



We



Connect

For

Good

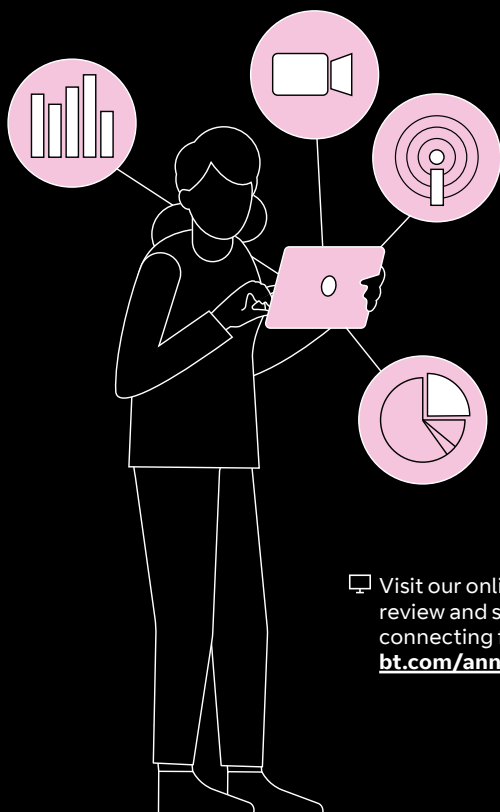
Much done, much more to do



We're BT Group

We continue to invest in the UK's digital infrastructure, to connect millions of people and generate growth, productivity and innovation.

Despite the challenging economic backdrop, the transformation of BT Group continues for the benefit of our stakeholders. We're working hard to create a better future for everyone. We're delivering on our strategy but there is still more to do.



Visit our online annual review and see how we're connecting for good bt.com/annualreview

BT Group is one of the world's leading connectivity services providers. The solutions we sell are integral to modern lives, businesses and communities in the UK and across the world. We support millions of customers across c. 180 countries and employ over 99,000 brilliant colleagues.

We manage some of the UK's best-known brands too. As the oldest telecommunications company in the world, we've been at the forefront of technology innovation and progress for over 175 years.

We've seen a lot of change over that time, and today the solutions we offer have never been more important to our customers.

Revenue

£20.7bn (1)%

(FY22: £20.9bn)

Profit before tax

£1.7bn (12)%

(FY22: £2.0bn)

Adjusted^a EBITDA

£7.9bn 5%

(FY22: £7.6bn)

Cash flow from operating activities

£6.7bn 14%

(FY22: £5.9bn)

Normalised free cash flow^b

£1.3bn (5)%

(FY22: £1.4bn)

Basic earnings per share

19.4p 50%

(FY22: 12.9p)

Capital expenditure

£5.1bn (4)%

(FY22: £5.3bn)

a Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures. See [page 234](#).

b Normalised free cash flow as defined on [page 234](#).

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This **Strategic report** was approved by the Board on 17 May 2023.

By order of the Board.

Adam Crozier

Chairman

17 May 2023

- ☰ Please see the **cautionary statement regarding forward-looking statements** on [page 236](#).
- ☰ [Pages 1 to 82](#) form the **Strategic report**. It includes our business model, progress against our strategic framework, our key performance indicators, group performance and our principal risks and uncertainties.
- ☰ The **Corporate governance report** on [pages 83 to 136](#) forms the **Report of the Directors** and includes the **Report on directors' remuneration**.

In this document, references to 'BT Group' and 'the group' are to BT Group plc comprising its subsidiaries, customer-facing units and internal corporate units. A reference to a year expressed as FY23 is to the financial year ended 31 March 2023; FY22 is to the financial year ended 31 March 2022 and so on.

Look out for these throughout the report

- ☰ [Reference to another page in the report](#)
- ☰ [Reference to further reading online](#)

A message from our Chairman

£24bn

A report into our national and regional economic impact in the UK¹ (FY22) estimated that our activities provide a £24bn boost to the economy every year



Resilience enabling a national mission

We have a responsibility to transform. Everybody at BT Group, across the Board, our managerial and front-line colleagues, has a clear sense of what we must do to deliver on our strategy to transform this business for the benefit of all our stakeholders.

Philip sets out the detail and vision for BT Group's future in his letter ([pages 4 to 7](#)), and the Board and I have every confidence that he and his *Executive Committee* have the right plan and are the right team to lead BT Group through its transformation.

As I wrote here last year, a transformation of this size cannot be accomplished overnight. However, there are clear signs of progress at this stage in the multi-year programme. And it is also clear that every team across the business is tenaciously pursuing our transformation agenda as we move from copper to fibre, analogue to digital, manual to automated.

The immense value that BT Group delivers to the UK is hard, but not impossible, to quantify. A report into our national and regional economic impact in the UK¹ (FY22) estimated that our activities provide a £24bn boost to the economy every year, and the business supports a total of 284,000 jobs across the country.

These calculations are a reminder of the central role BT Group plays in the lives of families and businesses up and down the UK and globally. A role that brings great responsibility: to continue delivering for our customers no matter what. To do that we need to enact one of the most radical overhauls of a company and its product offering in UK corporate history.

Investing for the long-term for our customers and our shareholders

The team delivered another year of strong financial and operational results in FY23, despite some extremely challenging conditions. This allowed us to declare an FY23 final dividend of 5.39 pence per share to be paid on 13 September 2023, bringing the full year dividend to 7.7 pence per share.

As we continue through the most intensive phase of our full fibre² investment programme, capital expenditure will remain high with a corresponding impact on our normalised free cash flow. Despite this short-term impact, the Board remains convinced that the investments BT Group is making today will be value enhancing, benefiting our customers and generating long-term growth.

Although our share price underperformed this year compared to last, BT Group must continue to drive its strategic agenda for long-term growth, and to do that it must take a long-term view on the investments required to deliver it.

Competition driving the right outcomes

The scale and speed of BT Group's investment in full fibre broadband are, in part, down to the regulatory framework set by our regulator, Ofcom. They have incentivised new network build across the country through a combination of strong competition balanced by a regime that allows fair returns. We remain fully committed to working within this framework and context set by Ofcom.

Building full fibre broadband is a national mission and we will play our part. It will create better outcomes for families and businesses across the UK, as well as the wider economy: a recently updated report by the Centre for Economics and Business Research estimated that Openreach's full fibre network is expected to deliver a £72bn uplift to the output of the UK economy in 2030.

Our duty to customers

Our role is about more than just building new networks; we also have a duty to provide access and opportunity for customers, leaving no one behind.

Ofcom data shows that 10% of households lack a broadband connection – a figure that rises to 26% for the over 75s. Of course, in some cases this is by choice rather than the result of poverty, but in any event these statistics equate to growing social and economic exclusion. We need to tackle this, ensuring that we are building for everyone.

While telecoms bills represent a small proportion of household running costs when compared to energy, accommodation or transport, we have nevertheless taken steps to protect our lowest income customers during the worst cost of living crisis for a generation.

In FY23 BT Group had 3m customers on fixed line and pay-as-you-go tariffs that were protected from price rises. This

includes social tariffs (subsidised rates for those on low incomes), where we have both broadband and mobile tariffs available to eligible customers. Of all the consumers in the UK on a broadband social tariff, 85% are with BT.

Along with efforts to help children, jobseekers, small businesses and the elderly boost their digital skills (see our Manifesto on [page 36](#) for details), we are making affordable services available to those who need them most in line with our purpose: we connect for good.

Board changes

At the AGM in July, we'll bid farewell to Ian Cheshire and Iain Conn when they step down from the Board. I'd like to thank them both for their wisdom and valuable contributions they made during their time on the Board and the Committees they served.

As part of the comprehensive review of the Board's composition we undertook last year, we recognised the need to enhance the Board's technology and digital capabilities given the group's focus on digital and legacy platform transformation. We therefore focused the search for individuals with specific skills and expertise and this led to us appointing Steven Guggenheimer and Maggie Chan Jones during the year. Ruth Cairnie joined the Board on 6 April 2023. From the conclusion of the AGM in July, she will succeed Iain Conn as the Senior Independent Non-Executive Director and Ian Cheshire as Chair of the *Remuneration Committee*.

Following the AGM, the Board's female membership will stand at 45%, which is in line with our Board Diversity and Inclusion Policy (see [page 100](#)). Having refreshed the composition of our Board, we feel we now have the right diversity and set of skills to take us forward in pursuit of our strategic agenda.

Resilience enabling a national mission

BT Group's transformation is now well under way and it is starting to bear fruit, with strong customer take-up on our next generation networks. While there remains a long way to go, the positive early customer response proves our plan is the right one.

We experienced challenges on many fronts in FY23 and an economic climate that has made things so much harder for our customers, investors and for us. Of course, this has required adaptability on our part, but our strategy is not optional – it is a national mission. This year, we've shown that we have the resilience to get the job done.

Adam Crozier
Chairman
17 May 2023

¹ 'The Economic Impact of BT Group plc in the UK', Hatch – 2023 Edition.
² Fibre to the premises, also known as FTTP.

A message from our Chief Executive

10.3m

Openreach has now built full fibre broadband to a total of 10.3m homes and businesses across the UK

68%

We are also continuing to build EE's 5G mobile network which now covers 68% of the UK population



**Much
done,**

**much
more
to do**

Thanks to the dedication and commitment of colleagues right across the business, BT Group achieved its financial outlook in FY23. For the first time in six years, we grew both revenue and EBITDA on a pro forma basis, demonstrating our determination to get on with the job in another tumultuous year macro economically and geopolitically.

We have stayed true to our strategy over the last four years. We're building the UK's leading next generation fixed broadband and mobile networks, and radically transforming the way we operate to deliver for customers.

Building and connecting like fury

Openreach has now built full fibre broadband to a total of 10.3m homes and businesses across the UK, including 3.1m in rural locations. Added to that, initial build is underway for a further 6m premises.

The business is now more than 40% of the way through the initial 25m premises target, and the number of people taking up full fibre is ahead of our expectations. Of the total premises passed, nearly one third had opted to upgrade to full fibre (c. 3.1m end users) at the year-end.

The Government's full expensing regime introduced in the 2023 Spring Budget will mean BT Group defers paying UK corporation tax in fiscal years 24, 25 and 26. We will use this benefit to ensure Openreach is able to offset inflation and stick to its target of reaching 25m premises by the end of 2026 as well as covering the upfront costs of connecting customers to full fibre at a faster rate than we had originally expected.

We are also continuing to build EE's 5G mobile network which now covers 68% of the UK population. Since launching the UK's first 5G network just four years ago, we have grown our 5G connections to an impressive 8.6m customers; and RootMetrics named our 4G and 5G networks as the UK's best for the ninth year in a row.

Next generation networks

The combined power of BT Group's next generation networks will deliver an economic dividend for our customers and the UK economy for many decades to come. Fundamentally, that's why we remain laser focused on building them and accelerating take-up.

This, however, requires significant investment. While we fully understand that price rises are rarely welcomed, they are necessary to fund the transformation of our networks which will create better outcomes for customers and ensure we remain competitive. The two things go hand in hand.

That said, we still offer terrific value for money for customers who rely on our services today more than ever. Ofcom's pricing trends report 2022 showed that the UK had the lowest standalone mobile prices across Europe and in the mobile and broadband markets, average UK prices are well below the US.

// **The combined power of BT Group's next generation networks will deliver an economic dividend for our customers and the UK economy for many decades to come.**

Competition is good for BT Group

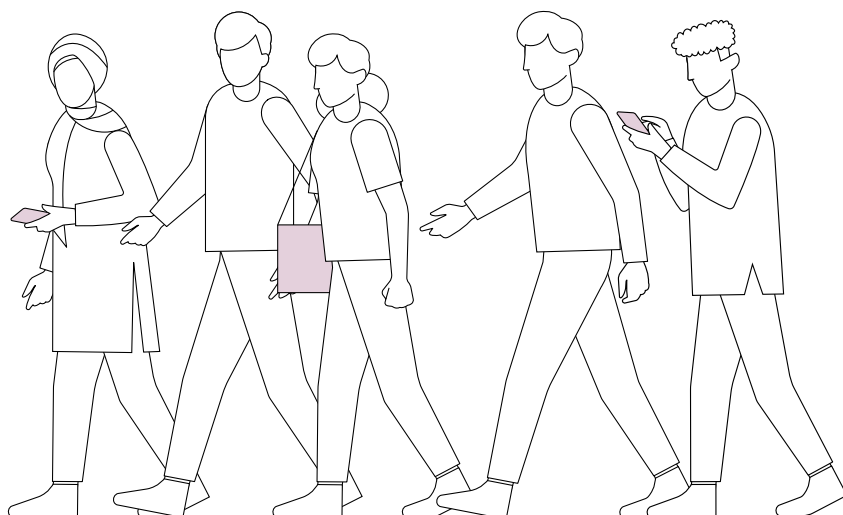
Of course, choice and competition in the UK market – prompted by our regulator, Ofcom – are big drivers of keen pricing, as well as stimulating significant and rapid investment in the UK's full fibre networks.

Ofcom's regulatory framework ensures that all network builders have the freedom to compete fairly, which is good for the UK, the country's telco industry and – most importantly – for customers.

Standing by our customers and our colleagues

Those same customers need us to stand by them through the worst cost of living crisis in a generation. Throughout the year, supporting our customers in need has been an overriding priority for me and my leadership team. On [page 3](#), our Chairman outlines our approach to protecting those customers who need it most.

It is also vital that we're there for our people. I was pleased that during FY23 we were able to award pay increases equivalent to a 15% rise for our lowest paid colleagues and agreed a way forward with our union partners on a shared vision for BT Group's modernisation agenda.



A message from our Chief Executive continued

Our strategy for growth

Five strategic priorities:

- 1** Drive Consumer growth through converged solutions

Consumer will lead in full fibre broadband, 5G and convergence to win in UK households and build deeper relationships with customers by providing exceptional experiences.
- 2** Capitalise on Business' unrivalled assets to restore growth

The creation of our Business unit will create a more competitive player in the B2B market that will help its customers grow through next generation converged connectivity solutions, leading managed services and outstanding customer experience.
- 3** Deliver Openreach growth and strong returns on full fibre broadband

Openreach will build the UK's largest full fibre broadband network, offer competitively priced wholesale services, and upgrade customers to the new platform. It will continue providing industry-leading service and strengthen its relationship with all communications providers.
- 4** Transform our cost base and improve productivity

Across BT Group we will fundamentally change what we do and how we work. We'll automate, digitise and shut down legacy systems, processes and networks. This will cut costs, boost execution speed and deliver better experiences for customers and colleagues.
- 5** Optimise our business portfolio and capital allocation

We'll keep reviewing ways to strengthen our business portfolio by owning, selling or partnering. We'll allocate substantial amounts of capital to next generation networks and solutions to better meet our customers' current and future needs. As we move beyond the peak of our full fibre broadband build programme, we'll reduce capex by c. £1bn and realise value from our investment.

Transforming our business

Modernising the UK's digital infrastructure isn't only about building new networks; it also requires us to migrate customers off our nearly obsolete and energy-hungry legacy networks. In FY24 we will be ramping up activity to smoothly migrate customers onto newer technology through the All IP and 3G sunset programmes, among others.

Next generation networks need next generation customer service. They also need the very best products and services running over them. Across the business, we are partnering with some of the world's most innovative companies, including AWS, Google, Microsoft and TCS (Tata Consulting Services) to provide leading products and services and drive exceptional customer outcomes.

We are also radically changing the size and shape of our business. During the year we completed the BT Sport 50-50 joint venture with Warner Bros. Discovery and we announced the creation of our integrated Business unit with the merger of our Enterprise and Global operations. The new Business unit will be better focused and better able to compete in the market, serving enterprise customers large and small.

The combined financial benefit from our transformation programmes will result in gross annualised cost savings of £3bn by the end of FY25. We are well on track to achieving this and by the end of FY23 we had made gross annualised savings of £2.1bn.

New BT Group

The new BT Group will be a higher margin, high-tech organisation built on the UK's best fixed and mobile networks. It will be fully digitised and highly automated with exceptional products and services for customers.

By continuing to build and connect like fury, digitise the way we work and simplify our structure, towards the end of the 2020s BT Group will rely on a much smaller total workforce and a significantly reduced cost base. New BT Group will be a leaner company with a brighter future, and we will get there by continuing to deliver our five strategic priorities. (See table opposite.)

//

BT Group has the right strategy to deliver its purpose: we connect for good; and the business has again proved its ability to deliver in testing circumstances. Everything we do starts and ends with our customers; our success is built on enabling theirs.



🖱️ [Visit our online annual review and see how we're enabling customers' success](https://www.bt.com/annualreview)
[bt.com/annualreview](https://www.bt.com/annualreview)

£2.1bn

Gross annualised cost savings to date, putting us well on track to achieve our £3bn goal

8.6m

Since launching the UK's first 5G network just four years ago, our brands have grown the number of 5G connections to an impressive 8.6m customers

Much done, much more to do

Our progress during the year was made possible by the support of our shareholders and bondholders, and I would like to thank them for their ongoing commitment. Despite the relative under-performance of our shares compared to the FTSE 100 in the year to 31 March 2023, they ended the year on an improving trend.

Having returned BT Group to both pro forma revenue and EBITDA growth for the first time in six years, we are now determined to maintain this momentum. Over the coming years we will deliver consistent and predictable revenue and EBITDA growth which, combined with the completion of our full fibre build and move off legacy networks, will result in an expansion to normalised free cash flow of at least £1.5bn by the end of the decade.

BT Group has the right strategy to deliver its purpose: we connect for good; and the business has again proved its ability to deliver in testing circumstances. Everything we do starts and ends with our customers; our success is built on enabling theirs. We know there's a long way to go but our performance in FY23 shows that we have the right plan, the right team and the determination to achieve it.

Philip Jansen
Chief Executive
17 May 2023

Executive Committee

The *Executive Committee* is chaired by the Chief Executive. So that there is a single point of accountability, the Chief Executive (or a delegate) takes all the decisions.

The *Executive Committee* provides input and recommendations to help the Chief Executive:

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

Key changes this year

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

- Debbie White ceased as Interim HR Director on leaving BT Group
- Athalie Williams joined BT Group as Chief Human Resources Officer
- Rob Shuter ceased as CEO, Enterprise.



Philip Jansen

Chief Executive

Appointed Chief Executive February 2019. Appointed to the Board January 2019.

From April 2013 until joining BT Group, Philip was CEO of Worldpay. Before that he was CEO then Chairman at Brakes Group from 2010-2015. Philip spent the previous six years at Sodexo where he was group Chief Operating Officer and Chief Executive, Europe, South Africa and India. Before that he was Chief Operating Officer at MyTravel Group from 2002-2004 and Managing Director of Telewest Communications (now Virgin Media O2) from 2000-2002. He started his career at Procter & Gamble.



Harmeen Mehta

Chief Digital and Innovation Officer

Appointed March 2021.

Harmeen is a global leader in incubating new businesses and creating revenue streams, with over 25 years' experience of digital transformation and running technology-led businesses.

Before joining BT Group, Harmeen was group CIO and Head of Cloud & Security business at Bharti Airtel. Before that, she was CIO at Bank of America Merrill Lynch, BBVA and HSBC. Harmeen is a Non-Executive Director of Lloyds Banking Group, and board member of TM Forum and Max Healthcare Institute Limited.



Simon Lowth

Chief Financial Officer

Appointed July 2016.

Simon was CFO of BG Group before the takeover by Royal Dutch Shell in February 2016. Before 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. Before that he held corporate affairs roles at McDonald's Europe, McKinsey & Company and the Blue Rubicon communications consultancy. He was previously a BBC News Producer and Editor.



Marc Allera
CEO, Consumer

Appointed September 2017.

Marc is also Chairman and a BT appointed Director of the sports joint venture between BT Group and Warner Bros. Discovery. Marc was previously CEO of EE – and EE Chief Commercial Officer from 2011-2015. He spent ten years at Three UK as Sales and Marketing Director and Chief Commercial Officer. Before that, Marc was General Manager of Sega UK and Europe.



Howard Watson
Chief Security and Networks Officer

Appointed Chief Technology and Information Officer February 2016 and became Chief Technology Officer March 2021. Appointed Chief Security and Networks Officer September 2022.

Howard's expanded role puts security at the core of our business. He was formerly Chief Architect and Managing Director, global IT systems and led the technical teams behind the 2013 BT Sport launch. Howard joined BT Group in 2011 and has 40 years of telecoms experience. This includes time at Telewest Communications (now Virgin Media) and Cartesian, a telecommunications consultancy and software company.



Bas Burger
CEO, Business

Appointed CEO, Global June 2017.
Appointed CEO, Business January 2023.

Bas was formerly President, BT in the Americas, Global Services. He joined BT Group in 2008 as CEO Benelux. Before that he was Executive President and a management committee member at 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.



Athalie Williams
Chief Human Resources Officer

Appointed December 2022.

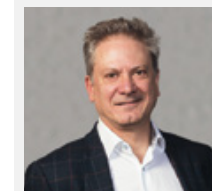
Before joining BT Group, Athalie was Chief People Officer for BHP, the world's largest mining and resources company. She led BHP's organisation, people and culture transformation agenda and shaped their industry-leading inclusion and diversity agenda. Before that Athalie was General Manager, Cultural Transformation for National Australia Bank. She also spent 14 years leading complex business transformation and change programmes in Australia and Asia as a consultant with Accenture (formerly Andersen Consulting).



Sabine Chalmers
General Counsel, Company Secretary
& Director Regulatory Affairs

Appointed General Counsel April 2018.
Appointed Director Regulatory Affairs and Company Secretary in May and September 2021 respectively.

Before joining BT Group, Sabine was Chief Legal and Corporate Affairs Officer and Company Secretary of Anheuser-Busch InBev 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. She is also a member of the Court of Directors of the Bank of England.



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. Under the provisions of the Commitments, Openreach's CEO cannot be a member of the *Executive Committee* (see [page 45](#)). Clive attends *Executive Committee* meetings as appropriate.

Our business model

What we do

BT Group is one of the world's leading connectivity providers. We build, own and operate the largest fixed and mobile networks in the UK. We serve a wide variety of customers. They range from individuals, families and businesses to the UK public sector and global companies. To earn revenue, we design, build, market, sell and support network access, connectivity and related solutions to our customers. We sometimes do this with partners.

We reinvest a big part of what we earn to maintain and improve our mobile and fixed networks, market and sell our services, serve our customers, and develop new connectivity solutions. We also use some earnings to meet our financial obligations like tax, interest, pension fund contributions and to pay dividends to shareholders in return for the capital they've invested with us.

According to our Economic Impact report, our activities contributed £24bn to the UK economy last year and supported 284,000 jobs across the UK.



Consumer customers

We sell a range of broadband, mobile and landline services, along with home and cyber security solutions to individuals and households. On top of that, we offer related entertainment services like TV and cloud gaming. These allow our customers to connect, work and be entertained safely at home and on the go. The majority of our consumer customers have 12 to 24 month contracts for mobile or broadband access.



Business customers

Our business, public sector and government customers in the UK and around the world rely on us for connectivity, networking, cyber security, collaboration tools, cloud connectivity and cloud services. Our solutions allow them to run, grow and protect their businesses and deliver their own digital transformations. Small and medium-sized businesses typically buy our services on 24 month contracts. Larger companies and public sector customers often opt for multi-year managed solution contracts or one-off services focused on specific technologies or outcomes.



Communications Providers (CPs)

We serve CPs through two channels: Enterprise and Openreach. Through Enterprise, we wholesale mobile network capabilities, voice services, broadband, Ethernet, and other connectivity solutions on contracts ranging from 1 to 5 years.

Through Openreach, we sell wholesale access to our fixed access network infrastructure to over 680 CPs, including our own Consumer and Enterprise units. A lot of Openreach services are regulated.

How we're organised

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

Customers

Customer-facing units (CFUs)

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

UK individuals and households	UK businesses, public sector and CPs	Multinational companies and international businesses	CPs including Consumer and Enterprise
Consumer Serves individuals and households. We help people in over 14m homes to communicate, study, work, learn, play and be entertained through our EE, BT and Plusnet brands.	Enterprise Serves over 1.2m UK and Republic of Ireland organisations with connectivity solutions to help them run, transform and grow. Enterprise serves small, medium and large corporate businesses, the public sector and the UK government. We also wholesale some network solutions to other CPs.	Global Serves multinational companies and governments, with a presence in c. 180 countries. Our expertise helps customers with connectivity, cloud and cyber security solutions.	Openreach Operates with strategic and operational autonomy in line with the Commitments (see page 45). It builds and operates our fixed wholesale access network including rolling out our next generation full fibre network. Openreach serves over 680 CPs who sell fixed access services to their end customers like homes, schools, hospitals, libraries, government buildings and businesses across the UK.
Following their merger, Enterprise and Global will report as Business from 1 April 2023			

Technology units (TUs)

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



Digital

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



Networks

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

Corporate units (CUs)

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



Finance, strategy & business services



Human resources



Legal, company secretarial & regulatory affairs



Corporate affairs

Our business model continued

Setting us apart from the competition, our unique set of assets helps us give customers what they need and create value for all our stakeholders.

Our sources of competitive advantage

Leading networks

We build, own, and operate the UK's largest fixed and mobile networks. They let us offer widespread coverage and superior connectivity for retail and wholesale customers. Our scale and experience enables us to outperform competitors.

>32m

Premises can be served by our fixed access network

Our fixed access network delivers speeds of up to 900Mbps, with connections available to more than 32m homes and businesses. We're building the UK's largest full fibre network, faster than anyone else, serving both rural and urban areas. It already has an over 30% take-up rate.

68%

Of the UK population covered by our 5G network

For nine years, Rootmetrics has recognised our mobile network as #1 in the UK. We have the largest spectrum holdings of any UK mobile network operator and continue to extend our national coverage. Today our 4G network covers 99.6% of the UK population – and our 5G network already covers 68%.

Large customer base

Our large and varied customer base gives us strength in all our markets. Customers typically take out multi-year subscriptions or contracts. These trusted, established long-term relationships give us valuable insights into what customers want today and tomorrow. This helps us create and deliver the right new connectivity solutions and experiences to meet their evolving needs.

>14m

UK households served

>1.2m

Business customers

We directly serve over 14m UK households and our Enterprise and Global units support over 1.2m business customers from multinational corporations and the public sector to small and medium UK businesses.

>680

CPs served

Openreach serves over 680 CPs – 49 of whom have signed up to our Equinox deal on our full fibre platform. Through these CPs, Openreach serves over 23.9m physical lines.

Colleagues and local presence

>99k

BT Group colleagues

Our colleagues are essential to us achieving our goals and delivering for our customers through their technical and commercial knowledge, skills, expertise and behaviours. They build and maintain our networks and solutions and they serve and support customers. We have a significant local presence, covering service, support and other resources to meet customers' needs quickly and in a personalised way.

>29k

Openreach engineers

Over 29,000 Openreach engineers play a crucial role in keeping the UK connected. They build and connect customers to our new full fibre network while maintaining existing networks.

>450

Retail stores

We have a leading retail presence – over 450 stores – and over 13,500 sales and service colleagues who help customers get the most from our solutions.

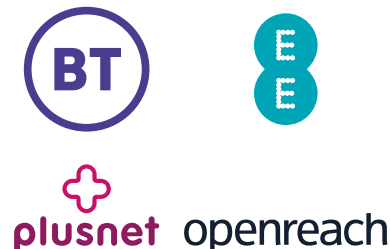
c. 180

Countries we can serve

We can serve business customers in c. 180 countries and have 13 accredited global security operations centres. In the UK we have a sales and service presence in every region.

Well established and trusted brands

Our four customer-facing brands underpin our relationships with millions of customers. The trust in these brands means that customers look to us for connectivity solutions, and more. This year we announced EE will become our flagship consumer brand, while Plusnet continues to be our value brand. BT will be our business brand in the UK and around the world.



Strong partner and supplier relationships

Collaboration is vital in our business. We work with partners and suppliers in every part of our operations. We work closely with them to create solutions that build on both parties' strengths, speed up our transformation and benefit our customers.

For example, Openreach continues to strengthen third-party contractor and supplier relationships that are helping us build and connect end customers to our full fibre network at unrivalled pace and scale. And its close engagement with CPs helps Openreach provide the best experience for end customers.

R&D and innovation

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

£683m

Expenditure on R&D

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

Rich data assets

Our rich data sets are derived from customer, product, network and operational sources. Applying appropriate forms of artificial intelligence (AI) gives us a unique perspective and understanding of what's important and what we can improve on. It lets us create personalised experiences for customers, build innovative products and protect them through state-of-the-art network monitoring.

As an example, our Active Intelligence products analyse over 10bn daily data points in the UK. This can provide anonymous insights into footfall and aggregate population movements.

Key trends influencing us

We operate in a rapidly changing environment. By understanding key trends, we can take advantage of opportunities as they arise and act quickly to reduce risks to our business where necessary.



x3

Overall growth in monthly mobile traffic in our core network from January 2019 to January 2023

The cost of living crisis and volatile macroeconomic environment

Everyone is facing a lot of economic uncertainty. Inflation, geopolitics, strikes, higher interest rates and fears of a recession affect both us and our customers. They put financial strain on customers and directly impact us with rising costs and supply chain challenges.

Ongoing network investment

Across the world (and particularly in the UK) there's huge investment in new network technologies like full fibre and 5G. We're right in the thick of it. Our investment in these networks will deliver long-term benefits with better customer solutions and more reliable, cost-efficient networks for us.

Unprecedented demand for connectivity

Technology and connectivity are ever more entwined in our customers' lives. With more and more devices and machines connected, both individuals and businesses rely on high quality connectivity even more. Digital activity is migrating to the cloud and network edge as customers demand better reliability, speeds and access. Everyone wants seamless connectivity – giving us a great opportunity to deliver that for customers.

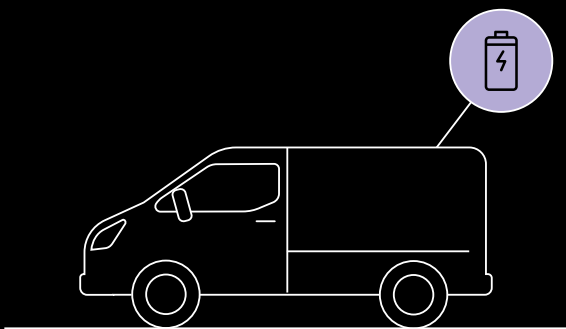


Intense competition

All our markets are still highly competitive. In the UK, there is growing and ongoing investment from alternative network providers and established players in both fixed and mobile markets. Lines between traditional communications products and digital services continue to blur. Which means we face a wider set of competitors – including new entrants.

Growing environmental, social and corporate governance (ESG) focus

Colleagues, consumers, businesses and our other stakeholders all rightly want companies to behave responsibly, sustainably, inclusively, and in ways that benefit society and the planet. More than ever, concerns about things like climate change and inequality shape how our stakeholders behave.



Data, AI and cyber security

AI – combined with using the underlying data – is developing fast. This will undoubtedly unlock huge value for our customers and our business. But it also brings with it new challenges. Using AI responsibly while protecting customers' data privacy is crucial. Data breaches and cyber attacks still pose big threats to our customers. This gives trusted businesses like ours a chance to help customers deal with these challenges.



Our strategic framework

Long-term value creation

Purpose

Why we exist

We connect for good

This drives everything we do. We believe in the value of connections – in our personal lives, at work and increasingly between machines and devices. We help individuals, organisations, emergency services and governments harness the power of these connections and use technology to improve their lives, solve challenges, and deliver for their stakeholders.

Ambition

Who we want to become

To be the world's most trusted connector of people, devices and machines by 2030

We're a trusted global company connecting millions of customers, households, businesses and governments to their needs; whether that's staying connected to loved ones and entertainment or delivering for their stakeholders. We aim to grow our customers' trust in us by proving that we're dependable and that we help them thrive in the digital world.

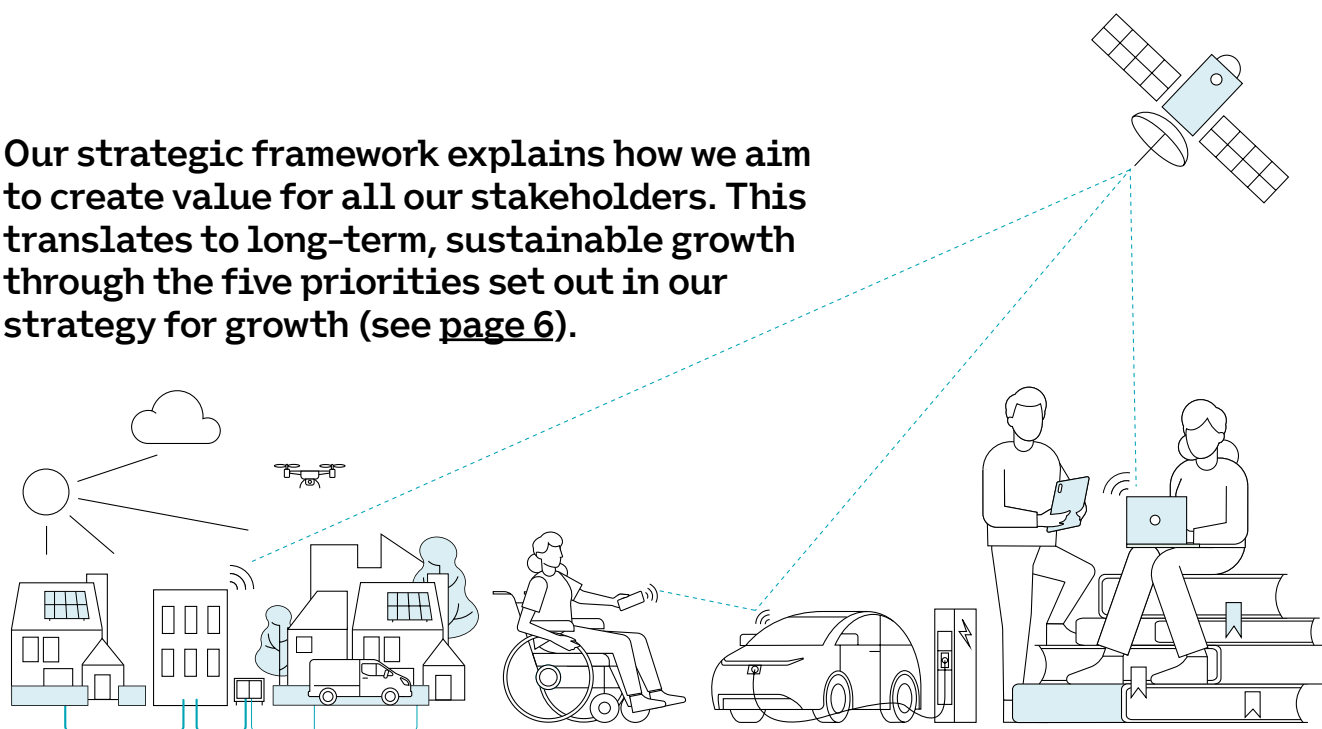
Values

What will guide us

Personal, Simple, Brilliant

Our values guide us in fulfilling our purpose and achieving our goals. These are supported by our code, ten simple statements that outline what we expect from our colleagues and suppliers. Together they reflect our accountability to society, set high standards for our business, colleagues and partners, and help us be a positive influence and win our stakeholders trust.

Our strategic framework explains how we aim to create value for all our stakeholders. This translates to long-term, sustainable growth through the five priorities set out in our strategy for growth (see [page 6](#)).



Strategy

Build the strongest foundations

We're investing in the *best converged network*. For us, that means being market leader in new full fibre and 5G networks – with the broadest reach and enhanced capabilities. These networks will provide our customers with faster and more dependable connections, enabling them to do more.

We're becoming a *simpler, more efficient and dynamic BT Group*. We're simplifying our product portfolio, transforming customer journeys and modernising our digital and network technology. We want to be easier to work for and with – more responsive to customers' needs and more efficient in delivering for them.

And we're *building a culture where people can be their best*. This means becoming more agile and providing outstanding colleague experiences while creating a diverse, inclusive and future-ready workforce.

Create standout customer experiences

We're aiming to deliver *outstanding service and experience* to our customers. That means market-leading customer service, brilliant digital touchpoints, and trustworthy, secure and personalised experiences.

We're building *smarter, differentiated solutions and outcomes*. Customers don't buy products; they buy solutions to problems. We provide the latest converged, intelligent connectivity services to our customers. And for businesses and governments we also offer differentiated service management solutions. We want our solutions to improve customers' lives and deliver them the outcomes they want.

We're creating value through *commercial excellence* – with leading sales effectiveness, and superior marketing and pricing capabilities. We want customers to feel like they are getting great value from our solutions.

Lead the way to a bright sustainable future

We're *positioning our corporate portfolio for growth*. That means optimising investments, reviewing the assets we hold and picking partners carefully.

We're exploring new *tech-driven growth engines* – with connectivity providing a strong base. We're seeking out opportunities where our assets, capabilities and expertise position us to drive profitable growth and create great outcomes for our customers and country.

We're creating a *responsible, inclusive and sustainable business*. We're contributing to a better world by investing in digital skills, championing responsible technology and tackling climate challenges and inequality.

We're building *trusted partnering relationships with our stakeholders*. As a diverse business, we have many relationships – with customers, colleagues, governments, regulators, suppliers and communities. They're all critical to our success and we take them seriously.

Progress against our strategic framework

This year we made excellent progress against our three strategic pillars. Next year we'll do more.

Build the strongest foundations

[Read more about our real world impact and the wider social value created by the Group. bt.com/annualreview](https://www.bt.com/annualreview)

The best converged network

We want to give customers the very best connectivity. So this year we continued to enhance our network assets through our new 5G network and our c. £15bn investment in full fibre (aiming to reach 25m premises including 6m in hard-to-reach communities by the end of 2026).

Despite inflation and industrial action we continue to make excellent progress on upgrading the UK's digital infrastructure for our customers.

Market leader in full fibre

- This year we passed 3.1m homes and businesses with our full fibre network, 19% more than last year and on average 8.4k premises per day
- Despite inflationary pressure, we maintained build costs at £250-£350 per premises passed
- Over 3.1m customers are now connected to our full fibre network, up 76% on last year, resulting in an overall take-up rate of over 30%
- It was a record year for selling full fibre – with 32.5k customers connected a week



10.3m

We have now passed a total of 10.3m homes and businesses with full fibre including 3.1m rural premises



Braylsham Castle

The Universal Service Obligation supports BT Group to deliver fibre solutions in rural areas beyond normal commercial reach. Under the programme, Openreach fitted a new fibre solution to Braylsham Castle. This required overcoming a range of unique challenges including laying fibre through a moat!

Market leader in 5G

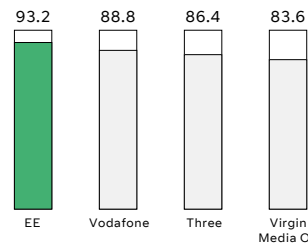
68%

Our 5G network now covers 68% of the population – with a target to reach 90% by 2028

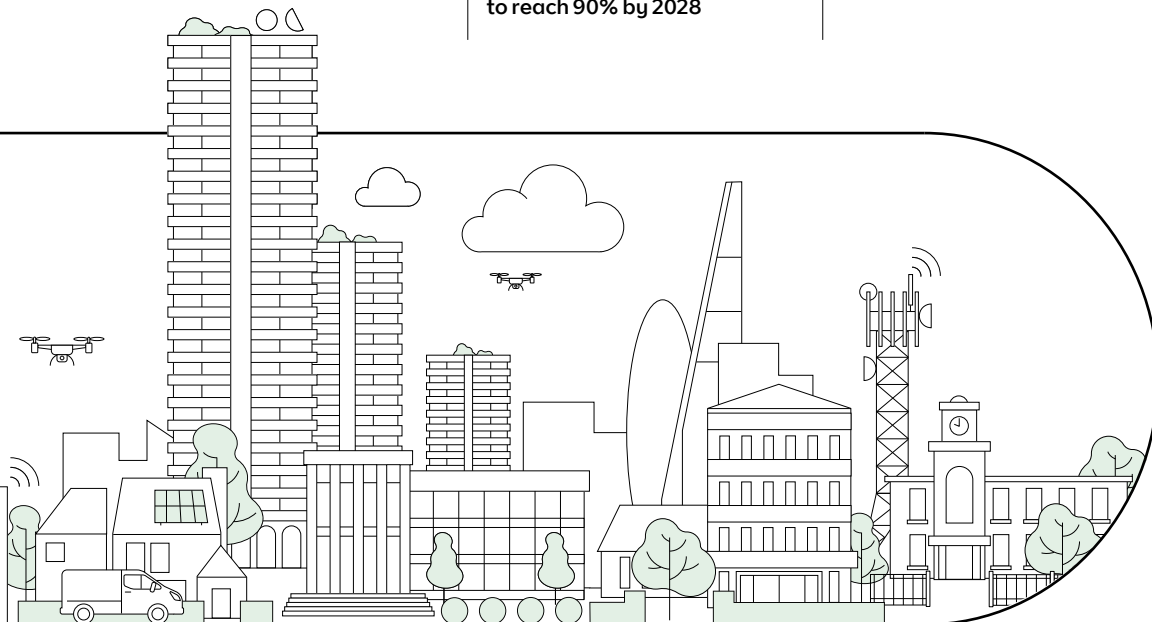
60%

We have 8.6m 5G connections, increasing over 60% on last year

We're RootMetrics' #1 UK network for the ninth consecutive year



- We set up a private 5G network at the Port of Tyne while enhancing the existing private 5G network at Belfast Harbour to revolutionise processes, track assets and better understand productivity and sustainability



Broadest reach and enhanced capabilities

87%

Our mobile network now covers 99% of the UK population and 87% of UK geography, with 2,200km² added this year

An additional six London Underground stations now have 4G service available

>21m

More than 21m 4G and 5G data customers have migrated to our new Ericsson Mobile Cloud Core hosted on our Network Cloud for better, more reliable performance

- We're trialling High-Altitude Platform Station aircraft and satellites to bring mobile coverage to the most hard-to-reach locations
- We've signed a new partnership with Ericsson to deploy ultra-lightweight Massive MIMO radio technology which will deliver up to 40% reduction in energy consumption with improved network performance



5G innovation

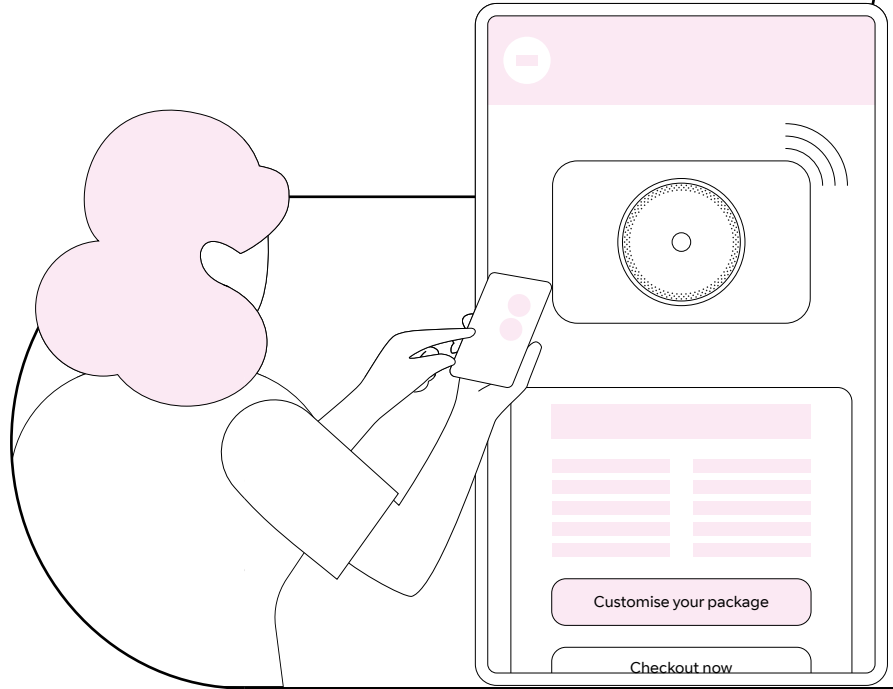
BT Group installed a 5G network to support the BBC's coverage of the 2022 Commonwealth Games. This was the first time 5G was used at an event of this size. The BBC used the private network to send footage for remote production which meant they didn't need any on-site broadcasting trucks.



Progress against our strategic framework continued
Build the strongest foundations continued

A simpler, more efficient and dynamic BT Group

This year we've continued to transform, delivering £0.7bn of cost saving efficiencies this year. To date, we have delivered 71% of our £3bn cost savings target by March 2025, at a cost of £1.1bn. We further simplified our products, processes, digital and network technologies and continued to build our new strategic IT landscape. We made progress, but there is more we need to do.



