the closure of the BTPS were eligible for transition payments from the date of closure into their BTRSS pot for a period linked to the employee's age. There was no past service cost or credit on closure due to the assumed past service benefit link as an active member being the same as that assumed for a deferred member.

Group balance sheet

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

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

a BT is not required to limit any pension surplus or recognise additional pensions liabilities in individual plans as economic benefits are available in the form of either future refunds or reductions to future contributions. This is on the basis that IFRIC 14 applies enabling a refund of surplus following the gradual settlement of the liabilities over time until there are no members remaining in the scheme.
b Included in the liabilities of other plans is £146m (2019/20: £150m) related to unfunded pension arrangements.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Movements in defined benefit plan assets and liabilities

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

	Assets £m	Liabilities £m	Deficit £m
At 31 March 2019	**53,364**	**(60,546)**	**(7,182)**
Service cost (including administration expenses and PPF levy)	(66)	(20)	(86)
Interest on pension deficit	1,246	(1,391)	(145)
Included in the group income statement			**(231)**
Return on plan assets above the amount included in the group income statement	249	–	249
Actuarial gain arising from changes in financial assumptions	–	3,746	3,746
Actuarial gain arising from changes in demographic assumptions	–	498	498
Actuarial gain arising from experience adjustments	–	360	360
Included in the group statement of comprehensive income			**4,853**
Regular contributions by employer	160	–	160
Deficit contributions by employer	1,274	–	1,274
Included in the group cash flow statement			**1,434**
Contributions by employees	–	–	–
Benefits paid	(2,764)	2,764	–
Other (e.g. foreign exchange)	8	(22)	(14)
Other movements			**(14)**
At 31 March 2020	**53,471**	**(54,611)**	**(1,140)**
Service cost (including administration expenses and PPF levy)	(44)	(19)	(63)
Past service cost	–	(1)	(1)
Interest on pension deficit	1,281	(1,299)	(18)
Included in the group income statement			**(82)**
Return on plan assets above the amount included in the group income statement	1,766	–	1,766
Actuarial loss arising from changes in financial assumptions	–	(8,504)	(8,504)
Actuarial gain arising from changes in demographic assumptions	–	1,746	1,746
Actuarial gain arising from experience adjustments	–	136	136
Included in the group statement of comprehensive income			**(4,856)**
Regular contributions by employer	17	–	17
Deficit contributions by employer	955	–	955
Included in the group cash flow statement			**972**
Contributions by employees	1	(1)	–
Benefits paid	(2,822)	2,822	–
Other (e.g. foreign exchange)	(13)	23	10
Other movements			**10**
At 31 March 2021	**54,612**	**(59,708)**	**(5,096)**

Overview and governance of the BTPS

What are the benefits under the BTPS?

Benefits earned for pensionable service prior to 1 April 2009 are based upon a member's final salary and a normal pensionable age of 60.

Between 1 April 2009 and 30 June 2018, Section B and C active members accrued benefits based upon a career average re-valued earnings (CARE) basis and a normal pensionable age of 65. On a CARE basis benefits are built up based upon earnings in each year and the benefit accrued for each year is increased by the lower of inflation or the individual's actual pay increase in each year to retirement.

20. Retirement benefit plans continued

Under the Scheme rules the determination of the rate of inflation for statutory minimum rates of revaluation and indexation for the majority of benefits is based upon either the Retail Price Index (RPI) or the Consumer Price Index (CPI) which apply to each category of member as shown below.

	Active members	Deferred members	Pensioners
Sections A & B[a]	Benefits accrue on a CARE basis increasing at the lower of RPI or the individual's actual pensionable pay increase	Preserved benefits are revalued before retirement based upon CPI	Increases in benefits in payment are currently based upon CPI
Section C			Increases in benefits in payment are currently based upon RPI up to a maximum of 5%

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

How is the BTPS governed and managed?

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

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

Chairman of the Trustees

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

Member nominated Trustees

Appointed by BT based on nominations by trade unions.

Employer nominated Trustees

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

BTPS assets

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

Under IAS19, plan assets must be valued at the bid market value at the balance sheet date. Our pension assets include quoted and unquoted investments. A portion of unquoted investments are valued based on inputs that are not directly observable, which require more judgement. The assumptions used in valuing unquoted investments are affected by market conditions.

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

Valuation of main quoted investments

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds that are regularly traded are valued using broker quotes.
- Exchange traded derivative contracts are valued based on closing bid prices.

Valuation of main unquoted investments

- Equities are valued using the IPEVC guidelines where the most significant assumptions are the discount rate and earnings assumptions.
- Property investments are valued on the basis of open market value by an independent valuer. The significant assumptions used in the valuation are rental yields and occupancy rates.
- Bonds that are not regularly traded are valued by an independent valuer using pricing models making assumptions for credit risk, market risk and market yield curves.
- Over the counter derivatives are valued by an independent valuer using cashflows discounted at market rates. The significant assumptions used in the valuation are the yield curves and cost of carry.
- Holdings in investment funds are valued at fair value which is typically the Net Asset Value provided by the fund administrator or investment manager. The significant assumption used in the valuation is the Net Asset Value.
- Infrastructure investments are valued by an independent valuer using a model-based valuation such as a discounted cash flow approach. The significant assumptions used in the valuation are the discount rate and the expected cash flows.
- The value of the longevity insurance contract held by the BTPS is measured by discounting the projected cash flows payable under the contract (projected by an actuary, consistent with the terms of the contract). The significant assumptions used to value the asset are the discount rate (including adjustments to the risk free rate) and the mortality assumptions.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Asset allocation

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

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

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

a At 31 March 2021, the Scheme did not hold any equity issued by the group (2019/20: nil). The Scheme held £2,216m (2019/20: £1,867m) of bonds issued by the group.
b Assets with a quoted price in an active market.
c This allocation seeks to generate a positive return irrespective in all market conditions.
d This allocation includes a range of credit investments, including emerging market, sub-investment grade and unrated credit. The allocation seeks to exploit investment opportunities within credit markets using the expertise of a range of specialist investment managers.
e Category introduced in 2020/21 reclassifying certain existing assets, including property, infrastructure and credit investments, as these provide a stable income which supports cashflow and liability management.
f The Trustee has hedged some of the Scheme's longevity risk through a longevity insurance contract which was entered into in 2014. The value reflects experience to date on the contract from higher than expected deaths and movements partly offset a corresponding reduction in the Scheme's liabilities over the same period
g Includes collateral posted in relation to derivatives held by the Scheme.

BTPS IAS 19 liabilities

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

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

20. Retirement benefit plans continued

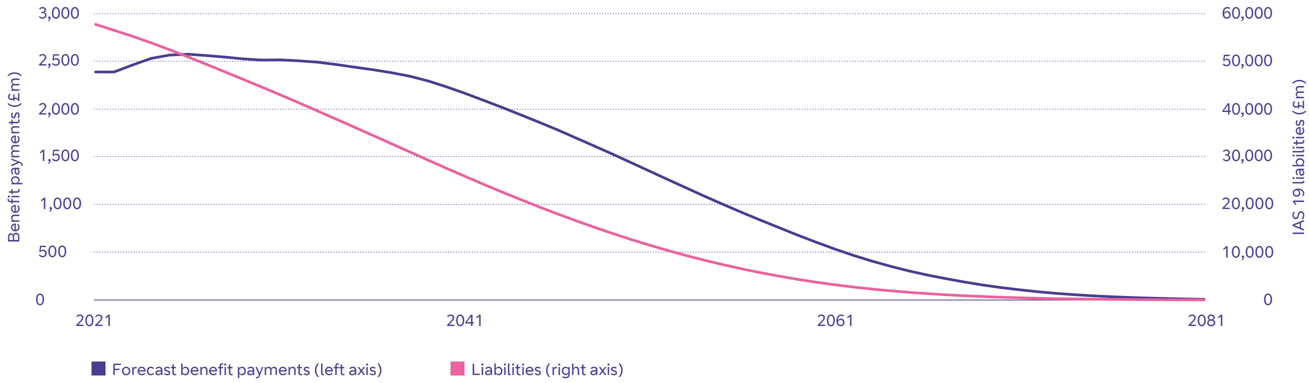
What are the forecast benefits payable from the BTPS?

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

Benefits to members from the BTPS are expected to be paid over more than 60 years. Projecting future expected benefit payments requires a number of assumptions, including future inflation, retirement ages, benefit options chosen and life expectancy and is therefore inherently uncertain. Actual benefit payments in a given year may be higher or lower, for example if members retire sooner or later than assumed, or take a greater or lesser cash lump sum at retirement than assumed. The liabilities are the present value of the future estimated benefit payments.

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

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



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

What is the breakdown of the membership and liabilities?

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

a Sections A and B have been aggregated in this table as Section A members have typically elected to take Section B benefits at retirement.
b At 30 June 2020 there were around 30 active members in the BTPS.

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

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

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

a The real rate is calculated relative to RPI inflation.

The BTPS represents around 97% of the group's pension liabilities. While the financial assumptions may vary for each scheme, the nominal financial assumptions weighted by liabilities across all schemes are equal to the figures shown in the table above (to the nearest 0.05%).