Simplified product portfolio and transformed customer journeys and processes

30%

We cut the number of Consumer tariffs by 30% – making it easier for customers to pick the right product for them

50%

By shortening our Consumer broadband journey to six steps, we cut the time it takes to buy our broadband by 50%

80%

We automated 80% of our Enterprise back-end manual billing activities

- 46% of our small and medium business customers' inbound service calls that are offered the validation option in our IVR system are now automatically validated, up from 15% last year
- The digital channel conversion rate for our Global solutions has almost tripled
- We cut our Global product portfolio by nearly 8%, helping to concentrate on our new, strategic product portfolio
- Openreach's intelligent scheduling system enables us to send the right engineer, equipped with the right skills, at the right time, to each customer. Saving £39m and 22 tonnes of CO₂ annually while increasing on-the-day closure of complex jobs by 35%
- AI powered intelligent automation in Openreach now supports leaner operations across our desk and field based teams, saving us over £35m annually
- Our Making Finance Brilliant programme has delivered over £8m of total efficiencies in FY23. The latest phase involved migrating c. £60bn of gross costs, over 220k projects, c. 1m internal orders and nearly 14m fixed assets into SAP
- We simplified our HR system landscape by consolidating to one primary system globally, resulting in a £4.5m saving in annual licences and standardising over 100 HR processes

Modern, modular digital architecture and migrating to strategic networks

343

We stopped using 343 legacy applications in FY23

>2.3m

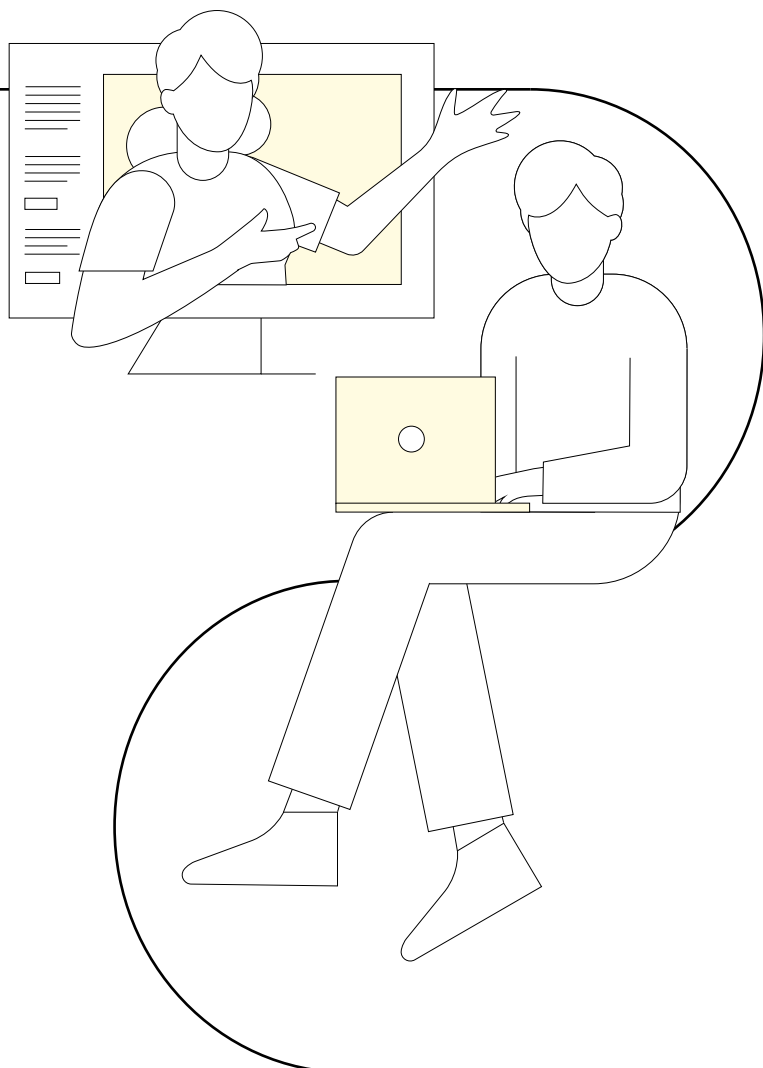
We cut the number of units on legacy networks by over 2.3m in FY23, including a 19% drop in the PSTN base

- There are 50% fewer Consumer mobile customers on 3G plans since January 2021, and 229k fewer 3G business subscribers compared to March 2022
- We're developing cloud and AI led strategic technology platforms to increase our agility and reduce costs, as well as create new products and platforms to help revenue growth and create brilliant customer experiences and digital engagement

A culture where people can be their best

Over 99,000 colleagues are central to delivering our ambitions. Although this year was difficult – especially because of industrial action – we made big progress in areas like organisational development, occupational health, wellbeing, diversity, equity and inclusion. We continue to invest in our people. But we recognise there’s work still to do.

For information on our workforce and gender and ethnicity pay gap see page 34.



Award-winning colleague development

23,000

We trained over 23,000 Openreach engineers across 10 facilities – including our award-winning real-life ‘Openstreet’ environment

– This year we ran a number of award-winning learning programmes to support our colleagues’ development such as Digital Campus, CAPSLOCK and Aspire, a career development programme in Consumer (see [page 32](#))

26hrs

On average, our colleagues completed 26 hours of learning (this excludes self-directed and micro learning)



2,267

Apprentices hired

221

Graduates hired

Apprentice programme

As one of the largest private sector employers of apprentices and graduates in the UK, we continue to recruit and attract brilliant people into our business. We offer unparalleled development opportunities to those who join us, building a future pipeline of talent and developing our existing workforce to help drive growth across our business and deliver great outcomes for all our customers.

Progress against our strategic framework continued
Build the strongest foundations continued

A diverse and inclusive workforce

“
I’m pleased that BT Group has made progress and narrowed our gender pay gap this year. But we’re far from perfect, and we recognise that we still have more to do to make sure we build a truly equitable and inclusive culture across our business.

Athalie Williams

Chief Human Resources Officer

- We improved both our gender and ethnicity pay gaps (see [page 34](#))
- We’ve increased our representation of female, ethnic minority and disabled colleagues since 2018
- We were a Gold Sponsor of London PRIDE 2022 and partnered with many other organisations such as ‘Code First Girls’ to support diversity and inclusion (D&I) (see [page 33](#))
- We were nominated for the British Diversity Awards 2023 Outstanding Ethnic Diversity Network of The Year

78%

More than 78% of UK colleagues gave us better data to understand our demographics



Openreach engineers

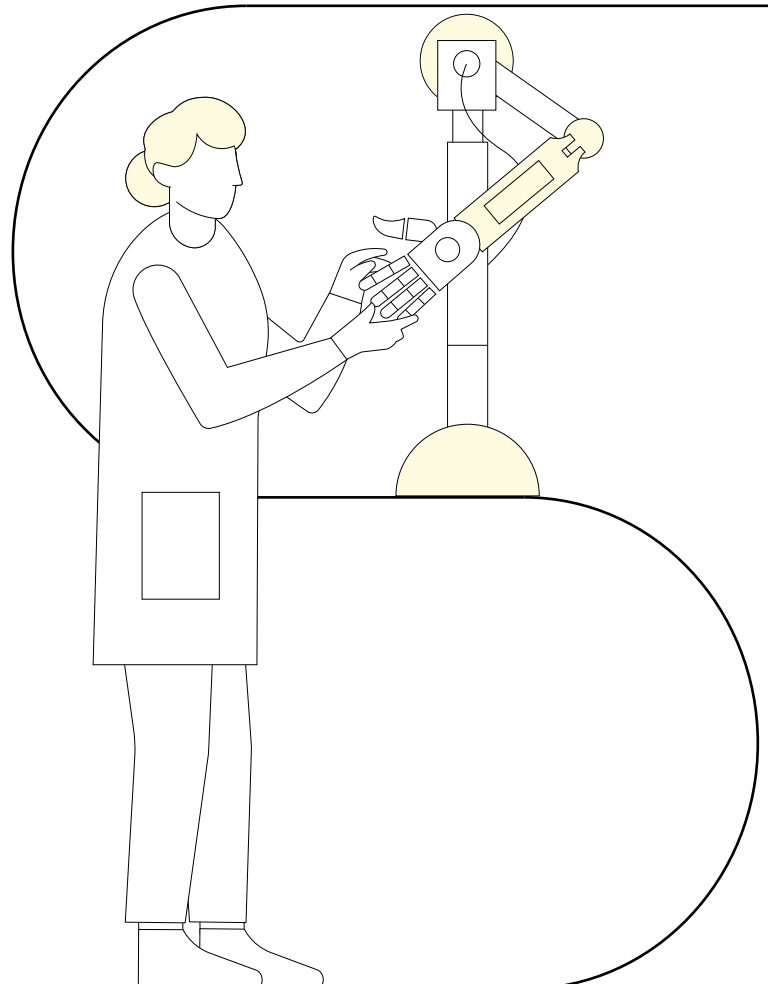
At Openreach, we’re dedicated to building an inclusive culture and supporting our engineers’ development. We’ve been working hard to recruit a more diverse pool of candidates by training our hiring managers in the use of inclusive recruitment tools and launching recruitment campaigns aimed at individuals from diverse backgrounds.

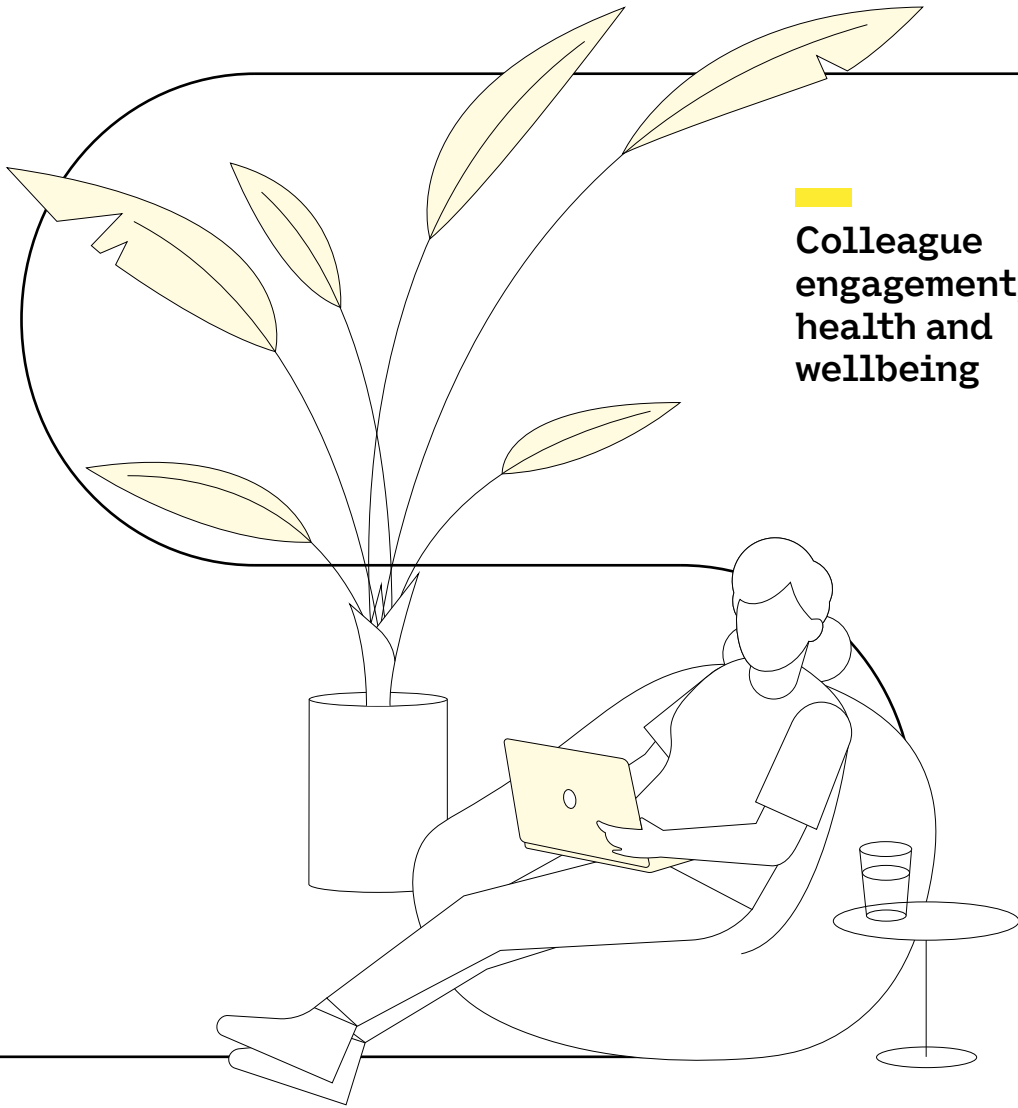
1,900

New trainee engineers this year

17%

of them are women





Colleague engagement, health and wellbeing

- Engagement is still above external benchmarks but went down 6 points in our March 2023 Your Say survey – driven by the cost of living crisis and industrial action
- We launched our new ‘My HR’ system to simplify and digitise our HR technology landscape and give colleagues a better experience
- Driven by our Health, Safety and Wellbeing Centre of Expertise, we continued to find ways to better support our colleagues this year – see [page 35](#) for more detail

Top 10%

The CCLA report on mental health for investors places us in the top 10% of the FTSE 100

Cost of living pay rise

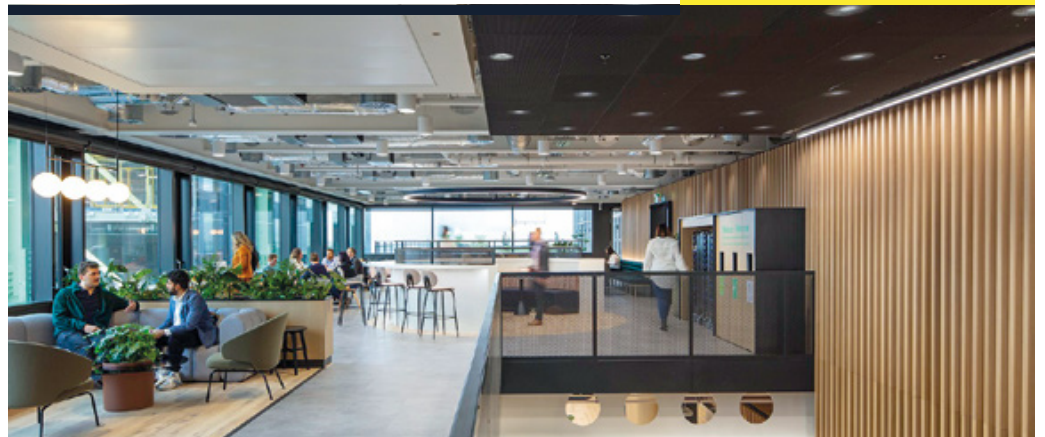
To support our colleagues during the cost of living crisis we awarded a cost of living pay rise to 85% of our UK-based colleagues. Together with the increase in April 2022 this brings the total pay rise for the lowest paid colleagues to over 15% in the year.

£1,500

Pay rise (for all UK colleagues who previously earned £50,000 or less)

85%

Awarded to 85% of our UK-based workforce



Assembly Bristol

BT Group’s latest workspace, Bristol Assembly, is designed to cater to the needs of up to 2,500 colleagues, now and in the future. It features colleague-centric spaces including prayer and parenting rooms.

The workspace is close to public transport hubs, and encourages active travel through facilities like cycle parking, lockers, changing rooms and showers.

The building is designed to support our sustainability goals with features like lighting designed to maximise energy efficiency. These features have resulted in a short-term CO₂ reduction of c. 140 tonnes per year, this is anticipated to rise to over 500 tonnes.

Additionally, we’re hiring nearly 50 apprentices and graduates in Bristol to support the UK’s digital sectors.

2,500

Bristol Assembly is designed to cater to the needs of up to 2,500 colleagues

50

We’re hiring nearly 50 apprentices and graduates in Bristol

Progress against our strategic framework continued

Create standout customer experiences

Read more about our real world impact and the wider social value created by BT Group. bt.com/annualreview

Outstanding service and experience

We've continued to invest in delivering positive experiences for our customers. This year, our overall performance was good despite service levels being affected by industrial action and customers' cost of living challenges.





Improving the skills of our engineers to improve customer experience

Over 29,000 of our engineers are able to use our 'skills passport' to better themselves, and improve the levels of customer experience they provide.

This tool brings together all the resources needed for our field engineers to enhance service quality and improve customer experience. The investment in our engineers has resulted in more successful customer visits and positive feedback from customers.

"Our engineer was very knowledgeable and polite, spending time explaining things to me. They were very meticulous and checked everything was as it should be and replaced what they could.

Customer testimonial

>91%

Customers rated over 91% of our engineer visits 8 out of 10 or higher

- Our overall net promoter score (NPS) marginally decreased this year. The cost of living challenges affected our Consumer brands and the wider market overall which was partially balanced out by positive perceptions from our corporate customers

[For more information on our Group NPS see page 48](#)

- All of our brands were winners in the 2023 USwitch awards. EE won fastest mobile network, BT won most reliable broadband and Plusnet was the best broadband provider

- We were 2022 UK Customer Experience Awards winners for Best Customer Experience and Best Customer Experience in a Crisis

- There were 2 and 7 complaints to Ofcom per 100,000 customers for EE mobile and EE broadband respectively, both the second best in the industry

- There were 10 complaints to Ofcom per 100,000 customers for BT broadband, a rate that continues to be better than the industry average

2.4m

Aimee, our in-app messaging and automated assistant, completed over 2.4m conversations and delivered a +2 rise in NPS

- The 2022 Samsung One Awards named us Network Operator of the Year

- Perceptions of our BT Consumer fixed and EE Consumer mobile networks remained broadly flat across the year, despite a 9.1% increase in demand for fixed data and a 20% increase for mobile data

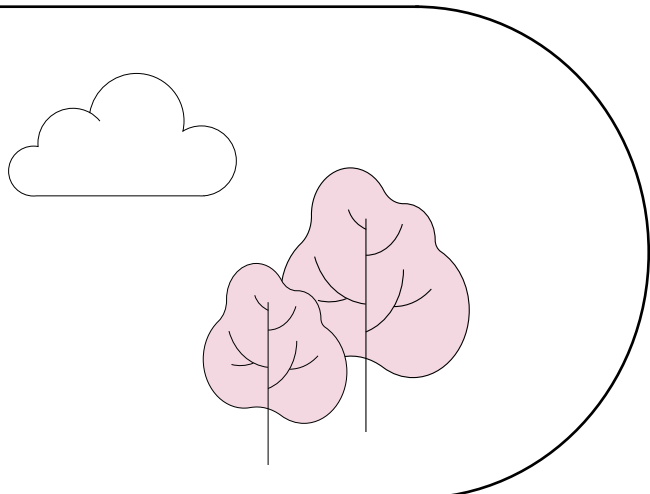
- Our network fault rate in Openreach (faults per 1,000 lines per annum) is 4.8% lower year on year

- Openreach recorded a 13.5% reduction in copper repair volumes year on year

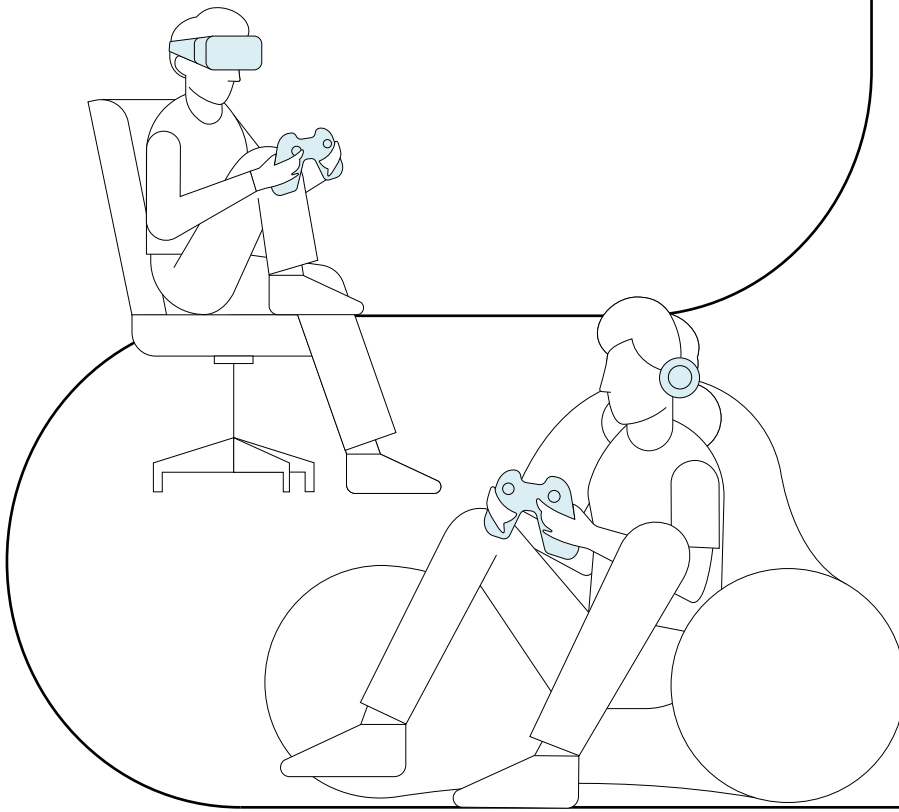
- Despite facing unprecedented industrial action, Openreach was able to achieve 32 of the 35 regulated service measures set by Ofcom for both the business and residential markets, narrowly missing the remaining three

4m

On average, EE blocks over 4m unwanted calls and spam messages a week



Progress against our strategic framework continued
Create standout customer experiences continued



Smarter, differentiated solutions and outcomes

We want our solutions to improve customers' lives and deliver the outcomes they want. This year we continued to enhance our offering as we seek to give our customers the latest converged, intelligent connectivity services.



Social tariffs for broadband and mobile

Many people are dealing with financial uncertainty, and we know it's difficult. We're dedicated to supporting our most vulnerable customers in the cost of living crisis.

We're helping our most vulnerable customers during these tough times. Our research shows that many British adults struggle to improve their situation without connectivity and that is why we're committed to providing connectivity support to those who need it the most.

We offer our BT Home Essentials broadband and EE Basics mobile to eligible customers which helped almost 180,000 customers this year. We also excluded 3m eligible customers, including those on social and discounted tariffs, from the April 2023 price increase.

180k

EE Basics and Home Essentials is directly helping nearly 180,000 customers

3m

3m customers excluded from April 2023 price increases

>50%

We were the first UK internet provider to offer an unbreakable wi-fi connection at home that's backed up by the award-winning EE mobile network with Halo 3+ – and our subscriber base has grown over 50% year on year



- EE was the first mobile network globally to offer Apple One exclusively as part of our Full Works for iPhone offering
- BT TV is now available aerial-free – the BT TV Box Pro's new internet mode lets customers plug in and connect to our Smart Hub to start streaming via wi-fi
- We launched EE Security – a smart security system powered by Verisure and Norton
- We launched EE Supercharged – a portfolio of leading gaming consoles bundled with cloud gaming access and unlimited gaming data
- The SoHo distribution network continues to grow – with partnerships including Barclaycard Payments, Checkatrade and Just Eat
- We launched EE connected laptops – making it easier for sole traders and micro-businesses to run and grow their business online from anywhere
- Our new multi-cloud connectivity solutions extend our network reach into important carrier-neutral facilities like Equinix. This means our customers can access a lot of different cloud-based apps and services without needing individual connections for each one



999 call answering

Since 1937, BT Group has been handling 999 calls in the UK, providing support to the emergency services round the clock, every day of the year.

Last year, our seven BT Group 999 call centres handled over 40m calls. Our 999 advisors faced unprecedented demand during major events such as the Platinum Jubilee celebrations, the passing of Her Majesty the Queen and

the FIFA World Cup. Since June 2022, our advisors have supported '999 BSL', a video relay service enabling people with hearing difficulties to contact 999 in British Sign Language through a mobile app or website 24/7.

>40m

Our 999 call centres handled over 40m calls last year

Progress against our strategic framework continued

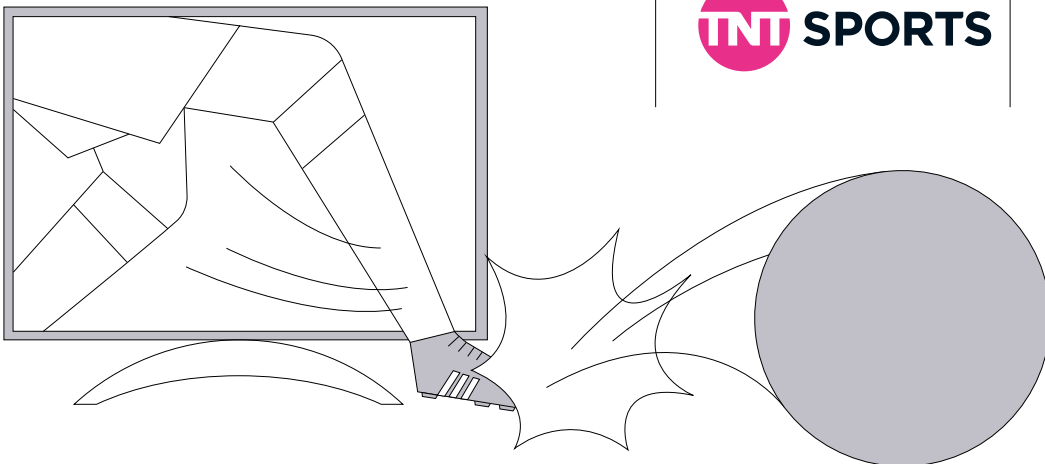
Lead the way to a bright, sustainable future

[Read more about our real world impact and the wider social value created by BT Group. bt.com/annualreview](https://www.bt.com/annualreview)

A portfolio positioned for growth

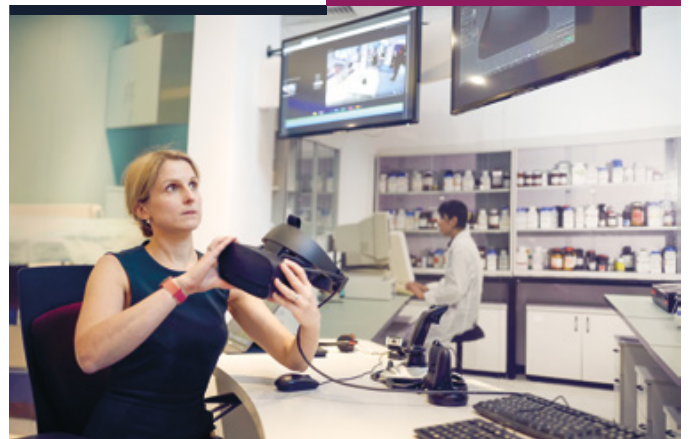
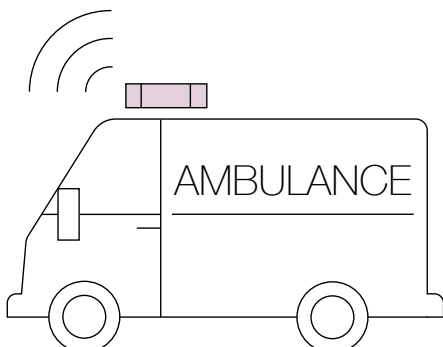
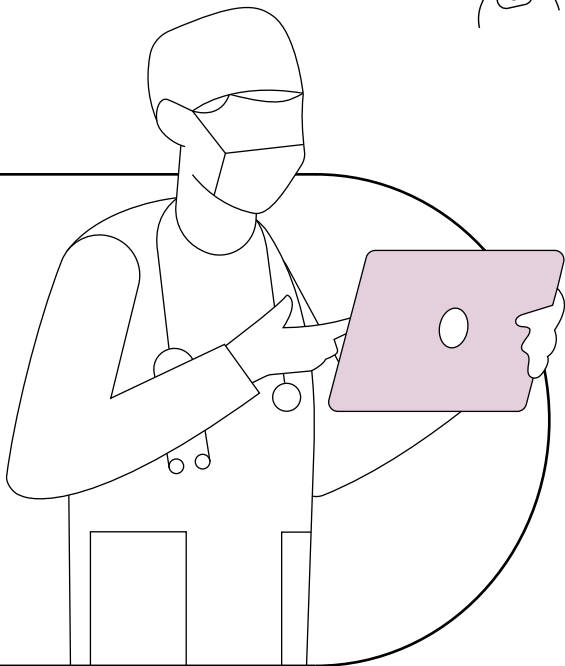
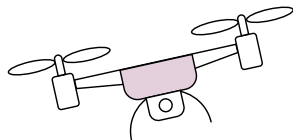
We've continued to simplify and strengthen our business portfolio, making sure we maximise the value of our assets and partnerships.

- To enhance the sports-related content available to our customers, BT Sport merged with Eurosport UK in September 2022, forming a 50:50 joint venture (JV) with Warner Bros. Discovery
- BT Sport has now transferred its assets and people to the new JV; both BT Sport and Eurosport UK brands will continue in the market for now but will be brought together as TNT Sports in the future
- As part of our ongoing asset-light strategy outside of the UK, we've agreed the sale of our fibre-optic networks in Düsseldorf, Frankfurt, Munich and Stuttgart totalling 1,590km of fibre
- In an effort to simplify our portfolio and maximise the value of our partnerships, we transferred 332 BT employees under TUPE to GXO Logistics Ltd – supporting its warehouse, transport and service desk operations



Incubating new tech-driven growth engines

We're investing in the future of connectivity. This year we've continued to focus on innovation and potential growth engines in areas where we feel we have a strong right to play.



Virtual Ward

BT Group is partnering with Feebris and my mhealth to provide virtual ward, virtual care and patient self-monitoring technology to support the NHS.

We're also developing a virtual care solution to improve the impact of these services for health providers. This technology can be used in hospitals, care homes and community nursing to monitor patients safely, reduce hospital admissions, and ease pressure on frontline services. Virtual ward has helped to reduce readmission rates by 50% and save £1,047 per patient.

50%

Virtual ward care has helped to reduce readmission rates by 50% and save £1,047 per patient

94%

Of patients felt more confident about being able to manage their condition from home

This year we...

£683m

Recognised £683m expenditure on R&D...

94

And our Adastral Park R&D facility made 94 inventions...

56

And published 56 key papers

- We saw 53% year-on-year sales growth on our Digital unit's Active Intelligence geospatial data insights platform
- We set up a Clinical Advisory Board with leading NHS professionals to make sure our new healthcare solutions meet NHS needs and will result in improved patient outcomes
- We invested £5m in Altitude Angel, the world's most trusted unified traffic management technology provider for drones

Progress against our strategic framework continued
Lead the way to a bright, sustainable future continued

A responsible, inclusive and sustainable business

We've made long-term commitments on how we'll contribute positively to our country and society in the BT Group Manifesto. This year we've continued to deliver on our Manifesto commitments to be a responsible, inclusive and sustainable business.

[You can read our full Manifesto on page 36](#)

56%

We've reduced our carbon emissions intensity by 56% since FY17

2030

We're making investments to convert the majority of our fleet to electric or zero emissions vehicles by 2030

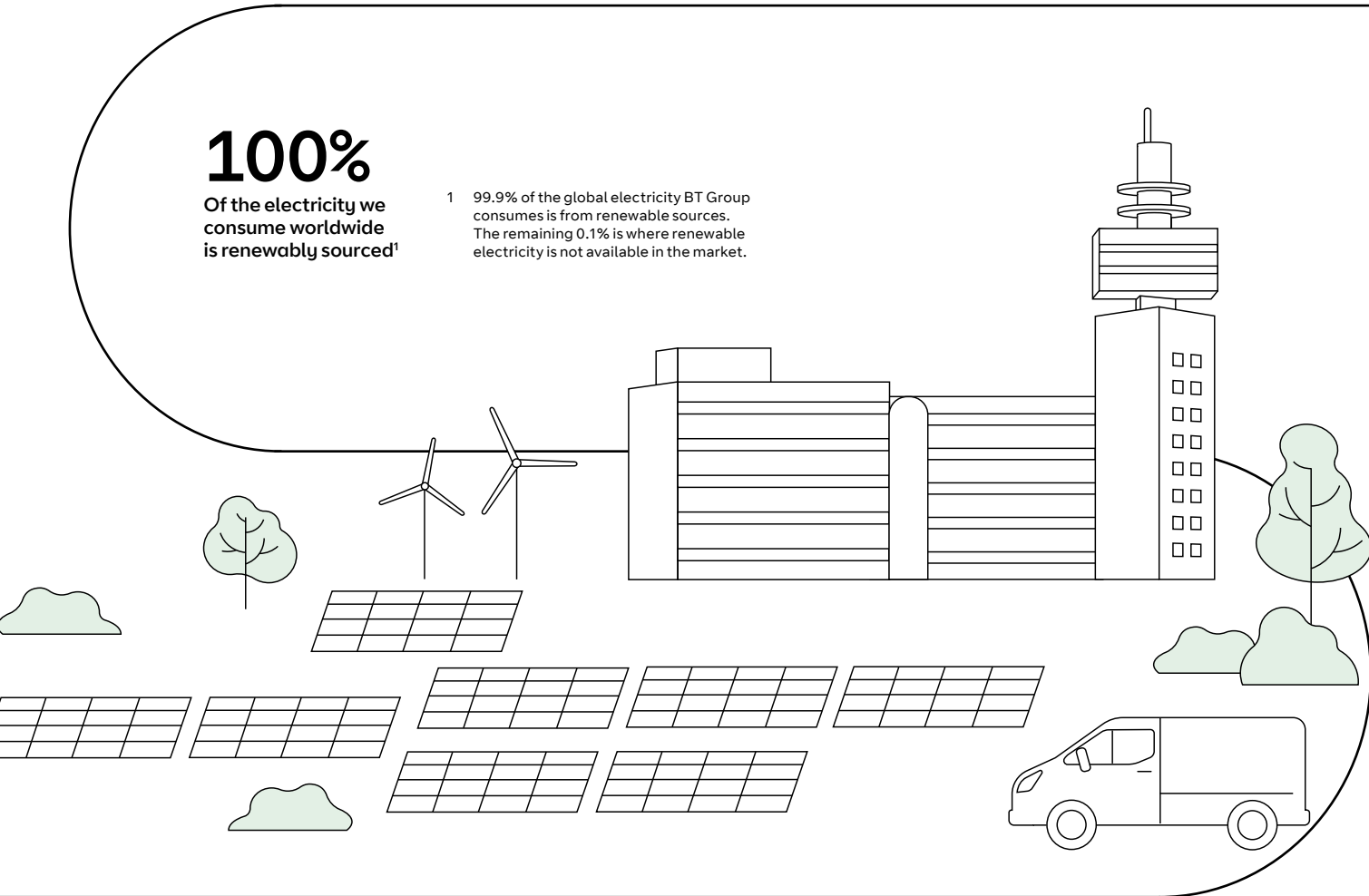
[Read more in our ESG Addendum at **bt.com/esgaddendum**](#)

- We now have over 2,400 electric vehicles (EVs) in our fleet; over 1,000 were added this year which has saved over 2,200 tonnes of CO₂e (carbon dioxide equivalent emissions)
 - We helped customers avoid over 935,000 tonnes of carbon emissions
 - We recovered nearly 2m home hubs, set-top boxes and mobile phones for recycling and reuse
 - We recovered, reused and recycled 89% of our UK operational waste this year
- [See pages 38 to 39 for more information on our journey to net zero emissions and a circular economy](#)

100%

Of the electricity we consume worldwide is renewably sourced¹

¹ 99.9% of the global electricity BT Group consumes is from renewable sources. The remaining 0.1% is where renewable electricity is not available in the market.





Skilling the nation

We've continued to champion digital inclusion and skilling the nation. This year we helped 4.6m people and over 465,000 businesses and their employees in the UK improve their digital skills – a total of 19.3m people since FY15.

- We held 15 Skills for Work bootcamps for nearly 500 11–13-year-old children
- We're helping children stay safe online with our PhoneSmart licences (see [page 38](#)) – we've issued over 1,300 since 2020

For more information on how we're helping the future of tech be more diverse and inclusive, see [page 37](#)

4.6m

People in FY23

465k

Businesses and their employees

19.3m

People since FY15



Netwalks

Everyone is facing a lot of economic uncertainty and small businesses need more help than ever before. It's not easy to provide support but BT Group and Small Business Britain have a chance to make a difference by supporting small businesses through this turbulent period.

This year we launched Netwalks which offers self-care, mental health support, early intervention and networking opportunities for small businesses. Over 100 businesses have joined,

and it offers networking events in 10 different locations through walks, gatherings and mentoring sessions.

95%

Over 95% of attendees would recommend these walks

40

Over 40 walks organised in two months, which helped hundreds of people



Hope United

We created Hope United to combat online hate. It is a team of elite footballers that raises awareness of different forms of hate, promotes understanding, and inspires action through marketing campaigns and our educational videos which teach people how to block, report, and mute online hate. This contributes to our goal of helping 25m people and business improve their digital skills by leveraging EE's sponsorship of the Home Nations Football Associations.

7.4m

We've educated 7.4m people on how to be good digital citizens, tackling online hate through our Hope United campaign

Our people

We continue to invest in our people. We want to create a culture where everyone who works here sees the value of curiosity and lifelong learning – and is equipped with the skills and capabilities we need for our business to evolve.

Skills development

We have over 99,000 colleagues supporting our customers and driving BT Group forward. This year we hired c. 15,000 people. c. 11,000 of them were in the UK, including c. 2,000 apprentices and c. 200 graduates. c. 17,000 colleagues left the business – c. 14,000 through natural attrition and c. 3,000 through paid leaver programmes.

To help drive our business transformation, this year we launched Digital Campus: a one-stop-shop to build digital skills and capabilities.

We also launched our reskilling programme CAPSLOCK, training existing employees for security roles. Everyone who graduated now has a BT Group security job. And the programme won the 'Recruitment and Workforce Planning Strategy' award at the 2022 HR Excellence Awards.



Aspire career development programme

In our Consumer unit we've run an award-winning career development programme called Aspire for the last five years. This year, 696 colleagues joined the programme on career pathways for retail, contact centre and corporate roles.

Aspire supports colleagues with the potential and desire to move into a wide variety of new roles. These range from frontline team management to corporate and across marketing, HR, commercial, digital and technology.

Each year at least 70% of Aspire participants move into new roles at the end of the programme, helping us to nurture internal talent, drive down external hiring costs and reduce our time to hire.

Many Aspire participants follow an apprenticeship programme as part of their learning journey, supporting their skill and capability development.

70%

Of Aspire participants move into new roles at the end of the programme

Diversity and inclusion

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

In the Manifesto we state that a more inclusive digital landscape will help us drive productivity, innovation and growth for our business and for the UK (see [pages 36 to 39](#)). Supporting that, we have created a rich ecosystem of partners to help us expand our reach into the community, create awareness, and invest in, develop and open

up opportunities for the talent pools for the future. Inside and outside our business, we've continued to encourage inclusivity through understanding other people's lives better.

More broadly, we engage with colleagues through the *Colleague Board* (see the [corporate governance report on pages 92 to 93](#)) and we work with our highly active, engaged and award-winning People Networks. These colleague-driven groups raise awareness and advocate for change both inside and outside BT Group.

Our targets for 2025

Presented below is the progress made for the year in review against our stated Manifesto targets for gender, ethnic

minority and disability at various levels of the organisation. Whilst we have made progress across BT Group, we recognise we have more to do to meet our ambitions.

Diversity data for all protected characteristics and special category data (as defined by UK employment law and GDPR respectively or local laws as relevant to other geographies) is collected through voluntary disclosure directly into SAP SuccessFactors (our nominated HR system). Data is stored, reported and used subject to local laws and advertised employee privacy notices. Due to local restrictions on capture and reporting of ethnicity and disability, only information relating to the UK is shown.

		31 March 2022	31 March 2023	2025 Targets
BT Group (excluding Openreach)	Men	65.1%	65.2%	–
	Women	34.9%	34.8%	46%
	Ethnic minority	11.9%	13.4%	16%
	Disabled	6.9%	8.2%	14%
Openreach	Men	89.7%	89.7%	–
	Women	10.3%	10.3%	12%
	Ethnic minority	9.4%	9.1%	10%
	Disabled	6.0%	6.0%	6%
BT Group	Men	74.3%	74.3%	–
	Women	25.7%	25.7%	32%
	Ethnic minority	10.8%	11.5%	13%
	Disabled	6.5%	7.2%	10%
Board	Men	63.6%	66.6%	–
	Women	36.4%	33.4%	33%
	Ethnic minority	2 members	2 members	2 members
	Disabled	1 member	1 member	–
Executive Committee ¹	Men	63.6%	70.0%	–
	Women	36.4%	30.0%	33%
	Ethnic minority	1 member	2 members	2 members
	Disabled	0 members	0 members	–
Senior leadership team ^{1&2}	Men	73.9%	77.5%	–
	Women	26.1%	22.5%	41%
	Ethnic minority	8.0%	13.5%	15%
	Black / Black heritage	NR	1.0%	5%
	Disability	5.3%	7.7%	10%
Senior management team ²	Men	64.7%	64.6%	–
	Women	35.3%	35.4%	41%
	Ethnic minority	10.4%	9.0%	15%
	Black / Black heritage	0.8%	2.3%	5%
	Disability	4.5%	9.4%	10%

¹ 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 all of their direct reports (excluding admin roles). This totals 22 women (30%) and 51 men (70%).

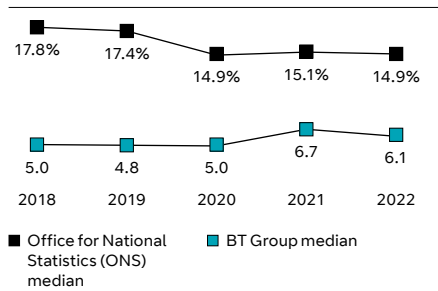
² For the purposes of the Companies Act 2006, our senior management comprises those employees responsible for planning, directing and controlling the activities of the group, or a strategically important part of it (members of our senior leadership and senior management teams, and directors of the group's subsidiaries but excluding directors on the Board). This totals 256 women (34%) and 497 men (66%). Numbers presented include 60 subsidiary directors (39 men and 21 women) who are not otherwise members of our leadership or senior management teams.

Our people continued

Gender pay

This is the sixth year we've reported on our gender pay gap. Our UK gender pay gap figures have decreased favourably this year.

Median pay gap %



- Our median pay gap is 6.1% (-0.6%).
- Our mean pay gap is 3.7% (-1.3%).

Both these figures continue to sit well below the telecommunications industry 19.6% and UK 14.9% median averages. Our figures have improved because we've recruited more women into senior roles and because of the slight rise in female representation in the upper 23.3% (0.3%) and lower middle 16.6% (1.3%) pay quartiles.

To close our gender pay gap we need more balanced gender representation at all levels, so we're doing a lot more to attract, hire and keep women. We're focusing particularly on sales and engineering roles.

You can find more examples of initiatives – as well as pay quartile analysis, bonus information and entity breakdowns – in the ESG Addendum, available at bt.com/esgaddendum

You can find more information in our Gender Pay Gap 2022 Statement, available at bt.com/genderpaygap

Ethnicity pay

This is the third year we've reported on our ethnicity pay gap. Publishing it isn't a legal requirement but underpins our commitment to diversity, equity and inclusion.

	2022		2021	
	Mean	Median	Mean	Median
Overall	(0.3%)	(1.2%)	(0.1%)	(2.7%)
Asian	(3.6%)	(2.4%)	(2.3%)	(3.7%)
Black	6.6%	(0.3%)	5.3%	(2.7%)
Mixed	3.3%	5.2%	3.3%	6.0%
Other	(6.2%)	(9.3%)	(8.0%)	(13.8%)

- Our median UK ethnic pay gap¹ is -1.2% this year compared to -2.7% in 2021.
- Our mean gap widened from -0.1% in 2021 to -0.3% this year.

The pay gaps by ethnicity (based on ONS groups) reflect that we have low ethnic minority representation at all levels.

Pay gaps presented are based on the 78.4% of our UK colleagues who chose to disclose their ethnicity.

For Asian and other ethnic colleagues, the pay gaps versus White colleagues continues to be negative (favourable). For Black colleagues, we've seen a slight increase in median and mean pay gaps versus White colleagues. The mean is 6.6% (+1.3%) and the median is -0.3% (+2.4%). For mixed ethnicity colleagues, pay gaps are consistent with 2021, with both median and mean in favour of White colleagues.

This is reflected by the fact there are more Asian colleagues in higher paid management roles, and more Black colleagues in frontline roles such as our engineers.

You can find more examples of initiatives to improve representation – as well as pay quartile analysis, bonus information and entity breakdowns – in the ESG Addendum, available at bt.com/esgaddendum

¹ Our pay gap figures have been calculated in line with legal obligations. They show the mean and median pay gap (based on hourly rates of pay at 5 April 2022) and mean and median bonus gap (based on bonuses paid in the 12 months to 5 April 2022).



Our partnerships

Purple Goat is one of the UK's only communications agencies run by disabled people. We partnered with them to deliver a series of videos highlighting the experiences of colleagues with a range of disabilities – including diabetes, autism and visual and hearing impairments.

We've also built relationships with Code First Girls, Women Returners, Black Girls Tech Summit and Girls Talk London. These initiatives help delegates develop their skills and network with peers, creating more opportunities for women to move into technology careers.

And as lead sponsor of the Avado FastFutures programme, we're helping upskill over 7,000 18-24 year old learners from ethnically diverse backgrounds. We want to help them develop digital and data skills to unlock opportunities and launch their careers.

7,000

18-24 year old learners from ethnically diverse backgrounds upskilled

Taking care of our team

The wellbeing of our people has always been at the heart of how we do business. It's in our code: "We always put wellbeing and safety first". It's also in our Health and Safety policy statement. Our strategy is to build a team of fulfilled, safe, happy and healthy employees in a culture where everyone can thrive.

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

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

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

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

Accelerating our pay award

As part of our 2023 pay review – and following discussions with our unions – we agreed to move forward a pay increase from April to January to help support colleagues facing increased living costs from rising inflation and interest rates.

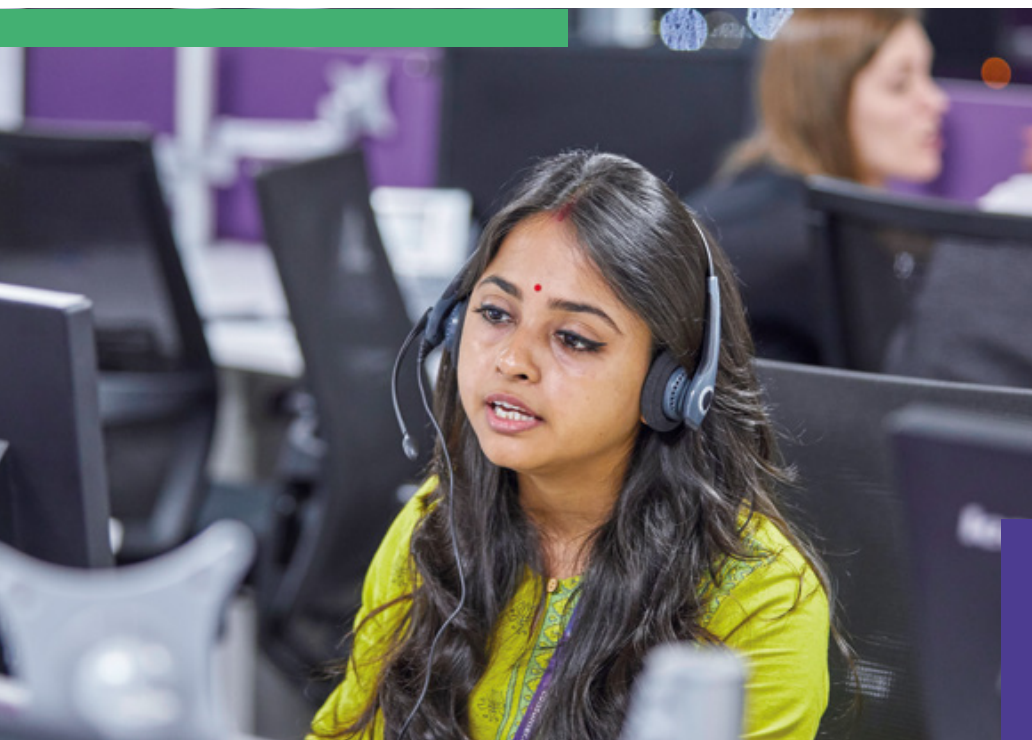
We also awarded a consolidated cost of living pay rise of £1,500 to 85% of our UK workforce – all our team member and frontline grades and more than half of UK managers.

We wanted to reach as many of our people as possible with a genuinely meaningful raise. Combined with the April 2022 increase, in FY23 we delivered a total salary increase of 15% to our lowest-paid colleagues.

Support to colleagues experiencing long Covid

Our Health, Safety and Wellbeing Centre of Expertise headed up by our Chief Medical Officer identified the need to provide bespoke support to colleagues experiencing the impact of long Covid.

Working with our specialist rehabilitation provider we created our two-step 'Covid Recovery Programme' to help all employees manage the effects of long Covid and improve their health, wellbeing and functional capabilities. The programme was designed to support colleagues who had ongoing Covid symptoms, but not severe enough to enrol on an NHS programme. At 4 weeks since acute symptoms, step one provided individuals with access to self-help materials. At 12 weeks since acute symptoms, a manager-initiated referral to step two provided individuals with access to a 4-12 week programme offering bespoke management plans and tailored support to facilitate a return to work and full duties. Between July 2021 and August 2022, we referred 151 colleagues to step two of the programme. The number of those off work dropped from 46% to 12%, and those on full duties rose from 28% to 76%. Data taken from validated questionnaires also indicated a significant improvement in functional capability, wellbeing and mental health.



151

Colleagues referred to step two of our Covid Recovery Programme

12%

Those off work with long Covid dropped from 46% to 12% after referral to step two of the programme

76%

Those on full duties rose from 28% to 76% after referral to step two of the programme

Our Manifesto

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

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

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



Responsible

New tech must earn people’s trust and transform lives for the better.

We will:

- invest in new growth tech to help us live and work better
- apply responsible tech principles across our value chain
- partner to build a responsible tech ecosystem that builds trust and drives growth.



Inclusive

The future of tech must be diverse and inclusive for everyone to benefit.

We will:

- build a diverse workforce through our diversity and inclusion targets
- pass 6.2m rural premises with full fibre by the end of 2026 (as part of our 25m build target)
- expand our 4G/5G mobile networks across the UK, including in rural locations
- help 25m people with digital skills by the end of March 2026.



Sustainable

Tech must accelerate our journey to net zero emissions and a circular economy.

We will:

- be a net zero business by the end of FY31, with suppliers and customers net zero by the end of FY41
- help customers avoid 60m tonnes of CO₂e by 2030
- build towards a circular BT Group by 2030, and a circular tech and telco ecosystem by 2040, while protecting nature and biodiversity.

We contribute to the UN Sustainable Development Goals



Responsible

New tech must earn people's trust and transform lives for the better.

Applying responsible tech principles across our value chain

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

Our responsible tech principles are



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

Governance

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

Developing new tech

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

This year we:

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

Buying tech

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

This year we:

- started embedding our 'Responsible AI for Buyers' guide into our supplier onboarding processes
- continued to do due diligence on our suppliers.

📄 [For details of onsite supplier audits completed, refer to our Modern Slavery Statement 2023 at bt.com/modernslavery](https://bt.com/modernslavery)

Using tech

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

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

Selling tech

We sell to customers around the world.

This year we:

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

Inclusive

The future of tech must be diverse and inclusive for everyone to benefit.

Championing digital inclusion

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

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

We're working to develop the right digital infrastructure so no one gets left behind. Our full fibre broadband already passes 10.3m homes and businesses, including 3.1m in rural locations. We have the UK's largest and fastest 4G mobile network and we're rolling out 5G across the country. See [pages 18 to 19](#) for more.

Skilling the nation

This year we've helped 4.6m more UK people and businesses improve their digital skills – and a total of 19.3m people since FY15. We're on track to reach our Group KPI target of 25m by the end of FY26 (see [page 48](#)).

Supporting small businesses

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

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

Our Manifesto continued



Employability skills for young people

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

- 189 young people attended our work experience events, learning the digital and employability skills vital in today's workplaces. 124 of them went on to join our apprenticeship scheme.
- Our colleague volunteers delivered 15 Skills for Work Bootcamps for nearly 500 11-13 year-old school pupils. The bootcamps support teachers by encouraging STEM study subjects and careers.
- We support the National Cyber Security Centre's CyberFirst programme. It aims to encourage school pupils into cyber and tech careers, hosting events for over 2,000 pupils in the UK.

Child online safety

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

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

Tackling online hate

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

India skills partnership

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

UNICEF partnership

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


Digital talent pipeline

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

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

Diversity and inclusion

Embracing diversity and inclusion is core to our people strategy and critical to our growth. We've set big ambitions to champion a more inclusive culture across BT Group.

 [Read more on how we're achieving this on page 33.](#)

¹ 99.9% of the global electricity BT Group consumes is from renewable sources. The remaining 0.1% is where renewable electricity is not available in the market.

Sustainable

Tech must accelerate our journey to net zero emissions and a circular economy.

We've led on climate action for over 30 years. We've been 'A' rated on climate by Carbon Disclosure Project (CDP) for the last seven years running. But the transition to a low carbon economy needs to happen much faster. We've committed to being net zero for our operations by the end of March 2031 and for our full value chain by the end of March 2041. And we've also set goals to help customers avoid 60m tonnes of CO₂e and be a circular business by the end of March 2030, building towards a circular tech ecosystem by the end of March 2040.

Reducing carbon emissions in our operations

We've cut our carbon emissions intensity by 56%, against our science-based target of an 87% cut by the end of March 2031 (compared to FY17 levels). This year our performance improved due to a large decrease in natural gas consumption. This is also a Group KPI (see [page 48](#)).

One of the biggest ways we can cut carbon comes from our energy usage. All of our electricity worldwide is renewably sourced¹, powering our buildings estate, shops and networks. This year we increased the amount of electricity provided through power purchase agreements – meeting around 23% of our worldwide electricity demand this year, and around 26% of the UK total, supporting growth in the overall UK grid renewables supply.

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

Transition to electric vehicles

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

Building our full fibre network has increased emissions – from the supporting (mainly diesel) vehicles. We're working hard to change the BT Group fleet and have added more than 1,000 electric vehicles (EVs) this year. Those EVs have travelled more than 7.9m miles, saving over 2,200 tonnes of CO₂e. In total, we have over 2,400 EVs in our fleet.

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

Decarbonising our buildings estate

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

Our new and refurbished buildings are designed with environmental impact firmly in mind, with new-builds constructed to the BREEAM²-Excellent standard.

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

Building energy efficient networks

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

 [See page 78 for more.](#)

Cutting carbon emissions across our value chain

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

Since FY17, we've cut our Scope 3 net emissions by 21% to 3,289ktonnes of CO₂e this year. This is an increase on FY22, caused by additional spend on carbon-intensive goods and services associated with our full fibre rollout.

Helping suppliers cut carbon

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

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

We require suppliers with new contracts over £25m to sign up to science-based net zero

targets. We encourage our key suppliers to report to CDP to improve visibility and action on emissions. Today more than 200 of them are doing so. We have been recognised for our supply chain leadership, through the CDP supplier engagement leader board for the sixth consecutive year.

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

Helping customers cut carbon

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

This year we've:

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

Circularity

Developing a circular economy is a vital step in achieving a net zero economy. Around 70% of global greenhouse gas emissions come from material use and handling³. We want to become a circular business by 2030 – and build towards a circular tech ecosystem by 2040.

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

Our return rate for leased customer premises equipment was 68.2% during 2022 – up 6.5% on 2021 (our target is 75%

by 2026⁴). Overall, customers returned more than 1.8m home hubs and set-top boxes to us and through our refurbishment operation, we reused 83% and recycled the rest. As well as promoting more circularity, we also save on manufacturing and shipping costs. We also collected over 190k mobile devices through consumer and business trade-in schemes, all of which were reused or recycled.

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

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


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

Biodiversity

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

Water consumption

Our UK water use rose by 7.6% this year to 1,531,893m³, due mainly to an increase in adiabatic cooling during the above average summer heat. Using water self-supply has helped us save nearly £3m since 2019, and has allowed us to improve how we monitor water usage, pinpoint areas of concern and fix leaks in order to minimise water wastage.

 [Our Task Force on Climate-related Financial Disclosures statement can be found on page 71, and our detailed environmental data can be viewed in the ESG Addendum \(\[bt.com/esgaddendum\]\(https://bt.com/esgaddendum\)\)](#)

- 2 Building Research Establishment's Environmental Assessment Method, the world's leading sustainability assessment for infrastructure.
- 3 Circle Economy – The Circularity Gap Report 2022 <https://circularconomy.europa.eu/platform/en/knowledge/circularity-gap-report-2022-five-years-analysis-circle-economy>.
- 4 This target only relates to equipment which is leased to our consumers under their contract terms.

Our stakeholders

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

Better together

Colleagues, customers, shareholders, the communities we do business in, suppliers, UK Government and regulatory bodies are all key stakeholders. We connect with them at all levels of our business. That includes frontline operations, CFUs, CUs and TUs, senior leadership, the *Executive Committee* and the Board and its committees.

We engage with them in lots of different ways – from meetings and conferences to reviews, forums and webcasts. To understand how well we're engaging with different groups, the Board and its committees get regular updates from relevant parts of the business and from stakeholders themselves. They use them to make better decisions, give feedback and constructively challenge activities, programmes and initiatives being considered.

☐ [Our stakeholder management group risk category recognises just how important they are to our business. You can read more on page 63.](#)

☐ [Our Section 172 statement on pages 94 to 95 gives examples of how the Board and its committees took our stakeholders' interests into account in decision making during the year.](#)



Colleagues

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

Our colleagues need us to

Create a work environment that helps them be their best

Give them flexible and agile ways of working

Provide brilliant training, development and career opportunities

Reward performance with fair and competitive pay and benefits.

How we engage with colleagues

- Our Board gets regular updates from the Chief Executive and Chief Human Resources Officer – on colleagues, key people strategy initiatives, culture and overall sentiment in the organisation.
- The Board uses the *Colleague Board* to engage with our workforce under the UK Corporate Governance Code 2018.
 - ▣ [See pages 92 to 93 of the corporate governance report for more details.](#)
- Every year colleagues tell us how it feels to work here through our Your Say survey. We've expanded this to include quarterly pulse surveys in several units.
- Our People Networks are colleague groups that share opinions and ideas with our leadership to make us more diverse and inclusive. Each is supported by an executive sponsor.
- We also formally engage with our European Consultative Council and EE employee representatives in the UK.

The results

- This year engagement fell six points to 73% – just above the 70% external benchmark but continuing the downward trend from the last survey in 2021.
- The post-Covid return to work, cost of living increases and industrial action have led to a turbulent year where engagement fell as a result, notably in Openreach. In response and to address areas of concern we continue to focus on our leadership capability, in-unit change management together with the cost of living pay award and our D&I agenda detailed further in the people section.
 - ▣ [See pages 32 to 35.](#)
- 'Getting things done here is straightforward' at 42% still trails behind other metrics. We're working to address this through our group-wide modernisation programmes.
- Perceptions of management are still very high with almost no change since 2022.
- We're still getting high scores for supporting colleagues to do the right thing for customers (81%, down 3% from 2022).
 - ▣ [See pages 32 to 35 for more details on what we're doing for our colleagues outside of direct engagement.](#)

Our stakeholders continued

Customers

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

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

Our customers need us to

Connect them to their digital worlds through dependable, high-quality solutions

Provide trustworthy experiences and outcomes that align with their needs

Offer excellent service through in-store support teams, call centres and digital channels

Ensure the security and privacy of their data

Offer all the above at a price that's great value for money.

How we engage with customers

- We understand our customers' needs using research techniques and data sources driven by our award-winning insight centre of excellence.
- Our business units, the *Executive Committee* and the Board monitor how we're delivering for customers – regularly tracking and reviewing metrics including NPS.
- The Chief Executive, *Executive Committee* and senior management teams regularly review customer complaints.
- Our Customer Inclusion Panel, Customer Fairness Panel, our Global Advisory Board and Security Advisory Board, help us better understand customer needs and experiences through direct conversations with customers.
- Openreach engages its CP customers through a transparent and compliant consultation process.

The results

- Our panels and boards help us understand our customers' needs and the challenges they face.
 - Reviewing our performance against customer experience metrics helps us to identify and then address areas for improvement.
 - These insights inform our strategy, drive operational improvements and innovation and shape our brands.
- 📄 [See pages 24 to 25 for more information on our customer experience performance.](#)

Shareholders

We have both equity and debt investors. Our equity investors are corporates and institutions (who hold the biggest volume of shares) and around 641k individuals.

Our debt investors are mainly financial institutions who buy our publicly traded bonds. 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, our scale and competitive market position.

Our shareholders need us to

Deliver a return on their investment through dividends and capital growth

Perform well against our long-term strategy and outlook.

How we engage with shareholders and the results

- We engage with shareholders through our investor relations activities, Annual Report, financial results, AGM and other documents and briefings.
- The AGM is a chance for Board directors to meet shareholders. In 2022 it was held in Birmingham with all resolutions passed and published on [bt.com/agm](https://www.bt.com/agm). We'll publish the arrangements for the 2023 AGM in the Notice of meeting (see [page 136](#)).
- Individual shareholders interact with the Company Secretary (or their delegate) and also our share registrar Equiniti.
- Institutional and debt investors engage via our investor relations team – through one-to-one conversations, roadshows, group meetings, conferences and industry events.
- The Chairman, directors, Chief Executive, Chief Financial Officer, other executives and our investor relations team had 320 investor meetings this year. Topics included:
 - our strategy and competitive position in key markets
 - our financial and operational performance (particularly in the context of inflation, energy and pay costs and CPI-linked pricing)
 - capital investment (including FTTP and 5G)
 - our capital allocation policy
 - prospective governmental and regulatory policy decisions
 - our pension fund valuation.
- The Board receives regular reports on top shareholders, movements in the share register, share price performance and engagement with investors and analysts. It discusses and considers issues with management as part of its decision making.



Communities

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

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

The communities we serve need us to

Give them reliable and secure connections

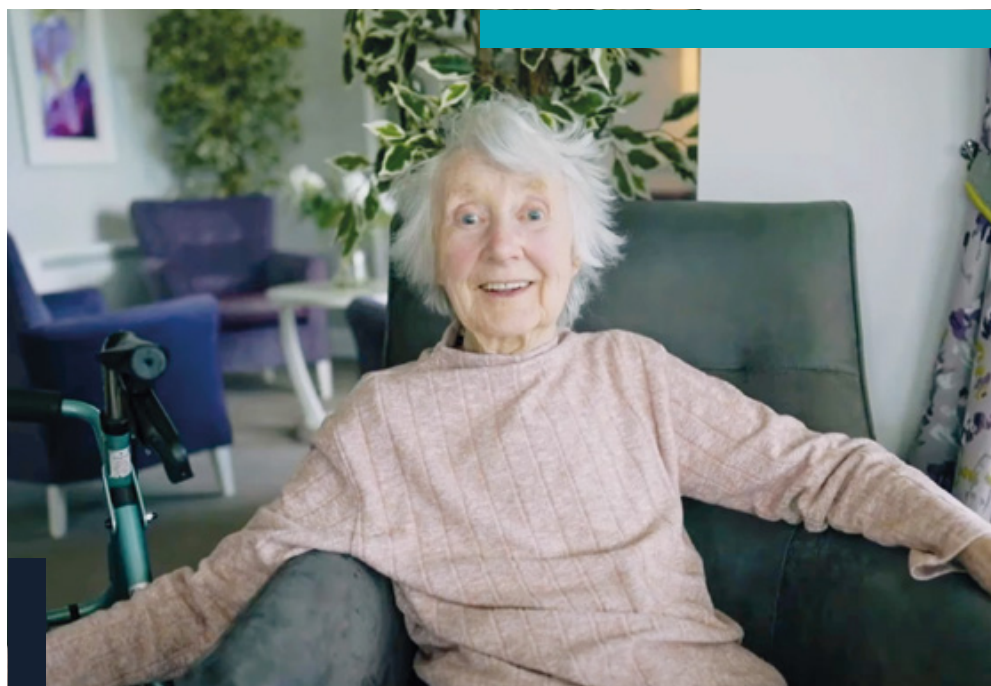
Help local people and businesses get more from the digital world

Provide direct and indirect employment

Do business ethically and responsibly and protect the environment.

How we engage with communities

- Community members use our products as part of their daily life and work.
- We provide support through our retail stores and contact centres, and we offer home visits to set up, install and maintain our services.
- Our digital inclusion and wider societal programmes bring digital skills training to millions of UK people, and supports one of our Group KPIs (see [page 48](#)).
- We use customer surveys and reputation tracking to understand community perceptions of us and inform our focus areas and targets.
- Our *Executive Committee* reviews this feedback monthly and it's shared with the Board quarterly.
- The *Digital Impact & Sustainability Committee*¹ oversees our societal programmes – tracking feedback and performance through a dashboard shared at each meeting.



The results

We make a significant economic contribution to UK communities:

- We're one of the UK's biggest private sector apprenticeship employers – hiring more than 2,600 apprentices and graduates over the past four years.
- We support a total of 284,000 UK full time jobs indirectly.²
- We spend over £9.3bn a year with UK-based suppliers and support £1 in every £80 of UK Gross Value Added.²
- We've expanded our full fibre to 3.1m rural homes and businesses as part of our 6.2m aim by December 2026.
- We're extending 4G coverage to rural areas through the shared rural network initiative, and we aim to reach 90% of the UK's geography with our 5G network by 2028 (see [page 19](#)).
- We give extra support to around 1m households through our social tariffs and subsidised products (see [page 37](#)).
- With our partner Home-Start UK, we've supported the most socially excluded households by donating thousands of laptops, mobiles and free broadband vouchers.
- We also donated over £1.5m to 1,156 charities through colleagues' payroll contributions.

- Our colleagues volunteered more than 61,000 hours of their time to our charity partners and communities – including sharing skills and expertise through mentoring and digital skills training programmes.
- We also support communities through our Manifesto commitments, including our digital skills help initiative which this year reached a further 4.6m people (see [pages 37 to 38](#)).

£9.3bn

We spend over £9.3bn a year with UK-based suppliers

61,000

Our colleagues volunteered more than 61,000 hours of their time to our charity partners and communities

¹ On 6 April 2023, the Digital Impact & Sustainability Committee's name changed to the Responsible Business Committee.

² 'The Economic Impact of BT Group plc in the UK', Hatch – 2023 Edition, based on FY22 data.

Our stakeholders continued

Suppliers

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

Our suppliers need us to

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

How we engage with suppliers

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

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

In April 2021 we launched BT Sourced, a standalone procurement company based in Dublin. BT Sourced has been established to challenge the traditional ways of buying goods and services by simplifying processes and introducing new technology and partnership-based approaches to the way we work with suppliers and start-ups.



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

- We partnered with Candex, a fintech company, to simplify bringing on board suppliers for small off-contract purchases. It also gives us a better view of the diversity of our suppliers.
- We deployed Globality's AI-powered platform for sourcing across a range of business areas. We're also working with Globality to scope requirements more precisely, find suppliers in real-time, compare proposals and make better, data-driven buying decisions.
- Responding to small and midsize business' (SMBs') cash flow management concerns, we implemented C2FO's early payment marketplace. It gives our suppliers the working capital they need to grow.
- We've put a big focus on supply and procurement risk management this year (see [page 62](#)). We've designed a new risk management framework for supply management and we've developed our internal controls arrangements, as part of our wider group key controls framework (see [page 61](#)). This will manage supply-related enduring risks more consistently and efficiently and make our supply chain more resilient.
- BT Sourced is investing in data science. Our negotiation analytics teams are creating custom-made predictive analytics products which will help our sourcing teams.

The results

- Our partnership with Candex has cut a 7-day task to 7 minutes and allowed suppliers to deliver what we need faster. They get a simpler, more flexible experience and get paid quicker too.
- In 2022, 50% of suppliers onboarded by Candex have self-declared with a diversity status (e.g. small business, minority-owned).
- Our buyers have placed more than 400 projects on the Globality Platform. BT Sourced used it to automate admin-heavy tasks – cutting go-to-market time for a typical sourcing project from approximately 7-10 working days to 3-4.
- SMBs can now rely on efficient and timely payment via the C2FO platform – helping them free up cash to invest and develop their business.

UK Government

We add over £24bn to the UK economy each year¹. We support vital services and work with more than 1,250 public sector customers.

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

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

Our Government stakeholders need us to

Keep investing in our network infrastructure

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

Invest in the best products and services, at fair prices, with brilliant customer service

Support vulnerable customers through tough economic times.

How we engage with Government and the results

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

- Our policy and public affairs team manages relationships with government and politicians.
- Enterprise manages public sector contracts and services like the Emergency Services Network.
- Under the Communications Act 2003, the Government can ask us (and others) to run or restore services during disasters. The Civil Contingencies Act 2004 also says that the Government can impose obligations on us (and others) in emergencies, or in connection with civil contingency planning.
- We have an open dialogue with Government through our Chairman, Chief Executive and leaders – as well as through consultation responses and cross-industry initiatives. Those conversations help us build support for policies that will deliver good results for the UK and our shareholders.
- Our public policy work with Government covers a wide territory, including infrastructure investment, national security, regulating online harms and trade and economic policy.
- This year we contributed to government initiatives including wireless infrastructure strategy, supply chain diversification, data strategy, drones and AI. We gave input and evidence on key legislation including the Digital Markets, Competition and Consumer Bill, the Online Safety Bill, and the Product Safety and Telecommunications Infrastructure Act 2022.
- The Board is updated on government discussions through the Chairman, Chief Executive and *Executive Committee* members. The Board provides views and comments in response.

Regulators

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

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

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

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

We also engage with other regulatory bodies like the Competition and Markets Authority, the Financial Conduct Authority and the Information Commissioner's Office.

Ofcom needs to

Advance citizens' and consumers' interests, often by promoting competition

Encourage investment and innovation

Support investment in the UK's critical digital infrastructure.

How we engage with Ofcom and the results

- We have a positive, 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.
- In 2017, we put in place the Commitments. These provide Openreach with a greater degree of strategic and operational independence, in line with objectives set out in Ofcom's Digital Communications Review.
- On behalf of the Board, the *BT Compliance Committee* checks that we're adhering to the Commitments – including in our culture and colleagues' behaviour. It hears from a range of stakeholders. Ofcom is next scheduled to attend a *BT Compliance Committee* meeting in July 2023.
- We continue to engage with Ofcom and CPs to reassure them we're adhering to both the letter and spirit of the Commitments.
- The Board is regularly updated on any key meetings between Ofcom and the Chairman, Chief Executive and others.

¹ 'The Economic Impact of BT Group plc in the UK', Hatch – 2023 Edition, based on FY22 data.



Non-financial information

Colleagues

See pages 21 to 23, 32 to 35, 41, 91 to 93 and 94.

Environment

See pages 30, 38 to 39, 48, 71 to 80, 94 and 107.

Policies

Employee wellbeing has always been at the heart of what we do in BT. It's in our code: **We always put wellbeing and safety first** and it's also written into our **Health, Safety and Environment Group Policy**. Our strategy is to help build a team of fulfilled, safe, happy and healthy employees in a culture where everyone can thrive. We do this by providing wellbeing programmes to support and enhance employee performance, resilience, happiness and engagement.

International standard ISO 45003 'Psychological health and safety at work' says that psychosocial risk management must have commitment from all levels and functions, especially top management.

We agree with the concepts raised in the standard, and apply them to help prevent work-related injuries or ill-health in colleagues, and to promote positive wellbeing at work.

Our **Diversity and Inclusion Strategy** is a programmatic, evidence-based approach to help us understand and remove bias and other cognitive barriers from policies, processes, systems and decision making.

It supports our aim to build the strongest foundations by making sure we apply an inclusion lens to everything we do and by promoting a culture where colleagues can thrive.

Our **Health, Safety and Environment Group Policy** details how we're protecting the environment and building a more sustainable future. It prioritises cutting carbon emissions (our biggest environmental impact) and being energy efficient.

It sets out our commitment to partnering with stakeholders. It's supported by our environmental strategy and goals of becoming a net zero and circular business.

Every year we report on how we're doing in our operations and wider value chain (see [pages 38 to 39](#)).

Due diligence

We plan against three aspirations – Promote, Support and Restore.

From this we create focused, evidence-based interventions and campaigns. These promote the importance of wellbeing and ensure all our people can access wellbeing support and services.

We also work with stakeholders across the business to make sure our wellbeing approach is consistent, integrated and part of our culture.

We review policies every year, updating them when needed. We update the Board and *Executive Committee* regularly.

We coordinate Health and Safety through our Group Health, Safety & Environment Sub-Committee and with our unions through the Good Work Forum.

Our established governance processes make sure we integrate D&I into decisions and policy development.

We report to the *Executive Committee* on our strategy's relevance and effectiveness and on progress against our diversity targets. We also update the Board.

Our People Networks champion members' concerns and are sponsored by *Executive Committee* members or by the CEO, Openreach. Our *Colleague Board* also helps shape and influence D&I plans.

We review policies every year, updating them when needed.

You can read more about the *Colleague Board* on [pages 92 to 93](#) and on other ways we engage with colleagues on [page 41](#).

We monitor and manage our environment strategy and risks through the Group Health, Safety & Environment Sub-Committee, acting on the *Executive Committee*'s behalf.

The *Digital Impact & Sustainability Committee* has overseen progress – including our group KPI target to cut our operations' carbon emissions intensity by 87% by FY31 (see [page 48](#)).

We review and update this policy every year.

Outcomes

There are details of what we've done to apply our policy on [page 35](#).

You'll find information on absence rates and other wellbeing metrics in our ESG Addendum at bt.com/esgaddendum

Our strategy creates a culture that embraces D&I and embeds it into our key decisions.

There are details of what we've done this year to support our strategy, together with the latest D&I statistics, on [page 33](#).

You can read more on our plans and performance, including progress on becoming a net zero carbon emissions business, on [page 38 to 39](#) and in our ESG Addendum at bt.com/esgaddendum

Risks

We reflect wellbeing as part of the people and health, safety and environment group risk categories on [page 68](#).

We reflect D&I risks in our people group risk category on [page 68](#).

We consider the impact of environmental and climate-related risks across our whole business – including our stakeholder management, supply management, health, safety and environment, and operational resilience group risk categories – on [pages 63 to 70](#).

We're acting to mitigate key physical climate risks and our environmental impact in lots of areas.

You can read more on [pages 38 to 39](#) and in our Task Force on Climate-related Financial Disclosures statement on [pages 71 to 80](#).

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

Social & community

See pages 30 to 31, 36 to 39, 43, 48 and 94.

Human rights

See page 37.

Anti-bribery & corruption

The **BT Group Manifesto** is rooted in our purpose. It's supported by commitments on the themes of responsible, inclusive and sustainable. It recognises we'll only succeed if we help solve some of the problems faced by the societies and customers we serve. In particular, our commitment to help give people digital skills will benefit wider society. Our **BT Group charity approach** explains how we partner with charities and support our people's volunteering work.

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

Being trusted: our code sets out promises including our zero-tolerance approach to bribery and corruption. It's supported by a specific Anti-Bribery and Corruption (ABC) Standard. The code describes our values and behaviours and how we expect everyone who works here (or on our behalf) to do business. It also covers extra policy areas like human rights, and equality and diversity. And it provides an ethical framework for our ambition to become the world's most trusted connector of people, devices and machines. It shows – through our commitment to doing the right thing – how stakeholders can depend on us.

The *Digital Impact & Sustainability Committee*:

- has overseen our Manifesto commitments and progress
- has reviewed our strategy and progress on societal programmes and targets
- has monitored progress against our group KPI of reaching 25m people with help to improve their digital skills by FY26.

We have processes to identify and tackle potential and actual human rights impacts across our business. That includes checking we apply responsible tech principles to developing, buying, selling and using tech. Our Responsible Tech Steering Group oversees implementation of the principles. It reports to the *Digital Impact & Sustainability Committee* at least twice each year. Respecting human rights is part of mandatory annual training for colleagues. We also do targeted training for teams most likely to encounter human rights issues. We identify, measure and tackle human rights impacts through our Speak Up whistleblowing service, and through risk assessments and onsite audits.

We do 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 take a risk-based approach to our third party due diligence. And we have enhanced approval, due diligence and monitoring processes in place for higher risk third parties.

We report on how we invest in communities on [page 43](#). You can read more on our Manifesto and what we've achieved this year on [pages 36 to 39](#). That includes progress on helping people improve their digital skills (a group KPI).

We've been externally assessed against the Global Network Initiative (GNI) principles. GNI said we were committed to the principles – with an opportunity to improve policies, oversight, training and tools. We've further enhanced our Enterprise and Global sales due diligence. This will help us better identify and tackle potential human rights impacts from our products and services. We report on our responsible tech principles on [page 37](#).

All colleagues get mandatory training on our code. We also publish communications that reinforce policies. Our annual employee engagement survey includes questions on ethical perception, with results shared with senior management. Our whistleblowing service lets anyone who works for (or with) us to confidentially report anything that goes against our code. This includes bribery, corruption, human rights violations, bullying or harassment. Our whistleblowing service had 659 reports this year. [There are more details in our Modern Slavery Statement at \[bt.com/modernslavery\]\(https://bt.com/modernslavery\)](#)

We consider digital inclusion risks as part of our stakeholder management group risk category on [page 63](#).

We consider human rights risks as part of our stakeholder management group risk category on [page 63](#).

We consider ABC and ethical conduct risks within the legal compliance group risk category – where risks apply across our operations generally. See [page 66](#).

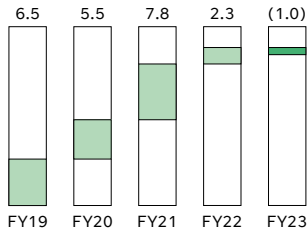
Our key performance indicators (KPIs)

We use eleven KPIs – five operational and six financial.

We reconcile the financial measures to the closest IFRS measure on [pages 233 to 235](#).

Operational At 31 March

BT Group Net Promoter Score (NPS) R point increase (decrease)



Definition

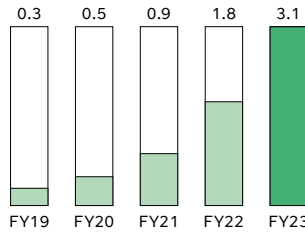
This tracks changes in our customers’ perceptions of BT Group since we launched the measure in April 2016. It’s a combined measure of ‘promoters’ minus ‘detractors’ across our business units. BT Group NPS measures the net promoter score in our retail business* and net satisfaction in our wholesale business.

Link to strategy 2

Performance

BT Group NPS decreased by 1.0 point, (FY22: up 2.3 points) due to cost of living challenges and industrial action affecting our consumer brands and the wider telecoms market, although this was offset partially by positive perceptions from corporate customers. You can read more about these and our approach to customer experience on [pages 24 to 25](#).

Total Openreach FTTP connections R m



Definition

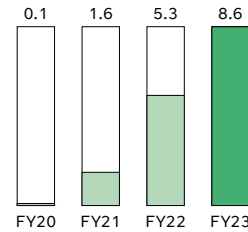
This tracks how many premises are connected to Openreach’s full fibre (FTTP) network.

Link to strategy 1

Performance

3.1m customers were connected to Openreach’s FTTP network at 31 March 2023 (FY22: 1.8m). Openreach’s full fibre footprint reaches more than 10.3m homes and businesses including 3.1m rural premises, and we’re on track to get to 25m premises by the end of 2026. You can read more about the full fibre rollout on [page 18](#).

Total 5G connections R m



Definition

This measures the number of BT retail connections to the 5G network.

Link to strategy 1

Performance

8.6m BT retail customers are able to connect to our 5G network at 31 March 2023 (FY22: 5.3m). We continue to expand our 5G network which now covers 68% of the UK population. You can read more on our 5G coverage and rollout on [page 19](#).

Link to strategy

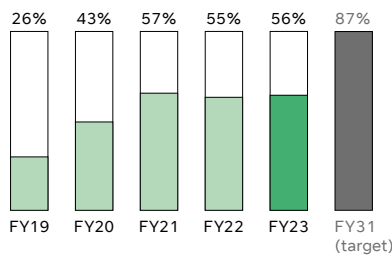
Each KPI measures how we’re doing against at least one of our strategic pillars. You can read more about these, and our progress against them, from [page 17](#).

- 1** Build the strongest foundations
- 2** Create standout customer experiences
- 3** Lead the way to a bright, sustainable future

R **Link to directors’ remuneration**

The annual bonus and long-term incentive plans that comprise our directors’ remuneration are each linked to certain KPIs. See the **Report on directors’ remuneration** on [pages 112 to 113](#).

Percentage reduction in carbon emissions intensity % reduction R



Definition

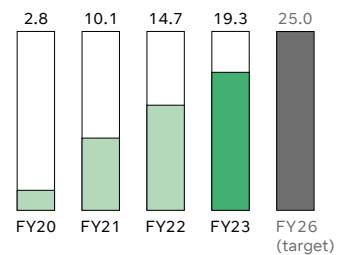
This measures performance against our target to cut carbon emissions intensity by 87% by the end of March 2031 compared to FY17 levels. It’s measured by reference to tonnes of CO₂e (carbon dioxide equivalent) per £m value added (adjusted^b EBITDA plus employee costs).

Link to strategy 3

Performance

Against our carbon emission intensity reduction target this year we achieved a 56% reduction from our baseline year (FY17) (FY22: 55%). You can find more information on what we’re doing to tackle environmental challenges and our journey to net zero emissions on [pages 38 to 39](#).

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



Definition

This measures the number of people we’ve reached with help to improve their digital skills.

Link to strategy 3

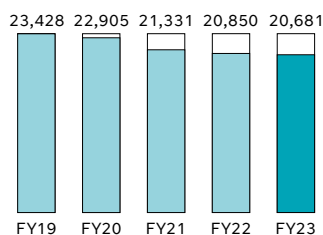
Performance

At 31 March 2023 we had helped 19.3m people improve their digital skills (FY22: 14.7m) and we remain on track to reach our target of 25m by the end of March 2026. You can read more about what we’re doing to achieve this on [pages 37 to 38](#).

- a Includes our Consumer brands as well as Enterprise and Global segments, excluding Wholesale.
- b Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures, as explained on [page 234](#).
- c Normalised free cash flow as defined on [page 234](#).

Financial Year ended 31 March

Reported revenue £m



Definition

This is our revenue as reported in our income statement.

Link to strategy

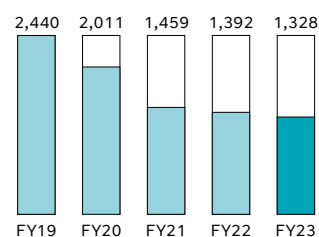
1, 2, 3

Performance

Reported revenue was £20,681m (FY22: £20,850m). The decrease was driven by the removal of BT Sport revenue, legacy product declines, lower equipment sales in Global and the loss of an MVNO customer, partially offset by indexation and improvement in product mix.

You can read details more about CFU performance on [pages 56 to 57](#).

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), payments relating to spectrum, and specific items. It excludes certain cash flows determined at a corporate level, see [page 234](#).

Link to strategy

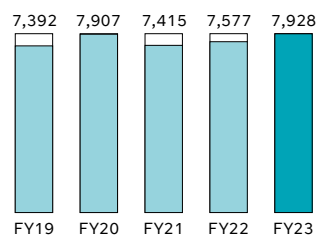
1, 2, 3

Performance

We generated £1,328m of normalised free cash flow^c. This was down 5% from last year and mainly reflects higher cash capital expenditure and adverse working capital movements, partially offset by higher adjusted^b EBITDA and a tax refund.

Adjusted^b EBITDA £m

R



Definition

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

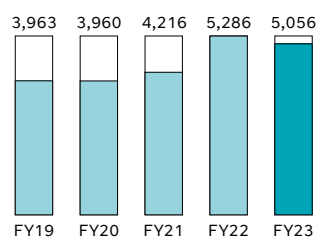
Link to strategy

1, 2, 3

Performance

Adjusted^b EBITDA was £7,928m (FY22: £7,577m). The increase was primarily due to our cost transformation programme and the removal of BT Sport costs, partially offset by cost inflation and reported revenue decline. You can read more on [page 52](#). Lease payments are not included in adjusted^b EBITDA following adoption of IFRS 16 Leases in FY20.

Reported capital expenditure £m



Definition

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

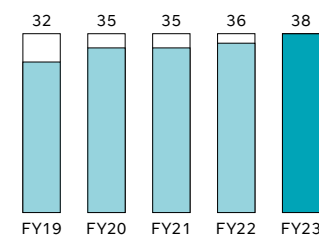
Link to strategy

1, 2, 3

Performance

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

Adjusted^b EBITDA margin %



Definition

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

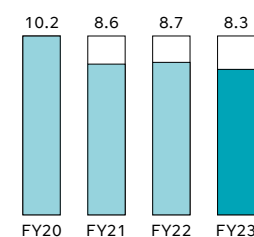
Link to strategy

1, 2, 3

Performance

Adjusted^b EBITDA margin improved 2pp to 38% (FY22: 36%). The increase is mainly driven by our cost transformation programme and margin improvements following the removal of BT Sport, offset by cost inflation. You can read more on [page 52](#). Adjusted^b EBITDA margin from FY20 is benefited by the adoption of IFRS 16.

Return On Capital Employed (ROCE)^R %



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 233](#).

Link to strategy

1, 2, 3

Performance

ROCE for the year was 8.3% (FY22: 8.7%). This is primarily attributable to increased capital employed to fund our fibre build programme; with adjusted earnings for the period being broadly in line with the prior year.

Group performance

Introduction from our Chief Financial Officer

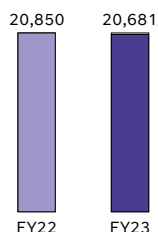


Alternative performance measures

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 233 to 235](#). The alternative performance measures we use may not be directly comparable with similarly-titled measures used by other companies.

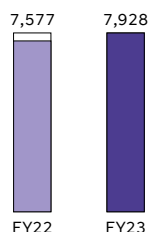
Revenue £m

£20,681m (1)%



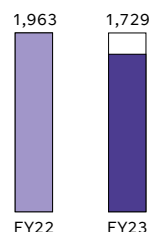
Adjusted^b EBITDA £m

£7,928m 5%



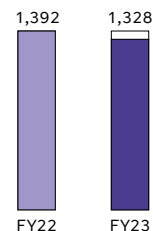
Profit before tax £m

£1,729m (12)%



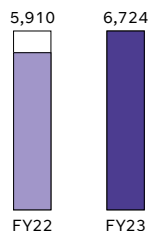
Normalised free cash flow^d £m

£1,328m (5)%

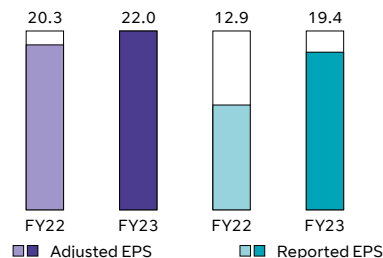


Operating cash flow £m

£6,724m 14%

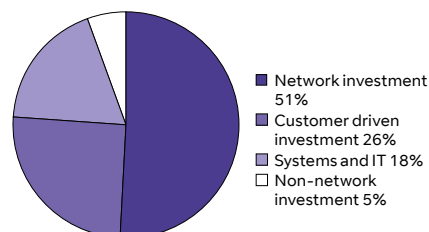


Earnings per share pence



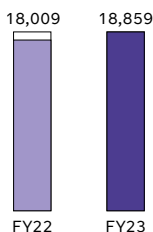
FY23 Capital expenditure^e %

£5,056m (4)%



Net debt^f £m

£18,859m £850m



Performance

	Financial outlook ^a	Result	Performance in line with or better than financial outlook
Adjusted ^a revenue	Growth on a Sports JV pro forma ^f basis	Up 1%	In line
Adjusted ^b EBITDA	At least £7.9bn	£7.9bn	In line
Capital expenditure ^c	c. £5.0bn	£5.1bn	In line
Normalised free cash flow ^d	Lower end of the £1.3bn-£1.5bn range	£1.3bn	In line

We delivered revenue and adjusted^b EBITDA in line with our outlook^e for FY23, despite significant headwinds; normalised free cash flow was delivered at the lower end of our guidance range due to increased cash capital expenditure, primarily in Openreach.

The heightened economic and geopolitical uncertainty experienced over the past year have led to increased energy costs, supply chain disruption and a cost of living crisis that has impacted FY23 performance for the group and our competitors, customers and suppliers. The impact of the resulting uncertainty has been a key focus during the year, in particular inflationary pressures.

We are able to mitigate the impact through cost management, our risk management framework and the proportion of inflation linkage within our key revenue streams which helps offset the impact of inflation and energy price rises. We are further protected against energy price volatility with 91% of our costs hedged for the next 12 months. Accordingly, we are comfortable that the group will be able to navigate these challenges in the short, mid and long term as reflected in our viability statement ([pages 81 to 82](#)).

Reported revenue was £20,681m, down 1%. Revenue growth in Openreach has been more than offset by declines in other units. Revenue decline reflects the removal of BT Sport revenue. Revenue was up 1% on a Sports JV pro forma^f basis.

Adjusted^b EBITDA of £7,928m was up 5% due to our cost transformation programme and the removal of BT Sport costs, partially offset by cost inflation and reported revenue decline. Adjusted^b EBITDA was up 3% on a Sports JV pro forma^f basis.

Reported profit before tax of £1,729m was down 12%, primarily due to increased depreciation from network build and specific items, partially offset by adjusted^b EBITDA growth.

Capital expenditure of £5,056m was down 4%, mainly driven by the impact of our prior-year investment in spectrum offsetting increased fixed network investment.

Normalised free cash flow^d was £1,328m, down 5% due to increased cash capital expenditure and adverse working capital movements offset by adjusted^b EBITDA growth and a tax refund.

Financial outlook

	FY24 outlook	Beyond FY24
Change in adjusted ^a revenue	Growth on a Sports JV pro forma ^f basis	Consistent growth
Adjusted ^b EBITDA	Growth on a Sports JV pro forma ^f basis	Consistent growth
Capital expenditure ^c	£5.0bn-£5.1bn	£5.0bn-5.1bn from FY24-FY26 >£1bn reduction post peak fibre build in FY28
Normalised free cash flow ^d	£1.0bn-£1.2bn	At least £1.5bn incremental normalised free cash flow by end of the decade

We expect to be a significant beneficiary of the UK Government's full expensing scheme from FY24-FY26 and expect to pay no UK cash tax for the next three years. With demand for FTTP well ahead of our expectations, we will reinvest this benefit into further accelerating our FTTP connections and absorbing inflation whilst remaining committed to our target of building to 25m premises by the end of 2026, bringing our annual capital expenditure outlook to £5.0bn – 5.1bn for FY24-FY26 inclusive. We expect take-up to accelerate beyond 30% whilst maintaining our build cost envelope of £250-£350 per premises.

FY24 Outlook: adjusted^a revenue and adjusted^b EBITDA growth on a pro forma basis driven by CPI-linked pricing and the impact of cost transformation; despite expected headwinds from cost of living pressure, and cost inflation, including higher energy costs. Normalised free cash flow^d for FY24 is expected to be between £1.0bn and £1.2bn as the tax benefit from full expensing will be offset by higher capital expenditure. Cash capital expenditure in FY24 may be up to £200m higher than reported capital expenditure of £5.0bn to £5.1bn due to the repayment of government grants resulting from higher than expected fibre take-up on the BDUK programmes.

Beyond FY24, we continue to expect consistent and predictable adjusted^a revenue and adjusted^b EBITDA growth driven by CPI-linked pricing and by cost transformation. We remain confident in expanding normalised free cash flow by at least £1.5bn, when compared with FY22, by the end of the decade. This comes from lower capital and operating expenditure as we move past peak capex and towards an all-fibre, all-IP network.

Dividend

We have declared a final dividend for FY23 of 5.39 pence per share (FY22: 5.39 pence per share), bringing the full-year total to 7.70 pence per share (FY22: 7.70 pence per share).

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

The Board expects to continue with this policy 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.

Simon Lowth
Chief Financial Officer
17 May 2023

a Adjusted measures exclude specific items, as explained on [page 233](#).

b Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures, as explained on [page 234](#).

c Additions to property, plant and equipment and intangible assets in the period.

d Normalised free cash flow as defined on [page 234](#).

e Financial outlook originally provided in May 2022 was updated in November 2022 to clarify revenue growth on a Sports JV pro forma basis and normalised free cash flow at the lower end of the stated range, and increase capital expenditure guidance from around £4.8bn to c. £5.0bn.

f On 1 September 2022 BT Group and Warner Bros. Discovery announced completion of their transaction to form a 50:50 joint venture (JV) combining the assets of BT Sport and Eurosport UK. Financial information stated as pro forma is unaudited and is presented to estimate the impact on the group as if trading in relation to BT Sport had been equity accounted for in previous periods, akin to the JV being in place historically. Please refer to Additional Information on [page 235](#) for a bridge between financial information on a reported basis and a Sports JV pro forma basis.

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

Group performance continued

Summarised income statement

Year ended 31 March	2023 £m	2022 £m
Revenue	20,681	20,850
Operating costs ^a	(13,244)	(13,560)
Depreciation and amortisation	(4,818)	(4,405)
Operating profit	2,619	2,885
Net finance expense	(831)	(922)
Share of post tax profit/(loss) of associates and joint ventures	(59)	-
Profit before tax	1,729	1,963
Tax	176	(689)
Profit for the period	1,905	1,274

Revenue

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

You can find details of revenue by CFU on [pages 56 to 57](#). 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 £18,062m, up 1%, primarily due to increased depreciation and cost inflation partially offset by tight cost control and the removal of BT Sport rights and production costs.

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

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

Adjusted^c EBITDA

Adjusted^c EBITDA of £7,928m increased by 5% primarily due to our cost transformation programme and the removal of BT Sport costs, partially offset by cost inflation and decline in reported revenue. Adjusted^c EBITDA was up 3% on a Sports JV pro forma^e basis.

[You can find details of adjusted^c EBITDA by CFU on pages 56 to 57.](#)

Profit before tax

Reported profit before tax of £1,729m was down 12% due to increased depreciation from our network build and specific items, partially offset by adjusted^c EBITDA growth.

Specific items

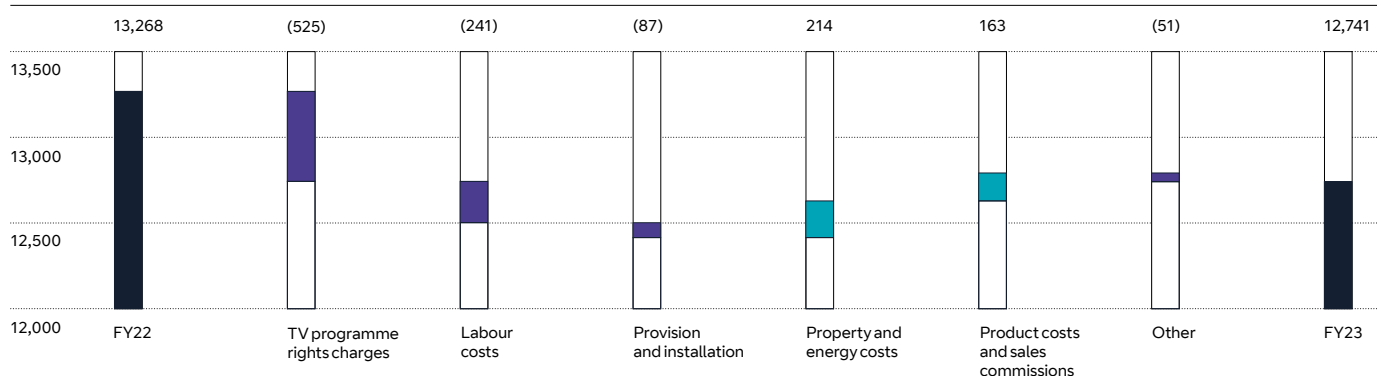
As we explain on [page 233](#), we separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence. We call these specific items. Specific items are used to derive the adjusted results as presented in the consolidated income 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.