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

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

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

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

	Approach to set the assumption
Discount rate	IAS 19 requires that the discount rate is determined by reference to market yields at the reporting date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension obligations. The assumption is calculated by applying the projected BTPS benefit cash flows to a corporate bond yield curve constructed by our external actuary based on the yield on AA-rated corporate bonds. In setting the yield curve, judgement is required on the selection of appropriate bonds to be included in the universe and the approach used to then derive the yield curve. The discount rate model has been updated over the year to use a wider universe of corporate bonds to derive the yield curve. The revised model is a standard approach developed by our external actuary. The revised model leads to a 20bps increase in the discount rate at 31 March 2021 and a corresponding £1.7bn reduction in the BTPS liabilities.
RPI and CPI inflation	The RPI inflation assumption is set using an inflation curve derived from market yields on government bonds, weighted by projected BTPS benefit cash flows, and making an adjustment for an inflation risk premium (to reflect the extra premium paid by investors for inflation protection). CPI is assessed at a margin below RPI taking into account market forecasts and independent estimates of the expected difference. In 2020, it was announced that RPI will be aligned with CPIH from 2030 onwards. The following judgements have been updated reflecting the announcement: – the assumed inflation risk premium has been increased from 20bps to an average of 25bps (based on 20bps until 2030, and 30bps thereafter). This has reduced the BTPS liabilities by £0.4bn at 31 March 2021 – CPI is assumed to be in line with RPI after 2030, as historically CPI and CPIH have been broadly comparable. This has increased the BTPS liabilities by £1.1bn at 31 March 2021
Pension increases	Benefits are assumed to increase in line with the RPI or CPI inflation assumptions, based on the relevant index for increasing benefits, as prescribed by the rules of the BTPS and summarised above. Certain pension increases in the BTPS are linked to benefits provided by Government to public sector pension schemes. In 2018, Government made a temporary decision about how these benefits would be increased. We anticipated Government would continue to pay higher pension increases to public sector pension schemes at the end of the temporary period and intended to reflect in the liabilities once confirmed. In March 2021, Government confirmed this decision, which has crystallised a £0.3bn increase to the BTPS liabilities at 31 March 2021.
Longevity	The longevity assumption takes into account: – the actual mortality experience of the BTPS pensioners, based on a formal review conducted at the 2020 triennial funding valuation – future improvements in longevity based on a model published by the UK actuarial profession's Continuous Mortality Investigation (updating to use the CMI 2019 Mortality Projections model, and reducing the long-term improvement parameter to 1.00% per year). No adjustments were made to mortality assumptions in relation to Covid-19. These changes reflect our expectation that life expectancy will not improve as quickly as previously assumed and reduce the BTPS liabilities by £1.7bn at 31 March 2021.

20. Retirement benefit plans continued

Risks underlying the assumptions

Background

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

Changes in external factors, such as bond yields, can have an impact on the IAS 19 assumptions, impacting the measurement of BTPS liabilities. These factors can also impact the Scheme assets. The BTPS hedges some of these risks, including longevity and currency using financial instruments and insurance contracts with reference to the funding liabilities (see page 163 for sensitivities to the funding liabilities). This leads to the BTPS being over-hedged to changes in bond yields under IAS 19.

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

Changes in corporate and government bond yields	A fall in yields on AA-rated corporate bonds, used to set the IAS 19 discount rate, will lead to an increase in the IAS 19 liabilities. The BTPS's assets include corporate bonds, government bonds and interest rate derivatives which are expected to more than offset the impact of movements in the discount rate on the IAS 19 liabilities (but only partly offset movements in the funding liabilities). Yields on these assets may diverge compared with the discount rate in some scenarios.
Changes in inflation expectations	A significant proportion of the benefits paid to members are currently increased in line with RPI or CPI inflation. An increase in long-term inflation expectations will lead to an increase in the IAS 19 liabilities. The BTPS's assets include index-linked government bonds and inflation derivatives which are expected to largely offset the impact of movements in inflation expectations.
Changes in growth assets	A significant proportion of the BTPS assets are invested in growth assets, such as equities and property. Although the BTPS has temporary hedges in place to partly offset the impact of a fall in equity markets, and adopts a diverse portfolio, a fall in these growth assets will lead to a worsening of the IAS 19 deficit.
Changes in life expectancy	An increase in the life expectancy of members will result in benefits being paid out for longer, leading to an increase in the BTPS liabilities. The BTPS holds a longevity insurance contract which covers around 20% of the BTPS's total exposure to improvements in longevity, providing long-term protection and income to the BTPS in the event that members live longer than currently expected.

Other risks include: volatile asset returns (i.e. where asset returns differ from the discount rate); changes in legislation or regulation which impact the value of the liabilities or assets; and member take-up of options before and at retirement to reshape their benefits.

Scenario analysis

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

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

a Scenario assumes a fall in the yields on both government and corporate bonds.
b Scenario assumes an increase in the yield on corporate bonds, with no change to yield on government bonds.
c Assuming RPI, CPI, pension increases and salary increases all increase by the same amount.
d Impact includes the potential impact of temporary equity hedges held by the Scheme. Scenario considers combinations of changes to the key inputs used to value the growth assets, as detailed on page 157, leading to a 20% fall in the aggregate value of the growth assets prior to temporary hedges held by the Scheme.

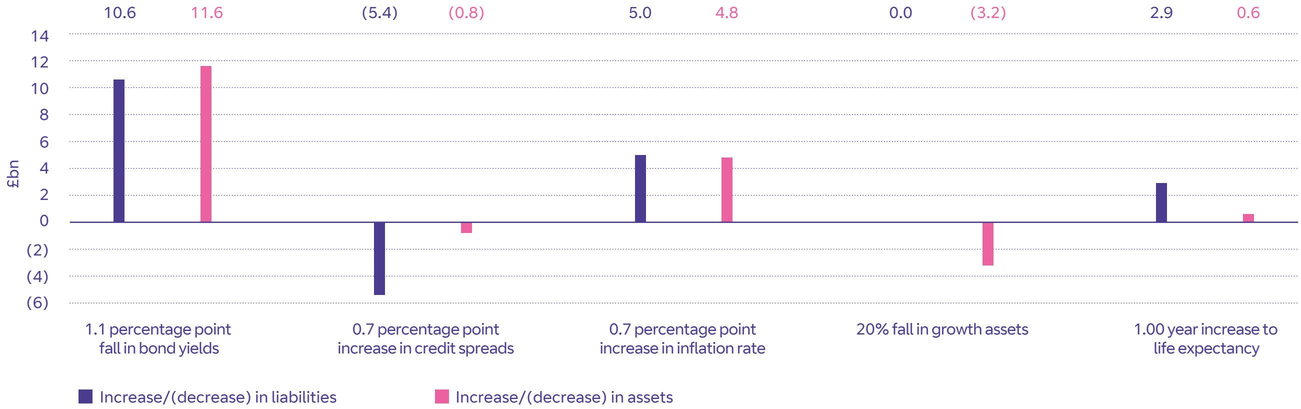
The impact shown under each scenario looks at each event in isolation – in practice a combination of events could arise.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

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

Scenario analysis



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

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

BTPS funding

Triennial funding valuation

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

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

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

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

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

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

Key assumptions – funding valuation

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

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

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

20. Retirement benefit plans continued

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

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

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

Changes in the funding position (unaudited)

The impact of changes in market conditions on the funding liabilities may differ from the impact on the IAS 19 liabilities. The estimated impact of the scenarios illustrated on page 162 on the 30 June 2020 funding liabilities, assets and deficit is shown in the table below.

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

Future funding obligations and deficit repair plan

Under the terms of the Trust Deed, the group is required to have a funding plan, determined at the conclusion of the triennial funding valuation, which is a legal agreement between BT and the Trustee and should address the deficit over a maximum period of 20 years.

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

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

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

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

  The Asset Backed Funding arrangement has no impact on the gross IAS 19 deficit in the BT plc consolidated accounts initially, but will reduce the deferred tax asset recognised, as tax relief has been received up-front. Annual capital and interest payments will reduce the IAS 19 deficit.
- Cash contributions over the 10 years to 30 June 2030.

These payments are set out in the table below.

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

a £400m of each payment due by 30 June.
b £500m due by 30 June.
c £490m of each payment due by 30 June. £10m is payable to the BTPS, and BT has the option to pay remaining amounts into the co-investment vehicle.

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

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Co-investment vehicle

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

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

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

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

Future funding commitment

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

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

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

Other protections

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

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

20. Retirement benefit plans continued

Feature	Detail
Material corporate events	In the event that BT generates net cash proceeds greater than a threshold from disposals (net of acquisitions) in any financial year, BT will make additional contributions to the BTPS. The threshold is £750m until 30 June 2023, and £1bn thereafter (increased by CPI from 30 June 2020). The amount payable is one third of the total net cash proceeds, or the amount by which the Protections Deficit exceeds £2bn if lower. BT will consult with the Trustee if: – it considers making acquisitions with a total cost of more than £1.0bn in any 12-month period; or – it considers making disposals of more than £1.0bn; or – it considers making a Class 1 transaction (acquisition or disposal); or – it is likely to be subject to a takeover offer; or – there is any other material corporate or third-party events which may have a material detrimental impact on BT's covenant to the Scheme, and BT will use best endeavours to agree appropriate mitigation This obligation is on-going until otherwise terminated.
Negative pledge	A negative pledge that future creditors will not be granted superior security to the BTPS in excess of a £0.5bn threshold, to cover any member of the BT group. Business as usual financing arrangements are not included within the £0.5bn threshold.

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

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

Other benefit plans

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

EEPS

The EEPS is the second largest defined benefit plan sponsored by the group. It has a defined benefit section that is closed to future accrual, with liabilities of around £1.1bn, and a defined contribution section with around 9,000 members.