Specific items resulted in a net charge after tax of £253m (FY22: £728m). The main components were restructuring charges of £300m (FY22: £347m), net charges associated with the disposal of BT Sport of £155m and subsequent charge of £34m (FY22: £nil) and property impairment charges of £65m (FY22: £nil), offset by tax credit on specific items of £308m (FY22: net tax charge of £340m). The net profit on disposal of BT Sport recognised in specific items was £28m, representing the £155m charges and £183m of the tax credit.

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

Adjusted^b operating costs before depreciation, amortisation and specific items

Year ended 31 March
£m



Taxation

The effective tax rate on reported profit was -10.2% (FY22: 35.1%) primarily driven by the impact of the super-deduction and the gain on the disposal of BT Sport being exempt from UK tax. The FY22 rate was higher due to a tax charge on the revaluation of deferred tax liabilities from 19% to the new 25% UK corporation tax rate.

The effective tax rate on adjusted profit was 5.8% (FY22: 14.8%) as we expect a large proportion of our capital spend on fibre rollout to qualify for the Government's super-deduction scheme.

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

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

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

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

Earnings per share

Reported earnings per share was 19.4p, up 6.5p, while adjusted^b earnings per share was 22.0p, up 1.7p.

Capital expenditure

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

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

Cash flow

Net cash inflow from operating activities was £6,724m, up 14%.

Normalised free cash flow^d was £1,328m, down 5% due to increased cash capital expenditure and adverse working capital movements, offset by EBITDA growth and a tax refund.

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 234](#).

The net cash cost of specific items adjusted from normalised free cash flow^d was £404m (FY22: £606m), primarily relating to restructuring payments.

Sports JV performance

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

On completion of the transaction, the group recorded an investment in Sports JV for our ordinary shareholding at a fair value of £414m and investments in two classes of preference shares in the Sports JV, with a combined fair value of £589m. Subsequently in FY23, we have recorded a £62m share of accounting loss of the Sports JV, reducing the carrying value of our equity investment to £352m at 31 March 2023, and a net decrease of £34m in the fair value of the investment in preference shares – refer to note 25 of the consolidated financial statements for more details.

As part of the transaction, we entered into a distribution agreement with the Sports JV, which includes a minimum revenue guarantee of £2bn for the first four years. This represents an off-market arrangement on which we recorded a liability of £712m – refer to note 23 of the consolidated financial statements for more details.

- a Excluding depreciation and amortisation.
- b Adjusted measures exclude specific items, as explained on [page 233](#).
- c Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures, as explained on [page 234](#).
- d Normalised free cash flow as defined on [page 234](#).
- e On 1 September 2022 BT Group and Warner Bros. Discovery announced completion of their transaction to form a 50:50 joint venture combining the assets of BT Sport and Eurosport UK. Financial information stated as pro forma is unaudited and is presented to estimate the impact on the group as if trading in relation to BT Sport had been equity accounted for in previous periods, akin to the JV being in place historically. Please refer to Additional Information on [page 235](#) for a bridge between financial information on a reported basis and a Sports JV pro forma basis.

Group performance continued

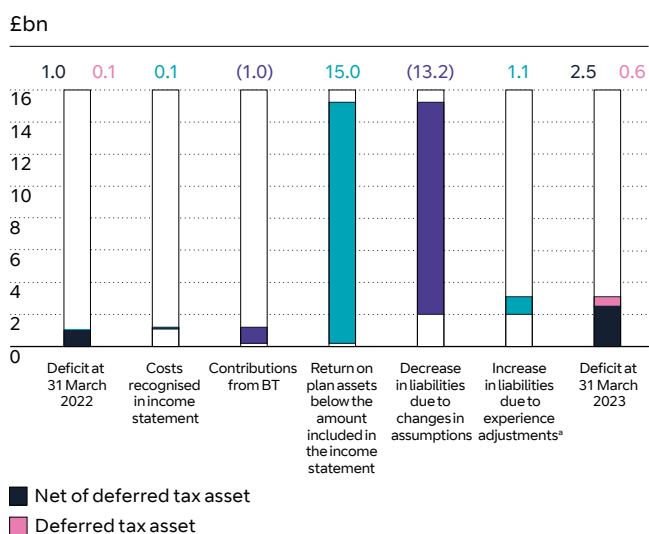
Summarised balance sheet

At 31 March	2023 £m	2022 £m
Intangible assets	13,687	13,809
Property, plant and equipment	21,667	20,599
Right-of-use assets	3,981	4,429
Derivative financial instruments	1,479	1,091
Joint ventures and associates	359	5
Preference shares in joint ventures	555	–
Cash and cash equivalents	392	777
Investments	3,577	2,713
Trade and other receivables	3,563	2,961
Contract assets	1,934	1,915
Deferred tax assets	709	289
Other current and non-current assets	849	1,186
Total assets	52,752	49,774
Loans and other borrowings	18,521	16,185
Derivative financial instruments	383	870
Trade and other payables	7,484	6,766
Contract liabilities	1,052	1,003
Lease liabilities	5,359	5,760
Provisions	598	661
Retirement benefit obligations	3,139	1,143
Deferred tax liabilities	1,620	1,960
Other current and non-current liabilities	82	130
Total liabilities	38,238	34,478
Total equity	14,514	15,296

Pensions

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

The movements in the deficit for the group's defined benefit plans are shown below:



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

Net debt^b and net financial debt

Net financial debt (which excludes lease liabilities) was £13.5bn at 31 March 2023, compared to £12.2bn at 31 March 2022.

The increase was mainly due to pension scheme contributions; normalised free cash flow was mostly offset by dividend payments and cash specifics.

Net debt^b (which includes lease liabilities) was £18.9bn at 31 March 2023, compared to £18.0bn at 31 March 2022. The difference to the movement in net financial debt reflects lease movements.

At 31 March 2023 the group held cash and current investment balances of £3.9bn. The current portion of loans and other borrowings is £1.8bn.

Our £2.1bn revolving credit facility, which matures in March 2027, remains undrawn at 31 March 2023.

We remain committed to our credit rating target of BBB+ and minimum rating of BBB. During FY23, all of the major agencies confirmed their ratings at BBB or equivalent.

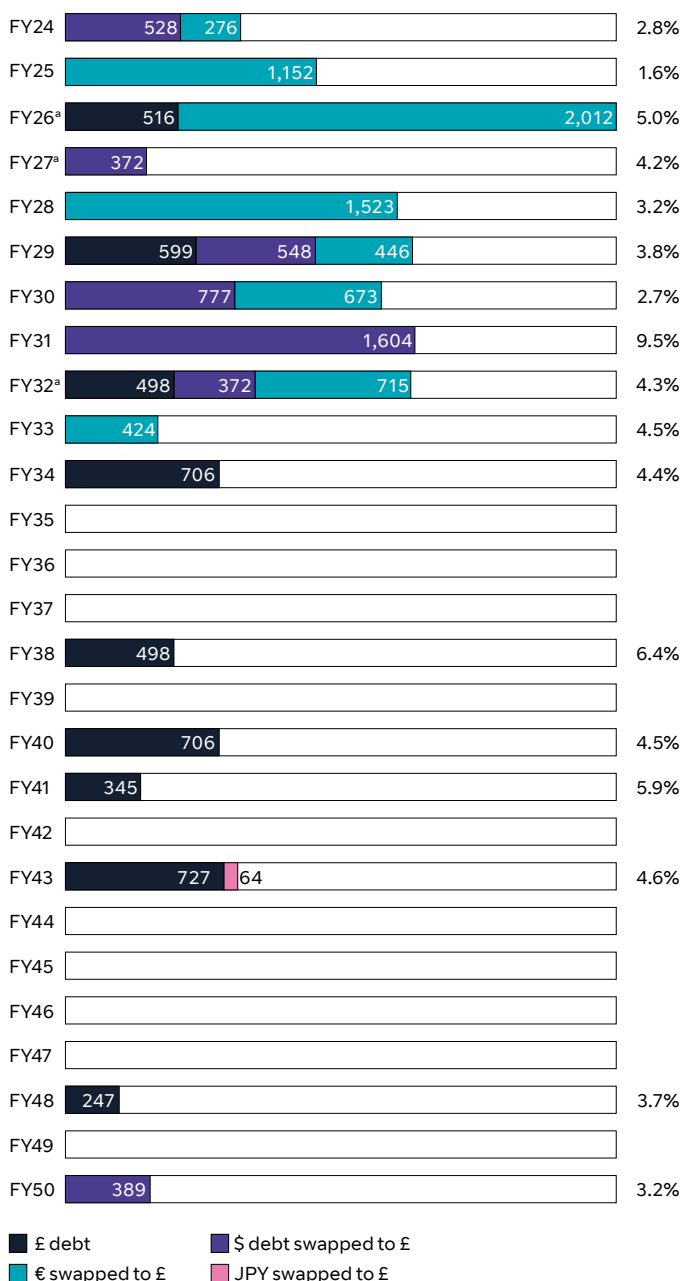
- Primarily reflects the impact on the liabilities of actual inflation being higher than assumed at the prior reporting date. There has been a broadly equivalent benefit to inflation-linked assets from higher inflation.
- Loans and other borrowings and lease liabilities (both current and non-current), less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on the balance sheet. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed. Amounts due to joint ventures held within loans and borrowings are also excluded. Please refer to note 27 for reconciliation from nearest IFRS measure.

Debt maturity

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

Debt maturity profile

£m



^a Reflects exercise of call options attached to bonds maturing between 2080 and 2081. See note 27 to the consolidated financial statements for more details.

Note 27 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 2023.

As at 31 March 2023	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 ^a	17,442	1,501	3,708	1,896	10,337
Pension deficit obligations	6,755	823	1,591	1,561	2,780
Lease liabilities	6,031	800	1,450	1,252	2,529
Capital commitments	1,480	1,331	146	3	–
Other commitments	150	150	–	–	–
Total	31,858	4,605	6,895	4,712	15,646

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, 27 and 32 to the consolidated financial statements give further information on these items.

^a Principal repayments at hedged rates.

Share buyback

We spent £138m (FY22: £184m) on our share buyback programme. We received proceeds of £5m (FY22: £13m) from colleagues exercising their share options.

Group performance continued

Our customer-facing units

Consumer

Adjusted^a revenue
£9,737m (1)%

Adjusted^a operating profit
£1,226m 46%

Year ended 31 March	2023		2022		Change	
	£m	£m	£m	£m	£m	%
Adjusted ^a revenue	9,737	9,858	(121)	(1)		
Adjusted ^a operating costs	7,114	7,596	(482)	(6)		
Adjusted^b EBITDA	2,623	2,262	361	16		
Depreciation & amortisation	1,397	1,421	(24)	(2)		
Adjusted^a operating profit	1,226	841	385	46		
Capital expenditure	1,193	1,198	(5)	-		
Normalised free cash flow ^c	1,147	917	230	25		
Pro forma ^d adjusted revenue	9,499	9,319	180	2		
Pro forma ^d adjusted EBITDA	2,694	2,467	227	9		

Adjusted revenue was up 2% on a pro forma^d basis, with a 3% growth in service revenue driven by the 2022 annual contractual price rise which was aided by a higher FTTP base and higher roaming. Adjusted revenue was down 1% due to the BT Sport disposal offsetting service revenue growth.

Adjusted EBITDA was up 9% on pro forma^d basis, due to increased postpaid mobile and broadband service revenue along with tight cost management, including lower indirect mobile commissions. Adjusted^b EBITDA was up 16% due to rights and production cost savings from the BT Sport disposal along with adjusted revenue growth and tight cost management, including lower indirect mobile commissions.

Normalised free cash flow was up due to adjusted EBITDA growth and favourable device working capital movements, offset by sports rights timing.

Capital expenditure was flat with continued mobile network, equipment and digital investment.

Churn continues to remain stable in a competitive market with Ofcom complaints in EE lower than or in line with industry average for mobile, broadband and landline and in BT Ofcom complaints were lower than or in line with industry average for broadband and landline.

Enterprise

Adjusted^a revenue
£4,962m (4)%

Adjusted^a operating profit
£552m (39)%

Year ended 31 March	2023		2022		Change	
	£m	£m	£m	£m	£m	%
Adjusted ^a revenue	4,962	5,157	(195)	(4)		
Adjusted ^a operating costs	3,568	3,521	47	1		
Adjusted^b EBITDA	1,394	1,636	(242)	(15)		
Depreciation & amortisation	842	724	118	16		
Adjusted^a operating profit	552	912	(360)	(39)		
Capital expenditure	608	569	39	7		
Normalised free cash flow ^c	522	791	(269)	(34)		

Adjusted revenue was down, driven by the migration of an MVNO customer, legacy contract exits and declines in legacy products. This was partially offset by continued growth in SME and SoHo.

Adjusted EBITDA was down due to the flow through of lower revenue and margin pressure from lower legacy product mix, partly offset by the impact of ongoing cost transformation.

Depreciation and amortisation was up, driven by timing relating to the registration of assets in the course of construction.

Capital expenditure was up, driven by digital investment in support of our modernisation agenda.

Normalised free cash flow was down, reflecting adjusted EBITDA decline partly offset by improved working capital management.

We have seen growth in both mobile and VoIP in the year, adding 61k connections to our mobile base and 110k connections to our VoIP base. For the year, retail order intake increased 14% to £3.0bn despite challenging market conditions.

Global

Adjusted^a revenue**£3,328m** (1)%Adjusted^a operating profit**£141m** 40%

Year ended 31 March			Change	
	2023 £m	2022 £m	£m	%
Adjusted ^a revenue	3,328	3,362	(34)	(1)
Adjusted ^a operating costs	2,870	2,906	(36)	(1)
Adjusted^b EBITDA	458	456	2	-
Depreciation & amortisation	317	355	(38)	(11)
Adjusted^a operating profit	141	101	40	40
Capital expenditure	252	201	51	25
Normalised free cash flow ^c	63	131	(68)	(52)

Adjusted revenue was down mainly due to lower equipment sales and the impact of prior year divestments, partly offset by a £131m positive foreign exchange movement. Adjusted revenue excluding divestments, one-offs and foreign exchange was down 4%.

Adjusted EBITDA was flat with lower operating costs from ongoing cost transformation and cost control offset by lower revenue and inflationary pressures. Adjusted EBITDA excluding divestments, one-offs and foreign exchange was flat.

Depreciation and amortisation was down mainly due to actions taken to reduce capital intensity over the last few years, resulting in strong growth in adjusted operating profit which was up 40%.

Capital expenditure was up £51m, mainly due to customer project spend and investment in digital platforms.

Normalised free cash flow declined mainly due to higher capital expenditure and adverse working capital, partially offset by higher adjusted EBITDA.

On a rolling 12-month basis order intake was £3.1bn, down 15%. Our growth product portfolio represents 53% of total orders won in the year.

Openreach

Adjusted^a revenue**£5,675m** 4%Adjusted^a operating profit**£1,390m** 7%

Year ended 31 March			Change	
	2023 £m	2022 £m	£m	%
Adjusted ^a revenue	5,675	5,441	234	4
Adjusted ^a operating costs	2,226	2,262	(36)	(2)
Adjusted^b EBITDA	3,449	3,179	270	8
Depreciation & amortisation	2,059	1,876	183	10
Adjusted^a operating profit	1,390	1,303	87	7
Capital expenditure	2,796	2,548	248	10
Normalised free cash flow ^c	211	448	(237)	(53)

Adjusted revenue was up due to price increases and increased sales of fibre-enabled products and Ethernet, partly offset by legacy copper product declines and an expected decrease in chargeable repairs due to lower repair volumes.

Adjusted EBITDA was up due to higher revenue and lower operating costs driven by lower repair volumes and efficiencies, partially offset by inflation.

Depreciation and amortisation was up, driven by increased network build.

Capital expenditure was up due to higher FTTP build (including WIP), higher FTTP connections and inflation; partly offset by lower non-FTTP capital expenditure. Copper-based capital expenditure was down 53% in the second half of the year.

Normalised free cash flow was down due to higher capital expenditure and working capital timing, partly offset by higher adjusted EBITDA.

Average monthly rental broadband ARPU grew by c. £1 year on year (7.5%) due to increased volumes of FTTP.

a Adjusted measures exclude specific items, as explained on [page 233](#).

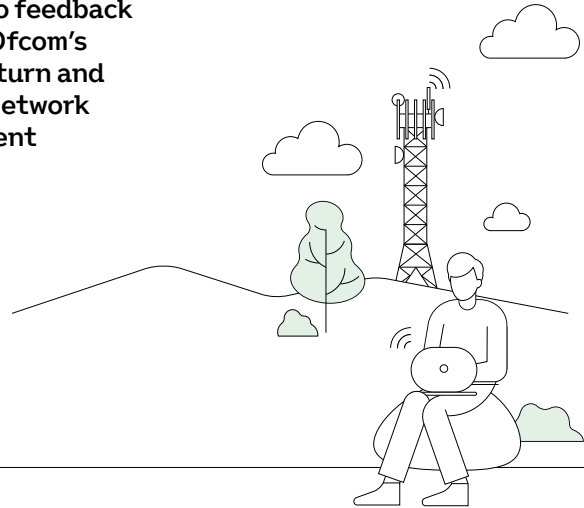
b Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures, as explained on [page 234](#).

c Normalised free cash flow as defined on [page 234](#).

d On 1 September 2022 BT Group and Warner Bros. Discovery announced completion of their transaction to form a 50:50 joint venture (JV) combining the assets of BT Sport and Eurosport UK. Financial information stated as pro forma is unaudited and is presented to estimate the impact on the group as if trading in relation to BT Sport had been equity accounted for in previous periods, akin to the JV being in place historically. Please refer to Additional Information on [page 235](#) for a bridge between financial information on a reported basis and a Sports JV pro forma basis.

Regulatory update

Fibre build, the cost of living crisis, migrating off legacy networks and net neutrality led our regulatory agenda this year. In broadband, fixed and mobile retail markets, inflation and investment commitments made consumer and business price rises unavoidable. We're transparent about pricing, while proactively supporting those in financial difficulty. We're looking to restart our digital voice migration this summer after listening to feedback and ensuring we protect the most vulnerable. In mobile, Ofcom's strategy review recognised the link between financial return and market competitiveness. We're also switching off our 3G network next year, repurposing our spectrum on to the more efficient 4G/5G technologies.



Fibre builds and pricing: competing fairly in a thriving market

In 2021, Ofcom set out the regulatory regime for full fibre investment in its 2021-26 Wholesale Fixed Telecoms Market Review. Ofcom keeps monitoring Openreach activities and the overall market to make sure it is competitive and delivers good customer outcomes.

Openreach continues to build full fibre and connect customers at pace, while pricing transparently. It also continues to deliver on its commitment, under the regulatory regime, delivering over 3 million rural connections as part of its overall build. In December 2022, it told Ofcom about Equinox 2, a new wholesale fibre offer introducing price discounts designed to promote copper to fibre migration. Ofcom is still reviewing whether Equinox 2 is consistent with its goal of promoting fibre market competition and is expected to make a decision by end of May 2023.

In December 2022, Cityfibre raised a Competition Act complaint about Openreach to the Competition and Markets Authority and Ofcom. Ofcom is still considering whether to launch an investigation on the back of this.

Openreach's regulated quality of service targets

Openreach attaches the highest priority to delivering the best level of service for its customers. In FY23, Openreach had very strong service performance in Q1 and Q4 and continues to achieve high customer satisfaction scores. Its performance against Ofcom's targets across the year was impacted by industrial action in Q2 and Q3 such that we have reported a narrow miss against 3 of the total of 35 targets.

Living costs and pricing: being transparent and protecting the vulnerable

In December, Ofcom opened a cross-industry enforcement programme on 'in-contract price variation terms'. Its aim is to check whether individual providers' past pricing policies were prominent and transparent enough to consumers who signed contracts between March 2021 and June 2022.

In February, Ofcom launched a separate policy review to check whether inflation linked mid-contract price rises give customers enough clarity on future pricing, especially given the current inflationary environment.

We continue to be upfront and transparent with all our customers on pricing, making sure annual in-contract price rises are clear and predictable when they buy a service from us. We also contact customers by email, post or text message well ahead of a price change, explaining if and how it will affect them.

During the year we boosted help for those needing it most in paying for services:

- We have more customers on subsidised or social tariffs than the rest of the industry combined (c. 1m). Of those customers on a social tariff, 85% are with BT.
- We continued providing affordable broadband at £15 a month for eligible customers.
- In November we launched EE Mobile Basics – giving customers 5GB of data for £12 a month.
- Through 2023, we're freezing prices for more than 3m social tariff, landline-only and pay-as-you-go customers.
- We led the industry to develop the first eligibility checker using Department for Work and Pensions data – making signing up to social tariffs easier for those eligible.
- We have debt and disconnection policies in place to support vulnerable consumers.



Retiring legacy networks: keeping customer experience at the heart of migration

UK landlines will move from the legacy Public Switched Telephone Network (PSTN) to digital by the end of 2025. This switch is vital to support future-proofed networks, but is sensitive for customers. It will affect many across society, including vulnerable customers, as well as the UK's critical national infrastructure.

Following customer feedback, last year we paused migrating consumer customers to put in place extra measures to protect vulnerable people. While voluntary digital switches continued, during the pause we worked to give better back-up options to those that needed them, and we listened extensively to our vulnerable customers' needs.

In April 2023 we expanded our updated digital voice migration trials beyond Salisbury and Mildenhall (Openreach's PSTN switch-off trial locations) – aiming to restart the migration in summer 2023. We'll continue to work closely with Government, Ofcom, the industry and user groups to minimise any disruption for all.

In the mobile market, 3G is quickly becoming obsolete. It consumes 35% of EE's mobile network power but carries less than 1% of total data. When we switch off our 3G network in January 2024, it will reduce our power consumption and carbon footprint by 48,650 metric tonnes of CO₂.

In February, Ofcom published what it expects from mobile providers in managing this switch. We'll give customers lots of notice about when they might need to upgrade their mobiles to keep using data services.

Policymakers: mobile investment, competition and coverage

Our 5G mobile network now covers 68% of the UK population; over 500 small towns and villages now have EE 5G signal for the first time. Our 4G network ambition is to pass 90% of UK landmass by mid-2020s in part as a result of our contribution to the Shared Rural Network.

In December Ofcom's 'Future approach to mobile markets and spectrum' set out a vision for the industry. It found that mobile investment and customer outcomes were still good, with no need for extra consumer protection regulation.

It also acknowledged that if mobile network providers' financial returns were lower than capital costs for a long time this would disincentivise investment and could lead to "weaker competition and poorer outcomes for customers".

In April 2023 Government's newly created Department for Science, Innovation and Technology also published its Wireless Infrastructure Review which focuses on improving the investment environment and sets out a new ambition to deliver nationwide coverage of standalone 5G to all populated areas by 2030. Government asked Ofcom to also review how well spectrum pricing works.

Net neutrality and digital markets: growing policy debate

The modern internet needs modern rules. There is a growing global debate on how to balance customers' rights to internet access with greater flexibility supporting network efficiency and investment.

In October, Ofcom's net neutrality consultation proposed that internet service providers should be able to differentiate offerings – including premium internet for gaming or specialised services – and use traffic management to tackle network congestion.

We welcome this proposal. We believe there needs to be more commercial flexibility to negotiate better efficiency, improve content coordination and make sure the heaviest traffic loaders don't affect everyone else's online experience.

On digital markets, we continue to contribute to Ofcom's Digital Strategy work programme. That includes its Cloud Services Market Study and emerging work on over-the-top communications services (NIICs).

A letter from the Chair of Openreach



Without question, the last 12 months have been tough for everyone.

Like other businesses, we've been hit by rising inflation and supply chain challenges. And we can see the pressures facing our people, our communications provider (CP) customers and households up and down the country.

In that context, I'm proud that we've achieved a solid year of progress at Openreach. One of the main reasons for that progress is that our purpose and strategy remain crystal clear.

As the nation's largest wholesale broadband network, we keep the country connected and we're building the next generation of digital infrastructure – ultrafast, ultra-reliable full fibre to 25m homes and businesses.

We're laser focused on that goal. We know it will deliver the best possible outcome for our customers and help power the UK's growth and ambition for decades ahead.

Delivering on our ambition

This year we've continued to build our new network at record pace.

Full fibre is now available to 10.3m homes and businesses – including 3.1m in mainly rural locations. We've kept a balanced approach to build in rural and urban areas, reaching more than 59k premises every single week.

We remain focused on efficiency. We've maintained a low cost of £250-£350 to reach each premises despite inflationary pressures, and without compromising on quality or safety standards. And, most importantly for our future, we're winning the real race – to upgrade customers and all of our CPs on to that new network.

There's a growing appetite for full fibre. This year we've seen record order and provision volumes and more than 3.1m homes and businesses already reaping the benefits of our fastest, most reliable broadband connection.

And we're not stopping there. We expect substantial growth in customer numbers next year – driven by sharper pricing offers and the long-term certainty we're giving CPs.

Investing in people, diversity and inclusion

As always, our near 37,000 people are at the heart of our business and purpose.

This year, we hired over 3,000 people and we continue to invest heavily in training and developing our existing workforce. We've already retrained thousands of copper-skilled engineers to work on our new fibre network.

We also made good progress on becoming more inclusive and diverse. This is a long journey for a business and industry like ours, but we're committed to building a workplace that fully represents the communities we serve all over the UK. More of our trainee engineer recruits were women last year and our People Networks – which champion diversity and inclusion – grew to 7,500 members.

Given the financial challenges everyone's facing, it was also important that BT Group was able to help as many of our colleagues as possible through bringing forward the 2023 pay award to January.

Being safe and responsible

Openreach has a responsibility to both its people and the planet.

The work we do comes with inherent risk, so our safety practices are paramount. I'm encouraged by the progress made in further strengthening our safety culture. But one injury is one too many. So we'll continue to invest in training and innovations that encourage a stronger safety culture for our people and the public.

We also understand we're in a unique position to deliver positive environmental change. Our 29,000-strong van fleet represents a big opportunity to cut our atmospheric impact – and we've pledged to switch most of it to electric or zero emissions by 2030.

We've already invested in over 2,000 electric vans. But there are considerable challenges to this programme, including the lack of charging infrastructure and supply chain. Next year we'll continue to work hard with stakeholders to overcome these barriers.

Competing fairly

With the massive investment and transformation happening across the country, it's no surprise to see increasing scrutiny on the telecoms market and the intense competition that's playing out.

With that in mind, we understand our legal and regulatory obligations inside out and we're committed to both competing intensely and fairly and supporting our industry. We're clear. Our job at Openreach is to maintain a strong and sustainable business for colleagues, shareholders and the nation.

Upgrading the UK to digital phone lines

Responding to BT's plan to retire the analogue PSTN system is a critical programme for Openreach. We've continued our work this year to support CPs and the industry to withdraw analogue services.

Our trials in Salisbury and Mildenhall helped us test, understand and improve the readiness of all kinds of customers for this change. We've honed our ability to migrate them smoothly and safely to futureproof digital products.

We'll continue to speed up this work next year – when we also hope to see a step change in awareness as CP migrations ramp up.

Looking forward

Broadband usage hit record-breaking levels in 2022, and we know that faster, more reliable connectivity has become a necessity for almost everyone.

With this in mind, next year's focus will be to keep building, delivering and upgrading. The more customers we upgrade to our full fibre network, the more everyone will reap the benefits of an ultrafast, digitally connected economy.

As ever, I thank all our people for their dedication, resilience and the good progress we've made towards fulfilling our goals this year.

Mike McTighe
Chair, Openreach
17 May 2023

Risk management

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

Strong foundations built on our risk mindset aligned with strategy

Our business thrives on stakeholder trust. That means we must manage risks smartly to achieve our ambition, deliver our strategy, support our business model and protect our assets while leading the way to a bright, sustainable future.

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

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

The ongoing risks we face

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

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

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

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

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

Dynamic risks we face

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

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

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

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

Connecting it all up

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

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

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

Risk management continued

The context we operate in

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

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

Outside the group, today's inflationary environment affects us across a number of our GRCs. We've included some examples of point risks in the following pages. As part of our long-term viability analysis, we've also considered the effects of sustained inflation on our business (see [pages 81 to 82](#)).

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

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

Supply management

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

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

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



Cyber security

We're a high-profile provider of critical national infrastructure. That makes us a prominent target for hostile cyber actors and we remain vigilant to this threat. This year the Russia-Ukraine conflict was a significant part of the cyber security backdrop. We'll keep monitoring short- and medium-term implications.

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

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

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

Our principal risks and uncertainties

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

Strategic

Strategy, technology and competition

Sponsor: Chief Financial Officer

What this category covers

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

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

Our appetite for risk in this category

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

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risks:

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

Emerging risk:

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

Scenario considered in viability analysis/planning

Hyperscalers making direct moves into our markets.

Stakeholder management

Sponsor: Corporate Affairs Director

What this category covers

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

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

Our appetite for risk in this category

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

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

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

Examples of what we do to manage this category

- we monitor the media, and track our reputation across our main stakeholder groups
- we engage with stakeholders to build stronger relationships. See our stakeholder section on [pages 40 to 45](#) for details
- our Manifesto ([pages 36 to 39](#)) sets out our commitment to growth through responsible, inclusive and sustainable technology. The *Digital Impact & Sustainability Committee* provides Board-level governance
- our cross-organisational Responsible Technology Steering Group and the Geopolitical Risk Hub bring together representatives from across the group to share intelligence and agree actions.

Dynamic risk examples in this category

Point risks:

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

Emerging risks:

- escalating geopolitical tensions
- climate change and perceptions of our sector's role in carbon emissions. See our Task Force on Climate-related Financial Disclosures ([pages 71 to 80](#)).

Scenario considered in viability analysis/planning

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

Our principal risks and uncertainties continued

Financial

Financing

Sponsor: Chief Financial Officer

What this category covers

We rely on cash generated by business performance supplemented by capital markets, credit facilities and cash balances to finance operations, pension scheme, dividends and debt repayments.

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

Our appetite for risk in this category

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

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category
Point risks:

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

Emerging risk:

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

Scenarios considered in viability analysis/planning

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

Winter power shortages and unhedged energy costs.

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

Financial control

Sponsor: Chief Financial Officer

What this category covers

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

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

Our appetite for risk in this category

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

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category
Point risks:

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

Emerging risk:

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

Scenario considered in viability analysis/planning

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

Compliance

Communications regulation

Sponsor: General Counsel, Company Secretary & Director Regulatory Affairs

What this category covers

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

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

Our appetite for risk in this category

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risks:

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

Emerging risk:

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

Scenario considered in viability analysis/planning

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

Data

Sponsor: Chief Digital and Innovation Officer

What this category covers

Our data strategy seeks to create value and enable efficiency while providing a robust framework for data governance and regulatory compliance.

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

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

Our appetite for risk in this category

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risk:

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

Emerging risks:

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

Scenario considered in viability analysis/planning

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

Our principal risks and uncertainties continued

Compliance continued

Legal compliance

Sponsor: General Counsel, Company Secretary & Director Regulatory Affairs

What this category covers

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

Our appetite for risk in this category

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

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risks:

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

Emerging risk:

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

Scenario considered in viability analysis/planning

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

Financial services

Sponsor: CEO, Consumer

What this category covers

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

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

Our appetite for risk in this category

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risks:

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

Emerging risk:

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

Scenario considered in viability analysis/planning

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

Operational

Operational resilience

Sponsor: Chief Security and Networks Officer

What this category covers

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

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

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

Our appetite for risk in this category

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risks:

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

Emerging risk:

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

Scenario considered in viability analysis/planning

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

Cyber security

Sponsor: Chief Security and Networks Officer

What this category covers

Our aim is to protect the group, colleagues and customers from harm and financial loss from cyber security events.

Because we run critical national infrastructure, a cyber attack could disrupt both customers and the country and compromise data.

A poorly managed cyber security event might cost us money, damage our reputation and impact our market share. The regulator might also impose fines or penalties.

Our appetite for risk in this category

Cyber risk is inherent to our business, and significant reputational damage could be incurred by a major cyber event, but we acknowledge that not all cyber risks can be eradicated.

Cyber events could be deliberate or unintentional, originate from inside or outside the group, and we adapt our security posture and controls accordingly to detect and respond robustly to the evolving threat.

We prioritise the protection of our critical systems and networks, and the data and information they contain.

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risks:

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

Emerging risks:

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

Scenario considered in viability analysis/planning

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

Our principal risks and uncertainties continued

Operational continued

People

Sponsor: Chief Human Resources Officer

What this category covers

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

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

Our appetite for risk in this category

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

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

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

Examples of what we do to manage this category

- our group people strategy is supported by a workforce plan
- we share consistent performance goals and performance management review processes – through clear organisation structures, roles and job descriptions
- we assess skills and capabilities, invest in group-wide workforce and talent planning and provide training, development and wellbeing support – for specific roles, future skills and succession planning
- our D&I strategy raises awareness, addresses bias and promotes our People Networks and support (read more about D&I and our people on [pages 32 to 35](#))
- we engage with employees and maintain close relationships with formal representative groups and unions
- we offer fair, competitive and sustainable remuneration to promote smart risk taking, support engagement and retention and help align colleagues' and shareholders' interests.

Dynamic risk examples in this category

Point risks:

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

Emerging risks:

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

Scenario considered in viability analysis/planning

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

Health, safety and environment

Sponsor: Chief Security and Networks Officer

What this category covers

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

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

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

Our appetite for risk in this category

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risks:

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

Emerging risk:

- complying with future health, safety and environment regulation.

Scenario considered in viability analysis/planning

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

Major customer contracts

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

What this category covers

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

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

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

Our appetite for risk in this category

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

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risks:

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

Emerging risks:

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

Scenario considered in viability analysis/planning

Losing major public services contracts.

Customers, brand and product

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

What this category covers

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

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

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

Our appetite for risk in this category

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risks:

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

Emerging risk:

- long-term changes in customer needs and expectations.

Scenario considered in viability analysis/planning

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

Our principal risks and uncertainties continued

Operational continued

Supply management

Sponsor: Chief Financial Officer

What this category covers

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

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

Our appetite for risk in this category

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

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risks:

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

Emerging risk:

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

Scenario considered in viability analysis/planning

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

Transformation delivery

Sponsor: Chief Financial Officer

What this category covers

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

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

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

Our appetite for risk in this category

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

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

Examples of what we do to manage this category

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

Dynamic risk examples in this category

Point risks:

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

Emerging risk:

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

Scenario considered in viability analysis/planning

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

Task Force on Climate-related Financial Disclosures

We analyse and report on what we're doing to understand and manage the impact of climate-related risks and opportunities on the group.

This section details how we're complying with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in this area – our 'TCFD statement'.

- Under FCA Listing Rule 9.8.6(8) as a premium listed company we have to explain how we're complying (or not) with the TCFD framework. This is our second year of mandatory disclosure – but we've been doing it voluntarily since FY20.
- We consider the climate-related financial disclosures that follow to be consistent with the TCFD framework and therefore compliant with Listing Rule 9.8.6(8), save for certain items which we summarise below in Table 1: TCFD Compliance Summary.
- Where relevant, we've accounted for TCFD guidance and the recent Financial Reporting Council (FRC) recommendations on materiality around governance, strategy, risk management, and metrics and targets.
- We've integrated climate-related disclosures throughout the Annual Report, so in some areas we've cross-referenced to another section containing the relevant information.
- The information presented within this TCFD section has been reviewed to a high level of assurance by LRQA Limited against Accountability's AA1000AS v3 assurance standard.

Table 1: TCFD Compliance Summary

TCFD recommendation	Compliance status	Alignment	Section reference
Governance			
1 Board's oversight of climate-related risks and opportunities	Full	We discuss Board-level delegation of climate-related responsibilities to the <i>Digital Impact & Sustainability Committee</i> . The <i>Audit & Risk Committee</i> oversees climate risk management.	TCFD section: Our climate change governance – Board oversight on climate change (page 73) Corporate governance report: Our governance framework (page 85), and <i>Digital Impact & Sustainability Committee</i> Chair's report (page 107)
2 Management's role in assessing and managing climate-related risks and opportunities	Full	We discuss that the Chief Executive is ultimately responsible for climate-related issues and that the <i>Executive Committee</i> sets operational strategy on climate change and sustainability, and monitors associated progress, performance and risks. Health, safety and environment issues are managed by a subcommittee that reports to the <i>Executive Committee</i> .	TCFD section: Our climate change governance – Management's roles and responsibilities (page 73) Corporate governance report: Our governance framework (page 85)
Strategy			
3 Climate-related risks and opportunities (short, medium, long-term)	Full	We describe each short, medium and long-term timeframe including for decarbonisation as well as investments built into our financial medium term plan (MTP).	TCFD section: Risk management and climate scenario analysis – Planning climate risks and opportunities across different time horizons (page 74)
4 Impact of climate-related risks and opportunities on the business, strategy and financial planning	Full	We describe the impact of physical and transition risks by climate scenario and time horizon.	TCFD section: Risk management and climate scenario analysis – The results of our analysis (page 75) Strategic report: Our Manifesto – Sustainable (pages 38 to 39)
5 Resilience of the organisation's strategy, considering different climate-related scenarios, including a 2°C or lower scenario	Full	Climate adaptation and mitigation activity is discussed further in sections 'Responding to our main physical risks' and 'managing transition risks and pursuing low carbon opportunities'.	TCFD section: Being resilient to climate risks (page 78)

Task Force on Climate-related Financial Disclosures continued

Table 1: TCFD Compliance Summary

TCFD recommendation	Compliance status	Alignment	Section reference
Risk management			
6 Processes for identifying and assessing climate-related risks	Full	We outline the process and framework for identifying and assessing climate-related risks, also linking out to our wider risk management framework.	TCFD section: Risk management and climate scenario analysis – A structured and consistent approach to risk management (page 74) Strategic report: Risk management (pages 61 to 62)
7 Processes for managing climate-related risks	Full	We manage climate risks through Group Risk Categories (GRCs) – including stakeholder management (reputation), operational resilience (physical assets) and supply management (supply chain).	TCFD section: Risk management and climate scenario analysis – A structured and consistent approach to risk management (page 74) Strategic report: Risk management (pages 61 to 62) and climate-related GRCs (pages 63, 67, 70)
8 Identifying, assessing and managing climate-related risks, and integration into overall risk management	Full	Climate risks are managed through BT Group's risk management framework and processes. Risks are monitored and reported to the <i>Audit & Risk Committee</i> .	TCFD section: Risk management and climate scenario analysis – A structured and consistent approach to risk management (page 74) Strategic report: Risk management (pages 61 to 62)
Metrics and targets			
9 Metrics to assess climate-related risks and opportunities in line with strategy and risk management processes	Partial	Our disclosure covers our climate targets, ESG-related metrics and GHG emissions. Over time as our modelling and data capabilities mature, our metrics and disclosures in this area will evolve to introduce metrics related to physical risks and products and services.	TCFD section: Our targets, metrics and measurement (page 79), Our worldwide energy use and greenhouse gas emissions (page 80) ESG Addendum: bt.com/esgaddendum
10 Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks	Full	We disclose Scope 1, 2 and 3 GHG emissions and related risks and share a summary table of figures at the end of this section (page 80).	TCFD section: Our targets, metrics and measurement (page 79), Our worldwide energy use and greenhouse gas emissions (page 80) ESG Addendum: bt.com/esgaddendum
11 Targets used to manage climate-related risks and opportunities, and performance against targets	Full	We describe our operational and value chain net zero targets and some of the investments we're making in order to achieve them. We also link out to our Carbon Reduction Plan which provides further details of the targets and actions we're taking.	TCFD section: Climate change strategy and planning – Embedding climate change into our strategy (page 73) Strategic report: Our Manifesto – Sustainable (pages 38 to 39)

Our climate change governance

We set out the internal governance bodies, processes and ways in which we identify and manage climate-related risks and opportunities within BT Group.

[Read more on our climate governance on page 107.](#)

Board oversight on climate change

The Board

The Board has overall responsibility for how we identify and manage climate-related risks. Matters reserved to the Board include items of significant strategic importance, such as those which have a direct impact on the group's funding position, reputation or integrity; and/or ethical standards.

Digital Impact & Sustainability Committee

Oversees our climate change strategy, programme and goals. It's chaired by Non-Executive Director Sara Weller and made up of four Independent Non-Executive Directors. It's attended by our Chief Human Resources Officer, Corporate Affairs Director, Director of Digital Impact and External Communications and the Sustainability and Corporate Affairs Strategy Director.

The Deputy Company Secretary is secretary to the Committee and attends all meetings. The Committee meets at least three times a year and monitors progress on our long-term digital impact and sustainability goals, including those on climate change. The Chair reports to the Board on our climate-related activities, including net zero. To support the induction of Sara Weller, as the new Chair of the *Digital Impact & Sustainability Committee*, and other senior leaders, a training session was held on sustainability and climate change.

Audit & Risk Committee

Monitors and assesses our risk management and internal control system effectiveness on the Board's behalf. That includes climate change risks which sit under a number of different GRCs, see [pages 63, 67 and 70](#).

Management's roles and responsibilities

Chief Executive

Our Chief Executive is ultimately responsible for our environmental policy and performance. That includes climate-related issues. After consulting with the *Executive Committee* the Chief Executive recommended our target to become a net zero carbon emissions business by the end of FY31 for our operations (Scopes 1 and 2) and by the end of FY41 for value chain (Scope 3) to the *Digital Impact & Sustainability Committee* – who then approved it in 2021.

Executive Committee

Sets operational strategy on climate change and sustainability. It also monitors associated progress, performance and risks – supported by our digital impact and sustainability team.

Our Group Health, Safety & Environment Sub-Committee manages day-to-day climate-related compliance and risk issues on behalf of the *Executive Committee*, reporting back regularly.

Climate change strategy and planning

[Read more on our climate strategy and planning on pages 38 and 39.](#)

Embedding climate change into our strategy

Climate is a core part of our strategic objective to lead the way to a bright, sustainable future.

We have ambitious strategic and financial targets which aim to ultimately reach net zero and decarbonise our operations by FY31 and value chain by FY41.

Our [Carbon Reduction Plan \(bt.com/carbonreductionplan\)](#) explains what we're doing to reduce operational and value chain emissions. We include our investments on renewable electricity, transforming our buildings estate, energy efficiency and transitioning to a low carbon fleet in our medium term plan. Our medium term plan considers both capital and operating expenditure over a rolling five-year timeframe.

To reduce customer emissions, in 2021 we set a target to help our customers avoid 60m tonnes of CO₂e by FY30. This is based on shifting them to technologies like FTTP, 4G/5G, cloud computing and IoT-based products.

Task Force on Climate-related Financial Disclosures continued

Risk management and climate scenario analysis

A structured and consistent approach to risk management

Our risk management framework helps us assess, manage, monitor and act on risks – including climate change – to deliver on our strategic objectives. We track and report risks to the Audit & Risk Committee and Executive Committee.

Full detail on our risk management framework can be found on pages 61 to 62 and we describe below how the framework is applied to climate risks.

Identifying risks

We identify climate change risks as part of our risk management framework. We manage them through GRCs – including operational resilience (physical assets), stakeholder management (reputation), and supply management (supply chain).

Read more on pages 63, 67 and 70.

Assessing risks

We evaluate climate risks against time horizon, preparedness and likely degree of impact. We calculate the impact using quantitative and qualitative measures on revenue and market capitalisation, customer experience, and stakeholder perception. This lets us determine relative risk priority.

Managing and reporting on risks

Our Group Health, Safety & Environment (GHSE) Sub-Committee manages a range of risk and compliance issues (including climate change) on behalf of the Executive Committee. It's chaired by the Chief Security and Networks Officer – an Executive Committee member – and made up of senior leaders from across the business.

In the UK, our most significant environmental risks are managed by the Environmental Management Compliance working group. It meets each month and reports to the GHSE every quarter. Its members are senior managers responsible for addressing

environmental risks and improving performance under our ISO 14001-certificated environmental management system.

Day to day, we manage climate risks in the parts of our business they might affect. For example, our procurement team measures suppliers' energy use and environmental impact. We decide how to mitigate or control a risk based on its likelihood and impact, leading to investments in areas such as flood defences because more floods could have a big effect on us.

Planning climate risks and opportunities across different time horizons

We think about climate risks and opportunities over short-, medium- and long-term timeframes. We do that in line with our risk management framework and financial planning processes – and considering external legal and regulatory changes.

Short-term horizon

Our short-term horizon considers the chance of events creating risk exposure over the next three years. We factor acute physical risks like flooding and higher temperatures into our annual plans. This helps us to adapt and reduce the impact on our business and value chain.

Medium-term horizon

Our medium-term horizon is aligned to our financial planning process which uses a five-year horizon and capital expenditure is assessed over the life of the asset.

Long-term horizon

Our long-term horizon matches our investment timeframes for strategic assets like networks that are planned over longer periods – sometimes up to 20 years. It also influences our strategy, targets and plans for responding to the bigger risks and transitional implications of climate change. We also think about climate risks beyond these timeframes. For example, our long-term climate targets extend to FY41, and TCFD scenario analysis set out in the following pages considers risks in 2050.

Analysing climate scenarios

This year we focused on advancing our climate scenario analysis and financial impact modelling, in line with FRC expectations.

We updated our set of prioritised climate risks and opportunities to focus on three physical risks, three transition risks and three opportunities.

The physical risks relevant to our sector include more frequent and severe weather events affecting infrastructure and service provision. For example floods, heatwaves or storms can result in service interruptions and downtime.

The transition risks that could affect us include changes to policy and regulations in areas like carbon pricing. These could have direct financial implications based on our residual emissions, and changes in customers' behaviour and preferences around purchasing and choice of service provider.

We considered potential climate-related opportunities for our sector, such as improved energy efficiency and winning new business by positioning ourselves as a leader in our response to climate change.

We aimed to identify the risks and opportunities that could have the most material financial impact on our business – for example on revenue and current and future costs, including cost of capital.

We use different scenarios to assess our climate risks and opportunities from physical impacts and the move to a low-carbon economy. We've based our scenarios on the Intergovernmental Panel on Climate Change (IPCC), Network for Greening the Financial System and International Energy Agency, among other sources.

Our analysis is based on a 'middle-of-the-road' scenario of 2°C to 3°C warming. We also reviewed 'optimistic' and 'very warm' transition and physical scenarios (1.5°C and

4°C warming) to assess climate change's potential financial impact on BT Group in 2030, 2040 and 2050.

BT Group's TCFD Climate Scenarios in Table 2 below shows the different climate-related scenarios¹ we've considered to help us to test our organisational strategy's resilience. RCPs (Representative Concentration Pathways) are IPCC greenhouse gas trajectories representing different climate scenarios.