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

The most recent triennial valuation of the defined benefit section was performed as at 31 December 2018 and agreed in March 2020. This showed a funding deficit of £161m. The group is scheduled to contribute £3.3m each month until 31 July 2022.

BTRSS

The BTRSS is the largest defined contribution plan maintained by the group with around 66,000 active members. In the year to 31 March 2021, £468m of contributions were payable by the group to the BTRSS.

BTHS

The BTHS combines elements of both defined benefit and defined contribution pension schemes. It was set up in April 2019 for non-management employees impacted by the closure of the BTPS and was closed to new entrants on 30 September 2019. At 31 March 2021 it had liabilities of around £38m.

Notes to the consolidated financial statements continued

21. Own shares

Significant accounting policies that apply to own shares

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

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

a At 31 March 2021, 50,724,972 shares (2019/20: 85,921,056) with an aggregate nominal value of £3m (2019/20: £4m) were held at cost as treasury shares and 9,172,675 shares (2019/20: 7,255,789) with an aggregate nominal value of £nil (2019/20: £nil) were held in the Trust.
b See group cash flow statement on page 122. The cash paid for the repurchase of ordinary shares was £14m (2019/20: £86m). The cash received for proceeds on the issue of treasury shares was £1m (2019/20: £2m).
c Conversion of American Depositary Receipts ("ADR") to ordinary shares following delisting from the NYSE and termination of BT's ADR programme from the US Securities Exchange Commission registration.

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

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

22. Share-based payments

Significant accounting policies that apply to share-based payments

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

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

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

22. Share-based payments continued

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

What share incentive arrangements do we have?

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

Employee Saveshare Plans

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

Incentive Share Plan (ISP)

Participants are entitled to ISP shares in full at the end of a three-year period only if the company has met the relevant pre-determined corporate performance measures and if the participants are still employed by the group. No ISP awards were granted in 2020/21. For ISP awards granted in previous years 40% of each award is linked to a total shareholder return (TSR) target for a comparator group of companies from the beginning of the relevant performance period; 40% is linked to a three-year cumulative normalised free cash flow measure; and 20% to growth in underlying revenue.

Deferred Bonus Plan (DBP)

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

Retention and Restricted Share Plans (RSP)

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

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

Yourshare

This share incentive plan will operate again this year. All eligible employees of the group at 31 December 2020 who remain employed in June 2021 will be awarded £500 of BT shares in June 2021. The shares will be held in trust for a 3 year vesting period after which they will be transferred to employees, providing they have been continuously employed during that time. A similar plan operates for our overseas employees.

Employee Saveshare Plans

Movements in Employee Saveshare options are shown below.

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

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

Notes to the consolidated financial statements continued

22. Share-based payments continued

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

Normal dates of vesting and exercise (based on calendar years)	Exercise price per share	Weighted average exercise price	Number of outstanding options millions	Weighted average remaining contractual life
2021	170p – 376p	229p	26	10 months
2022	164p – 243p	200p	44	22 months
2023	82p – 170p	108p	120	34 months
2024	164p	164p	50	46 months
2025	82p	82p	174	58 months
Total		**121p**	**414**	**43 months**

Executive share plans

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

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

Fair values

The following table summarises the fair values and key assumptions used for valuing grants made under the Employee Saveshare plans and ISP in 2020/21 and 2019/20.

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

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

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

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

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

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

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

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

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

Divestments

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

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

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

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

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

a After impairment charge of £127m in 2019/20 relating to the France and Latin America divestments, see 'Assets and liabilities held for sale' below.
b Cumulative translation differences previously held in equity and recycled to the income statement on disposal of foreign operations.
c Fully recognised as specific items, see note 9.
d 2020/21 includes provisions for proceeds to be paid back to the purchaser through deferred or contingent payments or where negotiations on post-completion purchase price adjustments are ongoing at 31 March 2021. 2019/20 relates to deferred consideration receivable. Payments expected to be made after 12 months from the balance sheet date have been discounted to a present value at the group pre-tax discount rate of 8.1%.
e £13m (2019/20: £11m) disposal costs have been paid and are included within cash flows from operating activities in the cash flow statement. The remaining £7m (2019/20: £6m) costs were accrued for at the end of the year.

Notes to the consolidated financial statements continued

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

Assets and liabilities held for sale

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

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

Assets and liabilities classified as held for sale at 31 March 2020 related to our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. All of these divestments are part of the Global segment and have been completed during 2020/21.

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

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

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

24. Investments

Significant accounting policies that apply to investments

Investments classified as amortised cost

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

Investments classified as fair value through profit and loss

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

Equity instruments classified as fair value through other comprehensive income

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

24. Investments continued

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

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

Fair value estimation

Fair value hierarchy At 31 March 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Fair value through other comprehensive income	–	–	20	20
Fair value through profit or loss	11	–	–	11
Total	**11**	**–**	**20**	**31**

Fair value hierarchy At 31 March 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Fair value through other comprehensive income	–	–	9	9
Fair value through profit or loss	11	–	–	11
Total	**11**	**–**	**9**	**20**

The three levels of valuation methodology used are:

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

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

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

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

25. Cash and cash equivalents

Significant accounting policies that apply to cash and cash equivalents

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

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

Notes to the consolidated financial statements continued

25. Cash and cash equivalents continued

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

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

26. Loans and other borrowings

Significant accounting policies that apply to loans and other borrowings

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

What's our capital management policy?

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

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

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

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

Net debt and net financial debt

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

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

26. Loans and other borrowings continued

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

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

a Includes overdrafts of £104m at 31 March 2021 (31 March 2020: £183m).
b There are no net liabilities classified as held for sale. In 2019/20, net liabilities classified as held for sale included lease liabilities of £62m less cash and cash equivalents of £43m, refer to note 23.
c The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency.
d Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at the balance sheet date.

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

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

Notes to the consolidated financial statements continued

26. Loans and other borrowings continued

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

a Net lease additions comprise net non-cash movements in lease liabilities during the period primarily new and terminated leases, remeasurements of existing leases and lease interest charges.
b Includes accrued interest and bank overdrafts.
c Translation of debt balances at swap rates where hedged by cross-currency swaps.
d Other movements include removal of accrued interest applied to reflect the effective interest rate method, removal of fair value adjustments and divestment of held for sale liabilities (see note 23).
e Cash flows from gross debt of £2,655m outflow (2019/20: £1,504m inflow) include repayment of borrowings £1,162m (2019/20: £1,111m outflow), proceeds from bank loans and bonds £nil (2019/20: £2,843m inflow), cash flows from derivatives related to net debt £490m outflow (2019:20: £452m inflow), payment of lease liabilities £782m (2019/20: £651m outflow), interest paid on lease liabilities £142m (2019/20: £140m outflow), and change in bank overdraft £79m outflow (2019/20: £111m inflow).

26. Loans and other borrowings continued

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

At 31 March	2021 £m	2020 £m
0.625% €1,500m bond due March 2021[a]	–	1,326
0.5% €575m bond due June 2022[a]	491	509
1.125% €1,100m bond due March 2023[a]	936	972
0.875% €500m bond due September 2023[a]	426	442
4.5% US$675m bond due December 2023[a]	496	551
1% €575m bond due June 2024[a]	493	512
1% €1,100m bond due November 2024[a]	935	970
3.50% £250m index linked bond due April 2025	449	445
0.5% €650m bond due September 2025[a]	553	574
1.75% €1,300m bond due March 2026[a]	1,106	1,149
1.5% €1,150m bond due June 2027[a]	984	1,020
2.125% €500m bond due September 2028[a]	428	445
5.125% US$700m bond due December 2028[a]	512	570
5.75% £600m bond due December 2028	690	700
1.125% €750m bond due September 2029[a]	635	658
3.25% US$1,000m bond due November 2029[a]	726	807
9.625% US$2,670m bond due December 2030[a] (minimum 8.625%[b])	1,981	2,203
3.125% £500m bond due November 2031	503	502
3.64% £330m bond due June 2033	339	339
1.613% £330m index linked bond due June 2033	347	343
6.375% £500m bond due June 2037[a]	522	522
3.883% £330m bond due June 2039	340	340
1.739% £330m index linked bond due June 2039	348	343
3.924% £340m bond due June 2042	350	350
1.774% £340m index linked bond due June 2042	358	354
3.625% £250m bond due November 2047	250	250
4.25% US$500m bond due November 2049[a]	366	407
1.874% €500m bond due August 2080[c]	429	441
Total listed bonds	**15,993**	**18,044**
Other loans	588	1,107
Bank overdrafts (note 25)	104	183
Total other loans and borrowings	**692**	**1,290**
Total loans and other borrowings	**16,685**	**19,334**

a Designated in a cash flow hedge relationship.
b The interest rate payable on this bond attracts an additional 0.25% for rating category downgrade by either Moody's or Standard & Poor's to the group's senior unsecured debt below A3/A– respectively. In addition, if Moody's or Standard & Poor's subsequently increase the ratings then the interest rate will be decreased by 0.25% for each rating category upgrade by either rating agency. In no event will the interest rate be reduced below the minimum rate reflected in the above table.
c Includes a call option at 4.5 years (May 2025).

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

The fair value of our listed bonds is estimated on the basis of quoted market prices (Level 1).

The carrying amount of other loans and bank overdrafts equates to fair value due to the short maturity of these items (Level 3).

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

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

Notes to the consolidated financial statements continued

26. Loans and other borrowings continued

Loans and other borrowings are analysed as follows:

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

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

The carrying values disclosed in the above table reflect balances at amortised cost adjusted for accrued interest and fair value adjustments to the relevant loans or borrowings. These do not reflect the final principal repayments that will arise after taking account of the relevant derivatives in hedging relationships which are reflected in the table below. All borrowings as at 31 March 2021 were unsecured.

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

	2021			2020		
At 31 March	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m
Within one year, or on demand	**911**	**(219)**	**692**	**2,842**	**(406)**	**2,436**
Between one and two years	1,427	(69)	1,358	–	–	–
Between two and three years	915	63	978	1,482	(125)	1,357
Between three and four years	1,427	65	1,492	987	(9)	978
Between four and five years	2,529	(77)	2,452	1,482	9	1,491
After five years	9,463	(134)	9,329	12,536	(770)	11,766
Total due for repayment after more than one year	**15,761**	**(152)**	**15,609**	**16,487**	**(895)**	**15,592**
Total repayments	**16,672**	**(371)**	**16,301**	**19,329**	**(1,301)**	**18,028**
Fair value adjustments	13			5		
Total loans and other borrowings	**16,685**			**19,334**		

27. Finance expense

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

28. Financial instruments and risk management

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

How do we manage financial risk?

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

Treasury operation

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

Treasury policy

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

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

How do we manage interest rate risk?

Management policy

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

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

Hedging strategy

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

Interest Rate Benchmark reform

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

How do we manage foreign exchange risk?

Management policy

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

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

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

Hedging strategy

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

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

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

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

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

The floating rate loans and borrowings and committed facilities bear interest rates fixed in advance for periods up to one year, primarily by reference to RPI, CPI and LIBOR which will be transitioned onto 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	2021 £m Increase (reduce)	2020 £m Increase (reduce)
Sterling interest rates	816	989
US dollar interest rates	(438)	(610)
Euro interest rates	(349)	(451)
Sterling strengthening	(255)	(289)

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

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

Credit ratings

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

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

Our credit ratings were as detailed below:

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

28. Financial instruments and risk management continued

How do we manage liquidity risk?

Management policy

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

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

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

Interest Rate Benchmark reform

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

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

Non-derivative financial liabilities At 31 March 2021	**Loans and other borrowings[c] £m**	**Interest on loans and other borrowings[c] £m**	**Trade and other payables £m**	**Provisions £m**	**Lease liabilities £m**	**Total £m**
Due within one year	692	528	5,153	1	724	7,098
Between one and two years	1,427	528	–	3	791	2,749
Between two and three years	915	515	–	4	762	2,196
Between three and four years	1,427	489	–	2	710	2,628
Between four and five years	2,529	467	–	2	592	3,590
After five years	9,463	3,076	–	–	3,391	15,930
	16,453	**5,603**	**5,153**	**12**	**6,970**	**34,191**
Interest payments not yet accrued	–	(5,384)	–	–	–	(5,384)
Fair value adjustment	13	–	–	–	–	13
Impact of discounting	–	–	–	–	(818)	(818)
Carrying value on the balance sheet[a,b]	**16,466**	**219**	**5,153**	**12**	**6,152**	**28,002**

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

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

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

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

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

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

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

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

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

a Certain derivative financial instruments contain break clauses whereby either the group or bank counterparty can terminate the swap on certain dates and the mark to market position is settled in cash.
b Foreign currency-related cash flows were translated at closing rates as at the relevant reporting date. Future variable interest rate cash flows were calculated using the most recent rate applied at the relevant balance sheet date.

How do we manage credit risk?

Management policy

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

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

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

Operational management policy

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

28. Financial instruments and risk management continued

Exposures

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

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

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

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

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

a The 2020 comparative has been re-presented following a review of how repurchase agreements are presented. Where GILTs had been used as collateral, it has been determined that the exposure was to the UK Government and therefore it is more appropriate to present these agreements in the credit rating band that reflects UK Government risk.
b We hold cash collateral of £588m (2019/20: £1,091m) in respect of derivative financial assets with certain counterparties.

The concentration of credit risk for our trading balances is provided in note 17, which analyses outstanding balances by customer-facing unit. Where multiple transactions are undertaken with a single financial counterparty or group of related counterparties, we enter into netting arrangements to reduce our exposure to credit risk by making use of standard International Swaps and Derivatives Association (ISDA) documentation. We have also entered into credit support agreements with certain swap counterparties whereby, on a daily, weekly and monthly basis, the fair value position on notional £2,024m of long dated cross-currency swaps and interest rate swaps is collateralised. The related net cash outflow during the year was £490m (2019/20: inflow £460m). The collateral paid and received is recognised within current asset investments and loans and other borrowings, respectively.

Offsetting of financial instruments

The table below shows our financial assets and liabilities that are subject to offset in the group's balance sheet and the impact of enforceable master netting or similar agreements.

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

		Related amounts not set off in the balance sheet		
Financial assets and liabilities At 31 March 2020	Amounts presented in the balance sheet £m	Right of set off with derivative counterparties[a] £m	Cash collateral £m	Net amount £m
Derivative financial assets	2,489	(742)	(1,091)	656
Derivative financial liabilities	(1,012)	742	83	(187)
Total	**1,477**	**–**	**(1,008)**	**469**

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

28. Financial instruments and risk management continued

Derivatives and hedging

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

Significant accounting policies that apply to derivatives and hedge accounting

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

Derivatives designated in a cash flow hedge

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

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

Other derivatives

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

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

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

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

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

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

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

28. Financial instruments and risk management continued

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

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

Hedged items At 31 March 2021	Notional principal £m	Asset £m	Liability £m	Balance in cash flow hedge related reserves (gain)/loss £m	Fair value (gain)/loss recognised in OCI £m	Amount recycled from cash flow hedge related reserves to P&L £m
Sterling, euro and US dollar denominated borrowings[a]	12,302	999	(974)	(3)	1,349	(862)
Step up interest on the 2030 US dollar bond[b]	147	–	(7)	(26)	16	3
Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies[c]	2,145	7	(64)	40	88	9
Fallago Rigg Energy Contract		–	(36)	36	15	–
Total cash flow hedges	**14,594**	**1,006**	**(1,081)**	**47**	**1,468**	**(850)**
Deferred tax		–	–	(16)		
Derivatives not in a designated hedge relationship		229	(202)	–		
Carrying value on the balance sheet		**1,235**	**(1,283)**	**31**		

Hedged items At 31 March 2020	Notional principal £m	Asset £m	Liability £m	Balance in cash flow hedge related reserves (gain)/loss £m	Fair value (gain)/loss recognised in OCI £m	Amount recycled from cash flow hedge related reserves to P&L £m
Sterling, euro and US dollar denominated borrowings[a]	13,464	2,142	(744)	(490)	(828)	386
Step up interest on the 2030 US dollar bond[b]	159	7	–	(45)	(11)	4
Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies[c]	2,480	55	(11)	(57)	(36)	(8)
Fallago Rigg Energy Contract		–	(21)	21	21	–
Total cash flow hedges	**16,103**	**2,204**	**(776)**	**(571)**	**(854)**	**382**
Deferred tax		–	–	95		
Derivatives not in a designated hedge relationship		285	(236)	–		
Carrying value on the balance sheet		**2,489**	**(1,012)**	**(476)**		

a Sterling, euro and US dollar denominated borrowings are hedged using cross-currency swaps and interest rate swaps. Amounts recycled to profit and loss are presented within other operating costs and finance expense.
b US dollar step up interest on US denominated borrowings are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within finance expense.
c Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies are hedged using forward currency contracts. Amounts recycled to profit and loss in respect of these items are presented within cost of sales and other operating costs.

All cash flow hedges were fully effective in the period.

Notes to the consolidated financial statements continued

29. Other reserves

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

a The cash flow reserve is used to record the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.
b The fair value reserve is used to record the cumulative fair value gains and losses on assets classified as fair value through other comprehensive income. The cumulative gains and losses are recycled to the income statement on disposal of the assets. Level 1 investments, classified as fair value through other comprehensive income, were sold in 2020. The fair value gain was reclassified from fair value reserve to profit and loss reserve after disposal.
c The cost of hedging reserve reflects the gain or loss on the portion excluded from the designated hedging instrument that relates to the currency basis element of our cross currency swaps. It is initially recognised in other comprehensive income and accounted for similarly to gains or losses in the cash flow reserve.
d The translation reserve is used to record cumulative translation differences on the net assets of foreign operations. The cumulative translation differences are recycled to the income statement on disposal of the foreign operation.
e Excludes £nil (2019/20: £(1)m) of exchange differences in relation to retained earnings attributed to non-controlling interests.
f Movements in cash flow hedges recognised in income and expense include a net charge to other comprehensive income of £778m (2019/20: charge of £428m) which have been reclassified to operating costs, and a net credit to the cash flow reserve of £72m (2019/20: £46m) which have been reclassified to finance expense (see note 27).
g Included within the £189m movement in the translation reserve is £23m which relate to disposals (see note 23).

30. Related party transactions

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

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

Transactions with associates are shown below:

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

31. Financial commitments and contingent liabilities

Financial commitments were as follows:

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

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

Other than as disclosed below, there were no contingent liabilities or guarantees at 31 March 2021 other than those arising in the ordinary course of the group's business and on these no material losses are anticipated. We have insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of our operations. Otherwise, the group generally carries its own risks.