The results of our analysis

We consider our strategy to be resilient to climate risks in all modelled scenarios.

The Current Policies scenario assumes that some climate policies are implemented, but global efforts are not enough to stop significant global warming.

The Delayed Transition scenario assumes that annual emissions don't fall until 2030, and climate policies are delayed or different across countries and sectors.

The Net Zero scenario limits global warming to 1.5°C and assumes that the necessary policy changes are introduced early and become more stringent over time, achieving global net zero CO₂e around 2050.²

Under a Current Policies scenario, we expect physical risks to have a greater impact than transition risks, as these are driven by more frequent and severe weather, particularly in the longer term.

We expect transition risks to have a greater impact under the Delayed Transition and Net Zero scenarios – because they're driven by changes in policy and regulation as well as stakeholders' behaviour (including customers).

Delayed Transition scenario trends are similar to Net Zero – but with the impact on the business realised sooner under Net Zero.

The summary of climate scenario analysis results on the next two pages captures our prioritised climate risks and opportunities under a range of outcomes (fifth to 95th percentile) for the different scenarios we considered.

In line with TCFD guidance and requirements³, we modelled the impact on our current strategy and business plan – using current decarbonisation plans and the commitments in our latest medium term plan.

Our results are global in scope. For most risks and opportunities, the contribution from non-UK geographies is relatively limited, as most of our networks and estates are based in the UK. We also operate primarily in the ICT sector. Therefore, we present global figures that are not disaggregated by geography or sector.

We've treated each risk and opportunity as a mutually exclusive event. We've presented the final outputs in annualised nominal terms, without applying social discount factors to avoid double counting with our financial models. We determined relative financial effects using our risk management framework.

1 We mapped our physical risks to the IPCC's Fifth Assessment Report's climate scenarios – known as Representative Concentration Pathways. We modelled transition risks using the Network for Greening the Financial System version 3 and International Energy Agency for the scenarios in scope. We derived projections from the World Climate Research Programme's Coupled Model Intercomparison Project (versions 5 and 6/ CMIP5 and CMIP6) and the Coordinated Regional Climate Downscaling Experiment. Other climate-conditioned data sets include high precision flood data. Where we didn't have scenario data, we used secondary literature proxies and assumptions.
 2 NGFS Scenarios Portal.
 3 TCFD: Implementing the Recommendations on the Task Force on Climate-related Financial Disclosures.

Table 2: BT Group's TCFD Climate Scenarios

Model scenarios (transition risk)	Model scenarios (physical risk)	BT Group temperature equivalent scenarios (degree of warming by 2100 above pre-industrial levels)	Scenario descriptions
Current Policies	RCP 8.5	3.5 – 4.5°C	High emissions Emissions continue to rise at current rates with no policy changes
Delayed Transitions	RCP 6.0	2.5 – 3°C	Intermediate emissions Emissions peak around 2060 and then decline
	RCP 4.5	2 – 2.5°C	Intermediate emissions Emissions stabilise at half of today's emissions by 2080
Net Zero	RCP 1.9 / RCP 2.6	1.5 – 2°C	Low emissions Emissions halved by 2050, achieving net zero around 2075

Task Force on Climate-related Financial Disclosures continued
Risk management and climate scenario analysis continued

Summary of climate scenario analysis results

Prioritised risk or opportunity	Time horizon ¹			Description	Potential financial impact	
	S	M	L			
Increase in flooding²				Increase in frequency and severity of flooding, resulting in increased damage to group infrastructure.	<ul style="list-style-type: none"> – Increased costs to repair asset damage. – Reduced revenue due to network disruption. 	
Increase in intensity, duration and frequency of heatwaves				Increase in temperature and frequency of heatwaves impacting the group's operations and requiring increased energy consumption for cooling.	<ul style="list-style-type: none"> – Increased energy costs from cooling demands for equipment and operations during periods of high temperatures. – Reduced productivity due to labour hours lost on account of heat stress. 	
Increase in intensity, duration and frequency of extreme weather events				Storms and extreme wind causing repair to damaged assets affecting our service, resulting in increased maintenance costs and revenue loss.	<ul style="list-style-type: none"> – Increased costs to repair asset damage as a result of extreme weather events. – Reduced revenue due to network disruption. 	
Changing consumer preferences and perceived reputation				Loss of customers as a result of changing customer preferences and expectations on climate action.	<ul style="list-style-type: none"> – Reduced revenue due to customer churn as we fail to align with rising customer expectations on climate targets. 	B2C B2B
Increased costs associated with carbon pricing, offsets and taxation				Regulatory and governmental policy changes may introduce additional operational costs in the form of carbon pricing and taxation. Carbon pricing might also affect some supply chain players more strongly, and at an earlier stage, and these costs might be passed on to BT Group by suppliers.	<ul style="list-style-type: none"> – Increased direct compliance costs and indirect increases of production costs passed on by suppliers. 	
Increased cost of capital due to insufficient climate action by BT Group				Risk of reduced access to capital and increased interest expense due to a failure to make sufficient progress in reducing carbon emissions and a decline in our sustainability credentials and reputation. This could lead to an increase in the cost of capital.	<ul style="list-style-type: none"> – Increased cost of capital due to drop in sustainability credentials and reputation. 	
Improvement in energy efficiency				Transitioning to energy efficient technologies and focusing on maintaining renewable electricity consumption in our operations could lead to lower operating costs as a result of less reliance on expensive fossil fuels.	<ul style="list-style-type: none"> – Reduced costs associated with moving away from more expensive and carbon-intensive sources of energy. 	
Strengthening BT Group's reputation as a climate change leader				Enhanced revenue prospects for the group by further differentiating itself as a climate change leader.	<ul style="list-style-type: none"> – Increased revenue due to improved reputation around climate change. 	B2C B2B
Expanded service offerings/ leveraging technology for climate action				Accelerate climate action for customers by leveraging our products, services and partnerships.	<ul style="list-style-type: none"> – Increased revenue from green products as well as improved brand reputation. 	

¹ Lines denote the time horizon under which individual climate risks or opportunities have been modelled. The squares denote the timeframe where impact is potentially the greatest.

² We produced high precision flood data for two epochs: 2030s (2021 to 2040) and 2050s (2041 to 2070) to capture the potential range of flood effects in the future. The results presented show the effects of flooding for an average year in each of these epochs, to aid comparison with the other risks and opportunities that we've explored.

Task Force on Climate-related Financial Disclosures continued

Risk management and climate scenario analysis continued

Physical and transition risks impact by climate scenario and time horizon

Physical risks

The biggest physical risk is flooding, with the largest effects coming from indirect losses from business disruption. Across all three physical risks, the worst effects happen under the Current Policies scenario in 2050. More frequent and severe heatwaves and extreme weather would likely mean a need for extra cooling and more business disruption.

Consumer preferences risk

There are financial risks from damage to our reputation. These are based on the level of our emissions and speed of decarbonisation compared to the rest of our industry. If we were a lot slower, customers might go elsewhere.

Short-term, this isn't a big risk as any gap is likely to be limited in effect as customer attitudes aren't yet thought to drive material changes. But that could change in the medium to long term, particularly under Net Zero and Delayed Transition scenarios.

Carbon pricing risk

Carbon pricing poses a more material risk under Delayed Transition and Net Zero scenarios – especially in the medium to long-term as we'd expect carbon prices to rise over time under these scenarios. We'd expect prices to be a lot lower under a Current Policies scenario, minimising any financial impact. Any risk under other scenarios should also be relatively limited, given our plans to reduce emissions under our net zero targets.

Cost of capital risk

We could find ourselves paying more interest under a Net Zero scenario from investors demanding a higher risk premium because of slow progress on climate targets. Investments in renewable technologies and other policy mechanisms to drive decarbonisation can impact economic conditions in different climate scenarios, thereby affecting our cost of capital. This potential impact starts to lessen under a Delayed Transition scenario, reducing significantly from 2030-2040.

Energy efficiency opportunity

The chance to save money from energy efficiency comes from cutting consumption – by making our building estate and networks more energy efficient. In all scenarios and timeframes, the opportunity for cost savings is minimal compared to other opportunities. This is because we don't rely much on expensive and carbon-intensive fossil fuels, because almost all of our energy already comes from renewable electricity.

Reputation opportunity

This financial opportunity comes from us winning market share by lowering our emissions and decarbonising quicker than our competitors – resulting in customers switching to us. Short-term, this isn't a big opportunity as any gap would have limited effect as customer attitudes aren't yet thought to drive material changes. But this could grow in the medium to long term – particularly under a Current Policies scenario where we'd expect the rest of the industry to decarbonise slower.

Being resilient to climate risks

Based on our analysis, we don't think climate risks have a material impact on our financial statements. But we'll closely monitor our prioritised risks and opportunities as part of continually assessing climate risks.

We're acting to reduce risk across the various climate-related scenarios, with an emphasis on long-term resilience.

Responding to our main physical risks

Flooding

Last year we continued to analyse the potential effects of flooding in our UK estate. We ran a pilot covering 27 operational sites, using extra flood risk data and a number of warming scenarios to provide a more extreme view of potential flood impacts from 2030-2050.

This year we widened our analysis, in line with our future location strategy, to understand possible flood risks from climate change across different RCP scenarios (2.6, 4.5, 6.0, 8.5). We're doing a gap analysis to review the level of protection we already have. This will help us target mitigation and maintenance and plan future defence investments.

Heat

In most scenarios from 2030-2050 the UK will see more extreme heat days. But the risk of them damaging our core network sites is low. Cooling system upgrades in our large metronode sites allow them to operate effectively in up to 45°C external temperatures. We've invested £60m in these upgrades so far. We expect to complete them in FY24 – at a total cost of around £65m.

We've also finished upgrades in our strategic data centres and invested over £4m last year to upgrade cooling plants at core mobile sites.

To minimise the effects of global warming, all the cooling plants we install in our exchanges are manufactured and tested to confirm they work properly in extreme ambient temperatures. Since 2015 we've invested more than £104m on cooling system upgrades for local exchanges, covering the remainder of the estate.

The new adiabatic units installed in our exchanges cool with fresh air and water evaporation, making us less reliant on refrigerant gases. They work best on the hottest days – well suited to the rising ambient temperatures of different warming scenarios from 2030-2050.

Extreme weather

Our exposure to this risk will change over time, as rolling out FTTP and closing the PSTN network will mean fewer physical network sites. This will cut our exposure to physical climate change risks but does mean more services going through fewer operational locations.

Our flood and temperature mitigations help cut risks around this smaller operational footprint. On top of that, FTTP services are more 'passive' (with no electronics between exchanges and connected properties), which further cuts the risk of extreme weather damaging our equipment.

Managing transition risks and pursuing low carbon opportunities

We face risks from market, policy, regulatory and technological changes that will support the transition to a low carbon economy. Our sustainability targets and supporting plans aim to reduce the potential impact of transition risks and support the UK's commitment to becoming a net zero economy by 2050.

Consumer preferences risk

There are lots of opportunities for customers to reduce their carbon emissions and associated climate change risks by using our products and services. We offer solutions that, for example, reduce the need to travel, cut energy use and reduce material and manufacturing needs.

Carbon pricing risk

We track carbon pricing developments and prices in the UK and international voluntary carbon offsets markets to assess our climate risks. The carbon prices we use in our TCFD climate scenario analysis shape our understanding of costs under different transition scenarios and in certain jurisdictions.

Cost of capital risk

We've implemented our net zero strategy and carbon emission reduction targets, showing our commitment to reducing our climate change risk exposure. We're making investments to meet our targets by continuing to purchase renewables, converting the majority of our vehicle fleet to ultra-low emissions vehicles and decarbonising our buildings.

Energy efficiency opportunity

Energy savings are part of our strategy to transform our operating model. For example, we've focused on reducing energy consumption, while improving the performance of the cooling systems that protect our network equipment from overheating. We're also moving to fewer, more efficient buildings. And longer term, FTTP migration will reduce the number of exchanges and other network sites we need and cut our network's overall energy consumption.

Reputation opportunity

As well as opportunities from our strategy and targets, action on climate change is an increasing focus for the group to help differentiate us from our competitors. We were one of the first companies to participate in initiatives like RE100, the CDP supply chain programme, 1.5°C Supply Chain Leaders and the We Mean Business Coalition.

Recognising that supportive policy environments are critical to both our company and wider society to keep within the 1.5°C warming limit, we work with regulators and policymakers to advocate for policies and regulation to create these enabling conditions. We work with peers through associations like GSMA, techUK, Joint Audit Cooperation and the European Green Digital Coalition to build knowledge and expertise on the potential of our sector to help decarbonise other sectors. We work closely with policymakers to inspire others (like small and medium-sized enterprises) to take climate action.

Our targets, metrics and measurement

Climate and net zero are core elements of the BT Group Manifesto. You can find full details on our targets, programmes and performance on [pages 36 to 39](#).

We publish a [Carbon Reduction Plan \(bt.com/carbonreductionplan\)](#) showing how we're reducing our carbon emissions footprint across all scopes. We're also part of the UK Government's Transition Plan Taskforce Sandbox Initiative to help develop a new climate transition reporting framework.

In November, our Chief Executive led an ESG business briefing with investors and financial analysts. He gave an update on our Manifesto – covering climate and environmental targets, performance and plans.

Our sustainability and corporate affairs strategy director meets regularly with stakeholders to discuss our carbon targets. This allows shareholders, customers and colleagues to review our approach and progress.

In FY23, 5% of the annual bonus available to eligible managers was based on our science-based target to cut the carbon emissions intensity of our operations by 87% by FY31.

We'll keep working on defining metrics around our physical risks and products and services as our modelling and data capabilities evolve and become more mature.

Task Force on Climate-related Financial Disclosures continued

Our targets, metrics and measurements continued

Our worldwide energy use and greenhouse gas emissions^a

In the table below, we provide an overview of Scope 1, 2 and 3 greenhouse gas emissions. We report in line with the Greenhouse Gas Protocol (ghgprotocol.org).

We will continue to develop our metrics and measurement approach to help us track climate-related risks and opportunities.

Year ended 31 March	FY21				FY22				FY23			
	UK		Non-UK		UK		Non-UK		UK		Non-UK	
	Energy GWh	CO ₂ e ^f Tonnes	Energy GWh	CO ₂ e Tonnes	Energy GWh	CO ₂ e Tonnes	Energy GWh	CO ₂ e Tonnes	Energy GWh	CO ₂ e Tonnes	Energy GWh	CO ₂ e Tonnes
Scope 1^b (direct emissions)												
Gas and Oil – heating	174	32,625	2	326	169	31,595	2	301	139	25,870	2	292
Gas and Oil – generators ^c	36	8,318	0.3	80	30	6,842	0.1	30	15	3,463	0.1	31
Fugitive emissions – refrigerants		1,151		2,433		3,087		1,501		522		281
Commercial fleet (converted from litres fuel)	506	121,732	3	723	553	130,971	3	575	591	142,357	3	673
Commercial travel (converted from mileage/cost/litres fuel)	9	2,229	8	1,805	13	3,151	5	1,300	15	4,018	11	2,720
Total Scope 1	725	166,055	13	5,367	765	175,646	10	3,707	760	176,230	16	3,997
Scope 2^d (electricity including nuclear & CHP^e)												
Total consumption (LBM^h)	2,335	544,280	233	77,165	2,311	490,704	210	63,599	2,287	442,261	201	56,041
MBMⁱ renewable consumption CO₂e adjustments												
General consumption	2,335	(544,279)	233	(76,963)	2,309	(490,363)	210	(63,398)	2,283	(441,524)	201	(55,963)
Commercial fleet EV ^j consumption	N/A	N/A	–	–	1.5	(298)	–	–	3.3	(633)	–	–
Company car EV consumption	0.005	(1)	–	–	0.2	(43)	–	–	0.4	(104)	0.1	(20)
Total Scope 2 CO₂e MBM adjusted		–		202		–		201		–		58
Total Scopes 1 & 2 (MBM)	3,060	166,055	246	5,569	3,076	175,646	220	3,908	3,047	176,230	217	4,055
Worldwide Scopes 1 & 2 CO₂e (MBM)		171,624				179,554				180,285		
% Change from baseline year FY17 (baseline 404,780)		(58)%				(56)%				(55)%		
Scope 3^d: Worldwide emissions CO₂e tonnes		3,071,241				3,135,368				3,289,171		
Key climate targets:												
Intensity metric Scope 1 & 2 worldwide emissions tonnes CO₂e per £m value added (baseline 31.50)			13.47		14.19				13.74		Target 31 March 2031	
% Change from baseline year FY17		(57)%			(55)%				(56)%		(87)%	
SBTI supply chain emissions GHG Scope 3 Upstream + Operational (GHG Catg 1-8) kt (baseline 3,217 kt)			2,321		2,423				2,588		Target 31 March 2031	
% Change from baseline year FY17		(28)%			(25)%				(20)%		(42)%	

N/A: Not available or not applicable

a Data presented has been reviewed to a high level of assurance by Lloyd's Register Quality Assurance Limited against Accountability's AA1000AS v3 assurance standard. We restate historical years' data when we think subsequent information is materially significant (e.g. replacing estimates with measured figures).

b Scope 1: direct emissions from our own operations (e.g. fleet/heating fuel combustion).

c Scope 2: indirect emissions from the generation of our consumed energy (mainly electricity) (excludes third-party consumption).

d Scope 3: including supply chain, customer use of our products, and other indirect emissions (such as employee commuting).

e For gas & oil based on GWh equivalent input value before combustion and gross calorific value.

f CO₂e: carbon dioxide equivalent emissions.

g CHP: combined heat and power.

h LBM: location-based method for scope 2 emissions accounting – as defined in the Scope 2 Guidance amendment to the Corporate Standard (ghgprotocol.org).

i MBM: market-based method for Scope 2 emissions accounting – as defined in the Scope 2 Guidance amendment to the Corporate Standard (ghgprotocol.org).

j EV: electric vehicle.

📖 You'll find more information and data in our Manifesto section on pages 36 to 39 and the ESG Addendum (bt.com/esgaddendum)

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 2027, and the potential impact of 'Our principal risks and uncertainties' (pages 63 to 70).

The Board has chosen to conduct its review for a period of five years to 31 March 2028. The Board believe that this is an appropriate timeframe as it aligns with the primary focus of our business and financial planning.

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 CFUs based on some central macroeconomic assumptions such as inflation and exchange rates. This is then supplemented by items managed at a group level. The macroeconomic assumptions are informed by independent third party forecasts. The performance of the group and our CFUs against these forecasts is monitored monthly and this is supplemented each quarter through a series of quarterly business reviews of each 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.

Approach

Our medium term plan has been stress tested in a series of individual severe but plausible downside scenarios, each aligned to our group risk categories as set out on pages 63 to 70. This was followed by stress testing our forecasts against a combined scenario of correlated risks using a stochastic model. Finally, we then identified several mitigations that could realistically be taken by the business to avoid or reduce the impact of the underlying risk.

Scenarios included in our combined severe but plausible stress test

Our hypothetical combined downside scenario is based on the geopolitical tensions between the West and Russia and China intensifying. The combined effect on energy security for Europe and supply

chain disruption drives up inflation, creating a prolonged recession and intensifying the cost of living crisis and increased cyber risk.

The individual scenarios selected for inclusion in the combined scenario were chosen based on their correlation and the current headwinds BT Group and the industry is facing.

Scenario	Risk category	Scenario modelled
China supply chain disruption	Supplier management	<p>Geopolitical uncertainty widens, with wholesale impact on the China supply chain.</p> <p>Assumptions:</p> <ul style="list-style-type: none"> – Immediate closure of trade routes to Chinese market with no notice – Key product and engineering materials suppliers experience disruption, in part mitigated by diversification, impacting all industry participants – FTTP build delayed due to shortages
Cyber attack followed by a class action	Cyber security	<p>BT falls victim to cyber attacks and experiences major loss of customer data which leads to a successful class action against BT Group.</p> <p>Assumptions:</p> <ul style="list-style-type: none"> – GDPR breach detected and announced followed by increased customer churn and EBITDA decline – Fine from the Information Commissioner's Office – Class action claim from customers against the group
Winter power shortages & unhedged energy costs	Operational resilience and Financing	<p>Ongoing crisis in the energy sector leads to insufficient gas supply and energy volatility.</p> <p>Assumptions:</p> <ul style="list-style-type: none"> – 35% of Britain to experience daily outages for up to 60 days – Telecommunications companies not prioritised for service – Energy prices increase beyond the group's assumptions toward the upper end of projections of power market price curves by independent third-party forecasters
Recession	Financing and Communications regulation	<p>The UK and global markets experience a significant recession with negative GDP growth. This increases unemployment rates and reduces household spend with increased regulation.</p> <p>Assumptions:</p> <ul style="list-style-type: none"> – Severe curtailment of discretionary project spend by enterprise customers – Decline in consumer product ARPU due to pressures on disposable income and customer retention initiatives – Regulatory impact on pricing
Missed cost savings	Transformation delivery	<p>The group is unable to execute transformation plans required to deliver savings initiatives.</p> <p>Assumptions:</p> <ul style="list-style-type: none"> – Adverse overall performance across our transformation programmes – Inability to implement additional savings initiatives
Pension deficit	Financing	<p>An increase to BT's funding obligations to the BT Pension Scheme (BTPS).</p> <p>Assumptions:</p> <ul style="list-style-type: none"> – A decline in macroeconomic outlook and financial markets increases the BTPS deficit in advance of the 30 June 2023 triennial funding valuation – The deficit is met through higher deficit payments over the term of the existing recovery plan

Viability statement continued

We have considered directly relevant mitigations that we would employ if these events occurred and included those impacts in our calculations.

A summation of the full impact of each of the individual scenarios in this stress test would be an extremely unlikely outcome, therefore we use a stochastic model to develop a more realistic combined scenario. We applied an 80th percentile confidence interval which allows for a stress test of the medium term plan with a plausible but still severe combination of events, without assuming the worst impact happens across all scenarios at the same time.

We have reduced the confidence interval from the 95th percentile applied last year, which was considered to exaggerate the severity of the combined exposure to an implausible degree, largely driven by the increase in the scenarios included within the combined scenarios compared to last year. However, had we used the more severe 95th percentile the group would still be viable.

Result

Applying our severe but plausible combined scenario, and assuming repayment of debt as it falls due, indicates that if BT Group took no mitigating actions, including debt refinancing, it would experience a liquidity shortage commencing in the third year. Our mitigations, including cutting expenditures, reducing dividends and refinancing debt, could be applied to eliminate this liquidity shortage. We would only need to adopt around half of the available mitigations to maintain positive cash flow over the full five year period of the assessment.

The mitigations directly in our control primarily revolve around reducing cash outflow from the group. In addition, there are also several mitigations which are outside of our control like raising debt. The Board believe that it is reasonable to expect that it could continue to access debt capital markets to refinance a portion of our outstanding debt as it falls due, or to renew our undrawn committed facility (which expires in March 2027, before the end of the viability period). If access to debt markets wasn't available, then equity capital markets would be considered as an alternative to raise funds.

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 five year period of their assessment.

Corporate governance report

We're committed to delivering on our ambition to be the world's most trusted connector of people, devices and machines. We're focused on growing sustainable value for our stakeholders and the communities we operate in, through effective Board leadership, strong corporate governance and building the strongest foundations.

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

In respect of the year ended 31 March 2023, BT Group plc was subject to the Code, which was published by the Financial Reporting Council (FRC) in July 2018 (available at frc.org.uk). BT Group has applied all the principles and complied with all the provisions of the Code throughout the year:

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*Further details on the split of responsibilities of the Board can be found on our website bt.com/governance

Chairman's governance letter



Corporate Governance has always been given prominence across the BT Group. Promoting fairness, openness and transparency in its responsibilities to stakeholders and generating long-term, sustainable success has been, and will continue to be, the Board's primary objective.

The governance section of this Annual Report sets out our approach to facilitate effective governance and how it supports our strategy, and the decisions we have made, whilst considering the interests of our stakeholders and our contribution to society.

Simplification

BT Group is a complex group of businesses that operate in many different markets, and they are all on simplification journeys. In order to ensure that those journeys are smooth, we've sought to explore all avenues to simplify the way the group is governed and operated. That applies in the business units themselves but also with the way the Board and committees oversee and input into those activities.

During the year, we reviewed various aspects of the Board and committees' processes, including looking at the constitution, frequency and responsibilities of the committees. As a result, we've made a few changes in pursuance of efficiency and we've made important changes to refresh the responsibilities of the committees. In particular, the Board agreed to increase the responsibilities of the *Digital Impact & Sustainability Committee* to cover the full breadth of initiatives that are discussed and reported in our Manifesto. For example, that means bringing into the scope of that Committee issues such as modern slavery in the supply chain. To recognise this change we've decided to move to a simpler, more holistic Committee name: the *Responsible Business Committee*.

As discussed elsewhere in the Annual Report (including in our section 172 statement on [page 94](#)), we also took the decision to combine our Enterprise and Global units into a single B2B unit, Business. A key advantage of the combined business will be to enable simpler and more efficient governance and consistent decision-making processes, increasing the agility of the business and removing the potential for different approaches across two separate B2B units.

Board changes

At the conclusion of the 2023 AGM, Iain Conn will be stepping down after serving on the Board for nine years, and Ian Cheshire will be stepping down from the Board following an increase in other non-executive responsibilities. Iain and Ian have been distinguished members of the Board and the committees they serve. On behalf of the Board, I would like to thank both for their wisdom and the valuable contributions they made to the Board.

//

We have and will continue to ensure that our governance processes and capabilities support and complement the changes across the wider group, focusing on simplified and efficient delivery of oversight and decision making that leverages a truly diverse set of skills and viewpoints.

In the comprehensive review of the Board's composition we undertook last year, we recognised that we needed to enhance the Board's technology and digital capabilities given the group's focus on digital and legacy platform transformation. We also recognised that we'd cease to enjoy the benefit of Iain and Ian's skills following the 2023 AGM. We therefore focused the search for individuals with digital and technology capabilities, transformation experience, those who have had a focus on managing cultural and people agendas, infrastructure and industrials expertise and familiarity with UK corporate governance and market dynamics. This led to us appointing Steven Guggenheimer and Maggie Chan Jones on 1 October 2022 and 1 March 2023 respectively, and Ruth Cairnie on 6 April 2023. From the conclusion of the 2023 AGM, Ruth will succeed Iain as the Senior Independent Non-Executive Director and Ian as Chair of the *Remuneration Committee*.

Diversity and inclusion

We continue to commit to the development of a diverse and inclusive organisation. Our aim is for our workforce to be truly representative of all sections of society, and against discrimination of our customers or the public. We're making good progress in our ethnic minority representation, with notable gains against the diversity targets set in our Manifesto launched in 2021. We continue to encourage inclusivity inside and outside our business. This year, we launched 'Hope United – Not Her Problem' to challenge sexism in the workplace. To support our development of a more inclusive digital landscape to drive productivity, innovation and growth for our business and for the UK, a new and rich ecosystem of partners was created to help us expand our reach into the community to create awareness, invest in and open up opportunities for the talent pool for the future.

The Board's diversity targets are set out in our Board Diversity and Inclusion Policy. As at 31 March 2023, our Board comprised 33% female directors, two directors from an ethnic minority background, and one who has a disability. The Board is cognisant that the female membership of the Board is currently below our Board Diversity and Inclusion Policy of 40%. However, taking into consideration the changes at the 2023 AGM, the percentage of female membership on the Board will stand at 45%.

These new appointments were carefully selected to complement the existing skills on the Board, and means we have the right diversity of viewpoints, skills and experience to support our continued transformation and strategic journey.

Adam Crozier

Chairman
17 May 2023

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 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 and company purpose on pages 88 to 91](#)

Audit & Risk Committee

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

📄 [Audit & Risk Committee Chair's report on pages 101 to 105](#)

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 98 to 100](#)

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 108 to 130](#)

BT Compliance Committee

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

📄 [BT Compliance Committee Chair's report on page 106](#)

Digital Impact & Sustainability Committee

Provides oversight and direction to bring the Manifesto to life through our digital impact and sustainability strategy.

On 6 April 2023, the Committee's name changed to the *Responsible Business Committee*.

📄 [Digital Impact & Sustainability Committee Chair's report on page 107](#)

Colleague Board

Discusses and provides advisory feedback on key proposals and initiatives impacting our colleagues and flags any hot topic areas raised by them. Our Designated Non-Executive Director for workforce engagement reports back to the Board on its activities.

📄 [Colleague Board on pages 92 and 93](#)

National Security and Investigatory Powers 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.

BT Investment Sub-Committee

Provides input and recommendations that support the Chief Executive's decision making on investment cases and budgets.

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.

Disclosure Sub-Committee

Ensures BT Group 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 \[bt.com/governance\]\(https://www.bt.com/governance\)](#)

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 Group 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

and division of responsibilities

Membership key

-  Committee Chair
-  Audit & Risk Committee
-  BT Compliance Committee
-  Colleague Board
-  Digital Impact & Sustainability Committee
-  Executive Committee
-  National Security and Investigatory Powers Committee
-  Nominations Committee
-  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 under the Code. The responsibilities of the Chairman, Chief Executive, Chief Financial Officer and Senior Independent Director and other key roles within BT Group, along with the matters reserved to the Board, are set out on our website at

 bt.com/governance



Adam Crozier
Chairman

Appointed Chairman December 2021 and to the Board and as Chairman designate in November 2021.
Age: 59

Experience

Adam was previously Chairman of ASOS, Stage Entertainment BV and Vue International Cinema Group, and a Non-Executive Director of Sony Corporation. He has over 20 years' experience as a CEO across four different industries, most recently as the CEO of ITV from 2010 to 2017. Before joining ITV, Adam was Chief Executive of Royal Mail, where over seven years he led its modernisation and transformation. Before Royal Mail he was CEO of the Football Association between 2000 and 2002 and joint CEO of Saatchi & Saatchi from 1995 to 2000.

Relevant skills and contribution to the Board

Significant experience in leading public company boards, developing teams and managing stakeholders and brings a strong transformational and operational track record in large-scale executive roles. He has also built a strong track record in turning around troubled organisations and in building and leading successful management teams.

External appointments

Chairman of Whitbread and Kantar Group.



Steven Guggenheimer
Independent Non-Executive Director

Appointed to the Board in October 2022.
Age: 57

Experience

Steven has more than 25 years of experience at Microsoft, where he held a variety of senior and large-scale leadership roles between 1993 and 2020. The last 12 years he held the position of Corporate Vice President leading the OEM, Developer, and AI/Partner organisations. Prior to joining Microsoft, Steven worked at Spectra - Physics Lasers.

Relevant skills and contribution to the Board

Accomplished technology executive with a strong track record of advising businesses on digital transformation and extensive insight into technologies ranging from artificial intelligence to cloud computing.

External appointments

Steven is a Non-Executive Director of HSBC Holdings, Forrit, Software Acquisition Group and Leupold & Stevens. He is also an advisor to the 5G Open Innovation Lab and UC Davis - Department of Physics and Tensility Venture Partners.



Philip Jansen
Chief Executive

Appointed Chief Executive February 2019. Appointed to the Board January 2019.
Age: 56

Experience

From April 2013 until joining BT Group, Philip was CEO of Worldpay. Before that he was CEO 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. Before that he was Chief Operating Officer at MyTravel Group from 2002 to 2004 and Managing Director of Telewest Communications (now Virgin Media 02) from 2000 to 2002. He started 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 advisor at Bain Capital and trustee of Wellbeing of Women.



Isabel Hudson
Independent Non-Executive Director and Designated Non-Executive Director for workforce engagement

Appointed to the Board November 2014.
Age: 63

Experience

Isabel was previously Non-Executive Chair of the National House Building Council until May 2020. She 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. and an ambassador for the disability charity, SCOPE.



Simon Lowth
Chief Financial Officer

Appointed Chief Financial Officer and to the Board July 2016.
Age: 61

Experience

Simon was CFO of BG Group before its takeover by Royal Dutch Shell in February 2016. Before 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. Simon has experience and a track record of implementing cost transformation and performance improvement programmes.

External appointments

None



Matthew Key
Independent Non-Executive Director

Appointed to the Board October 2018.
Age: 60

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 previously 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, Grand Metropolitan and Dallaglio RugbyWorks.

Relevant skills and contribution to the Board

Strong strategic skills and a wealth of experience in finance and the telecoms sector. Matthew is also a director of the joint venture between BT Group and Warner Bros. Discovery.

External appointments

Non-Executive Director and Audit Committee chair of Burberry. Matthew will step down from this role at the Burberry AGM in July 2023.



Adel Al-Saleh

Non-Independent, Non-Executive Director

Appointed to the Board May 2020.
Age: 59

Experience

Adel has been Chief Executive Officer of T-Systems International GmbH (a subsidiary of Deutsche Telekom AG) since 2018 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 posts at both IMS Health (now IQVIA) and IBM.

Relevant skills and contribution to the Board

Extensive experience in leading global private and public businesses across many industries. Deep experience in managing global technology and IT services businesses. Strong expertise in telecommunications industry as a whole and particularly B2B businesses. Led several large-scale transformation and digitalisation initiatives in complex environments.

External appointments

Member of the Boston University, College of Engineering Advisory Board.



Allison Kirkby

Independent Non-Executive Director

Appointed to the Board March 2019.
Age: 55

Experience

Allison was appointed President & CEO of Telia Company in May 2020. She 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

Strong 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 and Non-Executive Director and member of the Audit Committee at Brookfield Asset Management.



Maggie Chan Jones

Independent Non-Executive Director

Appointed to the Board March 2023.
Age: 48

Experience

Maggie is the founder and Chief Executive of Tenshey, a tech-enabled executive coaching company that focuses on elevating more women and underrepresented people into leadership roles and the boardroom. This builds on a highly successful career in marketing at several of the world's largest technology companies, including Microsoft and SAP.

Relevant skills and contribution to the Board

Deep international marketing and brand experience. Maggie is a recognised executive in business transformation, ESG and as an industry thought-leader in the marketing and technology sector.

External appointments

Maggie is the founder and Chief Executive of Tenshey, Inc. and a Non-Executive Director of Sage Group and the United States Tennis Association (non-profit). She is also a Non-Executive advisor to Open Systems AG.



Sir Ian Cheshire

Independent Non-Executive Director

Appointed to the Board March 2020
Age: 63

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 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 e-commerce. Extensive experience of government.

External appointments

Chairman of Channel 4, Spire Healthcare Group and We Mean Business and a Non-Executive Director at Land Securities. Also Chairman of Menhaden Resource Efficiency, a UK investment trust and Chair of The Prince of Wales's Charitable Fund.



Iain Conn

Senior Independent Non-Executive Director

Appointed to the Board June 2014
Age: 60

Experience

Iain was Group Chief Executive of Centrica for over five years from 2015 to 2020. Before 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 at 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

Non-Executive Director of Applegreen. Senior adviser to Blackstone on energy, infrastructure and sustainability and to the Boston Consulting Group. Adviser to Oxford Sciences Enterprises. Advisory Board member of Columbia University Center on Global Energy Policy.



Sara Weller

Independent Non-Executive Director

Appointed to the Board July 2020.
Age: 61

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 a Non-Executive Director of Lloyds Banking Group until May 2021 and United Utilities Group until July 2020. She was also 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

Chair of The Money and Pensions Service and Non-Executive Director of Virgin Money UK and Clydesdale Bank (a subsidiary of the Virgin Money Group).



Ruth Cairnie

Independent Non-Executive Director

Ruth joined the Board on 6 April 2023 as an Independent Non-Executive Director. Ruth is a member of the *Audit & Risk, Nominations and Remuneration Committees*. From the conclusion of the 2023 AGM, Ruth will succeed Iain Conn as the Senior Independent Non-Executive Director and Ian Cheshire as Chair of the *Remuneration Committee*. See Board changes below.



Sabine Chalmers

General Counsel, Company Secretary & Director Regulatory Affairs.

Sabine joined BT Group in April 2018 as General Counsel and was appointed as Company Secretary in September 2021.

See [page 9](#) for Sabine's full biography.


Board changes

In line with our recent announcements, Ian Cheshire and Iain Conn will not put themselves forward for re-election at the 2023 AGM. Accordingly, they will both cease as Independent Non-Executive Directors on the Board at the conclusion of the 2023 AGM.

Board leadership and company purpose

Role of the Board

The Board is responsible for establishing the group's purpose, values, strategy and culture, and for setting the tone at the top.

 Further details on our purpose, values and strategy are on pages 16 to 17


The Board monitors the indicators of our culture through:

- discussions with the Chief Executive
- reports from the Chief Human Resources Officer, including progress on our people and cultural dashboard
- insights from our annual Your Say colleague engagement survey
- direct feedback and insights from the *Colleague Board* via our Designated Non-Executive Director for workforce engagement.

More information on the *Colleague Board* and how the Board is kept informed of colleague perspectives and the culture of the organisation can be found on [pages 92 to 93](#) and in the **Strategic report** on [page 41](#).

The Board also maintains oversight of the group's operations, performance and governance and compliance with statutory and regulatory obligations. It determines the group's risk appetite, ensures that we have robust systems of risk management and internal controls in place, and is responsible for ensuring that the group has an effective leadership team in place to efficiently execute the group's strategy.

A number of key decisions and matters are reserved to the Board and are not delegated to any of the committees, the Chief Executive or management. These are set out in the matters reserved to the Board and are available on our website:

 bt.com/governance

Meetings and attendance

We held eight scheduled Board meetings and one strategy meeting in FY23. The Chairman also held private sessions with the Non-Executive Directors during the year. The Company Secretary is Secretary to the Board, and she, or her nominated delegate, attends all meetings and provides advice, guidance and support as required.

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 by prior commitments, illness or a conflict of interest. If a director is unable to attend a meeting, they usually give their comments to the Chairman or the Committee Chair in advance so that these can be considered as part of the discussion at the meeting.

Board meetings were held in person in our head office in London to allow us to maintain constructive levels of engagement and discussion, to challenge management and have robust debates as part of decision making. Video conference was available for invited attendees who were unable to join the Board in person. Pre-Board meeting dinners were held for the Board as part of informal interactions.

	Meetings attended
Adam Crozier (Chairman)	8/8
Philip Jansen	8/8
Simon Lowth	8/8
Adel Al-Saleh	8/8
Maggie Chan Jones ^{a,b}	0/0
Ian Cheshire	8/8
Iain Conn	8/8
Steven Guggenheimer ^{c,d}	2/3
Isabel Hudson	8/8
Matthew Key	8/8
Allison Kirkby ^e	7/8
Leena Nair ^{f,g}	2/3
Sara Weller	8/8

a Maggie joined the Board as a Non-Executive Director on 1 March 2023.

b No scheduled Board meeting was held in March 2023.

c Steven joined the Board as a Non-Executive Director on 1 October 2022.

d Steven gave apologies for one meeting during the year due to other business commitments.

e Allison gave apologies for one meeting during the year due to other business commitments.

f Leena gave apologies for one meeting during the year due to other business commitments.

g Leena stepped down from the Board at the conclusion of the AGM on 14 July 2022.

Section 172 statement and stakeholders

The **Board focus in FY23 section** sets out on the following pages includes our **Section 172 statement** on [pages 94 to 95](#).

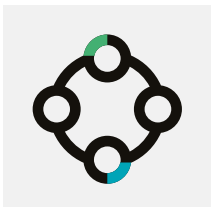
Our **Section 172 statement** demonstrates our directors' regard to the matters in section 172 of the Companies Act 2006 (2006 Act) in performing their duties.

See the **Strategic report** on [pages 40 to 45](#) for additional details of how we engage with our key stakeholders.

The Board and each of its committees always have regard to wider stakeholder interests including and beyond those of our shareholders as part of discussions and decision making. 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 stakeholder management group risk category (GRC). The Committee considered engagement with our key stakeholder groups in light of broader developments in the emerging risk landscape and new technologies.

For details of how our directors have engaged with our colleagues during the year, and how they have had regard to their interests and the need to foster business relationships with suppliers, customers and others, together with a summary including the Board's principal decisions, see [pages 40 to 45 and 92 to 95](#).

Board focus in FY23



Group strategy

During the year, the Board:

approved strategic initiatives and items of significant strategic importance in line with the matters reserved to the Board including:

- combining Enterprise and Global units into a single B2B unit, Business, to enhance value for all B2B customers, strengthen the group's competitive position, and contribute to the group's previously announced target to deliver £3bn in gross annualised savings
- maintaining the pace of FTTP build towards the target of 25m premises by end of 2026 against the challenging economic climate
- creating a new longer-term content deal with Sky for the reciprocal supply of channels beyond 2030
- final approval and completion of the transaction to form a 50:50 joint venture company with Warner Bros. Discovery Inc., bringing together the sports content offerings of BT Sport and Eurosport UK to create a new premium sports offering for the UK & Ireland
- outsourcing the management of the legacy software estate to optimise commercial and operational benefits.

held a full-day strategy meeting where it considered with management:

- the group's strategy and long-term growth opportunities
- strategic priorities and how these are built into the group's medium term plan
- progress on key initiatives
- key challenges and risks to delivering our priorities and plans to address or mitigate these.

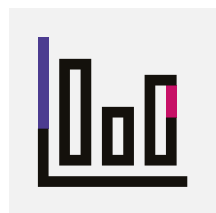
received and discussed the Chief Executive's report at each meeting, which focused on:

- the group's overall performance and operations
- progress against our strategic pillars and priorities
- the competitive and regulatory environment that the group operates in
- engagement with, and the views of, our stakeholders including our investors, our colleagues, Ofcom and Government
- key business operations including matters which are important to the group's reputation, as well as colleague, customer, supplier and community considerations.

During the year, the Board also considered, discussed and agreed to discontinue certain proposed initiatives which were determined not to be strategically important or beneficial to the group.

Board leadership and company purpose continued

Board focus in FY23 continued



Performance and execution of strategy

During the year, the Board discussed, reviewed and, as appropriate, approved:

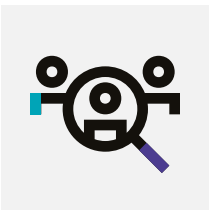
- the **financial statements** at full and half year and trading updates at each quarter, including any external guidance. It also discussed the feedback from investor meetings, including those post-publication of each set of financial results. At each meeting, the Board reviewed the current financial and trading performance for the period against budget and consensus, and the full year outlook for each unit and the group as a whole
- the **going concern** and **viability statements** and the group's tax strategy
- reports, on a monthly basis, outlining share register movement, our share price performance relative to the market, investor relations activities and engagement with shareholders. The Board also spent time discussing the changing nature of our shareholder register
- the medium term plan, having considered the main opportunities and challenges, our strategic priorities and KPIs
- the group's financing strategy, having considered different options for raising finance and managing cash flow, in particular in light of the macroeconomic challenges during the year
- the delivery of the group's transformation programmes against our objectives to drive pan-BT efficiencies, opportunities, continued cost reduction and our plan to reskill colleagues with the skills required for the future needs of the business and an increase in annualised savings from £2.5bn to £3bn by the end of FY25
- customer experience for each CFU including individual brand and customer segment NPS, in particular the progress against our related ambitions. As part of this, the Board was updated on the initiatives and customer insights used to drive improvement for our customers. Further details on customer experience can be found on [pages 24 to 27](#)
- any regulatory/competition investigations and significant litigation, including our response and the stakeholder and reputational impact of these.



Risks, controls and governance

During the year, the Board discussed:

- the group risk management framework twice, with in-depth discussions on certain GRCs, including the point and emerging risks and uncertainties facing the group and our risk appetite for each (see [pages 61 to 70](#)). The Board also received regular updates from the *Audit & Risk Committee*, who undertake detailed reviews of the group's risk management and internal controls systems, including key controls and their effectiveness, (see [page 103](#)), as well as GRCs not discussed by the Board
- the management of our exposure to energy price rises and the potential and actual impact on the group's financial performance and carbon reduction ambitions
- the progress of the Simplify programmes
- the Annual Report, which was subsequently approved on the recommendation of the *Audit & Risk Committee* (see [page 102](#)), on the basis that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to accurately assess the group's position and performance, business model and strategy
- the themes and actions agreed as a result of the internal Board and committee evaluation (see [page 96](#)).



People and culture agenda

During the year, the Board discussed:

- the progress made against our people and cultural strategy. Our ambition is to build a culture where people can be their best and make BT Group a brilliant place to work
- skills and organisational development; diversity, equity and inclusion; occupational health and wellbeing, and colleague engagement
- the progress of delivery against our cultural ambition and the related goals through the people and cultural dashboard with the Chief Human Resources Officer and her team
- each of the committees also monitored areas within their remit that are important indicators of the group's culture, on which the Board is updated by the Committee Chairs.

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Our ambition is to build a culture where people can be their best and make BT Group a brilliant place to work.

Board leadership and company purpose continued

The Colleague Board and Board engagement with colleagues

Colleague Board

Who is the Colleague Board

The *Colleague Board* is the Board's chosen workforce engagement mechanism under the Code. With diverse colleague experiences and priorities across our units, the Board feels that this continues to be the most effective option for the BT Group. Its aim is to bring colleagues from across the group closer to the decision-making process. It achieves this by providing the Board with invaluable, direct insight into colleague sentiment and feedback on key initiatives, programmes and communications, and helps shape better outcomes.

The *Colleague Board* is chaired by the Chief Executive, and Isabel Hudson, our Designated Non-Executive Director for workforce engagement, is a member. Isabel was selected for this role due to her breadth of understanding of, and interest in, employee and wider stakeholder matters.

Sabine Chalmers, General Counsel, Director of Regulatory Affairs & Company Secretary, and Athalie Williams, Chief Human Resources Officer, are also invited and attend all formal meetings. Other members of the *Executive Committee* attend meetings on a rotating basis. The Deputy Company Secretary is secretary to the *Colleague Board* and he or his delegate attends all meetings and provides support, guidance and advice as required. The Chairman and other Non-Executive Directors are also able to attend meetings as observers.

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The last year has been a challenging year for all our colleagues in the business and the Colleague Board has continued to contribute to the Board's thinking with probing questions around progress in the business and a series of 'hot topics' brought to each Colleague Board, representing issues raised with them from throughout the business. In a year of strikes and high inflation, affecting both our customers and everyone who works for BT Group, and with the strong desire to progress with our diversity and inclusion agenda, the Colleague Board members have made thoughtful contributions and helped us to look at things from different angles.

Isabel Hudson, Designated Non-Executive Director for workforce engagement and a member of the *Colleague Board*

Colleague Board focus in FY23

The *Colleague Board* held four formal meetings this year and a number of informal sessions with internal teams. Through both the Board and the senior leadership team, the *Colleague Board's* views were sought on pan-BT programmes (including how they align with our values and culture) and how we communicate these with our colleagues. The *Colleague Board* has continued to successfully contribute to, and shape, some of our key initiatives this year, by sharing their different views and perspectives.

The *Colleague Board* has helped the Board to understand the perspectives of our colleagues on a range of different topics, including the progress of our digital transformation and diversity and inclusion initiatives, career development, colleague retention, people framework, working from home arrangements and the communications and support available for colleagues throughout the cost of living crisis.