Commitments and guarantees

BT plc

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

BDUK

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

Telefónica UK Limited leases

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

Legal and regulatory proceedings

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

Class action claim

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

Italian business

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

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

Notes to the consolidated financial statements continued

31. Financial commitments and contingent liabilities continued

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

Phones 4U

Since 2015 the administrators of Phones 4U Limited have made allegations that EE and other mobile network operators colluded to procure Phones 4U's insolvency. Legal proceedings for an unquantified amount were issued in December 2018 by the administrators and in April 2019 we submitted our defence to this claim. The parties are now working through the procedural steps in the litigation. We continue to dispute these allegations vigorously.

Regulatory matters

In the ordinary course of business, we are periodically notified of regulatory and compliance matters and investigations. We provide for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. Provisions reflect management's estimates of regulatory and compliance risks across a range of issues, including price and service issues.

The precise outcome of each matter depends on whether it becomes an active issue, and the extent to which negotiation or regulatory and compliance decisions will result in financial settlement. The ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement.

32. Post balance sheet events

BT OnePhone acquisition

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

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

Spectrum auction

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

Financial Statements of BT Group plc

BT Group plc company balance sheet
Registered number 4190816

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

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

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

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

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

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

Jan du Plessis
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

BT Group plc company statement of changes in equity

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

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

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

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

Notes to the company financial statements

1. BT Group plc accounting policies

Principal activity

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

Accounting basis

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

Financial statements

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

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

New and amended accounting standards effective during the year

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

Exemptions

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

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

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

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

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

Investments

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

Taxation

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

Dividends

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

Share capital

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

Cash and cash equivalents

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

Share-based payments

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

2. Investments

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

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

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

Notes to the company financial statements continued

3. Merger reserve

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

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

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

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

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

4. Other information

Dividends

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

Employees

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

Related undertakings

Subsidiaries

Company name	Group interest in allotted capital[a]	Share class
Held directly		
United Kingdom		
81 Newgate Street, London, EC1A 7AJ, 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		
Av. Luis Maria Campos 877, Piso 10, Ciudad Autonoma de, Buenos Aires, C1426, Argentina		
BT Argentina S.R.L.	100%	ordinary
Australia		
Level 1, 76 Berry Street, North Sydney NSW 2060, Australia		
BT Australasia Pty Limited	100%	ordinary
	100%	preference
Austria		
Louis-Häfliger-Gasse 10, 1210, Wien, Austria		
BT Austria GmbH	100%	ordinary
Azerbaijan		
The Landmark III Building, 8th Floor, c/o Deloitte & Touche, 96 Nizami Street, Baku, AZ 1010, Azerbaijan		
BT Azerbaijan Limited, Limited Liability Company	100%	ordinary
Bahrain		
Suite #659, 6th floor, Building No. 247, Road 1704, Diplomat Area 317, Bahrain		
BT Solutions Limited (Bahrain Branch)[b]	100%	–
Bangladesh		
JHK Windcel, Level 4, KA-90 Progoti Sarani, Kuril, Dhaka, Bangladesh, 1229, Bangladesh		
BT Communications Bangladesh Limited	100%	ordinary
Barbados		
3rd Floor, The Goddard Building, Haggatt Hall, St. Michael, BB11059, Barbados		
BT (Barbados) Limited	100%	ordinary
Belarus		
58 Voronyanskogo St, Office 89, Minsk 220007, Belarus		
BT BELRUS Foreign Limited Liability Company	100%	ordinary
Belgium		
Telecomlaan 9, 1831 Diegem, Belgium		
BT Global Services Belgium BV	100%	ordinary
BT Professional Services (Holdings) N.V.	100%	ordinary
Telecomlaan 9, 1830 Diegem, Belgium		
Global Security Europe Limited – Belgian Branch[b]	100%	–
Rue de L'Aêropostale 8, 4460 Grâce-Hollogne, Belgium		
IP Trade SA	100%	ordinary
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		
Skenderpasina 33, Sarajevo, 71000, Bosnia and Herzegovina		
BTIH Teleconsult Drustvo sa organicenom odgovornoscu za posredovanje i zastupanje d.o.o. Sarajevo	100%	–
Botswana		
Deloitte House, Plot 64518, Fairgrounds, Gaborone, PO Box 1839, Botswana		
BT Global Services Botswana (Proprietary) Limited	100%	ordinary
Brazil		
Avenida Doutora Ruth Cardoso, nº 4777, 14º andar, parte, Jardim Universidade – Pinheiros, na Cidade de, São Paulo- SP- CEP, 05477–000, Brasil		
BT Global Communications do Brasil Limitada	100%	quotas
Avenida Das Naçôes Unidas, 4777 – 14 andar, Pinheiros, São Paulo, SP 05477–000, Brazil		
BT Communications do Brasil Limitada	100%	quotas
Bulgaria		
51B Bulgaria Blvd., fl. 4, Sofia, 1404, Bulgaria		
BT Bulgaria EOOD	100%	ordinary
Canada		
Regus Brookfield Place, 161 Bay Street, 26th and 27th Floors, Toronto, Ontario, M5J 2S1, Canada		
BT Canada Inc.	100%	common
Chile		
Rosario Norte 407, Piso 6, Las Condes, Santiago, Chile		
Servicios de Telecomunicaciones BT Global Networks Chile Limitada	100%	ordinary
China		
Building 16, 6th Floor, Room 602-B, No. 269 Wuyi Road, Hi-tech Park, Dalian, 116023, China		
BT Technology (Dalian) Company Limited	100%	registered
No. 3 Dong San Huan Bei Lu, Chao Yang District, Beijing, 100027, China		
BT Limited, Beijing Office[b]	100%	–
Room 1206, Tower A, United Plaza, 5022 Bin He Avenue, Fu Tian District, Shenzhen, P. R. China		
Infonet Primalliance Shenzhen Co. Ltd.	100%	ordinary
Room 2101–2103, 21/F, International Capital Plaza, No. 1318 North Sichuan Road, Hong Kou District, Shanghai, 200080, China		
BT China Limited-Shanghai Branch Office[b]	100%	–
Room 4B, 7/F, Tower W3, Oriental Plaza, 1 East Chang An Avenue, Dong Cheng District, Beijing, P. R. China		
Infonet Primalliance Beijing Co. Ltd.	80%	ordinary
Room 601, No. 2 BLDG, 750 West Zhong Shan Rd., Shanghai, 200051, P.R . China		
Infonet Primalliance Shanghai Co. Ltd.	90%	ordinary
Room 635–3, No. 2 BLDG, 351 Guo Shou Jing Road, Zhang Jiang High Technology Park, Shanghai, P. R. China		
Infonet Primalliance Holding Co. Ltd.	100%	ordinary
Room 702A, Tower W3, Oriental Plaza, 1 East Chang An Avenue, Dongcheng, Beijing, 100738, China		
BT China Limited	100%	registered
Unit 1537B, Floor 15th, No. 55, Xili Road, Shanghai Free Trade Zone, Shanghai, China		
BT China Communications Limited	50%	ordinary
Colombia		
Calle 113, 7–21 Piso 11, Torre A Oficina 1015, Teleport Business Park, Bogota, Colombia		
BT Colombia Limitada	100%	quotas
Costa Rica		
Heredia–Belen La Ribera, Centro Corporativo El Cafeta, Edificio B, segundo piso, Oficinas de Deloitte, San José, Costa Rica		
BT Global Costa Rica SRL	100%	ordinary

Related undertakings continued

Subsidiaries continued

Company name	Group interest in allotted capital[a]	Share class
Côte d'Ivoire		
Abidjan Plateau, Rue du commerce, Immeuble Nabil 1er étage, 01 BP 12721 Abidjan 01, Côte d'Ivoire		
BT Cote D'Ivoire	100%	ordinary
Croatia		
Savska Cesta 64, Zagreb, 10000, Croatia		
BT Solutions Limited Podruznica Hrvatska[b]	100%	–
Cyprus		
Hadjianastassiou, Ioannides LLC, DELOITTE LEGAL, Maximos Plaza, Tower 3, 2nd Floor, 213 Arch. Makariou III Avenue, Limassol, 3030, Cyprus		
BT Solutions Limited[b]	100%	–
Arch. Makarios III, 213, Maximos Plaza, Tower 3, Floor 2, Limassol, 3030, Cyprus		
BT Global Europe B.V.[b]	100%	–
Czech Republic		
Muchova 240/6, Dejvice, 160 00 Prague 6, Czech Republic		
BT Limited, organizacni slozka[b]	100%	–
Pujmanové 1753/10a, Nusle, 140 00, Prague, 4, Czech Republic		
BT Global Europe B.V., odštěpný závod[b]	100%	–
Denmark		
Havnegade 39, 1058, Kobenhavn K, Denmark		
BT Denmark ApS	100%	ordinary
Dominican Republic		
Av. Abraham Lincoln Esq. Jose Amado Soler, Edif. Progresso, Local 3-A, Sector Ens. Serralles, Santo Domingo, Dominican Republic		
BT Dominican Republic, S. A.	100%	ordinary
Ecuador		
Av. Amazonas N21-252 y Carrión, Edificio Londres, 4° Piso, Quito, Ecuador		
BT Solutions Limited (Sucursal Ecuador)[b]	100%	–
Egypt		
1 Wadi El Nile St., Mohandessin, Giza, Cairo, Egypt		
BT Telecom Egypt LLC	100%	stakes
El Salvador		
Edificio Avante Penthouse Oficina, 10–01 Y 10–03 Urbanizacion, Madre Selva, Antiguo Cuscatlan, La Libertad, El Salvador		
BT El Salvador, Limitada de Capital Variable	100%	ordinary
Estonia		
A.H. Tammsaare tee 47, Tallinn, 11316, Estonia		
BT Solutions Limited Eesti Filiaal[b]	100%	–

Company name	Group interest in allotted capital[a]	Share class
Finland		
Mannerheimvägen 12 B 6, 00100 Helsinki, Finland		
BT Nordics Finland Oy	100%	ordinary
France		
Tour Ariane, 5 place de la Pyramide, La Defense Cedex, 92088 PARIS, France		
BT France S.A.S.	100%	ordinary
BT Newco France S.A.S.	100%	ordinary
Germany		
Barthstraße 4, 80339, Munich, Germany		
BT (Germany) GmbH & Co. oHG	100%	ordinary
BT Deutschland GmbH	100%	ordinary
BT Garrick GmbH	100%	ordinary
Frankfurter Straße 21–25, Eschborn, 65760, Frankfurt am Main, Germany		
IP Trade Networks GmbH	100%	ordinary
Widdersdorfer Strasse 252, 50933, Cologne, Germany		
Global Security Europe Limited – Germany Branch[b]	100%	–
Ghana		
5th Floor, Vivo Place, Cantonments City, Rangoon lane, Accra, P.O. Box MB 595, Ghana		
BT Ghana Limited	100%	ordinary
Greece		
75 Patision Street, Athens, 10434, Greece		
BT Solutions Limited-Greek Branch[b]	100%	–
Guatemala		
5ta avenida 5–55 zona 14, Edificio Europlaza World Business Center, Torre IV, nivel 7, oficina 702, Guatemala City, Guatemala		
BT Guatemala S.A.	100%	unique
Honduras		
Colonia Pueblo Nuevo, Edificio Torre Morazán, torre número uno (1), piso número nueve (9), cubículo diez mil novecientos dieciocho (10918) en la Ciudad de Tegucigalpa, Municipio del Distrito Central, Departamento de Francisco Morazán, Honduras		
BT Sociedad De Responsabilidad Limitada	100%	–
Hong Kong		
38th Floor Dorset House, Taikoo Place, 979 King's Road, Island East, Hong Kong		
BT Hong Kong Limited	100%	ordinary
Infonet China Limited	100%	ordinary
Hungary		
Budafoki U. 91–93, Budapest, 1117, Hungary		
BT Global Europe B.V. Magyarorszagi Fioktelepe[b]	100%	–

Company name	Group interest in allotted capital[a]	Share class
BT Limited Magyarorszagi Fioktelepe[b]	100%	–
BT ROC Kft	100%	business
Iceland		
Skútuvogi 1e, 104, Reykjavik, Iceland		
BT Solutions Limited Útibú á Íslandi[b]	100%	–
India		
11th Floor, Eros Corporate Tower, Opp. International Trade Tower, Nehru Place, New Delhi, 110019, India		
BT (India) Private Limited	100%	ordinary
BT e-Serv (India) Private Limited	100%	equity
BT Global Business Services Private Limited	100%	ordinary
BT Global Communications India Private Limited	74%	ordinary
BT Telecom India Private Limited	74%	ordinary
A-47, Hauz Khas, New Delhi, Delhi-DL, 110016, India		
Orange Services India Private Limited	100%	ordinary
Indonesia		
World Trade Centre 5, Lantai. 13, Jl. Jend. Sudirman Kav. 29–31, Kel. Karet Setiabudi, Jakarta Selatan, Jakarta, 12920, Indonesia		
PT BT Indonesia	100%	ordinary
PT BT Communications Indonesia	95%	ordinary
Isle of Man		
Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man		
Belmullet Limited	100%	ordinary
Communicator Insurance Company Limited	100%	ordinary
Priestgate Limited	100%	ordinary
Israel		
Beit Oz, 14 Abba Hillel Silver Rd, Ramat Gan, 52506, Israel		
B.T. Communication Israel Ltd	100%	ordinary
Italy		
Strada Santa Margherita, 6/A, 43123, Parma, Italy		
BT Enìa Telecomunicazioni S.P.A.	99%	ordinary
Via Charles Robert Darwin, no 85, Settimo Milanese, 20019, Milano, Italy		
ERPTech S.p.A.	99%	ordinary
Via Correggio 5, San Donato Milanese, 20097, Milan, Italy		
Radianz Italia S.r.l.	100%	ordinary

Subsidiaries continued

Company name	Group interest in allotted capital[a]	Share class
Via Mario Bianchini 15, 00142 Roma, Italy		
BT Global Services Limited[b]	100%	–
Via Pianezza n° 123, Torino, Italy		
Atlanet SpA	99%	ordinary
Via Tucidide 56, Torre 7, 20134, Milano, Italy		
Basictel SpA	99%	ordinary
BT Italia S.p.A.	99%	ordinary
BT Nederland N.V.[b]	100%	–
Nuova Societa di Telecomunicazioni SpA	99%	ordinary
Jamaica		
26 Beechwood Avenue, Cross Roads, St. Andrew, Kingston 5, Jamaica		
BT Jamaica Limited	100%	ordinary
Japan		
ARK Mori Building, 12–32 Akasaka, 1-Chome, Minato-Ku, Tokyo, 107 – 6024, Japan		
BT Global Japan Corporation	100%	ordinary
BT Japan Corporation	100%	ordinary
Jersey		
26 New Street, St Helier, JE2 3RA, Jersey		
Ilford Trustees (Jersey) Limited	100%	ordinary
PO Box 264, Forum 4, Grenville Street, St Helier, JE4 8TQ, Jersey		
BT Jersey Limited	100%	ordinary
Jordan		
Al Gardens Area (Tlaa Al Ali), Al Salheen Neighborhood, Building #185, 7th Floor, Wasfi Al Tal Street, Amman, 962178, Jordan		
BT (International) Holdings Limited (Jordan)	100%	ordinary
Kazakhstan		
36 Al Farabi Ave., Bldg. B, Almaty Financial District, Almaty, Republic of Kazakhstan, 050059, Kazakhstan		
BT Kazakhstan LLP	100%	–
Kenya		
Aln House, Eldama Ravine close, off Eldama Ravine Road, Westlands, P O Box 764, Sarit Centre, Nairobi, 00606, Kenya		
BT Communications Kenya Limited	100%	ordinary
P.O. BOX 10032–00100, Nairobi, Kenya		
BT Telecommunications Kenya Limited	100%	ordinary
Korea		
8th Floor, KTB Building, 66 Yeoui-daero, Yeongdeungpo-gu, Seoul, 07325, Korea		
BT Global Services Korea Limited	100%	common
Latvia		
Muitas iela 1A, Riga, LV-1010, Latvia		
BT Latvia Limited, Sabiedriba ar ierobezotu 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 Professional Services (Luxembourg) S.A.	100%	ordinary
BT Broadband Luxembourg Sàrl	100%	ordinary
Macao		
Avenida da.Praia Grande, No. 367–371, Keng Ou Building, 15th andar C, em Macao, Macau, Macao		
BT Hong Kong Ltd. – Macau Branch[b]	100%	–
Malawi		
KEZA Office Park Blocks 3, First Floor, Near Chichiri, Shopping Mall, Blantyre, Malawi		
BT Malawi Limited	100%	ordinary
Malaysia		
Menara BT, Level 8, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200, Kuala Lumpur, Malaysia		
BT Global Services (M) Sdn Bhd	100%	ordinary
BT Global Services Solutions Sdn Bhd	100%	ordinary
BT Global Technology (M) Sdn. Bhd	100%	ordinary
BT Systems (Malaysia) Sdn Bhd	100%	ordinary
Malta		
Level 1, LM Complex, Brewery Street, Zone 3, Central Business District, Birkirkara CBD, 3040, Malta		
BT Solutions Limited[b]	100%	–
Mauritius		
c/o Deloitte, 7th Floor Standard Chartered Tower, 19–21 Bank Street, Cybercity, Ebène, 72201, Mauritius		
BT Global Communications (Mauritius) Limited	100%	ordinary
Mexico		
Edificio Plaza Inverlat Blvd, Manuel Avila Camacho 1, Piso, Piso 6, Colonia Lomas de Chapultepec, Miguel Hidalgo, Mexico City, 11009, Mexico		
BT LatAm México, S.A. de C.V.	100%	common
Montenegro		
Vasa Raickovica 4b, Podgorica, Podgorica, Montenegro		
BT Montenegro DOO	100%	–
Morocco		
Bd. Abdelmoumen, Immeuble Atrium, n 374, Lot. Manazyl Al Maymoune, 5 etage, Casablanca, 20390, Morocco		
BT Solutions Limited – Morocco Branch[b]	100%	–
Mozambique		
Avenida Kenneth Kaunda, number 660, Sommershield, Maputo City, Mozambique		
BT Mozambique, Limitada	100%	quotas
Namibia		
Unit 3, 2nd floor, Ausspann Plaza, Dr Agostinho Neto Road, Ausspannplatz, Windhoek, Private Bag, 12012, Namibia		
BT Solutions Limited[b]	100%	–
Netherlands		
Herikerbergweg 2, 1101CM, Amsterdam Zuidoost, Netherlands		
BT Global Europe B.V.	100%	ordinary
BT (Netherlands) Holdings B.V.	100%	ordinary
BT Nederland N.V.	100%	ordinary
BT Professional Services Nederland B.V.	100%	ordinary
Global Security Europe Limited[b]	100%	–
New Zealand		
c/o Deloitte, Level 18, 80 Queen Street, Auckland Central, Auckland, 1010, NZ, New Zealand		
BT Australasia Pty Limited – New Zealand Branch[b]	100%	–
Nicaragua		
De donde fué el Restaurante Marea Alta (Ahora quesillos EL PIPE) 2 cuadras al este, 10 Metros al norte, frente al Hotel El Gran Marquez, Casa # 351, Nicaragua, Zip code: 2815		
BT Nicaragua S.A.	100%	capital
Niger		
57, Rue des Sorkhos, BP 616, Niamey, Niger		
BT Niger	100%	ordinary
Nigeria		
Civic Towers, Plot GA1, Ozumba Mbadiwe Avenue, Victoria Island, Lagos, Nigeria		
BT (Nigeria) Limited	100%	ordinary
North Macedonia		
Str. Dame Gruev no.8, 5th floor, Building "Dom na voenite invalidi", SKOPJE 1000, North Macedonia		
BT Solutions Limited Branch Office in Skopje[b]	100%	–
Norway		
Munkedamsveien 45, c/o BDO AS, 0121 Oslo, Norway		
BT Solutions Norway AS	100%	ordinary