Key Colleague Board contributions

Topic	Context
Cost of living	Helping the Board to understand the perspectives of our colleagues throughout the cost of living crisis by having two-way discussions and sharing their thoughts to help refine approaches.
Colleague Board squads	Formulated working groups focused on culture to understand the perspectives of colleagues over a range of topics in this area such as diversity and inclusion.
Meetx	Launching Meetx, BT Group's equivalent of TEDx talks. The <i>Colleague Board</i> has started hosting an ongoing series with senior leaders to explore their previous experiences and views on topics such as leadership, careers and culture. These are hosted over a variety of our locations and each month the <i>Colleague Board</i> collates questions for the panellists to answer.

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The second cohort of our Colleague Board has now been in place a year and they have built on the strong foundations laid by the first set of members. As individuals, they are well-connected in their units and have found evermore effective ways of gathering unfiltered views from thousands of their colleagues. This insight is invaluable, helping us to shape our approach to important topics such as colleague experience, address concerns and it has also proven a useful challenge to more conventional corporate thinking.

Philip Jansen, Chief Executive and Chair of the *Colleague Board*

Colleague engagement with the Board

At each formal meeting of the *Colleague Board*, management and/or the Board (via Isabel Hudson) have the opportunity to discuss topics that they would like the *Colleague Board* members' perspectives on. The members also share perspectives on Hot Topics raised by the wider colleague base that they believe should be brought to the attention of the Board and/or management. The *Colleague Board* has raised a variety of topics with management and open discussions are subsequently held on these. Isabel reports back to the Board and its committees, as appropriate, on discussions with the *Colleague Board*. This has provided the Board with a direct insight into colleague perspectives to help inform its decision making on relevant topics. The meeting materials and notes are made available to the full Board.

Whilst the *Colleague Board* is the Board's formal chosen workforce engagement method, it is used alongside other colleague engagement mechanisms. For example the Chief Executive also holds quarterly PJ Live events which provide all colleagues with the opportunity to ask the Chief Executive questions on any subject in an informal forum.

☐ [See page 93 for more information on how we engage with colleagues.](#)

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I enjoy the teamwork and collaboration that we have as a cohort with the common goal of assisting leadership in making BT Group the best place to work.

Jasmine Kaur, *Colleague Board* member

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I am really proud to be a member of the Colleague Board. We represent all business units, with a strong sense of integrity and responsibility. It is inspiring to be able to represent our amazing colleagues to share both positive feedback and concerns so that they feel genuinely heard.

Nick Persaud, *Colleague Board* member

Colleague Board communications with our colleagues

Colleague Board members feed back on the discussions from the formal meetings to the wider workforce, as well as highlighting points at *Colleague Board* meetings that have been raised by other colleagues. Members are encouraged to connect with other internal engagement channels including the People Networks and by accessing the Your Say engagement survey results to gain an increased understanding of the views of our colleagues on key issues.

Each *Colleague Board* member is supported by their respective unit internal communications team, enabling a good rapport to be built in-unit. The Director of Internal Communications attends *Colleague Board* meetings and members are encouraged to give their views on key internal communications.

Section 172 statement

In their discussions and decisions during FY23, 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 group 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 2006 Act).

The Board considers the matters set out in section 172 of the 2006 Act in all its discussions and decision making, including:

The likely consequence of any decision in the long term:

The directors recognise that the decisions they make today will affect the group's long-term success. During the year, the Board had particular regard to the long-term success of the group in its discussions on group strategy (see [page 89](#)). Our purpose and strategy demonstrate how we 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. 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 on [pages 16 to 17](#).

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

The *Digital Impact & Sustainability Committee* continues to oversee the progress of our Manifesto. This aims to accelerate growth through technology that is responsible, inclusive and sustainable, ensuring the group can continue to build trust and create value for its stakeholders. The Committee also monitors progress on the digital impact and sustainability strategy and oversees the progress of our related goals, including those in respect of climate and the environment. In line with the ambitions we have in this area, the Committee approved the acceleration of BT Group's net zero target for its own operations from 2045 to the end of FY31 and a new net zero target for supply chain and customer emissions to be achieved by the end of FY41.

For more information on this see [page 48](#). [Information as to how we have addressed the recommendations of the TCFD framework can be found on pages 71 to 72.](#)

The desirability of maintaining a reputation for high standards of business conduct:

The Board acknowledges its responsibility for setting and monitoring the culture, values and reputation of the group. Our colleagues are central to us achieving this ambition and we're building a culture where our colleagues can be their best. During the year, the Board considered the group's culture in its decision making and discussions; further details on this can be found on [pages 88 to 91](#).

The *Audit & Risk Committee* also considered regular reports from the Ethics and Compliance Director on our ethics and compliance policies and programmes and reports on issues raised through Speak Up, BT Group's confidential, whistleblowing services (see [page 104](#)).

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 our 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, so the Board must balance competing interests in reaching its decisions.

While the Board engages directly with stakeholders on some issues, the size and distribution of the BT Group 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.

[More details on how we engage with key stakeholders \(including customers and suppliers\) on pages 40 to 44.](#)

Our colleagues are key to our success, and they are always considered as part of the Board's discussions and decision making. The Board and its committees have reviewed colleague wellbeing, our diversity and inclusion ambitions, organisational culture and the impact of our transformation programme on them, as well as on employee relations (see [page 91](#) for more details). The Board engages with colleagues primarily through the *Colleague Board* and through our Designated Non-Executive Director for workforce engagement (see [pages 92 to 93](#)). In this role, Isabel Hudson provides feedback after each formal *Colleague Board* meeting and also discusses any topics raised by members at relevant Board and committee meetings.

[Other colleague engagement channels are set out on page 41.](#)

The need to act fairly as between BT Group's shareholders:

During FY23, the Chairman, Chief Executive, Chief Financial Officer, other executives and the Investor Relations team held 320 meetings with investors (see [page 42](#) for more detail on our engagement with shareholders). These meetings gave investors the opportunity to discuss views on financial and operational performance, capital investment, in particular, the investment on FTTP, competitive dynamics, pensions, capital allocation policy and environmental, social and governance matters. The Board is mindful of having two significant shareholders but considers any decisions it makes in the interests of all shareholders.

Decisions made during the year

The following are some of the decisions made by the Board this year which demonstrate how section 172 matters have been taken into account as part of Board discussions and decision-making:

Decision	What happened
Creation of Business	<p>The Board regularly reviews the operating model of the business and its focus on and exposure to all of the markets in which it operates. Throughout the year, the Board considered with management whether a combination of the Enterprise and Global units would enhance the group's overall B2B offering.</p> <p>Between September and December 2022, the Board considered the strategic proposition of the businesses both as standalone units and if combined. In determining that the businesses should be combined, the Board and management concluded there would be benefits for a number of stakeholders. Externally, the Board particularly noted the shareholder value opportunity from the simplification along with the continued needs of customers to have dedicated teams, drawing on a larger pool of shared knowledge, best practice and expertise, to address their needs. Internally, the combination will target greater clarity of prioritisation for our Networks and Digital units as they support and increase the pace of the ongoing digital transformation of the group. The Board will continue to have the opportunity to review and influence the future strategy of the combined Business unit and each of its constituent parts, to ensure it optimises its focus on the best of the strategic objectives of the two legacy units.</p>
50:50 joint venture company with Warner Bros. Discovery, Inc. bringing together the sports content offering of both BT Sport and Eurosport UK	<p>In February 2022 we announced that the preferred strategic option for the future of BT Sport, that we were pursuing through a period of exclusive negotiations, was a joint venture with Warner Bros. Discovery, Inc. The Board then considered the details of the negotiated deal in early FY23. This included consideration of the proposed joint venture in the context of a number of key objectives and risks and the way these were handled in the implementation of the transaction structure.</p> <p>In particular, while noting that the transaction structure provided for the continuation of material elements of the BT Sport business in the medium term, which would benefit customers, employees of the business and close commercial partners, the Board also considered in detail the value opportunity for shareholders. This is represented by the future payments that BT Group is forecast to receive and the roadmap to a potential future exit from the business whilst, in the meantime, reducing BT Group's exposure to some of the costs and risks of the business. Also considered was the extent of BT Group's continued influence over key aspects of the business, including through its appointed directors, one of whom, Matthew Key, is an Independent Non-Executive Director of BT Group. As a result of all of these factors, the Board approved the entry into the transaction.</p>
Restructuring of IT estate	<p>To support the acceleration of BT Group's technology transformation, the Board considered the possibility of restructuring the management of its IT estate, aiming to free up capacity to accelerate the delivery of future technology and to promote efficiency.</p> <p>The Board considered a number of options, one of which being identifying a third party supplier to take on the support and build of certain digital legacy systems and to decommission outdated and redundant systems. In considering the approach, the Board analysed the likely risks and how the transition would impact its stakeholders such as customers, colleagues and its suppliers, and mitigations available. It explored the financial and commercial implications and discussed whether the transaction would best be executed with one or multiple suppliers. Working closely with management, the Board challenged, provided feedback and gained a thorough understanding of each phase of the project execution proposed.</p> <p>At its meeting in November 2022, the Board was satisfied that shutting down obsolete applications was financially advantageous to the group, and using a third party would improve performance and support the delivery of the transformation programme, while enabling the group's internal teams to move their focus towards developing new digital systems. The Board provided its approval to proceed with the restructuring project.</p>

Board composition, succession and evaluation

FY23 Board and committee evaluation

In line with the Code, we annually undertake a formal and rigorous evaluation of the performance of the Board and its committees, the Chairman and individual directors, which considers the Board's composition, diversity and effectiveness. We undertook an internal evaluation this year. Given an external evaluation was last completed in FY21, we will carry out an external evaluation in FY24 to fulfil our obligation that an external evaluation be carried out every three years.

Process

Tailored questionnaires were circulated to members and attendees of the Board and each of its committees. The evaluations focused on composition, succession 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 well it considers stakeholders as part of its decision making and discussions. The Senior Independent Director undertook a discussion with the full Board (without the Chairman) and the Company Secretary on their views of the Chairman's performance. The outcomes and recommendations were fed back to the Chairman. The Non-Executive Directors also reviewed the performance of the Chief Executive during the year.

Agreed areas of focus and actions

Overall, the Board and its committees are considered to be effective. There were certain areas of focus which the Board felt would continue to improve its performance and effectiveness. Accordingly, the directors agreed on the following areas of focus and action for FY24; progress shall be reviewed by the Board and/or its committees as appropriate during the year, with any ongoing areas feeding into next year's evaluation process.

Key areas of focus	Agreed actions
Non-Executive Director skills – training	To provide ongoing training beyond the initial induction training received focusing on key topics/areas that could be coordinated to include all Non-Executive Directors.
Board and committee agenda and time	Review how the Board and committees spend their time more effectively by ensuring that items are not repeatedly revisited and any unclear delineation of responsibilities between Board committees is reduced and improve the clarity of papers to aid more fruitful discussions on key strategic items.
HR strategy and culture	To provide the Board with greater understanding of the cultural challenges that are facing BT Group as it continues to transform itself.
Transformation agenda	To ensure there is greater focus on the progress with the transformation agenda.
Risk management	To improve current risk reporting to include greater details.
Key risks	The <i>Audit and Risk Committee</i> will continue its focus on strengthening risk control with early debate held on key risks identified.
Ad hoc meetings	The <i>Audit and Risk Committee</i> will consider whether it would be desirable to hold ad hoc meetings for specific areas with 'repeat issues' to gain an in-depth understanding of the issues so as to provide guidance on specific targeted actions.
Consumer fairness	The <i>BT Compliance Committee</i> to consider the optimal way of receiving feedback from consumers/BT customers on their experience of fairness and use this for discussion with the wider consumer representation stakeholders.
External attendees	The <i>BT Compliance Committee</i> to continue to invite external attendees to strengthen relationships and hear a breadth of views.

Board induction

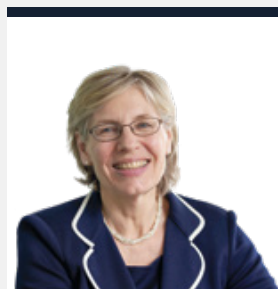
On appointment, directors undertake a comprehensive induction programme designed to give them a thorough overview and understanding of the business.

This is tailored to take into account the director's previous experience, their responsibilities and, for each Non-Executive Director, the specific responsibilities relevant to their committee memberships. The programme includes meetings with the Chairman, the Chief Executive, other members of the Board and the Company Secretary, as well as members of the *Executive Committee* and senior management. Directors also receive key information on our strategy and KPIs, governance framework, the regulatory framework in which we operate, recent financial performance, risk management and internal control systems and the policies supporting our business practices.

Directors are encouraged to visit our different offices, contact centres and BT/EE retail shops, as well as spending a day with an Openreach engineer. Set out opposite is the induction programme undertaken by Steven Guggenheimer, who joined the Board in October 2022.



Maggie Chan Jones
Independent
Non-Executive Director



Ruth Cairnie
Independent
Non-Executive Director

Maggie Chan Jones and Ruth Cairnie, who joined the Board on 1 March 2023 and 6 April 2023 respectively, are currently going through their induction and their programmes will be reported in the 2024 Annual Report.



Steven's induction programme

// The combination of high-quality reading materials and tailored meetings with colleagues provided me with the information necessary to be able to engage in a meaningful way right from the start of my Board tenure.

Steven Guggenheimer
Independent Non-Executive Director

Steven joined the Board on 1 October 2022 as an Independent Non-Executive Director, and as a member of the *Nominations* and the *Digital Impact & Sustainability Committees*. Ahead of his appointment, Steven received an induction pack with key reference materials that provided a thorough understanding of the BT Group, including the most recent financial results, information on our strategy and each of our business units, the governance framework, director responsibilities, ethical policies and the Ofcom Commitments.

Steven held a number of induction meetings including with the Chief Executive, Chief Financial Officer, and members of the *Executive Committee* as well as other Board members and key senior leaders including the Director of Risk, Compliance & Assurance, the Director of Investor Relations, the Heads of the business units as well as the CEO, Openreach.

Given his background in technology and software companies, Steven held a deep-dive session with the Chief Security and Networks Officer, the Chief Information Security Officer, and the Chief Digital and Innovation Officer in December 2022, and a series of deep-dive sessions in January 2023.

Steven will be visiting Adastral Park and our BT/EE retail shops to gain a broader insight into customer journeys and experiences, and into the work of our frontline colleagues.

Board composition, succession and evaluation continued

Nominations Committee Chair's report



Adam Crozier

Chair of the Nominations Committee
17 May 2023

Committee role

The Committee is responsible on behalf of the Board for:

- reviewing the structure, size and composition of the Board and its committees to ensure an appropriate balance of skills, experience, diversity, independence and knowledge
- reviewing succession planning for the Board and recommending the appointment of Executive and Non-Executive Directors and the Chairman
- reviewing succession planning and performance of the *Executive Committee*.

□ The Committee's key responsibilities are set out in its terms of reference available at bt.com/governance

Committee membership and attendance

All Non-Executive Directors are members, with the Chief Executive attending meetings where appropriate. The Deputy Company Secretary is secretary to the Committee and he, or his delegate, attends all meetings and provides guidance, advice and support as required.

Committee members and attendees do not attend discussions where a conflict exists. During the year, five scheduled Committee meetings were held. After each meeting, the Chair reported back to the Board on the Committee's activities.

Meetings attended

Adam Crozier (Chair)	5/5	Isabel Hudson ^d	4/5
Adel Al-Saleh	5/5	Matthew Key	5/5
Maggie Chan Jones ^{a,b}	0/0	Allison Kirkby ^e	4/5
Ian Cheshire	5/5	Leena Nair ^{f,g}	0/2
Iain Conn	5/5	Sara Weller	5/5
Steven Guggenheimer ^c	2/2		

a Maggie joined the Board and the Committee on 1 March 2023.

b No scheduled *Nominations Committee* meeting was held in March 2023.

c Steven joined the Board and the Committee on 1 October 2022.

d Isabel gave apologies for one meeting during the year due to other business commitments.

e Allison gave apologies for one meeting during the year due to other business commitments.

f Leena stepped down from the Board and the Committee at the conclusion of the AGM on 14 July 2022.

g Leena gave apologies for two meetings during the year due to other business commitments.

//

This year we recruited new Non-Executive Directors, including our new Senior Independent Director, who were carefully selected to complement the existing skills on the Board which gives us the right diversity of viewpoints, skills and experience to support BT Group's continued transformation and strategic journey.

Committee focus in FY23

Board succession and appointments

The Committee's main focus was on searching for additional Non-Executive Directors. Given the tenure of longer-serving directors and Leena Nair stepping down from the Board on 14 July 2022, the Committee was also planning to address future anticipated changes as a result of upcoming director departures. Russell Reynolds Associates, an independent external search consultant, who has no other connection to the BT Group, and a signatory of the Voluntary Code of Conduct for Executive Search Firms, was engaged to assist with the search. The Committee recognised that, given the group's continued focus on digital and legacy platform transformation, at least one director should have digital and technology capabilities and transformation expertise. As in all searches, diversity was a key consideration. Russell Reynolds was tasked with enabling us to make appointments that meet the aims and targets of our Board Diversity and Inclusion Policy and related targets and succession planning. In line with that brief, Russell Reynolds prepared a longlist of candidates which comprised a diverse range of candidates, including female candidates and those from ethnic minority backgrounds.

The Committee agreed a shortlist of candidates who were formally approached by Russell Reynolds for consideration for the role and assessment. Further to a comprehensive assessment and interview process which included meetings with the Non-Executive Directors, feedback was discussed by the Committee at each stage to shortlist candidates based on the criteria and brief.

The Committee identified Steven Guggenheimer, an accomplished technology executive, with a strong track record of advising businesses on digital transformation and extensive insight into technologies ranging from artificial intelligence to cloud computing, as a preferred candidate to complement and enhance the Board's technology and digital capabilities. The Committee was confident that Steven's significant experience of digital transformation, AI and cloud computing, would bring an invaluable perspective to the Board. Following the Committee's recommendation, Steven joined the Board and the *Nominations* and *Digital Impact & Sustainability Committees* on 1 October 2022.

As part of the succession planning, the Committee continued with the search for two further Non-Executive Directors. Maggie Chan Jones, with a wealth of experience following a highly successful career in marketing at several of the world's largest technology companies, including Microsoft and SAP, joined the Board and the *Nominations* and *Digital Impact & Sustainability Committees* on 1 March 2023 following the Committee's recommendation.

The Committee further recommended the appointment of Ruth Cairnie, who holds extensive experience gained from a broad range of executive and non-executive roles at leading UK and international industrial companies, including Royal Dutch Shell. Ruth joined the Board and the *Audit & Risk, Nominations* and

Remuneration Committees on 6 April 2023. Ruth will succeed Iain Conn, who will be stepping down at the conclusion of the 2023 AGM, after serving on the Board for nine years as Senior Independent Director, and Ian Cheshire, who has decided to step down at the conclusion of the 2023 AGM following an increase in non-executive responsibilities as Chair of Land Securities Group, as *Remuneration Committee* Chair.

The Committee is confident that Maggie and Ruth will add a significant breadth of experience and diversity of expertise and thought to the Board, and both will be key in supporting BT Group's broad agenda of strategic priorities.

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 Board offsites. Directors are also expected to devote sufficient time to prepare for each meeting and to participate in other site or office visits to understand the business better. Before accepting new external appointments, directors are required to obtain the prior approval of the Board.

Before recommending the Board approve the appointments of Steven Guggenheimer, Maggie Chan Jones and Ruth Cairnie as Independent Non-Executive Directors, the Committee considered their other commitments and whether they would be able to allocate sufficient time to their roles. The Committee was comfortable that their other commitments would not be detrimental to their ability to perform their duties as Independent Non-Executive Directors of BT Group.

Sara Weller joined the boards of Virgin Money UK, (Virgin Money) and Clydesdale Bank, part of the Virgin Money Group as a Non-Executive Director in October 2022, and Allison Kirkby became an Independent Non-Executive Director of Brookfield Asset Management in February 2023. Ahead of their respective appointments, the Board considered the proposed appointments in line with the time commitment required for BT Group and Sara and Allison's other roles. On balance, the Board felt this would not be detrimental to their ability to perform their duties as an Independent Non-Executive Director of BT Group. The Board also considered the total appointments held by Sara and Allison and was satisfied that they are within the overboarding guidelines published by proxy agencies.

Election and re-election of directors

The Committee considered, in respect of each director, their skills and experience, time commitment and tenure as part of its recommendation to the Board in relation to the directors put forward for election and re-election at the AGM. The Board believes that each director it has recommended to shareholders for election or re-election at the 2023 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.

On recommendation from the Committee, the Board also considered the continued independence of Non-Executive Directors as part of its consideration of the re-election recommendations. 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 directors' contracts or letters of appointment are in the Annual remuneration report on page 128.](#)

Training and development

The Chairman and the Company Secretary keep the training and development needs of directors under review. 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 and its committees at each meeting, as relevant, on any key legal, regulatory and corporate governance developments. During the year, these briefings included updates on the institutional investor guidelines, environmental, social and governance considerations and governance publications. 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 as necessary.

Openreach Limited Board succession

Under its remit, the Committee has a responsibility to consider changes to the Openreach Limited Board and recommend any changes to the BT Group Board for approval. Following Liz Benison's indication of her intention to step down from the Openreach Limited Board in 2022, a search for her successor was commenced. On the recommendation of the Committee, the BT Group Board approved Natalie Ceeney's appointment and Natalie joined the Openreach Limited Board on 1 May 2022. Liz Benison stepped down on 30 April 2022.

Executive Committee succession planning and talent

Throughout the year, the Committee has kept under review:

- the performance and succession planning of *Executive Committee* members. In particular, the Committee discussed with the Chief Executive potential successor candidates to the HR Director. Given the transformation and people agenda, and the group's key priorities, the Committee considered the impact of the different options on the organisation and its stakeholders, and which candidate would best support this. After an extensive search and a comprehensive assessment, the Committee approved the appointment of Athalie Williams as the permanent Chief Human Resources Officer from 1 December 2022. The Committee continues to focus on broader *Executive Committee* succession planning, including oversight of the talent pipeline with a focus on diversity
- key talent at senior leadership level. The Committee reflected on the importance of identifying critical roles and building stronger and broader diversity of experience, gender and ethnicity, as well as commercial, technology and transformation capabilities, both through potential external candidates and through our internal talent pipeline
- the 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. Under this policy, proposed external directorships and other significant external interests must not be to an organisation that is a BT Group competitor/major supplier to BT Group, create a conflict of interest for the individual with their role at BT Group, involve significant amounts of BT Group working hours or impede the ability of the individual to perform their BT Group 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.

Board composition, succession and evaluation continued
Nominations Committee Chair’s report continued

Diversity and inclusion

The Board Diversity and Inclusion Policy sets out our approach to diversity on the Board and our aim to have a well-balanced Board with the appropriate skills, knowledge, experience and diversity to meet our business needs and support our strategic aim of building the strongest foundations (see [bt.com/governance](https://www.bt.com/governance)). Following the recent publications and the changes to the Listing Rules, we have reviewed and updated this policy during FY23. The policy ensures we:

- apply an inclusion lens to all our decision-making processes
- monitor the impact of our decisions on diverse populations
- value and communicate the benefits that difference brings and are unapologetic in our pursuit of a diverse workforce at all levels
- actively seek out opportunities across the business to enhance and strengthen our approach to inclusion.

Whilst we appoint candidates based on merit, 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 lists. This is a key consideration for our searches.

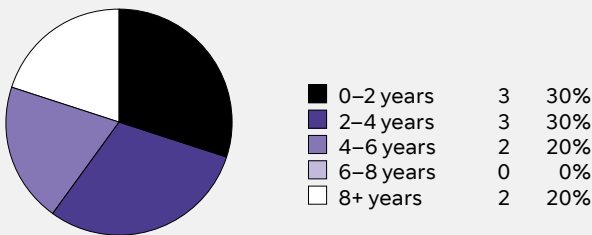
Diversity is considered in the broadest sense and all forms of difference are considered, including age, gender, nationality, independence, professional background, social and ethnic

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, are appropriately balanced. We believe a key driver in delivering our diversity commitments across the organisation is through a Board which has this balance of skills, experience, diversity and knowledge.

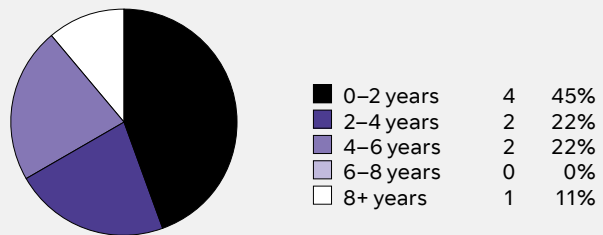
As at 31 March 2023, four of our 12 Board directors were female (33%) and two directors were from an ethnic minority background (17%), and in addition, one director has a disability. Furthermore, with the appointment of Ruth Cairnie on 6 April 2023, and taking into account the changes to the Board at the 2023 AGM, this will bring the female membership of the Board to 45% and therefore within the targets of the Board Diversity and Inclusion Policy of 40%. Ruth’s appointment as Senior Independent Director will ensure that we meet the requirements of the Listing Rules to have female representation in at least one of the four senior board positions.

▣ [Details of our diversity and inclusion strategy, including its objectives, implementation and progress can be found on page 33.](#)

Chairman and Non-Executive Directors’ tenure
 As at 31 March 2023



Post 2023 AGM



Diversity and ethnicity

	Number of Board members	Percentage of the Board	Number of senior positions on the Board, CEO, CFO, SID and Chair	Number in executive management	Percentage of executive management
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Diversity

Male at 31 March 2023		66.7%			70%
Female at 31 March 2023		33.3%			30%
Male Post 2023 AGM		54.6%		n/a	n/a
Female Post 2023 AGM		45.4%		n/a	n/a

Ethnicity

(at 31 March 2023)

White British or other White (including minority-white groups)	10	83%	4	8	80%
Mixed/Multiple Ethnic Groups	1	8.5%		1	10%
Asian/Asian British	1	8.5%		1	10%
Black/African/Caribbean/ Black British		0			0
Other ethnic group, including Arab		0			0

Audit, risk and internal control

Audit & Risk Committee Chair's report



Matthew Key

Chair of the Audit & Risk
Committee
17 May 2023

Committee role

The Committee is responsible on behalf of the Board for:

- monitoring the integrity of the financial statements and overseeing the financial reporting process
- reviewing the effectiveness of the group's systems of risk management and internal control
- reviewing the effectiveness of the internal audit function
- approving the appointment, reappointment, remuneration and removal of the external auditor, as well as the terms of the engagement and the provision of any non-audit services, overseeing the external auditor's independence and effectiveness in delivering a quality audit.

☐ The Committee's key responsibilities are set out in its terms of reference available at bt.com/governance

Committee membership and attendance

The Committee 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 management. Allison and I have recent and relevant business and financial experience (as set out in our biographies on [pages 86 to 87](#)) in line with the Code. The Deputy Company Secretary is secretary to this Committee and he, or his delegate, attends all meetings and provides guidance, advice and support as required. The Chairman, Chief Executive and Chief Financial Officer attend Committee meetings as required.

Private Committee sessions with the internal and external auditor 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.

Meetings attended

Matthew Key (Chair)	5/5	Allison Kirkby	5/5
Ian Cheshire	5/5	Sara Weller	5/5
Iain Conn	5/5		

Other attendees (x Regular attendee • Attends as required)

Chief Executive	x
Chief Financial Officer	x
Director, Group Finance	x
Director of Risk, Compliance & Assurance	x
General Counsel, Company Secretary & Director Regulatory Affairs	x
Director of External Reporting and Financial Control	x
Internal Audit Director	x
Risk Director	•
Ethics and Compliance Director	•

☐ Details on the FY23 evaluation of the Committee's effectiveness can be found on page 96.

//

This year, the Committee continued to focus on reviewing our systems of risk management and internal control, particularly on the operational risks we faced including data, cyber security and supply chain.

Committee focus in FY23

The Committee met five times this year. As Committee Chair, I met with the KPMG lead audit partner, the internal auditor and management as appropriate ahead of meetings to discuss specific items of focus to report to the Committee. After each meeting, I also reported 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 meeting papers and minutes.

Financial reporting

During the year, the Committee considered the full year and half year results, and the Q1 and Q3 trading updates. It reviewed the quality of accounting policies and practices, as well as critical accounting estimates and judgements.

The Committee considered, and was satisfied with:

- the processes supporting the preparation and consolidation of the **financial statements**, including consistent application of the accounting policies, and the ongoing verification by management and the external auditor
- management's accounting judgements and the appropriate application of the accounting policies, having also discussed these with the external auditor.

☐ More information on BT Group's significant accounting policies is set out on page 157.

The Committee exercised its judgement when considering matters related to the **financial statements**, and recommended approval by the Board of each of our full year and half year results, Q1 and Q3 trading updates and the Annual Report.

Audit, risk and internal control continued

Audit & Risk Committee Chair's report continued

Overview of the year

Focus	Considered by the Committee				
	2022				2023
	May	Jul	Sep	Oct	Jan
Financial reporting:					
– Results/trading updates and accounting judgements	■	■	■	■	■
– Annual Report 2022	■				
– Regulatory financial statements 2022		■			
– Going concern assessment	■			■	
– Viability statement	■				
Major contentious matters	■	■		■	■
Internal controls over financial reporting	■	■		■	
Finance transformation programme	■				■
Data programme progress update	■	■	■	■	■
GRCs and CFU risk reviews: point and emerging risks	■		■	■	■
Report from Openreach board, audit, risk & compliance Committee chair on the risks in Openreach		■			■
Compliance with Code requirements – risk management framework	■				
Ethics & compliance:					
– Ethics & compliance programmes	■	■		■	■
– Speak Up (whistleblowing) reports	■	■		■	■
Internal audit:					
– Internal audit report	■	■		■	■
– FY23 group internal audit plan and approach		■			
– Group internal audit charter	■				
– International audits coverage and analysis	■	■	■	■	■
External audit – KPMG:					
– External audit report	■	■		■	■
– External audit plan		■			
– Audit and non-audit fees	■	■	■	■	■
– Effectiveness	■		■		
– Independence and reappointment	■				

Fair, balanced and understandable

In May 2023, the Committee reviewed the Annual Report 2023 having previously fed back on earlier drafts. The Committee concluded that the Annual Report 2023, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the group's position, performance, business model and strategy, and the potential impact on forward-looking assumptions supporting going concern and viability assessments. In its assessment, it

considered that the following had been carried out and this formed the basis of its recommendation to the Board:

- a verification process covering the factual content reviewed by the internal audit team
- comprehensive reviews by different levels of management, including the *Executive Committee*, to consider the messaging and ensure consistency and overall balance.

Significant matters related to the financial statements and how these were addressed

Group accounting policies, critical and key accounting estimates and significant judgements

The Committee considered the accounting policies and disclosures in the consolidated financial statements regarding critical and key accounting estimates and significant judgements as summarised in note 2 of the consolidated **financial statements**. These relate to the valuation of our pensions assets and liabilities, taxation, contingent liabilities associated with litigation, provisions, our goodwill impairment model, determination of lease terms including reasonable certainty, and judgements and estimates associated with our BT Sport joint venture. More detail on the Committee's oversight of these matters is set out below where appropriate.

Going concern assessment

The Committee considered management's forecasts of group cash flows and net debt, as well as the group's liquidity requirements and borrowing facilities, including downside scenarios from the viability model as discussed below. Following this review and a discussion of the sensitivities, it confirmed that the going concern basis of accounting continues to be an appropriate basis of preparation for the financial statements and recommended it for approval by the Board.

☞ [See page 132](#)

Viability statement

The Committee reviewed the process and assessment of the group's prospects, taking into account the group's current position and principal risks. The Committee also considered the group risks in management's stress testing model, including the review of downside scenarios and a combined 'severe but plausible' scenario where multiple inter-connected risks materialise. The Committee was satisfied that the **viability statement** could be provided and the approach to its development, and recommended it for approval by the Board.

☞ [See pages 81 to 82](#)

BT Sport joint venture

The Committee reviewed the judgements and estimates made in relation to the formation of the new sports joint venture with Warner Bros. Discovery, Inc. including the assessment of joint control, the valuation of contingent consideration, the valuation of the minimum revenue guarantee in BT Group's distribution agreement with the joint venture, the valuation of BT Group's equity interest in the JV and the discounting of applicable cash flows. The Committee was satisfied with the judgements made.

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 consolidated **financial statements**, the sensitivities around the assumptions and the impact of the assumptions on the balance sheet, income statement and related disclosures.

Finance transformation

Throughout the year, the Committee was regularly updated on our finance transformation programme, including the implementation of a new central finance system and group accounting book of record at the start of the financial year and the preparation for the second phase of the programme to replace the UK sub ledgers and fixed asset register at the start of the next financial year. The Committee considered in particular the impact on published financial information and the group's control environment.

Goodwill impairment

The Committee received and discussed the key assumptions, including operating cash flow forecasts, resulting headroom and the sensitivity analysis performed by management. The Committee considered and was satisfied with the key assumptions and agreed that no goodwill impairment charges were required for FY23.

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.

Regulatory finance reporting

The Committee supported the processes and systems enhancements that were implemented to ensure that the group met its 2022 regulatory financial reporting obligations.

Other matters

The Committee reviewed specific items quarterly, and considered and agreed that they were appropriately categorised. It considered management's view of the quality of earnings and of the effective tax rate. It also challenged the phasing of working capital within normalised free cash flow. At each quarter, it considered a detailed assessment of provisions, and the Committee was satisfied with the analysis provided in relation to the results.

Risk management and internal controls systems

The group has continued to enhance and further embed its framework of risk management, controls and assurance for dealing with its landscape of risks.

This framework provides the tools to enable us to be smart with risk and improve operational and ethical discipline. The risk management processes identify and monitor the risks facing the group and the risk landscape is divided into areas of enduring risk called Group Risks Categories (GRC), which cover strategic, financial, operational and compliance risks.

☞ [Further information on our risk management framework and principal risks can be found on pages 61 to 64.](#)

The Board monitored the effectiveness of the group's systems of risk management and internal controls through detailed reviews of the GRCs and consideration of reports from management, as well as from internal audit and other assurance functions. Much of this work was undertaken by this Committee on the Board's behalf. Given that the Board is ultimately responsible for the group's systems of risk management and internal controls, as Chair, I subsequently reported the key matters from each of these sessions to the Board.

The activities listed overleaf, carried out during the year, collectively enable the Committee to confirm that the group's systems of risk management and internal control have been appropriately reviewed. Where required, targeted improvements have been agreed to continue to transform our control and systems environment. As part of its drive for continuous improvement, the Committee has overseen ongoing enhancements to the risk management framework. These included the development by management of a simplified suite of corporate policies and a group-wide key control framework to ensure all enduring risks are managed consistently and efficiently across the group, with clear accountabilities and enabling targeted assurance activities. Further information on improvements being made to the overall risk management framework, as well as specific actions taken to manage our principal risks can be found on [pages 61 to 62](#).

Audit, risk and internal control continued

Audit & Risk Committee Chair's report continued

Activities carried out during the year:

The Committee held discussions on the GRCs with the *Executive Committee* risk owners to understand current and anticipated risk developments, and reviewed how effectively the risks are being managed. It considered the risk appetite and its supporting metrics for the GRCs, the effectiveness of the controls, mitigation activities and any areas for improvement. The Committee robustly assessed both current, specific concerns (point risks) and uncertainties that may materialise in the future (emerging risks), particularly as a consequence of adverse changes to the economic, social, regulatory, political or technology environment, or as an unintended consequence of new products and services being offered or developed by the group. The Committee agreed with management any actions required to manage or mitigate these risks effectively.

Given the legal and security risks associated with the data we manage, the importance to our colleagues, customers and the group's ambition, as well as the ever-increasing regulatory scrutiny in this space, the Committee has received a number of updates on the management of this GRC, and monitored progress against any agreed enhancements. In addition, the Committee continues to monitor the cyber security GRC closely and has received the outcomes of an independent external cyber security review.

As well as the rolling programme of reviewing the GRCs (during the year this included the Financial Services, Major Customer Contracts, Supply Management, Legal Compliance and Communications Regulation GRCs), the Committee received updates on specific matters including the progress on FCA permissions and next steps given the importance of this for product rollout and projected revenues; financial market turbulence during Autumn 2022 and impacts on the BT pensions schemes; and power resilience and potential energy shortages or rationing.

The Committee considered management's approach to managing emerging risks within the risk management framework and in each of the GRCs and units. Management also brings together representatives from across the Group in its emerging risk hubs to consider the emerging risk profile and landscape and to share intelligence and agree actions. The Committee reviews the outcomes of all of these management activities on a six-monthly basis.

In addition, with the CFU CEOs, the Committee undertakes unit risk reviews, which cover how the GRCs are being managed in the respective units, and the significant point and emerging risks. During the year, these included reviews of the Global, Consumer and Openreach units.

As part of the reviews of the GRCs, CFUs and other matters, where relevant, the impacts of sustained higher rates of inflation and wider costs of living matters on BT Group colleagues, customers and suppliers have been considered.

The Committee also monitored the outcome of the Department for Business, Energy & Industrial Strategy (BEIS) consultation paper and how this may impact our current controls development strategy.

Ethics and compliance

The Committee considered regular reports on our ethics and compliance policies, and programmes and related learnings and culture. It spent time discussing the enhancement programme in relation to international trade, anti-bribery and corruption, as well as communications regulation compliance in line with the respective GRC.

Each quarter, the Committee received and reviewed reports on issues raised through Speak Up, BT Group's confidential, whistleblowing services operated by an independent company, 24 hours a day, in multiple languages, for both written and telephone reports. The Committee ensures that arrangements are in place for the proportionate and independent investigation of these and other matters via the ethics and compliance team. The procedures

for Speak Up are reviewed annually with input from the specialists in Speak Up, HR and Legal, to ensure best practice is maintained and that procedures remain compliant. On receipt, any whistleblowing reports are triaged by specialist resource, assigned a priority and, where appropriate, are directed to an investigator from security, HR or Legal with appropriate assistance from subject matter experts and/or independent line management. On completion of any investigation, the Speak Up team ensures the investigation has been thorough and fair. High priority cases are reviewed by a multi-disciplinary panel for completeness before closure. The Committee discussed any themes identified across the cases received, the outcomes of these cases and the overall rates of substantiation.

Internal audit

Internal audit provides independent, objective and timely assurance to senior management and the Board, through this Committee, over the design and operational effectiveness of key processes and controls that manage the risks across the organisation.

During the year, the Committee:

- reviewed and approved the group internal audit annual plan, ensuring it aligned to the principal risks of the business
- reviewed and, taking into account the current needs of the group, approved the internal audit charter, which establishes internal audit's independence, authority, remit and reporting lines to conduct its work
- received regular reports from internal audit on its activities and progress against the group internal audit plan, allowing the Committee to monitor delivery against the plan
- held in-depth discussions with management on all internal audit reports where controls were assessed as 'inadequate', and action plans to address these. The actions were tracked by the Committee, including the responsiveness of management to the findings and recommendations, and the progress of closing any overdue actions.

During the year, the Committee carried out its annual assessment of the performance and effectiveness of internal audit, including whether the activities, structure, expertise, objectivity and quality of the function were appropriate for the business. The Committee concluded that internal audit continues to add value in the context of the group's overall assurance framework. An external effectiveness review of internal audit was previously conducted in FY19 by the Chartered Institute of Internal Auditors in accordance with our five-year cycle of such reviews.

External audit

The Committee is responsible for making recommendations to the Board on the reappointment of the external auditor, determining their independence from the group and its management and agreeing the scope and fee for the audit. The Committee concluded that the reappointment of KPMG should be recommended to shareholders at the 2023 AGM.

Following the audit tender in FY17, KPMG was appointed as BT Group's external auditor from the conclusion of the 2018 AGM. The FY23 audit is KPMG's fifth audit of BT Group. John Luke was appointed as the KPMG lead audit partner for the BT Group in FY21, having been the audit partner for Openreach Limited since FY19. Recognising the rotational requirements for the lead audit partner and taking into account both his tenure at Openreach and BT Group, FY23 will be John Luke's final year as lead audit partner. The Committee Chair has discussed John Luke's succession with the Chief Executive of KPMG in the UK, and following a thorough review of potential candidates put forward by KPMG to succeed John, the Committee approved the appointment of Jon Mills to replace John Luke as the lead audit partner for the FY24 audit.

During the year, the Committee:

- considered and approved the proposed external audit fees for the year ended 31 March 2023, including one-off fees, 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 138 to 149](#) for more details)

- reviewed with the external auditor, and subsequently approved, the external auditor's scope of work, audit plan and strategy for FY23
- approved the engagement letter of the external auditor
- recommended approval by the Board of management's letters of representation
- reviewed the annual findings of the FRC's Audit Quality Review in respect of KPMG's audits. The Committee discussed the findings and the applicability to the BT Group and are discussing this further with KPMG
- reviewed a joint plan by KPMG and management which addressed debrief points from last years audit to ensure improvements were made on both sides for this year.

As part of my year-end report to the Board, I informed the Board of the outcome of the external audit.

BT Group confirms that it complies with the EU Regulation on Audit Reform and the Competition and Markets Authority's Statutory Audit Services Order with regard to mandatory auditor rotation and tendering.

Independence and non-audit services

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. BT Group's 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, and these 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. The Committee will continue to keep under review BT Group's non-audit services policy.

□ [Our non-audit services policy can be found at **bt.com/governance**](#)

The Committee reviewed the confirmation and information received from the external auditor on the arrangements that it has in place to safeguard auditor independence and objectivity, which are consistent with the ethical standards published by the FRC, including specific safeguards where they provide permissible non-audit services to the group. The nature of the non-audit services carried out by the external auditor during the year are described in note 8 to the consolidated **financial statements** on [page 166](#). These were carried out due to either 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. The Board assessed any potential threats to independence that were self-identified and reported by KPMG, all of which were regarded by the Committee as being adequately addressed. Audit-related assurance services, including the audit of the regulatory financial statements, as well as any approved non-audit services performed by KPMG, are considered a low threat to auditor independence. The largest non-audit service included providing comfort letters for bond issuances. This work fell within the scope of limited permissible services, which are closely related to existing audit work that KPMG provide. 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 0.2% of the total fees (FY22: 0.6%).

External auditor effectiveness and quality

Scope

The Committee assesses the effectiveness of the external audit process and the qualifications, expertise, resources, independence and objectivity of the external auditor, including the nature and extent of non-audit services throughout the year, focusing on:

- the quality of the audit and the financial reporting process, including how effective the external auditor is at identifying and addressing matters that could compromise the quality of BT Group's reporting
- the service of the external auditor and the relationships with the Committee, key members of management and the internal auditor
- whether the external auditor has demonstrated professional scepticism
- whether the external auditor has challenged management's assumptions where necessary.

Review process

The Committee reviewed the audit scope and plan at the start of the year and received regular audit reports from the external auditor. This enabled the Committee to assess the quality of audit work. The Committee had the opportunity to interact with the external auditor at meetings as well as to observe the communication and interactions between the external auditor with management and the internal auditor. The Committee reviewed and monitored management's responsiveness to the external auditor's requests for information, and its findings and recommendations. The Committee Chair also regularly met with the lead audit partner.

During the year, a questionnaire was also completed by the Committee members and management to gather their perspectives on the effectiveness and quality of the external auditor's work.

The Committee also reviewed the key findings from the FRC's Audit Quality Review in respect of KPMG's audits. Whilst the FRC review did not cover the BT Group audit, the report provided a basis for the Committee to challenge KPMG over any actions proposed as a result of the report, and any weakness identified in audit quality. The Committee discussed the findings and the applicability to the BT Group (with and without KPMG) and will continue to keep this under review.

Conclusion

In conclusion, the Committee agreed that:

- the audit contributed to the integrity of the group's financial reporting
- the relationship between KPMG and both the Committee and management continues to be effective
- KPMG demonstrated an appropriate degree of professional scepticism and deployed a team with the required level of skill and expertise to enable an effective audit
- the audit strategy and plan was appropriately scoped, communicated and executed
- KPMG continues to be independent, and recommended to the Board that the reappointment of KPMG, as our external auditor, be put to our shareholders for approval at the 2023 AGM (this was subsequently approved by the Board).

BT Compliance Committee Chair's report



Isabel Hudson

Chair of the BT Compliance Committee
17 May 2023

Committee role

The Committee is responsible on behalf of the Board for:

- monitoring BT Group's compliance with the letter and spirit of the Commitments made as part of the 2017 Digital Communications Review (DCR) with Ofcom
- assessing whether Openreach can act with appropriate independence while BT Group is able to fulfil its parent company duties
- overseeing consumer fairness matters on behalf of the Board by monitoring whether BT Group is living up to Ofcom's Fairness for Customers commitments
- reviewing how BT Group is delivering appropriate outcomes for stakeholders across the Commitments and consumer fairness.

 The Committee's key responsibilities are set out in its terms of reference available at [bt.com/governance](https://www.bt.com/governance)


Committee membership and attendance


During the year, the Committee met four times. The Committee comprises Independent Non-Executive Directors only. The Deputy Company Secretary is secretary to this Committee, and he or his delegate attends all meetings and provides guidance, advice and support as required. The Chair of the Board, General Counsel, Company Secretary & Director Regulatory Affairs, Commitments Assurance Office Director (CAO), and Openreach's Commitments Monitoring Office Director also attend meetings as invitees.

Meetings attended

Isabel Hudson (Chair)	4/4	Allison Kirkby	4/4
Ian Cheshire	4/4	Sara Weller	4/4

I report to the Board after each meeting on the Committee's activities and the main issues discussed, with the Board receiving copies of the Committee's meeting papers and minutes. Ofcom also receives copies of minutes.

 [Details on how we engage with Ofcom can be found on page 45](#)

 [Details on the FY23 evaluation of the Committee's effectiveness can be found on page 96](#)

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The Committee is vigilant on the monitoring of the culture and behaviour of the BT people to ensure that they are conducive to the delivery of our commitments and governance protocol, as well as to the adherence of the consumer fairness principles in the delivery of key outcomes.

Committee focus in FY23

Compliance with the Commitments

The Committee's monitoring in the last year has focused upon:

- the adherence of BT Group's leadership with the Commitments
- stakeholder perceptions by engagement with industry stakeholders, including CPs, Ofcom and Openreach
- the CAO's reviews of the annual financial planning, strategy development and commercial pricing and product processes
- targeted reviews of governance for pan-BT programmes, including exchange closures
- the outcomes of CAO compliance reviews, decisions on potential Commitments breaches and, where appropriate, remedial actions. Breaches continue to remain at a low level
- BT Group and Openreach's progress on wider DCR outcomes.

With the current macroeconomic environment, the Committee was mindful that this does not lead to a loss of focus on the Commitments. A training session including Commitments compliance was provided to the *Executive Committee* to reinforce the importance of adhering to the Commitments.

Consumer fairness matters

The Committee remain focused in monitoring the group's adherence to the consumer fairness principles for a fair outcome for customers. In the year ended 31 March 2023, the Committee focused on:

- the transition to All IP and the migration of Digital Voice (see [page 59](#)). The Committee spent significant time addressing key issues of the programme with management including customer impacts and the related communications
- a review of the shutting down of the 3G network to ensure lessons were learned from the challenges of Digital Voice
- the decision to proceed with our planned consumer price increase, noting current inflation rates and the continued engagement with key stakeholders and customers ahead of this
- reviewing the introduction of charging for mobile roaming in Europe
- the provision of social tariffs, how the group addresses loyalty-related issues, the cap on out-of-contract price rises, and the broader efforts to support vulnerable and less technically able customers
- year-on-year consumer fairness trends as well as outputs from the group's consumer fairness panel meetings.

Digital Impact & Sustainability Committee Chair's report



Sara Weller

Chair of the Digital Impact & Sustainability Committee
17 May 2023

Committee role

The Committee is responsible on behalf of the Board for:

- agreeing the strategy for responsible business, as enshrined in our Manifesto
- overseeing progress of our Manifesto, with a particular focus on the group's activities and goals as a responsible, inclusive and sustainable business.

[The Committee's key responsibilities are set out in its terms of reference available at \[bt.com/governance\]\(https://bt.com/governance\)](#)

BT Group has continued to support customers, colleagues, families and businesses during what continues to be a difficult time for so many. Throughout the year, the Committee has given direction, challenge and encouragement to support the delivery of the Manifesto plans across the business.

Our Manifesto is a core part of our strategy and ESG metrics remains an important element of both our short-term and long-term incentives (see [page 122](#)). During the year the Committee noted the changes to the annual bonus scorecard for FY24 (see [page 110](#)) and provided a recommendation to the *Remuneration Committee* in respect of the new restricted share plan underpin (see [page 110](#)), including a robust framework for assessing performance.

Committee membership and attendance

The Committee members are all Independent Non-Executive Directors. The Deputy Company Secretary is secretary to this Committee, and he or his delegate attends all meetings and provides guidance, advice and support as required.

The Chief Human Resources Officer, Corporate Affairs Director, CEO Consumer, Sustainability & Corporate Affairs Strategy Director, and Director of External Communications & Digital Impact also attend meetings as invitees.

During the year, the Committee held three scheduled meetings.

Meetings attended			
Sara Weller (Chair)	3/3	Isabel Hudson	3/3
Maggie Chan Jones ^{a,b}	0/0	Leena Nair ^d	1/1
Steven Guggenheimer ^c	1/1		

a Maggie joined the Board and the Committee on 1 March 2023.

b No scheduled *Digital Impact & Sustainability Committee* meeting was held in March 2023.

c Steven joined the Board and the Committee on 1 October 2022.

d Leena stepped down from the Board and the Committee on 14 July 2022.

I report to the Board after each meeting on the Committee's activities and the main issues discussed, with the Board receiving copies of the Committee's meeting papers and minutes.

[Details on the FY23 evaluation of the Committee's effectiveness can be found on page 96](#)

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It has been great for the Committee to provide direction and support to the delivery of the Manifesto, to further strengthen BT Group's position as a responsible business.

Committee focus in FY23

Manifesto for a bright, sustainable future

Following on from last year's launch of our Manifesto (see [pages 36 to 39](#) for detail), the focus this year has been to review how it is being embedded across the business. Progress was tracked through our Manifesto dashboard, which was shared externally at the ESG Business Briefing in November 2022.

- Responsible:** Responsible tech and human rights. The Committee:
- considered emerging tech risks and how these are being managed
 - provided challenge to explore how management of data privacy and ethics can build trust and support growth
 - assessed how responsible tech principles and human rights are being embedded in the new business process
 - endorsed BT Group's human rights policy.

[The human rights policy is available at \[bt.com/humanrightspolicy\]\(https://bt.com/humanrightspolicy\)](#)

- Inclusive:** Digital skills and social impact. The Committee:
- oversaw performance against our digital skills goal (Group KPI and one of seven metrics in the FY23 bonus scorecard, (see [page 112](#)) through campaigns in Consumer and Business)
 - supported work to build a diverse digital talent pipeline for the UK and BT Group through the FastFutures programme, encouraging the management team to pursue even greater diversity through future cohorts
 - considered cost of living support for vulnerable customers and suggested ways to ensure it reaches those most in need
 - reviewed and supported the approach to demonstrating our contribution to social value in our work with the public sector.

- Sustainable:** Climate and the environment. The Committee:
- approved BT Group's climate strategy and related KPIs (see [pages 38 to 39](#))
 - appraised progress in decarbonising our operations, including the further adoption of electric vehicles into the commercial vehicle fleet, noting some of the challenges faced given a lack of vehicle supply, charging infrastructure and cuts to subsidies
 - monitored energy reduction efforts across our networks
 - tested progress on the plans to make BT Group a more circular business, with debate and agreement on the use of a measurement tool and set of KPIs to track performance
 - heard how sustainability is driving growth for Business through new value propositions and how this could be scaled-up across the business.

Stakeholder engagement

The Committee discussed the group's approach to understanding the interests of key stakeholders and how this is reflected in our responsible business and sustainability strategy, external reporting, and engagement with stakeholders (including our shareholders) in a landscape of increasing focus on environmental, social and governance factors.

BT Sourced

The Committee oversaw progress and the risk management approach in place within our supply chain, including how we ensure that the group remains a responsible business through its procurement activities.

Report on directors' remuneration

Committee Chair's letter



Sir Ian Cheshire
Chair of the Remuneration
Committee
17 May 2023

Contents

Committee Chair's letter

Review of the year; Committee decisions; key outturns and plans for the year ahead – [pages 108 to 110](#).

Focus on remuneration

The key aspects of our remuneration structure, outcomes for FY23 and implementation of the Directors' Remuneration Policy in FY24 – [pages 111 to 113](#).

Directors' Remuneration Policy (Policy)

We're proposing a new Policy at the 2023 AGM, with minimal changes from the previous Policy – [pages 114 to 120](#).

Annual remuneration report

More detail on how we have implemented the Policy during FY23 including the single figure of remuneration for each director – [pages 121 to 128](#).

Remuneration in context

How we take account of remuneration conditions across the group – [pages 129 to 130](#).

Committee membership and attendance

The Committee members are all Independent Non-Executive Directors. The Deputy Company Secretary or his appointed delegate acts as secretary to the Committee, and attends all meetings and provides advice, guidance and support as required.

The Chairman, Chief Executive, Chief Human Resources Officer and Director of Group Reward are typically invited to attend meetings. They do not attend 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 meetings.

The Committee held six scheduled meetings during the year and one ad hoc meeting.

Meetings attended

Ian Cheshire (chair)	6/6	Matthew Key	6/6
Iain Conn	6/6	Leena Nair ^a	0/2
Isabel Hudson	6/6		

^a Leena gave apologies for two meetings during the year due to other business commitments. Leena stepped down from the Board and the Committee at the conclusion of the AGM on 14 July 2022.

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The Committee understands the current cost pressures our colleagues face and is fully supportive of the actions taken during the year to help as best we could. Once again we have ensured that any remuneration decisions taken during the year were in line with our Directors' Remuneration Policy.

Committee role

The Committee is responsible on behalf of the Board for:

- Determining the salary and benefits for the Chairman, Executive Directors, members of the *Executive Committee* and the Company Secretary, and monitoring remuneration practices and policies for the wider workforce
- Setting the performance targets for the annual bonus scheme for senior executives for the year ahead
- Determining awards under the annual bonus scheme and the group's long-term incentive plans for senior executives
- Reviewing and approving the Report on directors' remuneration
- Reviewing and approving the Policy including seeking shareholder approval, on a binding basis, at least every three years
- Ensuring 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 \[bt.com/governance\]\(https://www.bt.com/governance\)](#)

This report sets out information on the Committee's activities during the year, our remuneration framework and its implementation. I have also provided further context on the performance of the business throughout the year and the environment in which the Committee made decisions on executive pay.

Stakeholder context

Wider workforce pay and conditions

In April 2022 we provided a salary increase of £1,500 to all UK frontline colleagues. Despite facing growing cost pressures, we really wanted to support our colleagues and we believe we delivered the best pay review we could afford at the time. Regrettably, we were not able to reach agreement on this with the CWU and FY23 saw eight days of industrial action. I am immensely grateful for the hard work of all colleagues who stepped up to ensure we kept our customers and the country connected during this challenging time.

Since April, colleagues across the globe have continued to be impacted by rising inflation and the cost of living squeeze. We again sought to support our colleagues as best we could, and we took the following actions:

- We delivered a £1,500 consolidated salary increase from 1 January 2023 to all UK colleagues earning a £50,000 full-time equivalent salary or below – more than 85% of our UK workforce, including all of our team member and frontline colleagues, and half of our UK manager population. Combined with the increase offered in April 2022, our lowest-paid colleagues received a total increase of 15% year on year. This one-off award was

recommended by both the CWU and Prospect, and supported by their memberships in consultative ballots, bringing an end to the CWU's industrial action

- Outside of the UK we assessed the need to deliver similar interventions, taking account of salary increases delivered in 2022, inflation levels and other local factors. As a result, a similar increase was provided in the Republic of Ireland and we paid a one-off allowance to colleagues in Hungary
- In terms of enhanced benefit provision, we rolled out additional support for business-needs drivers and colleagues travelling overnight; and launched our Benefitness campaign to help colleagues understand how our range of flexible benefits could best support them through these difficult economic times.

The Committee understands that our colleagues continue to face cost pressures and it receives regular updates on pay and conditions across the business throughout the year.

Isabel Hudson, as the Designated Non-Executive Director for workforce engagement, also feeds back to the Committee on a regular basis the comments and sentiments on remuneration matters which are raised by the *Colleague Board*. These issues are front-of-mind for the Committee as it makes decisions on executive pay throughout the year.

Customer context

The whole country has been impacted by the cost of living crisis and we have provided support for our customers as well as our colleagues. In June 2021 we were the first to launch a social tariff, Home Essentials, which provides discounted broadband to support customers claiming certain benefits. Although some of our competitors have now followed suit, BT Group still has more social tariff customers than the rest of the market combined. We made the decision to freeze our pricing in 2023 for one million social tariff and landline-only customers, as well as for two million Pay As You Go mobile customers.

We continue to build our fibre network at pace, delivering next-generation connectivity to the country: more than 10m premises are now covered by our network, with more than 3m connections.

As noted below, our NPS scores have fallen this year. Delivering strong customer experience is a core pillar of our strategy and in order to bring extra focus on this in FY24, we will be doubling the weighting on NPS in our bonus scorecard from 10% to 20%.

Shareholder context

Our share price performance during the year has again been volatile, but an upward trend in 2023 reflects improving market confidence in our strategy, as we start to see the benefits of our huge investment projects materialise. We're confident that we will deliver for our shareholders over the longer term. As planned, we reinstated our dividend for FY22 and have continued to pay dividends in FY23.

Performance and executive remuneration outcomes for FY23

Annual bonus

For FY23, annual bonus performance was based on a scorecard of seven key financial and non-financial measures that align to our strategic priorities. Financial performance accounted for 70% of the bonus scorecard and comprised the following measures:

- **Adjusted EBITDA (35%)** – despite the challenging economic backdrop and inflationary headwinds, we have delivered on our promise of £7.9bn in EBITDA for the year
- **Normalised free cash flow (35%)** – free cash flow was depressed during the year as we continued to build at pace, but by the end of Q4 we delivered normalised free cash flow of £1.3bn, in line with our guidance.

Our non-financial measures accounted for 30% of the bonus scorecard and comprised the following:

- **Customer (10%)** – customer sentiment in the year was impacted by the cost of living crisis, and our ability to support customers was affected by the industrial action. Although NPS scores were strong in Enterprise, at Group level we failed to meet our NPS threshold target
- **Converged networks (10%)** – we have continued to drive sales and delivery of the latest network technologies throughout the year, with both FTTP and 5G metrics landing between target and stretch
- **Digital impact & sustainability (10%)**
 - **Skills for tomorrow (5%)** – we continue to deliver support for our customers, families and small businesses, reaching more than 920,000 people across the country during the year. Performance was between target and stretch
 - **Carbon emissions intensity (5%)** – strong progress was made in the year on energy efficiency and reduction in energy consumption across our estate, meaning performance was above our stretch goal for the year. However, it also benefited from unforeseen events outside of management's control, or strategic decisions such as a reduction to our recruitment plans agreed part-way through the year. For scorecard purposes, we removed the impact of these unforeseen events, with the underlying result in line with threshold.

Further detail on the FY23 annual bonus scorecard can be found on page 122.

The overall formulaic outcome of the bonus scorecard was 72.9% of target. Taking account of the broader context described above, the Committee agreed that this result was a fair and reasonable reflection of the wider performance of the business and that therefore no discretion needed to be exercised. Philip and Simon will therefore be awarded bonuses of £962,590 and £656,440 respectively, half of which will be deferred into shares for three years.

2020 Restricted Share Plan awards

The Committee carried out an assessment of the two underpins applying to the 2020 Restricted Share Plan (RSP) awards (relating to ROCE performance and ESG/reputational damage) and determined that both had been satisfied.

The Committee is also cognisant of the need to avoid unreasonable windfall gains: however, the 2020 RSP awards were reduced in value by 20% at the point of grant to account for a fall in share price prior to award, and accordingly the Committee agreed that the potential vesting value of these awards remains appropriate and that no further adjustment was required.

All three tranches of the 2020 RSP awards will therefore vest in full in August 2023, 2024 and 2025 respectively. Tranches one and two remain subject to a holding requirement until August 2025.

Policy review

Our Directors' Remuneration Policy was last approved by shareholders at the 2020 AGM and is therefore due to be put to a binding vote again at the 2023 AGM in July.

A number of significant changes were made to the Policy in 2020, including the introduction of the RSP, which were supported by 95% of shareholders. Following a thorough review, the Committee has determined that the Policy remains fit for purpose, is well aligned with our strategy and appropriately incentivises and motivates senior executives to deliver shareholder value. We see no reason to move away from the RSP model at this time and we're also comfortable that the Policy maxima remain appropriately market-aligned.

Report on directors' remuneration continued

Committee chair's letter continued

Whilst no changes to the Policy itself are proposed, we're proposing some changes to how the Policy will be implemented in FY24, in particular increasing our focus on customer and diversity and inclusion metrics within the annual bonus scorecard.

As part of the Policy review, we took the opportunity to engage with some of our largest shareholders and proxy voting agencies, and held a number of meetings with our shareholder community. As always, the Committee and I are grateful for the valuable feedback.

Policy implementation in FY24

Base salary

Philip's salary was fixed for five years on appointment and therefore no increase will be made in FY24. Philip has also volunteered to waive any salary increases beyond FY24.

As part of the delivery of the cost of living pay rise, it was agreed that our regular annual salary review for UK managers will take place in September rather than June. The Committee will therefore consider any salary increase for Simon nearer this time when rates for the wider workforce are known and this will be confirmed in the 2024 Report on directors' remuneration.

Annual bonus

The annual bonus scorecard has been simplified for FY24, with an increased focus on customer and diversity and inclusion:

- Unchanged on the prior year, **financial measures will account for 70% of the annual bonus scorecard, split equally between Adjusted EBITDA and normalised free cash flow**
- **The remaining 30% of the annual bonus scorecard will be designated as a transformation scorecard**, emphasising key in-year priorities. For FY24 the following ESG metrics are proposed:
 - **Group Net Promoter Score**, with an increased weighting of 20%, reflecting the critical importance of providing strong customer experience, and
 - **Diversity and inclusion**, weighted 10%. D&I is fundamental to our purpose as a business, and ensuring our colleagues reflect the diversity of our customer base is critical to delivering our growth plans. We firmly believe that diversity and inclusion are intrinsically linked: an inclusive culture, driven by a diverse and inclusive management team, will attract diverse candidates into the business, and vice versa, so we will be introducing both a diversity and an inclusion metric (each equally weighted at 5% each)

Our diversity metric will measure representation of female, ethnic minority and disabled colleagues within our senior management population, alongside an inclusion index, which will use a set of four questions from our employee engagement survey to measure improvement in inclusion sentiment over time.

Network (FTTP and 5G) and Skills for Tomorrow metrics will no longer form part of the bonus: we have made significant progress in these areas and they are now well-embedded in the business. We believe it is the right time to prioritise new measures.

The Committee also believes that climate-related metrics are better suited to longer-term measurement and so while carbon emissions intensity no longer features in the annual bonus scorecard, we're introducing a new sustainability underpin for future RSP awards.

The annual bonus remains subject to a health and safety underpin and, if triggered, the Committee retains the discretion to reduce the pay-out as it considers appropriate. The EBITDA underpin which applied in FY23 was intended to apply for a single year only and will be removed for FY24.

No changes are proposed to the structure of the bonus plan itself: the on-target and maximum opportunity will remain at 120% and 200% of salary for both Philip and Simon, with 50% deferred into shares for a period of three years.

RSP

Due to the deferral of our annual salary review described above, the annual grant of RSP awards will also be delayed until September. Our normal Policy grant level for Executive Directors is 200% of salary. The Committee will consider the actual grant value for the 2023 awards nearer the time of grant, taking into account the share price at the time. If the share price is materially lower than the share price used to determine the 2022 awards, the Committee will consider whether it is appropriate to reduce awards to mitigate the risk of windfall gains.

As in prior years, these awards will vest in three equal tranches in June 2026, 2027 and 2028, with all tranches subject to a holding requirement until June 2028.

RSP awards are subject to two underpins, which have been revised for 2023, measured over the initial three-year vesting period:

1. **ROCE** – average return on capital employed must be at least 7%
2. **Sustainability** – the business must have made sufficient progress over the vesting period towards meeting our sustainability commitments (this could include carbon emissions, carbon abatement and circularity).

In relation to the ROCE underpin, the Committee concluded that in light of the impact of market volatility on our WACC methodology, it was appropriate to set the underpin as a fixed ROCE figure rather than relative to WACC as in prior years.

In setting the level of ROCE at 7%, the Committee took into account (1) the purpose of the underpin, being to avoid payment for failure rather than representing a 'target' for success; and (2) our expected ROCE performance over the next three years. The latter factors in our decision to expand and accelerate connections alongside our ambition to reach 25m premises with full fibre by the end of 2026, a once-in-a-generation capital investment of approximately £15bn that will both support the upgrade of the UK's digital economy into the future, and position BT Group to deliver long-term returns to our shareholders.

Responsibility for assessing the sustainability underpin sits with the *Digital Impact & Sustainability Committee*, which will provide a recommendation to the Committee at the end of the underpin period for their consideration. The *Digital Impact & Sustainability Committee* has agreed a framework which will enable a robust assessment of performance versus our specific sustainability commitments.

Chairman and Non-Executive Director fees

No changes will be made to the fees payable to the Chairman and Non-Executive Directors for FY24.

Finally, I will be stepping down from the BT Group Board at the conclusion of the AGM in July, and will be succeeded in my role as Chair of this Committee by Ruth Cairnie. I would like to thank you for your support over the last three years. 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
17 May 2023

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 group, aligning the interests of our Executive Directors with those of our shareholders
- We're committed to transparent communication with all stakeholders, including our shareholders
- The same annual performance framework applies to all our management colleagues, including Executive Directors, with aligned group and divisional metrics to ensure a consistent focus.

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 group's risk management framework
- Three-year deferral under the annual bonus and a five-year release period on RSP awards 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 *Remuneration Committee* discretion to adjust formulaic outcomes.

Proportionality

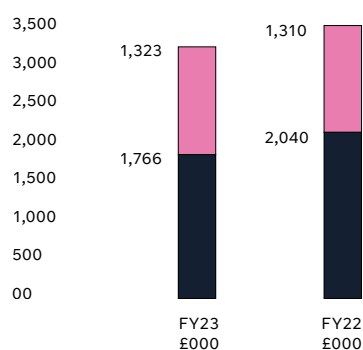
- There is clear alignment between group performance, strategic progress, and remuneration outcomes for our Executive Directors
- Target total compensation levels are set competitively compared to other companies of similar size and complexity to ensure we can attract and retain the executives needed to deliver the business strategy. Maximum total compensation levels are typically set lower than typical market practice to reflect the narrower and more predictable range of performance outcomes for BT Group
- Formulaic incentive outcomes are reviewed by the *Remuneration Committee* and may be adjusted after considering overall group performance and wider workforce remuneration policies and practices.

Alignment to culture

- When considering performance, the *Remuneration Committee* takes account of BT Group's values
- The *Remuneration Committee* receives regular updates on remuneration practices and policies for the wider workforce, and colleagues may provide feedback to the Board via the *Colleague Board* and the Designated Non-Executive Director for workforce engagement
- We encourage all of our colleagues to become shareholders in the business through the operation of all-employee share plans.

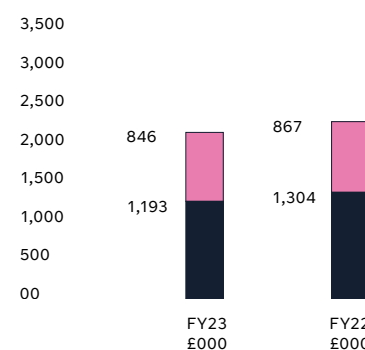
Focus on remuneration continued

Remuneration earned in FY23

Philip Jansen
Chief Executive
£000

	FY23 £000	FY22 £000
F Base salary	1,100	1,100
Pension allowance	110	110
Benefits	113	100
Total fixed pay	1,323	1,310
V Annual bonus (shares) ^a	481	660
Annual bonus (cash)	481	660
ISP (shares) ^b	n/a	720
RSP (shares) ^c	803	n/a
Total variable pay^d	1,766	2,040
Total	3,089	3,350

- a In line with the Policy, 50% of the annual bonus is deferred into shares for three years.
- b Performance against the adjusted cash flow measure was mid-way between target and stretch, whilst performance against both the TSR and adjusted revenue measures was below threshold. Accordingly, 19.1% of the total award vested in August 2022. Further detail is set out on [page 125](#).

Simon Lowth
Chief Financial Officer
£000

	FY23 £000	FY22 £000
F Base salary	748	735
Pension allowance	75	110
Benefits	23	22
Total fixed pay	846	867
V Annual bonus (shares) ^a	328	441
Annual bonus (cash)	328	442
ISP (shares) ^b	n/a	421
RSP (shares) ^c	537	n/a
Total variable pay	1,193	1,304
Total	2,039	2,171

- c Both underpins have been satisfied for the 2020 RSP award and therefore all three tranches of the 2020 RSP award will vest in full in August 2023, 2024 and 2025 respectively. Further detail is set out on [page 122](#).
- d The total variable pay for Philip does not cast due to roundings.

Performance outcomes in FY23

Annual bonus FY23

- Bonus was subject to seven measures of financial and non-financial performance
- In line with the Policy, 50% of the annual bonus will be deferred into shares for three years
- Both EBITDA and normalised free cash flow were between threshold and target, and in line with our guidance for the year
- NPS was below our Group threshold target
- Performance against our network and digital impact metrics was stronger, ending the year above target
- Finally, our underlying carbon emissions performance was in line with threshold.

Measure

Payout (% of max)

Adjusted EBITDA	██████████	45%
Normalised free cash flow	██████████	41%
Group Net Promoter Score (NPS)		0%
5G customers	██████████	77%
FTTP connections	██████████	90%
Carbon emissions	██████████	30%
Skills for tomorrow	██████████	72%

2020 RSP

- A conditional share award subject to two underpins over the initial three-year vesting period
- The Committee assessed the two underpins at the end of the restricted period and confirmed that both had been satisfied
- Accordingly, all three tranches of the 2020 RSP award will vest in full in August 2023, 2024 and 2025 respectively. Tranches two and three are subject to a holding period until August 2025. Further detail is set out on [page 122](#).

Implementation of the Policy in FY24

	F Fixed pay	V Annual bonus	V RSP
Philip Jansen Chief Executive	Salary – £1,100,000 Benefits Pension allowance – 10% of salary	Max. opportunity – 200% of salary Target opportunity – 120% of salary	2023 award – 200% of salary
Simon Lowth Chief Financial Officer	Salary – £750,147 Benefits Pension allowance – 10% of salary	Max. opportunity – 200% of salary Target opportunity – 120% of salary	2023 award – 200% of salary
Performance measures	n/a	<ul style="list-style-type: none"> Adjusted EBITDA (35%) Normalised free cash flow (35%) Customer experience (20%) Diversity and inclusion (10%) <p>An underpin applies which allow the Committee to exercise its discretion to reduce the scorecard result if there is a significant breach in health and safety.</p>	<p>Awards subject to two underpins over the initial three-year vesting period:</p> <ul style="list-style-type: none"> Average ROCE must be at least 7% Sufficient progress is made towards meeting our sustainability commitments.
Framework	n/a	<ul style="list-style-type: none"> 50% of any bonus payment for FY24 will be deferred into shares for three years Malus and clawback provisions apply Full Committee discretion available. 	<ul style="list-style-type: none"> 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.

Illustration of Policy

	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
F Fixed pay	Base salary	█						
	Pension allowance	█						
	Benefits	█						
V Annual bonus ^a	50% cash		█					
	50% deferred shares				█			
V RSP awards	Tranche 1	50% of the bonus deferred for three years →			█	→		
	Tranche 3				█	→		
	Tranche 3					█		

Underpins apply over three years

Malus and clawback up to two years after vesting of each tranche

a All of the annual bonus measures are linked to our key performance indicators (KPIs) as set out on [pages 48 to 49](#).

Directors' Remuneration Policy

Directors' Remuneration Policy (Policy)

This section of the report sets out our Policy which will be put forward for shareholder approval at the AGM on 13 July 2023. Subject to approval, this Policy will become effective on that date.

The Committee has carried out a full review of all elements of the Policy and has determined that it remains fit for purpose, aligned with our strategy, and appropriately incentivises and motivates

senior executives to deliver shareholder value. As such, no material changes to the Policy are being proposed at this time.

- ▣ Further details on the review and implementation are included in the Committee Chair's letter on [pages 109 to 110](#).
- ▣ Details on how the Policy will be implemented in FY24 are provided on [page 113](#).

Executive Directors

F Base salary

Purpose – a core element of remuneration, used to attract and retain Executive Directors of the calibre required to develop and deliver our long-term business strategy.

Operation

Salaries are reviewed annually, although an out-of-cycle review may be conducted if the *Remuneration Committee* determines it appropriate.

A review may not necessarily lead to an increase in salary.

Salaries are normally paid monthly in cash.

The *Remuneration Committee* takes into account a number of factors when setting salaries, including (but not limited to):

- the size and scope of the individual's responsibilities
- the individual's skills, experience and performance
- typical salary levels for comparable roles within appropriate pay comparators; and
- pay and conditions for our wider employee population.

Maximum opportunity

Whilst there is no maximum salary level, any increase will typically not exceed the range of increases awarded to our wider employee population.

Higher increases may be made under certain circumstances, such as:

- increase in the scope and/or responsibility of the individual's role on either a permanent or temporary basis
- development of the individual within their role
- where an Executive Director has been appointed to the Board at a lower than typical level of salary, for example to reflect a lower level of experience, larger increases may be awarded to move them closer to the market rate as their experience develops
- where there has been a significant change in market practice, or the size and scope of BT Group plc, and
- other exceptional circumstances.

Performance measures

None

F Benefits

Purpose – to support health and wellbeing and provide employees with a market-competitive level of benefits, ensuring the attraction and retention of key talent to deliver our strategy.

Operation

Executive Directors receive benefits which typically include (but are not limited to) car benefits (which may include any of a company 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 a financial counselling allowance of up to £5,000 (excluding VAT) a year.

Where Executive Directors are required to relocate, the *Remuneration Committee* may offer one-off or ongoing relocation benefits, and additional expatriate benefits, if considered appropriate.

Expenses incurred in the performance of an Executive Director's duties for BT Group may be reimbursed (including any relevant taxes due thereon) or paid directly by BT Group, as appropriate.

BT Group plc purchases directors' and officers' liability insurance to cover the directors, and has in place a directors' and officers' indemnity. The insurance operates to protect the directors in circumstances where, by law, BT Group cannot provide the indemnity.

Further details of the directors' and officers' liability insurance and indemnity are set out on [page 132](#).

Maximum opportunity

While no maximum level of benefits is prescribed, they are generally set at an appropriate market-competitive level determined by the *Remuneration Committee*, taking into account a number of factors including:

- the jurisdiction in which the employee is based
- the level of benefits provided for other employees within the group; and
- market practice for comparable roles within appropriate pay comparators in that jurisdiction.

The *Remuneration Committee* keeps the benefit policy and benefit levels under regular review.

Performance measures

None

F Pension

Purpose – to attract and retain Executive Directors of the right calibre by providing market competitive post-retirement income, ensuring the attraction and retention of key talent to deliver our strategy.

Operation

Executive Directors currently receive a cash allowance in lieu of pension. The *Remuneration Committee* may determine that alternative pension provisions will operate. When determining pension arrangements for new appointments, the *Remuneration Committee* will give regard to:

- pension arrangements received elsewhere in the group; and
- relevant market practice including in the jurisdiction in which the Executive Director is based.

Maximum opportunity

The maximum cash allowance (or equivalent contribution to an Executive Director's pension, or combination of the two) may not exceed the equivalent level of pension contribution offered to the majority of the workforce in their local jurisdiction (currently 10% of salary in the UK).

Performance measures

None

Annual bonus

Purpose – to incentivise and reward delivery of our business plan on an annual basis.

Operation

Executive Directors are eligible for an annual bonus.

Awards are based on performance in the relevant financial year, and are not pensionable.

Up to half of any bonus earned will normally be paid in cash, with the remainder granted in the form of deferred share awards to further strengthen the alignment of management's interests with the long-term interests of shareholders. Deferred share awards will normally vest, subject to continued employment, after three years.

Both cash and deferred elements are subject to BT Group's malus and clawback provisions, which are described in more detail on [page 120](#).

Maximum opportunity

The maximum annual bonus opportunity for the Executive Directors is 200% of base salary.

Up to 25% of the maximum under each element is payable for threshold performance and 60% of the maximum is normally payable for target performance.

Performance measures

The *Remuneration Committee* sets annual bonus performance measures and targets each year, taking into account key strategic priorities and the approved budget for the year.

Measures used typically include, but are not limited to:

- financial performance measures – these are chosen carefully to ensure alignment between reward and underlying financial performance. As an example, such measures may include normalised free cash flow and EBITDA, and
- non-financial performance measures – these reflect key BT Group strategic goals. For example, such measures may include network, transformation, customer experience and other ESG goals.

Financial measures will typically account for at least 50% of the total annual bonus.

The *Remuneration Committee* ensures that targets set are appropriately stretching in the context of the corporate plan, as well as other internal and external factors, and that there is an appropriate balance between incentivising Executive Directors to meet targets, while ensuring that they do not drive unacceptable levels of risk or inappropriate behaviours.

The *Remuneration Committee* has full discretion to adjust outcomes under the annual bonus plan up or down where:

- the formulaic outcome does not reflect the underlying financial or non-financial performance of BT Group plc
- the payout level is not appropriate in the context of circumstances that were unexpected or unforeseen at the start of the year; and/or
- there exists any other reason why an adjustment to the level of bonus payout is appropriate.

Directors' Remuneration Policy continued

Executive Directors continued

■ Restricted

Share Plan (RSP)

Purpose – to provide a simple, long-term element of reward which creates alignment with our shareholders.

Operation

Executive Directors are eligible to participate in the RSP, which forms the long-term variable element of executive remuneration.

Awards are discretionary and normally vest, subject to continued employment, in three equal tranches after three, four and five years. The net number of shares vesting (i.e. after tax and other statutory deductions) under the first two tranches are subject to a further holding period until year five.

Maximum opportunity

Under normal circumstances, awards granted to Executive Directors in respect of any financial year may be no higher than 200% of salary.

Under exceptional circumstances, for example on recruitment, a higher limit of 250% of salary applies.

Performance measures

RSP awards are subject to one or more underpins over a period which is normally three financial years commencing with the year in which the awards were granted.

These underpins are designed with the protection of BT Group in mind, to ensure an acceptable threshold level of performance is achieved and that vesting is warranted. The underpins applying to each award will be determined by the *Remuneration Committee* each year, and may be a combination of financial and non-financial assessments.

If the underpins are not met, the *Remuneration Committee* may consider a reduction to the final vesting level of the RSP awards (including to nil).

Even where the underpins are met, the *Remuneration Committee* has discretion to adjust the number of shares vesting up or down where:

- the vesting outcome does not reflect the underlying financial or non-financial performance of BT Group plc
- the vesting level is not appropriate in the context of circumstances that were unexpected or unforeseen at the point the awards were granted; and/or
- there exists any other reason why an adjustment to the level of vesting of the award is appropriate.

Vested and unvested RSP awards are subject to BT Group's malus and clawback provisions, which are described in more detail on [page 120](#).

■ All-employee share plans

Purpose – to encourage wider employee share ownership.

Operation

Executive Directors may participate in any all-employee share plans operated by BT Group plc on the same basis as other eligible employees.

Maximum opportunity

All participants may participate up to the limits operated by BT Group plc at the time, which are set in line within any relevant statutory limits.

Performance measures

None

Shareholding requirement

Purpose – to ensure that Executive Directors build and hold a stake in BT Group plc, providing alignment with shareholders' interests.

Operation

Executive Directors are required to build up and maintain a shareholding equivalent to 500% of their annual salary. It is expected that this requirement is met within five years of an executive's appointment to the Board.

Shares counted towards satisfaction of the requirement include:

- beneficially-owned shares
- vested share awards subject to a holding period
- unvested Deferred Bonus Plan (DBP) awards, counted on a net-of-tax basis; and
- unvested RSP awards subject to underpins, also counted on a net-of-tax basis.

Until such time that the requirement has been satisfied, Executive Directors will not be permitted to sell any vesting incentive awards (other than to satisfy tax or other statutory liabilities on vesting, or at the discretion of the *Remuneration Committee* in exceptional circumstances).

The shareholding requirement will continue to apply for a period of two years post-cessation of employment, to the same value as the in-employment requirement (or the total number of shares held immediately prior to cessation of employment, if lower).

Maximum opportunity

N/A

Performance measures

None

Chairman and Independent Non-Executive Directors

Chair of the Board

Chair fee is a core element of remuneration, paid for fulfilling the relevant role. Set at a level to ensure that we're able to attract and retain a high-calibre individual appropriate for the role.

Operation

The Chair of the Board receives a single all-encompassing fee for their role, which is normally inclusive of any additional responsibility fees, paid monthly in cash. In exceptional circumstances additional fees may be introduced to reflect additional time commitments.

The Chair may also be eligible for certain benefits in line with those which may be offered to Executive Directors, other than any pension benefits, annual bonus or share incentives.

Expenses incurred in the performance of non-executive duties for BT Group may be reimbursed (including any relevant taxes due thereon) or paid directly by BT Group, as appropriate.

Opportunity

The fee is set at a level which is considered appropriate to attract and retain an individual of the necessary calibre.

The fee level is normally set by reference to the level of fees paid to board chairs of similarly-sized, UK-listed companies, taking into account the size, responsibility and time commitment required of the role.

The fee may be reviewed (but not necessarily increased) on an annual basis.

The current fee level can be found in the **Annual Report on Remuneration** on [page 126](#).

BT Group plc's Articles of Association limit the maximum aggregate fees payable to all independent Non-Executive Directors.

Other Independent Non-Executive Directors

Fees paid to Independent Non-Executive Directors are a core element of remuneration, paid for fulfilling the relevant role. Set at a level to ensure that we're able to attract and retain high-calibre individuals appropriate for the role.

Operation

Independent Non-Executive Directors receive a basic fee, paid monthly in cash, in respect of their Board duties.

Further fees may be paid for additional responsibilities, or additional time commitments, including but not limited to: chairing or membership of Board committees, for the role of Senior Independent Director, or for holding the role of Designated Non-Executive Director for workforce engagement.

Additional fees of up to £6,000 may also be payable to Independent Non-Executive Directors undertaking regular intercontinental travel to attend Board and committee meetings.

Independent Non-Executive Directors are not eligible for annual bonus, share incentives, pensions or other benefits.

Reasonable expenses incurred in the performance of non-executive duties for BT Group may be reimbursed (including any relevant taxes due thereon) or paid directly by BT Group, as appropriate.

Opportunity

Fees are set at a level which is considered appropriate to attract and retain Independent Non-Executive Directors of the necessary calibre.

Fee levels are normally set by reference to the level of fees paid to Independent Non-Executive Directors serving on boards of similarly-sized, UK-listed companies, taking into account the size, responsibility and time commitment required of the role.

Fees may be reviewed (but not necessarily increased) on an annual basis.

Current fee levels can be found in the **Annual Report on Remuneration** on [page 126](#).

BT Group plc's Articles of Association limit the maximum aggregate fee payable to all Independent Non-Executive Directors. The maximum is based on non-executive director fees benchmarked as at 1 April 1999 with increases linked to the Retail Price Index.

Notes to the Policy table

1 For further information on the performance measures and underpins applicable to the annual bonus and RSP see [page 126](#).

2 In the event of death, the Chief Financial Officer receives a dependent pension provision of 30% of salary (capped), as a legacy provision payable under a previous Policy.

3 Common award terms

Awards under any of BT Group plc's share plans referred to in this report may:

- incorporate the right to receive the value of dividends that would have been paid on the shares subject to an award that vests, which may be calculated assuming the shares were reinvested in shares on a cumulative basis. This value will normally be delivered in the form of additional shares, but may be paid in cash in exceptional circumstances
- be granted as conditional share awards, nil-cost options or in such other form that the *Remuneration Committee* determines has the same economic effect
- have any performance conditions applicable to them varied or substituted by the *Remuneration Committee* if an event occurs which causes the *Remuneration Committee* to determine that the performance conditions no longer achieve their original purpose, provided that the varied or substituted performance condition would not be materially less difficult to satisfy; and
- be adjusted in the event of any variation of BT Group plc's share capital or any demerger, special dividend or other event that may affect the current or future value of awards.

Directors' Remuneration Policy continued

Recruitment

Our recruitment policy is based on a number of key principles:

- we aim to provide a remuneration package which is sufficient to attract, retain and motivate key talent, while at all times ensuring that we pay no more than is necessary, with due regard to the best interests of BT Group plc and our shareholders
- the *Remuneration Committee* will take a number of factors into account in determining an appropriate remuneration package. For example, these may typically include the candidate's experience and calibre, their circumstances, external market influences and arrangements for existing Executive Directors
- the ongoing remuneration package offered to new Executive Directors will only include those elements listed within the Policy table
- the *Remuneration Committee* may also consider providing one-off or ongoing relocation benefits, as well as additional benefits to expatriate appointments, where appropriate; and
- the *Remuneration Committee* will provide full details of the recruitment package for new Executive Directors in the **Annual Report on Remuneration** and will provide shareholders with the rationale for the decisions that were taken.

The maximum level of variable pay (excluding buyouts, for which see below) which may be awarded in respect of a recruitment event (internal or external), will not exceed 450% of base salary, representing the aggregated maximum award under the annual bonus and RSP.

In addition, to facilitate recruitment, the *Remuneration Committee* may make awards to buy out remuneration or contractual entitlements which the individual would forfeit at their current employer. The *Remuneration Committee* will give consideration to any relevant factors, typically including the form of the award (e.g. cash or shares), the proportion of the performance/vesting period outstanding and the potential value of the forfeited remuneration, including performance conditions attached to the awards, the likelihood of those conditions being met, and the timing of any potential payments.

In making buyout awards, the *Remuneration Committee* may grant awards under our existing incentive arrangements or use the relevant provision in the Listing Rules. This allows for the granting of awards specifically to facilitate the recruitment of an Executive Director, without seeking prior shareholder approval. In doing so, the *Remuneration Committee* will comply with the relevant provisions in force at the time.

Where an Executive Director is appointed from within the organisation, BT Group will honour any legacy arrangements in line with their original terms and conditions.

In the event of the appointment of a new Non-Executive Director, remuneration arrangements will be in line with those detailed on [page 126](#).

Payment for loss of office

In a departure event, the *Remuneration Committee* will typically consider:

- whether any element of annual bonus should be paid for the financial year. Any bonus which is paid will normally be limited to the period served during the financial year in which the departure occurs
- whether any outstanding deferred bonus awards should be preserved either in full or in part; and
- whether any awards under the RSP or LTI scheme should be preserved either in full or in part and, if relevant, whether the post-vesting holding period should apply.

The *Remuneration Committee* has historically maintained a discretionary approach to the treatment of leavers, on the basis that the facts and circumstances of each case are unique. This provides the *Remuneration Committee* with the maximum flexibility to review the facts and circumstances of each case, allowing differentiation between good and bad leavers and avoiding payment for failure.

When considering a departure event, there are a number of factors which the *Remuneration Committee* takes into account in determining appropriate treatment for outstanding incentive awards.

These include:

- the position under the relevant plan documentation or any contractual entitlements
- the individual circumstances of the departure
- the performance of BT Group plc/the individual during the year to date; and
- the nature of the handover process.

DBP

Good leaver	Retained in full, normally vesting on their usual timeframe. In the case of death, awards are accelerated such that they vest on the date of death.
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Bad leaver	Forfeit on cessation, subject to discretion.
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RSP

Good leaver	Retained, subject to pro-ratio for portion of the three-year initial vesting period served, vesting on the normal timeframe, subject to the satisfaction of any performance conditions or underpins. The post-vesting holding period usually continues to apply as normal. On death, awards are accelerated such that they vest on the date of death. All retained awards are subject to pro-ratio for the portion of the initial three-year vesting period served, and subject to the <i>Remuneration Committee</i> 's assessment of satisfaction of any performance conditions or underpins applying, measured at or close to the date of death.
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Bad leaver	Forfeit on cessation, subject to discretion. In some cases, the treatment is formally prescribed under the rules of the relevant plan so that where there are 'good leaver' circumstances, including death, injury, ill-health, disability, redundancy or sale of BT Group plc or business.
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The *Remuneration Committee* considers the leaver circumstances along a continuum, ranging from 'bad leaver' scenarios such as termination of employment for gross misconduct or resignation, through to the 'good leaver' scenarios outlined above.

Accordingly, subject to the relevant plan rules, the *Remuneration Committee* may apply (or disapply) such performance conditions or underpins or time pro-rating to awards vesting in these circumstances as it considers appropriate.

All-employee plans

The treatment of awards under BT Group plc's all-employee plans on leaving is as determined under the respective HMRC-approved rules. For saveshare, someone who ceases to be an employee in special circumstances (for example injury, disability, death, or following sale of BT Group plc or business where they work) may exercise the option within six months after leaving (or 12 months in the case of death) or the relevant corporate event. If someone leaves for a reason not falling within special circumstances, the option lapses on the date the individual leaves.

Change of control

In the event of a takeover or scheme of arrangement involving BT Group plc, DBP and RSP awards will vest, at a minimum, to the extent that any applicable performance measures have been satisfied at the time (subject to the *Remuneration Committee's* discretion to determine the appropriate level of vesting, having regard to such relevant factors as it decides to take into account). If the acquiring company offers to exchange awards over BT Group plc shares for awards over its shares (or shares in another company), awards may, if the *Remuneration Committee* determines, be exchanged and continue under the rules of the relevant plan.

In the event of a voluntary winding up of BT Group plc, awards may vest on the members' resolution to voluntarily wind-up BT Group plc being passed.

Executive Director service contracts

The other key terms of the service contracts for the current Executive Directors are set out below. The termination provisions described above are without prejudice to BT Group's ability in appropriate circumstances to terminate in breach of the notice period referred to above, and thereby be liable for damages to the Executive Director. In the event of termination by BT Group plc, each Executive Director may have entitlement to compensation in respect of his or her statutory rights under employment protection legislation in the UK.

Where appropriate, BT Group may also meet a director's reasonable legal expenses in connection with either his or her appointment or termination. BT Group plc may, where appropriate and reasonable, cover the cost of outplacement services.

There are no other service agreements, letters of appointment or material contracts, existing or proposed, between BT Group plc and the Executive Directors.

Notice period

12 months' notice by BT Group plc, six months' notice by the Executive Director (there is no fixed expiry date).

Termination payment

- In lieu of giving an Executive Director 12 months' notice, BT Group plc may terminate the director's contract and make a payment in lieu of notice to which the director was entitled if he or she had received salary and to the extent no longer payable the value of contractual benefits for the period; and
- the payments in lieu will be payable in equal monthly instalments until the date on which the notice period would have expired or (if earlier) the date on which the director secures alternative employment with the same or higher basic salary or fee. In the event that the director secures alternative employment at a basic salary of £30,000 or higher, but lower than their salary, payment in lieu will be reduced by the amount of the new lower salary received. The Board retains the right to lower the payment in lieu of the director's new employment if it considers the new employment terms of the director are not appropriately balanced between basic salary and other elements, and may cease making payments entirely where the Board is not satisfied the director is making reasonable efforts to secure alternative employment.

Remuneration and benefits

- Participation in the annual bonus, long-term incentive and other share plans, is non-contractual.
- Other benefits which typically include (but are not limited to) car benefits (which may include any of a company 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) a year.

Illustration of Executive Director pay scenarios

Our Policy aims to ensure that a significant proportion of pay is dependent on the achievement of stretching performance targets. The *Remuneration Committee* has considered the level of total remuneration that would be payable under different performance scenarios and is satisfied that, as the graphs illustrate, executive pay is appropriate in the context of the performance required and is aligned with shareholders' interests.

The illustrative scenarios below set out the total remuneration that might be achieved by each Executive Director for different levels of performance, based on our Policy.

The minimum reflects base salary, benefits and pension only which are not performance-related.

	Fixed pay	All scenarios	Consists of total fixed pay – base salary, benefits and pension
			– Base salary – salary effective as at 1 June 2023
			– Benefits – value of benefits provided to each director in FY23
			– Pension – cash allowance effective 1 April 2023, being 10% of salary for both Executive Directors.
Variable pay	Minimum		– No payout under the annual bonus
			– No vesting under the RSP
	On target		– On-target payout under the annual bonus of 120% of salary
			– Full vesting of the RSP at 200% of salary
	Maximum		– Maximum payout under the annual bonus of 200% of salary
			– Full vesting of the RSP at 200% of salary.
	Maximum +50% share price increase		– Maximum payout under the annual bonus of 200% of salary
			– Full vesting of the RSP at 200% of salary, with a 50% share price increase applied.