Related undertakings continued

Subsidiaries continued

Company name	Group interest in allotted capital[a]	Share class
Oman		
Maktabi Building, Building No. 458, Unit No. 413 (4th Floor, Road No – R41, Block No. 203, Plot No. 107, Zone No. SW41, Complex No. 271, Al Watiyah, Bausher, Muscat, Sultanate of Oman, Oman		
BT International Holdings Limited & Co. LLC	100%	ordinary
Pakistan		
Cavish Court, A-35, Block 7&8, KCHSU, Shahrah-e-Faisal, Karachi, 75350, Pakistan		
BT Pakistan (Private) Limited	100%	ordinary
Panama		
Edificio Credicorp Bank, Piso 3, Oficina 301, Cuidad de Panama, Panama		
BT de Panama, S.R.L.	100%	ordinary
Paraguay		
Av. Brasilia N° 767 casi Siria, Asunción, Paraguay		
BT Paraguay S.R.L.	100%	quotas
Peru		
Urb. Jardin Av. Las Begonias No. 441, San Isidro, Lima, Peru		
BT Peru S.R.L.	100%	ordinary
Philippines		
11th Floor, Page One Building, 1215 Acacia Ave Madrigal Business Park, Ayala Alabang, Muntinlupa, Metro Manila, 1780, Philippines		
IT Holdings, Inc	100%	ordinary
40th Floor, PBCom Tower 6795, Ayala Avenue cor. Rufino St, Makati City, 1226, Philippines		
BT Communications Philippines Incorporated	100%	ordinary
c/o Sun Microsystems Phil Inc., 8767 Paseo de Roxas, Makati City, Philippines		
PSPI-Subic, Inc	51%	ordinary
Poland		
Al. Armii Ludowej 14, 00–638 Warszawa, International Business Center, Poland		
BT Poland Spółka Z Ograniczoną Odpowiedzialnością	100%	ordinary
Portugal		
Rua D. Francisco Manuel de Melo 21–1, 1070–085 Lisboa, Portugal		
BT Portugal – Telecomunicações, Unipessoal Lda	100%	ordinary
Puerto Rico		
The Prentice-Hall Corporation System, Puerto Rico, Inc., c/o Fast Solutions, LLC, Citi Tower, 252 Ponce de Leon Avenue, Floor 20, San Juan, Puerto Rico, 00918, Puerto Rico		
BT Communications Sales, LLC Puerto Rico branch[b]	100%	–

Company name	Group interest in allotted capital[a]	Share class
Qatar		
1413, 14th Floor, Al Fardan Office Tower, Doha, 31316, Qatar		
BT Global Services (North Gulf) LLC	49%	ordinary
Republic of Ireland		
2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland		
BT Communications Ireland Limited	100%	ordinary
BT Communications Ireland Group Limited	100%	ordinary
BT Communications Ireland Holdings Limited	100%	ordinary
BT Global Communications (Ireland) Limited	100%	ordinary
Canal Capital Investment Limited	100%	ordinary
The Faraday Procurement Company Limited	100%	ordinary
Whitestream Industries Limited	100%	ordinary
Romania		
Cladirea A1, Biroul Nr. 52, Nr 35–37, Str. Oltenitei, Sector 4, Bucharest, Romania		
BT Global Services Limited Londra Sucursala Bucuresti[b]	100%	–
Russia		
Room 62, prem xx, Floor 2, Pravdy, 26, 127137, Moscow, Russian Federation		
BT Solutions Limited Liability Company	100%	–
Serbia		
Dimitrija Georgijevica Starike 20, Belgrade, 11070, Serbia		
BT Belgrade d.o.o	100%	ordinary
Sierra Leone		
84 Dundas Street, Freetown, Sierra Leone		
BT (SL) Limited	100%	ordinary
Singapore		
Level 3, #03–01/02 & #03–04, Block B, Alexandra Technopark, 438B Alexandra Road, Singapore, 119968		
BT (India) Private Limited Singapore Branch[b]	100%	–
BT Global Services Technologies Pte. Ltd.	100%	ordinary
BT Global Solutions Pte. Ltd.	100%	ordinary
BT Singapore Pte. Ltd.	100%	ordinary
Slovakia		
Dvorakovo nabrezie 4, 811 02, Bratislava, Slovakia		
BT Slovakia s.r.o.	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Slovenia		
Cesta v Mestni Log 1, Ljubljana, 1000, Slovenia		
BT GLOBALNE STORITVE, telekomunikacijske storitve, obdelava podatkov, podatkovnih baz; d.o.o.	100%	ordinary
South Africa		
BT Building, Woodmead North Office Park, 54 Maxwell Drive, Woodmead, 2191, South Africa		
BT Communications Services South Africa (Pty) Limited	70%	ordinary
BT Limited[b]	100%	–
Spain		
Calle Isabel Colbrand 8, 3rd Floor, 28050, Madrid, Spain		
BT Global ICT Business Spain SLU	100%	ordinary
Sri Lanka		
Level 03, No.11, Castle Lane, Sri Lanka, Colombo, 04, Sri Lanka		
BT Communications Lanka (Private) Limited	100%	ordinary
Sudan		
Alskheikh Mustafa Building, Parlman Street, Khartoum, Sudan		
Newgate Communication (Sudan) Co. Ltd	100%	ordinary
Sweden		
Box 30005, 104 25, Stockholm, Sweden		
BT Nordics Sweden AB	100%	ordinary
Switzerland		
Richtistrasse 5, 8304 Wallisellen, Switzerland		
BT Switzerland AG	100%	ordinary
Taiwan		
Shin Kong Manhattan Building, 14F, No. 8, Sec. 5, Xinyi Road, Taipei, 11049, Taiwan		
BT Limited Taiwan Branch[b]	100%	–
Tanzania		
BDO East Africa, 1st Floor-Wing B, Infotech Place, Mwai Kibaki Road, Dar es Salaam, Tanzania		
BT Solutions Limited – Tanzania Branch[b]	100%	–
Thailand		
Athenee Tower, 23rd Floor, (CEO Suite, Suite 38 & 40), 63 Wireless Road, Lumpini, Pathumwan, Bangkok, 10330, Thailand		
BT Siam Communications Co., Ltd	49%	class B
BT Siam Limited	69%	preference

Subsidiaries continued

Company name	Group interest in allotted capital[a]	Share class
Trinidad and Tobago		
2nd Floor CIC Building, 122–124 Frederick Street, Port of Spain, Trinidad and Tobago		
BT Solutions Limited[b]	100%	–
Tunisia		
Road Lac de Constance, Carthage Center Building, Block A-2nd floor-Les berges du Lac, Tunis, 1053, Tunisia		
BT Tunisia S.A.R.L	100%	ordinary
Turkey		
Acıbadem Mahallesi Çeçen Sk. Akasya A, Kule Kent Etabı Apt. No: 25 A/28- Üsküdar/ İstanbul, Turkey		
BT Bilisim Hizmetleri Anonim Şirketi	100%	ordinary
BT Telekom Hizmetleri Anonim Şirketi	100%	common
Uganda		
Engoru, Mutebi Advocates, Ground Floor, Rwenzori House, 1 Lumumba Avenue, Kampala, 22510, Uganda		
BT Solutions Limited[b]	100%	–
Ukraine		
Office 702, 34 Lesi Ukrainky Boulevard, Kyiv 01042, Ukraine		
BT Ukraine Limited Liability Company	100%	stakes
United Arab Emirates		
Office No G03, Ground Floor, EIB Building No 04, Dubai, United Arab Emirates		
BT MEA FZ-LLC	100%	ordinary
Office no.206 BLOCK B, Diamond Business Center 1, Al Barsha South Third, Dubai, P.O. BOX 25205, United Arab Emirates		
BT UAE Limited – Dubai Branch (1)[b]	100%	–
BT UAE Limited – Dubai Branch (2)[b]	100%	–
United Kingdom		
81 Newgate Street, London, EC1A 7AJ, United Kingdom		
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
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

Company name	Group interest in allotted capital[a]	Share class
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 Lancashire Services Limited	100%	ordinary
BT Limited	100%	ordinary
BT Nominees 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 Investments Limited	100%	ordinary
ESAT Telecommunications (UK) Limited	100%	ordinary
Extraclick Limited	100%	ordinary
Global Security Europe Limited	100%	ordinary
Newgate Street Secretaries Limited	100%	ordinary
Numberrapid Limited	100%	ordinary
Pelipod Ltd	100%	ordinary
Radianz Limited	100%	ordinary
Southgate Developments Limited	100%	ordinary
Tudor Minstrel	100%	ordinary
Alexander Bain House, 15 York Street, Glasgow, Lanarkshire, G2 8LA, Scotland		
BT Corporate Limited	100%	ordinary
Holland House (Northern) Limited	100%	ordinary
55 Baker Street, London, W1U 7EU, United Kingdom		
BT Centre Nominee 2 Limited	100%	ordinary
BT Cornwall Limited	100%	ordinary
BT Facilities Services Limited	100%	ordinary
BT LGS Limited	100%	ordinary
BT Managed Services Limited	100%	ordinary
BT South Tyneside 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
Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom		
EE (Group) Limited	100%	ordinary
EE Limited	100%	ordinary
EE Pension Trustee Limited	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Mainline Communications Group Limited	100%	ordinary
Mainline Digital Communications Limited	100%	ordinary
Orange Furbs Trustees Limited	100%	ordinary
Orange Home UK Limited	100%	ordinary
Orange Personal Communications Services Limited	100%	ordinary
United States		
c/o Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808, United States		
BT Americas Holdings Inc.	100%	common
BT Americas Inc.	100%	common
BT Communications Sales LLC	100%	units
BT Federal Inc.	100%	common
BT Procure L.L.C.	100%	units
BT United States L.L.C.	100%	units
Infonet Services Corporation	100%	common
Radianz Americas Inc.	100%	common
Uruguay		
Rincón 487 Piso 11, Montevideo, ZIP CODE 11.000, Uruguay		
BT Solutions Limited Sucursal Uruguay[b]	100%	–
Venezuela		
Edificio Parque Cristal, Torre Oeste, Piso 5, Oficina 5, Avenida Francisco de Miranda, Urbanización Los Palos Grandes, Caracas 1060, Venezuela		
BT LatAm Venezuela, S.A.	100%	ordinary
BT Global (Venezuela) S.A.	100%	ordinary
Vietnam		
16th Floor Saigon Tower, 29 Le Duan Road, District 1, Ho Chi Minh City, 710000, Socialist Republic of Vietnam		
BT (Vietnam) Co. Ltd.	100%	ordinary
Zambia		
Plot No. 11058, Haile Selassie Avenue, Zimbabwe, Lusaka, Lusaka Province, 34972, Zambia		
BT Solutions Limited[b]	100%	–
Zimbabwe		
3 Baines Avenue, Box 334, Harare, Zimbabwe		
Numberrapid Limited[b]	100%	–

Related undertakings continued

Associates

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

Joint ventures

Company name	Group interest in allotted capital[a]	Share class
Held via other group companies		
Indonesia		
World Trade Centre 5, Lantai. 13, Jl. Jend. Sudirman Kav. 29–31, Kel. Karet Setiabudi, Jakarta Selatan, Jakarta, 12920, Indonesia		
PT Sun Microsystems Indonesia	60%	ordinary
Philippines		
11th Floor, Page One Building, 1215 Acacia Ave Madrigal Business Park, Ayala Alabang, Muntinlupa, Metro Manila, 1780, Philippines		
Sun Microsystems Philippines, Inc	51%	common
Singapore		
Level 3, #03–01/02 & #03–04, Block B, Alexandra Technopark, 438B Alexandra Road, Singapore, 119968		
Sun Vietnam Pte. Ltd.	60%	ordinary
United Kingdom		
6th Floor, One London Wall, London, EC2Y 5EB, United Kingdom		
Internet Matters Limited	25%	–
81 Newgate Street, London, EC1A 7AJ, United Kingdom		
BT OnePhone Limited[c]	70%[c]	ordinary
St Helen's 1 Undershaft, London, EC3P 3DQ, United Kingdom		
Rugby Radio Station (General Partner) Limited	50%	ordinary
Rugby Radio Station (Nominee) Limited	50%	ordinary
Rugby Radio Station LP	50%	–
10 Lower Thames Street, Third Floor, London, EC3R 6YT, United Kingdom		
Youview TV Limited	14%	voting

All joint ventures are governed by a joint venture agreement.

Joint operations

Company name	Group interest in allotted capital[a]	Share class
Held via other group companies		
United Kingdom		
Sixth Floor, Thames Tower, Station Road, Reading, RG1 1LX, United Kingdom		
Mobile Broadband Network Limited	50%	ordinary

EE Limited and Hutchison 3G UK Limited (together 'the Companies') each have a 50% share in the joint operation Mobile Broadband Network Limited ('MBNL'). MBNL's ongoing purpose is the operation and maintenance of radio access sites for mobile networks through a sharing arrangement. This includes the efficient management of shared infrastructure and a 3G network on behalf of the Companies, acquiring certain network elements for shared use, and coordinating the deployment of new infrastructure and networks on either a shared or a unilateral basis (unilateral elements being network assets or services specific to one company only). The group is committed to incurring 50% of costs in respect of restructuring the shared MBNL network, a broadly similar proportion of the operating costs (which varies in line with usage), and 100% of any unilateral elements.

MBNL is accounted for as a joint operation.

Guarantees for the joint operation are given by British Telecommunications plc and CK Hutchison Holdings Limited.

The principal place of business of the joint operation is in the UK.

a The proportion of voting rights held corresponds to the aggregate interest in percentage held by the holding company and subsidiaries undertaking.
b No shares issued for a branch.
c In April 2021, the group acquired the remaining 30% ordinary shares of BT OnePhone Limited. See note 32.

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. The rationale for using these measures, along with a reconciliation from the nearest measures prepared in accordance with IFRS, are presented below.

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

Specific items

Our income statement and segmental analysis separately identify trading results on an adjusted basis, being before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence.

This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the *Executive Committee* and assists in providing an additional analysis of our reporting trading results.

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

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

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

Reported revenue, reported operating costs, reported operating profit, reported net finance expense, 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 118.

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 balance sheet.

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

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 26.

Additional information continued

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.

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	2021 £m	2020 £m
Reported operating profit for the period	**2,587**	**3,283**
Share of post tax profits (losses) of associates and joint ventures	8	(33)
Specific items (non-finance and tax)	481	367
Return for the period	**3,076**	**3,617**
Equity, debt and debt-like liabilities		
Loans and other borrowings	16,685	19,334
Lease liabilities	6,152	6,560
Retirement benefit obligations	5,096	1,140
BDUK grant funding deferral	568	619
Total equity	11,679	14,763
Adjust for balances used to hedge financial risk		
Cash and cash equivalents	(1,000)	(1,549)
Investments	(3,683)	(5,112)
Net derivative financial instruments	48	(1,477)
Adjust for tax balances		
Net deferred tax liabilities	440	1,308
Net current tax receivable	(197)	(46)
Capital employed	**35,788**	**35,540**
Return on capital employed	**8.6%**	**10.2%**

Adjusted EBITDA

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

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

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

Year ended 31 March	2021 £m	2020 £m
Reported profit for the period	**1,472**	**1,734**
Tax	332	619
Reported profit before tax	**1,804**	**2,353**
Net interest related finance expense	773	750
Depreciation and amortisation	4,347	4,274
EBITDA	**6,924**	**7,377**
EBITDA specific items	481	350
Net other finance expense	18	147
Share of post tax losses (profits) of associates and joint ventures	(8)	33
Adjusted EBITDA	**7,415**	**7,907**

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. For non-tax related items the adjustments are made on a pre-tax basis. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends, share buybacks, acquisitions and disposals, and repayment and raising of debt.

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	**2021 £m**	2020 £m
Cash generated from operations	**6,251**	**6,481**
Tax paid	(288)	(210)
Net cash inflow from operating activities	**5,963**	**6,271**
Net purchase of property, plant and equipment and intangible assets	(4,818)	(3,889)
Free cash flow	**1,145**	**2,382**
Interest received	6	30
Interest paid	(770)	(736)
Add back pension deficit payments	955	1,274
Remove cash tax benefit of pension deficit payments	(181)	(434)
Dividends from associates	5	1
Add back net cash flow from specific items	390	112
Add back net sale of non-current asset investments	(11)	33
Add back prepayment in respect of spectrum licence auction	702	–
Remove payment of lease liabilities	(782)	(651)
Normalised free cash flow	**1,459**	**2,011**

Cautionary statement regarding forward-looking statements

Certain information included in this Annual Report 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 are not guarantees of future performance. All forward-looking statements in this Annual Report are based upon information known to the company on the date of this Annual Report. 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 Financial Conduct Authority's Disclosure Guidance and Transparency Rules), 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 shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

BT Group plc
Registered office: 81 Newgate Street, London EC1A 7AJ
Registered in England and Wales No. 4190816
Produced by BT Group

PHME 86780
Printed in England by PurePrint
Design by emperor.works
Printed on Revive 50 Silk which is made from 50% de-inked, post-consumer waste and 50% virgin fibre

bt.com

MIX
Paper from responsible sources
FSC

Please recycle

By Appointment to
Her Majesty The Queen
Suppliers of Communications, Broadband
and Networked Services
BT
London