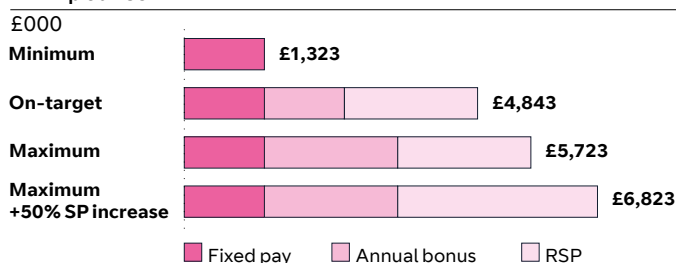
Fixed pay is calculated as follows:

£000	Salary	Benefits	Pension	Total fixed pay
Chief Executive	1,100	113	110	1,323
Chief Financial Officer	750	23	75	848

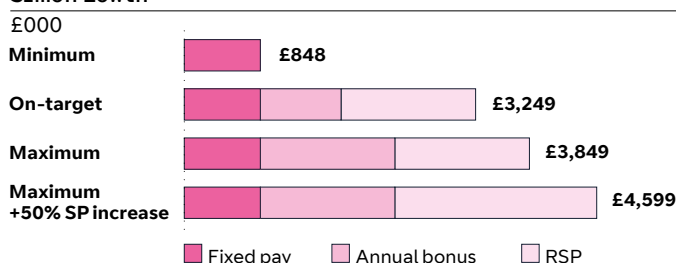
Directors' Remuneration Policy continued

RSP awards have been shown at face value, with no share price growth or discount rate assumptions, other than the fourth scenario which includes an uplift of 50% on the restricted share awards. All-employee plans have been excluded, as have any legacy awards held by Executive Directors.

Philip Jansen



Simon Lowth



Malus and clawback

Both annual bonus and long-term incentive arrangements are subject to malus and clawback. Under the malus provision, the *Remuneration Committee* may apply its discretion to reduce (including to nil) any DBP or RSP award prior to the award vesting, if circumstances arise which justify a reduction.

Under the clawback provision, the *Remuneration Committee* has discretion to require an employee to pay back to BT Group plc part or all of the cash part of the annual bonus within one year of payment. The *Remuneration Committee* also has discretion to require an employee to pay back part or all of a vested long-term incentive plan award within two years of the award or respective tranche vesting.

The circumstances in which the *Remuneration Committee* may consider it appropriate to apply clawback and/or malus include, but are not limited to those summarised below:

- behaviour by a participant which fails to reflect BT Group's governance and business values
- the extent to which any condition was satisfied was based on an error, or on inaccurate or misleading information or assumptions which resulted either directly or indirectly in an award being granted or vesting to a greater extent than would have been the case had that error not been made
- material adverse change in the financial performance of BT Group plc or any division in which the participant works and/or worked
- a material financial misstatement of BT Group plc's audited financial accounts (other than as a result of a change in accounting practice)
- any action which results in or is reasonably likely to result in reputational damage to BT Group plc
- a material failure in risk management
- corporate failure
- negligence or gross misconduct of a participant; and/or
- fraud effected by or with the knowledge of a participant.

Other elements of remuneration are not subject to malus and clawback provisions.

Consideration of remuneration arrangements throughout the group

The *Remuneration Committee* considers the pay and conditions of employees throughout BT Group when determining the remuneration arrangements for Executive Directors, and is provided with relevant information and updates by the Chief Human Resources Officer. Whilst we do not consult directly with colleagues on executive remuneration arrangements, the Committee receives regular updates from the *Colleague Board* via the Designated Non-Executive Director for workforce engagement.

Further detail on pay conditions within BT Group are provided in [Remuneration in context](#) on page 129.

Consideration of shareholder views

The *Remuneration Committee* is strongly committed to an open and transparent dialogue with shareholders on remuneration matters. We believe that it is important to meet regularly with our key shareholders to understand their views on our remuneration arrangements and discuss our approach going forward.

The *Remuneration Committee* will continue to engage with shareholders and will aim to consult on any material changes to the Policy or other relevant matters.

Summary of decision-making process and changes to the Policy

During the year, the *Remuneration Committee* undertook a review of the Policy and its implementation to ensure that the Policy supports the execution of strategy and the delivery of sustainable long-term shareholder value. Throughout the review process, the *Remuneration Committee* took into account the 2018 UK Corporate Governance Code, wider workforce remuneration and emerging best practice in relation to Executive Director remuneration, as well as input from management and its independent advisors. The *Remuneration Committee* considers that the overall remuneration framework remains appropriate to continue to incentivise management to drive long-term sustainable performance for shareholders and as such, no significant changes are proposed to the Policy.

Minor changes have been made to the wording of the Policy to aid operation and to increase clarity. The *Remuneration Committee* believes that the proposed Policy is clear and transparent and aligned with our culture and considers that it complies with Provision 40 of the 2018 UK Corporate Governance Code.

Legacy matters

The *Remuneration Committee* can make remuneration payments and payments for loss of office outside of the Policy set out above where the terms of the payment were agreed (i) before the Policy set out in this report 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 BT Group plc (or another person to whom the Policy set out above applies) and that, in the opinion of the *Remuneration Committee*, the payment was not in consideration for the individual becoming a director of BT Group plc (or taking on such other applicable position). This includes the exercise of any discretion available to the *Remuneration Committee* in connection with such payments. For these purposes, payments include the *Remuneration 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 *Remuneration 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.

Annual remuneration report

This section summarises all elements of the directors' remuneration in FY23.

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 FY23 and FY22, 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	
	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23 ^d	FY22 ^e	FY23	FY22	FY23	FY22
Chairman																
Adam Crozier	700	292	12	1			712	293							712	293
Executive Directors																
Philip Jansen	1,100	1,100	113	100	110	110	1,323	1,310	963	1,320	803	720	1,766	2,040	3,089	3,350
Simon Lowth	748	735	23	22	75	110	846	867	656	883	537	421	1,193	1,304	2,039	2,171
Non-Executive Directors																
Adel Al-Saleh ^f	0	0													0	0
Maggie Chan Jones ^g	8						8						–	–	8	0
Ian Cheshire	155	144					155	144					–	–	155	144
Iain Conn	163	162					163	162					–	–	163	162
Steven Guggenheimer ^{h,i,j}	48		15				63						–	–	63	0
Isabel Hudson ⁱ	146	145	1	1			147	146					–	–	147	146
Matthew Key ^j	150	137	1				151	137					–	–	151	137
Allison Kirkby ^j	125	124	8				133	124					–	–	133	124
Sara Weller	138	131					138	131					–	–	138	131
Sub-total	3,481	2,970	173	124	185	220	3,839	3,314	1,619	2,203	1,340	1,141	2,959	3,344	6,798	6,658
Former directors																
Leena Nair ^k	39	116					39	116							39	116
Total	3,520	3,086	173	124	185	220	3,878	3,430	1,619	2,203	1,340	1,141	2,959	3,344	6,837	6,774

- 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 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) a year. For Philip, the value includes a company provided car and personal driver to the value of c. £86,000 (FY22: £70,000).
- b Pension allowance paid in cash for the financial year – see 'Pension allowance' on [page 122](#).
- c Annual bonus shown includes both the cash and deferred share element. The deferred element of the FY23 bonus includes the value of deferred shares to be granted in June 2023. Further details of the deferred element are set out on [page 122](#).
- d Value shown represents the estimated value of the first tranche of the RSP awards granted in 2020 that will vest in full in August 2023. The estimate is based on a three-month average share price from 1 January 2023 to 31 March 2023 of 135.88p. Further details are provided on [page 122](#).
- e 19.1% of the total ISP 2019 granted in June 2019 vested in August 2022. Further details are provided on [page 125](#).
- f Adel was appointed as a director on 15 May 2020. Under the terms of the Relationship Agreement between BT Group and Deutsche Telekom and Adel's letter of appointment, no remuneration is payable for this position.
- g Maggie was appointed as a director on 1 March 2023 and the figure represents her pro-rated remuneration during the year.
- h Steven was appointed as a director on 1 October 2022 and the figure represents his pro-rated remuneration during the year.
- i Includes an additional fee for regular intercontinental travel to attend Board and Board Committee meetings in line with the Policy.
- j Value shown relates to reimbursement of reasonable travelling and other expenses (including any relevant tax) incurred in carrying out their duties.
- k Leena stepped down as a Director at the conclusion of the AGM on 14 July 2022 and the figure represents her 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. A 2% increase to Simon Lowth's salary was agreed from 1 June 2022 in line with increases for our UK senior management team, bringing Simon's salary to £750,147. Philip's salary of £1,100,000 was fixed for five years at the time of his appointment in January 2019.

Adam joined on 1 November 2021 as a Non-Executive Director and Chairman designate and became Chairman on 1 December 2021. The Committee agreed a fee of £700,000 per year on appointment. The Chairman volunteered to waive any fee increase during FY23.

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. A full breakdown of Non-Executive Director fees is set out on [page 126](#).

Annual remuneration report continued

Pension allowance

Executive Directors receive an annual cash allowance, which can be put towards the provision of retirement benefits.

Both Executive Directors received an annual allowance of 10% of salary. This is aligned with the contribution rate available to the majority of our UK employees. We also provide death in service cover consisting of a lump sum equal to four times salary, and for Simon Lowth only, 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 FY23 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 linked to our KPIs as set out on [pages 48 to 49](#).

Category	Measure	Weighting	Threshold	Target	Stretch	Actual	Payout (% of max)
Financial	Adjusted EBITDA (£m)	35%	7,747	7,947	8,247	7,848	45%
	Normalised free cash flow (£m)	35%	1,252	1,452	1,752	1,328	41%
Customer	Group NPS	10%	0	100	200	0	0%
Converged networks	5G customers (000s)	5%	7,436	8,262	9,088	8,606	77%
	FTTP connections (000s)	5%	2,617	2,908	3,199	3,124	90%
Digital impact & sustainability	Reduction in carbon emissions (%)	5%	(50)	(52)	(54)	(50)	30%
	Skills for Tomorrow (000s)	5%	600	800	1,200	920	72%
Formulaic outcome						43.7% of max (72.9% of target)	

For scorecard purposes, the EBITDA result assumes an on-target bonus payout for all colleagues. Actual post-bonus EBITDA for FY23 is £7,928m.

As part of its normal process, the Committee agreed appropriate adjustments to the EBITDA and normalised free cash flow target ranges to account for items not included in the targets at the start of the year, including the tax super-deduction and sale of BT Sport (including changes to accounting treatment). These amendments had the impact of reducing the formulaic outcome of the bonus scorecard.

The formulaic outcome under the carbon emissions metric was a 56% reduction. Strong progress was made in the year on energy efficiency and reduction in energy consumption across our estate. However, we also benefited from unforeseen events outside of management's control, or strategic decisions such as a reduction to our recruitment plans agreed part-way through the year. For scorecard purposes, the Committee removed the impact of these unforeseen events, with the underlying result in line with threshold at a 50% reduction.

When determining the 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. The Committee agreed that the formulaic outcome of 72.9% of target was a fair reflection of performance in the year and that no further adjustments were warranted.

The final bonus outturns for the Executive Directors are set out in the table below:

	Formulaic outcome	% of max	Value
Philip Jansen	72.9% of target	43.7%	£962,590
Simon Lowth	72.9% of target	43.7%	£656,440

As per the Policy, 50% of the FY23 annual bonus will be deferred into shares for three years.

2020 RSP

The RSP is a conditional share award. Two underpins applied over the initial three-year vesting period:

- ROCE is equal to or exceeds the WACC over the same period
- there must have been no ESG issues which have resulted in material reputational damage for the group.

The Committee assessed performance against the two underpins at the end of the financial year and agreed that both had been satisfied.

The Committee also considered share price performance over the vesting period and the absolute value of vesting awards. Noting that a 20% reduction to the award values was made at the point of grant, the Committee agreed that the value of the 2020 RSP awards was appropriate and that no further adjustment was required.

As a result, all three tranches of the 2020 RSP award will vest in full in August 2023, 2024 and 2025 respectively. Tranches one and two remain subject to a holding requirement until August 2025.

Awards granted during the year (audited)

2022 RSP

The 2022 RSP awards were made in June 2022 as set out below and on [page 125](#). An award of 200% of salary was made to both Executive Directors in line with the normal Policy level. The face value was based on the BT Group plc share price at the date of grant of 184.35p. The grant price is calculated using the average middle-market price of a BT Group plc share for the three dealing days prior to grant.

Director	Date of award	RSP award (shares)	Face value of award
Philip Jansen	24 June 2022	1,195,652	£2,200,000
Simon Lowth	24 June 2022	815,376	£1,500,294

These awards are conditional share awards. Two underpins apply over the initial three-year vesting period:

- 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 group.

Should one or both underpins not be met, the Committee may at its discretion reduce the number of shares vesting, including to nil.

Awards will vest in three equal tranches after three, four and five years, with an additional holding period such that no shares may be sold until year five. At vesting, additional shares representing the value of reinvested dividends on the underlying shares are added.

Malus and clawback provisions apply as set out in the Policy, and the Committee retains the ultimate discretion to adjust vesting levels to ensure alignment with our overall performance.

[Details of all interests under the RSP are set out on page 125.](#)

2022 deferred shares

In line with the Policy, 50% of the bonus awarded for FY22 was deferred into shares. The awards were made under the deferred bonus plan (DBP) in June 2022 as set out below and on [page 125](#). The face value was based on the BT Group plc share price at the date of grant of 184.35p. The grant price is calculated using the average middle-market price of a BT Group plc share for the three dealing days prior to grant.

Director	Date of award	DBP award (shares)	Face value of award
Philip Jansen	24 June 2022	358,695	£660,000
Simon Lowth	24 June 2022	239,816	£441,263

Deferred shares are not subject to performance conditions and have a three-year vesting period. At vesting, additional shares representing the value of reinvested dividends on the underlying shares are added.

Malus and clawback provisions apply as set out in the Policy, and the Committee retains the ultimate discretion to adjust vesting levels to ensure alignment with our overall performance.

[Details of all interests under the DBP are set out on page 125.](#)

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 BT Group plc over time by retaining net shares received through the executive share plans or from market purchases.

The shareholding requirement for both Executive Directors under the Policy is 500% of salary. Executive Directors are expected to meet this requirement 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 continues to apply in full for two years post-cessation of employment (or the total number of shares held at cessation, if lower). The post-cessation shareholding requirement will be calculated and expressed as a fixed number of shares by reference to the closing BT Group plc 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 which we will hold in trust until such time that they no longer need to be retained.

We encourage the Chairman and Independent Non-Executive Directors to purchase, on a voluntary basis, BT Group plc 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. They are asked to hold these shares until they cease being a member of the Board.

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.

Annual remuneration report continued

Directors' interests at 31 March 2023 or on cessation (audited)

The following tables show the beneficial interests in BT Group plc shares of directors and persons closely associated as at 31 March 2023 (or at the point of leaving for directors who left during the year).

The first table includes interests held by the Executive Directors under BT Group plc's share plans. The numbers represent the maximum possible vesting levels. Full details of all DBP and RSP awards, including restricted periods and vesting conditions, are set out on [page 125](#).

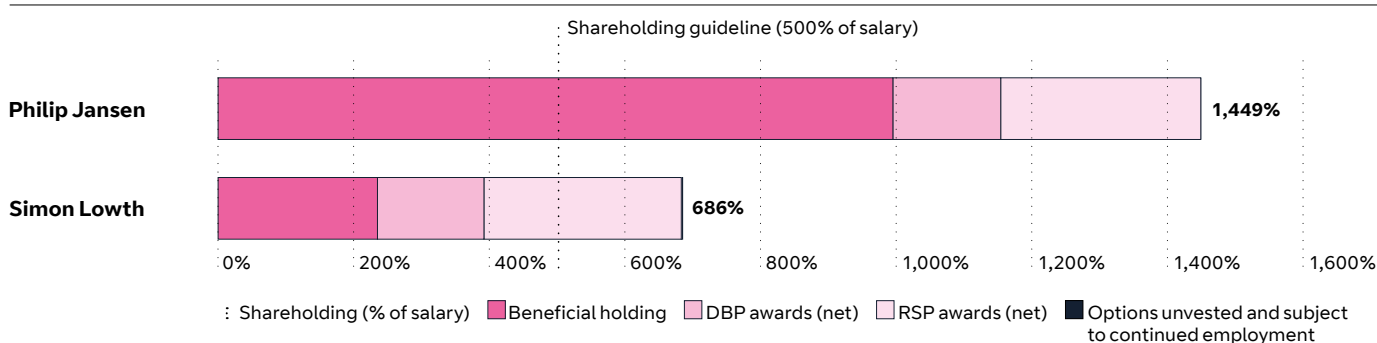
For Executive Directors we use the average BT Group plc share price over the preceding 12 months (or the share price at acquisition/vesting date if higher) to determine whether the minimum shareholding requirement has been reached.

During the period 1 April 2023 to 17 May 2023, there were no movements in directors' beneficial holdings or other interests in shares. The directors, as a group, beneficially own less than 1% of BT Group plc's shares.

Executive Directors	Number of shares owned outright at 31 March 2023	RSP and DBP ^a	Options ^b	Shareholding requirement (% of salary)	Current shareholding (% of salary)
Philip Jansen	6,412,792	3,335,872	247	500%	1,449%
Simon Lowth	924,170	2,247,211	11,222	500%	686%

a Subject to continued employment and, for the RSP, two underpins over the initial three-year period.

b Includes interests in saveshare, a HMRC-approved all-employee plan and yourshare, a HMRC-approved share incentive plan.



	Beneficial holding owned outright at 1 April 2022	Beneficial holding owned outright at 31 March 2023
Chairman		
Adam Crozier	62,500	62,500
Non-Executive Directors		
Adel Al-Saleh	0	0
Maggie Chan Jones ^a	–	0
Ian Cheshire	19,646	19,646
Iain Conn	69,442	69,442
Steven Guggenheimer ^b	–	0
Isabel Hudson	24,090	24,090
Matthew Key	161,686	161,686
Allison Kirkby	75,000	75,000
Sara Weller	37,000	37,000
Former directors		
Leena Nair ^c	50,000	50,000
Total	499,364	499,364

a Maggie was appointed as a director on 1 March 2023.

b Steven was appointed as a director on 1 October 2022.

c Leena stepped down as a Director at the conclusion of the AGM on 14 July 2022 and the number reflects her holding at that date.

Outstanding share awards at 31 March 2023 (audited)

	1 April 2022	Awarded/ granted	Dividends re-invested	Vested	Lapsed	Total number of award shares at 31 March 2023	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	65,735	–	–	65,735	–	–	01/08/2022	207.45p	160.46p	–	105
DBP 2020	1,119,999	–	62,365	–	–	1,182,364	01/08/2023	119.27p	–	–	–
DBP 2021	657,482	–	36,610	–	–	694,092	24/06/2024	203.16p	–	–	–
DBP 2022 ^a	–	358,695	19,972	–	–	378,667	24/06/2025	184.35p	–	–	–
ISP 2019 ^b	2,347,782	–	–	448,426	1,899,356	–	31/03/2022	207.45p	160.46p	–	720
RSP 2020 ^c	1,678,492	–	93,463	–	–	1,771,955	03/08/2023	106.11p	–	–	–
RSP 2021 ^d	1,095,804	–	61,017	–	–	1,156,821	24/06/2024	203.16p	–	–	–
RSP 2022 ^e	–	1,195,652	66,578	–	–	1,262,230	24/06/2025	184.35p	–	–	–
yourshare 2021 ^f	247	–	–	–	–	247	24/06/2024	202.70p	–	–	–
Simon Lowth											
DBP 2019	174,578	–	–	174,578	–	–	01/08/2022	207.45p	160.46p	–	280
DBP 2020	763,785	–	42,529	–	–	806,314	01/08/2023	119.27p	–	–	–
DBP 2021	439,579	–	24,476	–	–	464,055	24/06/2024	203.16p	–	–	–
DBP 2022 ^a	–	239,816	13,353	–	–	253,169	24/06/2025	184.35p	–	–	–
ISP 2019 ^b	1,373,469	–	–	262,333	1,111,136	–	31/03/2022	207.45p	160.46p	–	421
RSP 2020 ^c	1,122,206	–	62,488	–	–	1,184,694	03/08/2023	106.11p	–	–	–
RSP 2021 ^d	732,632	–	40,794	–	–	773,426	24/06/2024	203.16p	–	–	–
RSP 2022 ^e	–	815,376	45,402	–	–	860,778	24/06/2025	184.35p	–	–	–
saveshare (2019) ^g	10,975	–	–	–	–	10,975	01/08/2024	163.92p	–	–	–
yourshare 2021 ^f	247	–	–	–	–	247	24/06/2024	202.70p	–	–	–

- a Awards granted on 24 June 2022. The number of shares subject to awards was calculated using the average middle-market price of a BT Group plc share for the three days prior to grant.
- b Awards granted on 19 June 2019. The number of shares subject to award was calculated using the average middle-market price of a BT Group plc share for the three dealing days prior to grant. 40% of each award was linked to TSR compared with a group of 16 companies, 40% was linked to a three-year normalised free cash flow measures and 20% to a measure of underlying revenue growth (including transit) over three years. The award vested at 19.1% in August 2022 as disclosed in last year's remuneration report.
- c Awards granted on 3 August 2020. The number of shares subject to awards was calculated using the average middle market price of a BT Group plc share for the three dealing days prior to grant. 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 122](#). The Committee assessed performance against the two underpins at the end of the financial year and agreed that both had been satisfied. As a result, all three tranches of the 2020 RSP award will vest in full in August 2023, 2024 and 2025 respectively. Tranches one and two remain subject to a holding requirement until August 2025.
- d Awards granted on 24 June 2021. The number of shares subject to awards was calculated using the average middle market price of a BT Group plc share for the three dealing days prior to grant. 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 122](#).
- e Awards granted on 24 June 2022. The number of shares subject to awards was calculated using the average middle market price of a BT Group plc share for the three dealing days prior to grant. 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 122](#).
- f Awards granted on 24 June 2021 under the free share element of the BT Group plc Employee Share Investment Plan in which all eligible employees of the group were granted £500 worth of shares.
- g Option granted on 14 June 2019 under the employee saveshare scheme, in which all eligible employees of the group are entitled to participate.

Annual remuneration report continued

Implementation of Policy in FY24

Base salary

Philip's base salary of £1,100,000 was agreed on appointment in January 2019 and is fixed for five years. Philip has also volunteered to waive any salary increases beyond FY24.

Our annual salary review for the UK management population will take place in September rather than June. As such, any change in base salary for Simon will be considered at that time and reported in the 2024 Report on directors' remuneration.

Benefits

For Executive Directors, the Committee has set benefits in line with the Policy. No changes are proposed to the benefit framework for FY24.

Pension allowance

In line with the rate offered to the majority of our UK workforce, both Executive Directors receive an annual allowance equal to 10% of salary in lieu of pension provision.

Annual bonus

Both Executive Directors are eligible for an on-target and maximum bonus payment of 120% and 200% of salary. In line with 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. As set out on [page 110](#) we're proposing a simplified annual bonus scorecard for FY24 with an improved focus customer and diversity and inclusion metrics.

The FY24 annual bonus structure measures and weightings are set out below.

Category	Measure	Weighting
Financial	Adjusted EBITDA	35%
	Normalised free cash flow	35%
Transformation scorecard	NPS	20%
	Diversity & inclusion	10%

All of the annual bonus measures are linked to our KPIs as set out on [pages 48 to 49](#).

In addition to the annual bonus scorecard, a health and safety underpin applies which allows the Committee to exercise its discretion to reduce the annual bonus pay-out result if there is a significant breach in health and safety.

We do not publish details of the targets in advance as these are commercially confidential. Targets will be disclosed in full in the 2024 Report on directors' remuneration.

RSP

Given the annual salary review will take place in September rather than June, the annual grant of RSP awards will also be deferred to that time. Our normal Policy grant level for Executive Directors is 200% of salary. The Committee will consider the actual grant value for the 2023 awards nearer the time of grant, taking into account the share price at the time. If the share price is materially lower than the share price used to determine the 2022 awards, the Committee will consider whether it is appropriate to reduce awards to mitigate the risk of windfall gains.

The Committee has agreed the following two underpins for the 2023 RSP awards which will be measured over the initial three-year vesting period:

- Average ROCE must be at least 7%
- The business must have made sufficient progress over the vesting period towards meeting our sustainability commitments (which could include carbon emissions, carbon abatement and circularity).

Awards will vest in three equal tranches after three, four and five years, with an additional holding period such that no shares may be sold until year five. At vesting, additional shares representing the value of reinvested dividends on the underlying shares are added.

Malus and clawback provisions and overarching Committee discretion applies, as set out in the Policy.

Chairman and Non-Executive Director remuneration

The base fee for Non-Executive Directors is unchanged for FY24 at £78,540 per year. The Chairman receives a single all-inclusive fee for his role. No increase has been awarded for FY24 and this will remain at £700,000.

There are additional fees for membership and chairing a Board committee, details of which are set out in the table below. The fees are unchanged versus the prior year:

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
National Security and Investigatory Powers	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.

Other fees payable include:

- an additional fee of £27,000 per annum to the Senior Independent Non-Executive Director
- an additional fee of £10,000 per annum to the Designated Non-Executive Director for workforce engagement
- an additional fee of £20,000 per annum to the Director appointed to the joint venture between BT Group and Warner Bros. Discovery.

No element of Non-Executive Director remuneration is performance-related. Neither the Chairman nor the Non-Executive Directors participate in our bonus or employee share plans and nor are they members of any of the group pension schemes.

Other remuneration matters

Advisers

During the year, the Committee received independent advice on executive remuneration matters from Deloitte LLP. The Committee is satisfied that the advice provided by Deloitte has been objective and independent. The Deloitte partner who provides remuneration advice to the Committee does not have any connections with BT Group plc that may impact their independence. Deloitte received £147,415 (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 its consideration of matters relating to executive remuneration and the 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 FY23, Deloitte provided the group with advice on corporate and indirect taxes, assistance with regulatory, risk and compliance issues, accounting advice, help with delivering on the making finance better transformation 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 2023, shares equivalent to 3.03% (FY22: 4.16%) 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 FY24, shares equivalent to approximately 0.87% (FY23: 0.53%) of the issued share capital (excluding treasury shares) will be required to satisfy the all-employee share plans.

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
Report on directors' remuneration at the 14 July 2022 AGM	93.58	6.42	
Policy at the 16 July 2020 AGM	6,408,190,533	439,625,354	58,845,040
	95.04	4.96	
	6,036,920,089	315,057,559	4,101,574

Withheld votes are not counted when calculating voting outcomes.

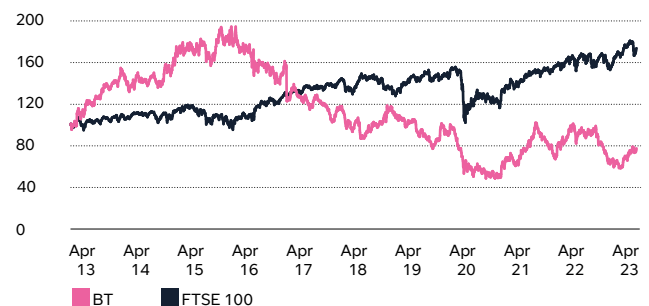
Committee evaluation FY23

This year we undertook an internal Board and committee evaluation, details of which can be found on page 96.

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 Group plc has been a member of the FTSE 100 throughout the ten-year period.

BT Group plc's TSR performance vs the FTSE 100



Source: Datastream.

History of Chief Executive remuneration

Year end	Chief Executive	Total remuneration £000	Annual bonus (% of max)	ISP/ RSP vesting (% of max)
2023	Philip Jansen	3,089	43.7%	100%
2022	Philip Jansen	3,460	60%	19.1%
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%

- a Philip was appointed as a director on 1 January 2019 and became Chief Executive from 1 February 2019. His first ISP award was granted 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:

Executive Directors		
	Commencement date	Termination provisions
Philip Jansen	1 January 2019	Directors' service agreements do not contain fixed term periods and are terminable by BT Group plc on 12 months' notice and by the director on six months' notice.
Simon Lowth	6 July 2016	
Chairman and Independent Non-Executive Directors		
	Commencement date	Termination provisions
Adam Crozier	1 November 2021	The letter of appointment does not contain a fixed term period and is terminable by BT Group plc on 12 months' notice and by the director on six months' notice.
Maggie Chan Jones	1 March 2023	Letters of appointment do not contain fixed term periods and are terminable by either party by three months' written notice.
Ian Cheshire	16 March 2020	
Iain Conn	1 June 2014	
Steven Guggenheimer	1 October 2022	
Isabel Hudson	1 November 2014	
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 Group plc and Deutsche Telekom. The appointment is terminable immediately by either party.

As announced on 2 February 2023, Ruth Cairnie joined the Board as an Independent Non-Executive Director on 6 April 2023. In addition, Ian Cheshire and Iain Conn will step down from the Board at the conclusion of the AGM on 13 July 2023.

There are no other service agreements, letters of appointment or material contracts, existing or proposed, between BT Group plc 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.

Independent 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 BT Group plc's registered office.

Remuneration in context

Consideration of colleague and stakeholder views

Our colleagues are vital to our business and 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, using a consistent framework for our senior management team 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, a strong commitment to diversity and inclusion and wellbeing.

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 2023, as well as those reported in respect of the prior four 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 UK 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 and in 2022 due to the partial vesting of the 2019 ISP award, while a lower ratio was exhibited in FY23 due to a reduced bonus pay-out. 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

	Chief Executive	Employee remuneration			Pay ratio		
		P25	P50	P75	P25	P50	P75
2019	£2,444,000	£34,281	£41,477	£51,594	71:1	59:1	47:1
2020	£3,248,000	£34,881	£42,173	£51,351	93:1	77:1	63:1
2021	£2,628,000	£35,569	£41,600	£50,391	74:1	63:1	52:1
2022	£3,350,000	£35,722	£40,059	£49,488	94:1	84:1	68:1
2023	£3,089,000	£36,960	£40,095	£50,999	84:1	77:1	61:1

Base salary

	Chief Executive	Employee remuneration			Pay ratio		
		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
2022	£1,100,000	£31,637	£35,017	£43,908	35:1	31:1	25:1
2023	£1,100,000	£33,144	£35,948	£44,986	33:1	31:1	24:1

The P25, P50 and P75 employees were identified from our 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.

Percentage change in remuneration of the Executive and Non-Executive Directors and all employees

BT Group plc, our parent company, employs our Chairman, Executive and Non-Executive Directors 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 22,000 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.

	FY23 (% change)			FY22 (% change)			FY21 (% change)		
	Salary/fees	Benefits	Annual bonus	Salary/fees	Benefits	Annual bonus	Salary/fees	Benefits	Annual bonus
Chairman									
Adam Crozier	0%	1,100%	–	–	–	–	–	–	–
Executive Directors									
Philip Jansen	0%	13%	(27)%	0%	2%	0%	0%	(14)%	0%
Simon Lowth	2%	5%	(26)%	0%	(4)%	0%	0%	(5)%	(2)%
Non-Executive Directors									
Adel Al-Saleh ^a	–	–	–	–	–	–	–	–	–
Maggie Chan Jones ^b	–	–	–	–	–	–	–	–	–
Ian Cheshire	8%	–	–	8%	0%	–	19%	–	–
Iain Conn	1%	–	–	0%	0%	–	33%	–	–
Steve Guggenheimer ^b	–	–	–	–	–	–	–	–	–
Isabel Hudson	1%	0%	–	0%	0%	–	4%	(66)%	–
Matthew Key	9%	100%	–	2%	0%	–	13%	–	–
Allison Kirkby	1%	100%	–	0%	0%	–	6%	–	–
Leena Nair ^c	0%	–	–	0%	0%	–	3%	–	–
Sara Weller	5%	–	–	0%	0%	–	–	–	–
UK management colleagues									
	3%	0%	(25)%	0%	0%	0%	0%	0%	18%

a Under the terms of the Relationship Agreement between BT Group plc and Deutsche Telekom and Adel's letter of appointment, no remuneration is payable for this position.

b The director joined during FY23 and so no relevant comparison can be presented.

c Leena left during the year and the reduction reflects the pro-rated remuneration.

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	FY23 (£m)	FY22 (£m)	% change
Remuneration paid to all employees	4,952	4,845	2%
Dividends/share buybacks ^a	940	437	115%

a Includes share purchases by the Trust as set out in note 21 to the consolidated financial statements.

Diversity and inclusion

Embracing diversity, inclusion, accessibility and equality is core to our people strategy and critical to our growth. Our Diversity and Inclusion Strategy is a programmatic, evidence-based approach to help us understand and remove bias and other cognitive barriers from policies, processes, systems and decision-making.

It supports our aim to build the strongest foundations by making sure we apply an inclusion lens to everything we do and by promoting a culture where colleagues can thrive.

📖 [More details on our Diversity and Inclusion Strategy can be found on page 33.](#)

Gender pay gap reporting

At a group-level, our median hourly pay gap between male and female colleagues has decreased to 6.1% (6.7% in 2021). This remains favourably below the high-tech industry median of 11.9%, and the UK national median of 14.9% (ONS provisional).

📄 [Our Gender Pay Gap statement sets out the key information required under legislation and is available on our website \[bt.com/genderpaygap\]\(https://bt.com/genderpaygap\)](#)

Sir Ian Cheshire
Chair of the Remuneration Committee
17 May 2023

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

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

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

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

Under applicable law and regulations, the directors are also responsible for preparing an annual strategic report, directors' report, report on directors' remuneration 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 BT Group 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, to the best of our knowledge that:

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

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

This responsibility statement was approved by the Board on 17 May 2023 and was 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 2023. The Report of the directors also encompasses the entirety of our Corporate governance report on [pages 83 to 136](#) 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 82](#) form the Management Report for the basis of DTR 4.1.5R.

In accordance with DTR 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

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 156 and 157](#) of the consolidated financial statements. The directors have reviewed these policies and applicable estimation techniques and have confirmed that they are appropriate for the preparation of the FY23 consolidated financial statements.

Disclosure of information to the auditor

As far as each of the directors is aware, there is no relevant audit information (as defined by section 418(3) of the 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 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 82](#) 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 50 to 57](#) includes information on our group financial results, financial outlook, cash flow and net debt, and balance sheet position. Notes 24, 26, 27 and 29 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 63 to 70](#) including details of each risk and how we manage them. The directors carried out a robust assessment of the 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 [pages 81 to 82](#), in estimating the financial impact for a severe but plausible outcome for each risk, both individually and in combination through stochastic risk modelling. This stress testing confirmed that existing projected cash flows and cash management activities provide us with adequate headroom over the going concern assessment period.

Having assessed the principal and emerging risks, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements. This assessment covers the period to May 2024, which is consistent with 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 principal risks (including severe but plausible downsides, refer to the **Viability statement** on [pages 81 to 82](#)).

At 31 March 2023, the group had cash and cash equivalents of £0.4bn and current asset investments, of £3.5bn. The group also had access to committed borrowing facilities of £2.1bn. These facilities were undrawn at the period-end and are not subject to renewal until March 2027.

Independent advice

The Board has a procedure that allows directors to seek independent professional advice at our 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

We routinely buy 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 the group's request. The insurance protects the directors and officers directly in circumstances where, by law, BT Group plc cannot provide an indemnity. It also provides the group, subject to a retention, with cover against the cost of indemnifying a director or officer. One layer of insurance is ring-fenced for the directors of BT Group plc.

As at 17 May 2023, and throughout FY23, BT Group plc'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 BT Group plc's Articles of Association, and to the extent permitted by law, the group indemnifies each of its directors and other officers against certain liabilities that may be incurred as a result of their positions within the group. The indemnity was in force throughout the tenure of each director during the last financial year, and remains in force.

Interest of management in certain transactions

During and at the end of FY23, none of BT Group plc'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 group. BT Group plc's Articles of Association include provisions for dealing with directors' conflicts of interest in accordance with the 2006 Act. The group 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 Group plc 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 Group plc 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 for 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 from 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 is simple and consistent, and defines our (1) risk mindset and culture, (2) risk process and activities; and finally (3) governance. The framework:

- provides the business with the tools to take on the right risks and make smart risk decisions
- supports the identification, assessment and management of the principal risks and uncertainties faced by the group
- is an integral part of BT Group's annual strategic review cycle.

The framework was designed in accordance with the FRC guidance on risk management, internal control and related financial and business reporting and has been in operation throughout the year and up to the date on which this document was approved. The framework was reviewed in FY23 and was deemed effective. Enhancements were made to simplify and standardise the group-wide policies and key controls to ensure all our enduring risks are managed consistently and effectively across our business, driving accountability, and enabling targeted assurance activities.

More information on our group risk management framework can be found under the section **Risk management** on [pages 61 to 62](#).

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 group 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 101 to 105](#).

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 our pension schemes and meeting our distribution policy.

The Board regularly reviews the group's capital structure. Management proposes actions and produces analyses 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 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, financial market conditions as well as forecast cash flows.

See [note 29](#) 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 29](#) 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, group treasury 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 32](#) 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.

We use a supply chain financing programme with a limited number of suppliers with short payment terms to extend them a more typical payment term. More details are disclosed in [note 18](#) to the consolidated **financial statements**.

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 to, please see [note 19](#) to the consolidated **financial statements**.

Apart from the information disclosed in [note 19](#) 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 19](#), 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)	50
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 Group plc shares it holds for satisfying awards under the group's executive share plans.

Under the rules of these share plans, the dividends are reinvested in BT Group plc 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 82
Particulars of any important events affecting BT Group or any of its subsidiary undertakings which have occurred since the end of the financial year	n/a
Research and development activities	13
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	23, 41 and 92 to 93
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	24 to 27, 40 to 45 and 94 to 95
Greenhouse gas emissions, energy consumption and energy efficiency action	39, 72 and 80
Structure of BT Group plc's share capital (including the rights and obligations attaching to the shares)	153

Section information

Page

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	228 to 232

The following disclosures are not covered elsewhere in this Annual Report:

- BT Group has two employee share ownership trusts that hold BT Group plc 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, 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. The trustee does not have to accept or reject the offer but will have regard to the interests of the participants, may consult with the participants to obtain their views on the offer, and may otherwise take any action with respect to the offer that it thinks is fair
- EasyShare is the group's corporate sponsored nominee service, which allows UK and European Economic Area resident shareholders to hold BT Group plc shares electronically. EasyShare is administered by Equiniti Financial Services Limited. As at 17 May 2023, 390m shares were held in EasyShare (3.91% of the issued share capital (3.93% excluding treasury shares)) on behalf of BT Group plc shareholders
- no person holds securities carrying special rights with regard to control of the group
- our share registrar, Equiniti, must receive proxy appointment and voting instructions not less than 48 hours before any general meeting (see also [page 136](#))
- the business of BT Group is managed by the Board. The directors may exercise all the powers of BT Group plc, subject to the Articles of Association, legislation and regulation. This includes the ability to exercise the authority to allot or purchase BT Group plc shares pursuant to shareholders passing an ordinary resolution at the Annual General Meeting (AGM)
- 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're not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights.

Articles of Association

BT Group plc's current Articles of Association were adopted pursuant to a resolution passed at the AGM of BT Group plc held on 15 July 2021 and contain, amongst others, provisions on the rights and obligations attaching to BT Group plc'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.

[A copy of the current Articles of Association is available at bt.com/articles](https://www.bt.com/articles)

Directors' appointment, retirement and removal

The 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 Group plc and Deutsche Telekom. His 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 BT Group plc 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

If the share capital of BT Group plc were to be split into different classes of shares by special resolution, 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. BT Group plc 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. BT Group plc currently has one class of shares.

Transfer of shares

There is no specific restriction on the transfer of BT Group plc shares in the group, which is governed by the Articles of Association and prevailing legislation.

Political donations

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

The authority for political donations requested at the 2023 AGM is not intended to change this policy. It does, 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 FY23, BT Group plc's wholly owned subsidiary, British Telecommunications plc, paid the costs of attending events at (i) the Labour party conference; (ii) the Conservative party conference; and (iii) the Liberal Democrats Business day. These costs totalled £5,848 (FY22: £6,205). No company in the BT Group made any loans to any political party.

Substantial shareholdings

As at 31 March 2023, BT Group plc had received notice, under the DTRs, in respect of the following holdings of 3% or more of the voting rights in its issued ordinary share capital:

	Date of notification	Shares	% of total voting rights
Altice UK S.à r.l.	13 December 2021	1,785,476,188	18.0%
T-Mobile Holdings	23 March 2018	1,196,175,322	12.06%
BlackRock, Inc.	1 June 2022	584,662,245	5.88%

As at 17 May 2023, BT Group had not received any further such notices under the DTRs.

Colleague engagement

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

Engaging with our colleagues takes many forms, including through:

- the Board receiving regular updates from the Chief Executive and Chief Human Resources Officer on colleagues, key people strategy initiatives, culture and overall sentiment in the organisation
- the *Colleague Board*, our workforce engagement mechanism
- the annual Your Say colleague engagement survey
- 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 results and trading updates. We work with our highly active, engaged and award-winning People Networks. These colleague-driven groups raise awareness and advocate for change both inside and outside BT Group.

Colleague engagement is still above the external benchmark of 70% but went down six points in this year's Your Say survey. This was driven by the cost of living crisis and industrial action.

We encourage all of our colleagues to become shareholders in the business through the operation of all-employee share plans. We annually consider which all-employee plans to offer, both in the UK and globally.

Report of the directors continued

Employees with disabilities

We're an inclusive employer and actively encourage the recruitment, development, promotion and retention of disabled people.

Purple Goat is one of the UK's only communications agencies run by disabled people. During the year we partnered with them to deliver a series of videos highlighting the experiences of colleagues with a range of disabilities – from diabetes and visual and hearing impairments to autism.

We're a member of Valuable 500, a global business collective made up of 500 CEOs and their companies that are committed to disability inclusion. At the disability summit held December 2022, we renewed our commitment to three priorities: Workplace adjustment; Disability advocacy; and Career progression of our junior managers.

These priorities support our Valuable 500 commitment: To accelerate the pace of progress we're making for disabled and neurodiverse colleagues, and those that have an impairment, or a long-term health condition. We renewed our status as a Disability Confident Leader and continue to work with several teams across the business, our Able2 People Network and external partner the Business Disability Forum.

 [Read more on diversity and inclusion at bt.com/diversity-and-inclusion](https://www.bt.com/diversity-and-inclusion)

AGM

Resolutions

At the 2023 AGM, shareholders will be asked to vote on all resolutions including the Annual Report, the **Report on directors' remuneration**, the directors' remuneration policy, the election/re-election of directors, the reappointment of KPMG LLP as our external auditor and to authorise the *Audit & Risk Committee* to agree its remuneration, giving authority to the directors to allot BT Group plc shares and disapply pre-emption rights.

Before the AGM, our share registrar, Equiniti, will count the proxy votes for and against each resolution, as well as votes withheld. We will make the results available as soon as reasonably practicable following the conclusion of the meeting. As at previous AGMs, we will take votes on all matters at the 2023 AGM on a poll.

The separate Notice of meeting 2023, 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 2023 AGM on 13 July 2023. We notify all shareholders of the publication of these documents which are available on our website at [bt.com/annualreport](https://www.bt.com/annualreport)

Authority to purchase shares

The authority given at the 2022 AGM for BT Group plc to purchase in the market 992m of its shares, representing 10% of BT Group plc's issued share capital (excluding treasury shares), expires at the conclusion of the 2023 AGM. We will ask shareholders to give a similar authority at the 2023 AGM.

During FY23 and up to 17 May 2023, no shares were purchased under this authority.

At the start of the year, 41.5m shares (having a total nominal value of £2m, and constituting 0.4% of the issued share capital (0.4% excluding treasury shares)) were held as treasury shares. During FY23, 5.2m treasury shares (having a nominal value of £262,000, and constituting 0.05% of the issued share capital (0.05% excluding treasury shares)) were transferred to meet BT Group plc's obligations under its employee share plans. At 31 March 2023, a total of 36.1m shares (having a total nominal value of £1.8m, and constituting 0.36% of the issued share capital (0.36% excluding treasury shares)) were held as treasury shares (see [note 21](#) to the consolidated **financial statements**).

Since 31 March 2023 (up to and including 17 May 2023), 554,286 treasury shares (having a nominal value of £27,700, and constituting 0.005% of the issued share capital (0.005% excluding treasury shares)) have been transferred to meet BT Group plc's obligations under its employee share plans.

At 17 May 2023, a total of 35.6m shares (having a nominal value of £1.8m, and constituting 0.36% of the issued share capital (0.36% excluding treasury shares)) were held as treasury shares.

In addition, during FY23 and up to 17 May 2023 the Trust purchased 48.1m BT Group plc shares for a total consideration of £88m. The Trust held 138.8m shares both at 31 March 2023 and 17 May 2023.

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**):

- the final dividend proposed by the Board ([page 51](#))
- an indication of likely future developments in the business of BT Group plc and its group ([pages 1 to 82](#))
- an indication of our research and development activities ([page 13](#))
- information about how the directors engaged with UK employees, had regard to UK employee interests, and the effect of that regard, including on principal decisions during the year ([pages 23, 41 and 92 to 93](#))
- 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 24 to 27, 40 to 45 and 94 to 95](#))
- information about greenhouse gas emissions, energy consumption and energy efficiency action ([pages 39, 72 and 80](#)).

By order of the Board

Sabine Chalmers

Group General Counsel, Company Secretary
& Director Regulatory Affairs
17 May 2023


Financial statements

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Look out for these throughout the report

 [Significant accounting policies](#)

 [Critical & key accounting estimates and significant judgements](#)

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

1. Our opinion is unmodified

In our opinion:

- the financial statements of BT Group plc give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2023, and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What our opinion covers

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion and matters included in this report are consistent with those discussed and included in our reporting to the Audit and Risk Committee ("ARC").

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities.

2. Overview of our audit

Audit and Risk Committee interaction

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

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

Our independence

We have fulfilled our ethical responsibilities and remain independent of the Group in accordance with UK ethical requirements, including the FRC Ethical Standard as applied to listed public interest entities.

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

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

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

We were first appointed as auditor by the shareholders for the year ended 31 March 2019. The period of total uninterrupted engagement is for the 5 financial years ended 31 March 2023.

The Group engagement partner is required to rotate every 5 years. As this is the fifth year of John Luke's involvement in the Group audit, he will be required to rotate off after the FY23 audit. The Audit and Risk Committee has confirmed Jon Mills as his successor.

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

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

Materiality

(Item 6 below)

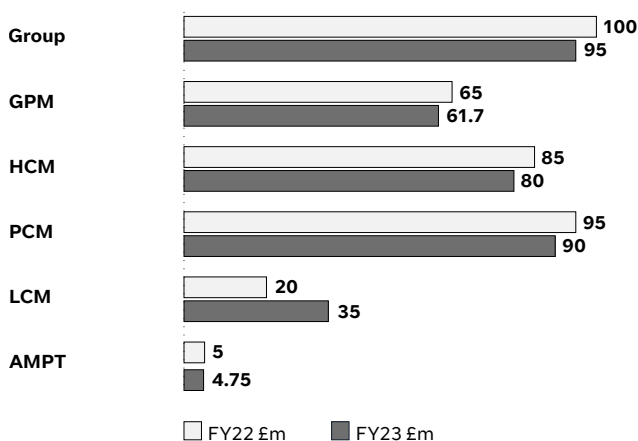
The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

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

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

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

Materiality levels used in our audit



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

Group scope
(Item 7 below)

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

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

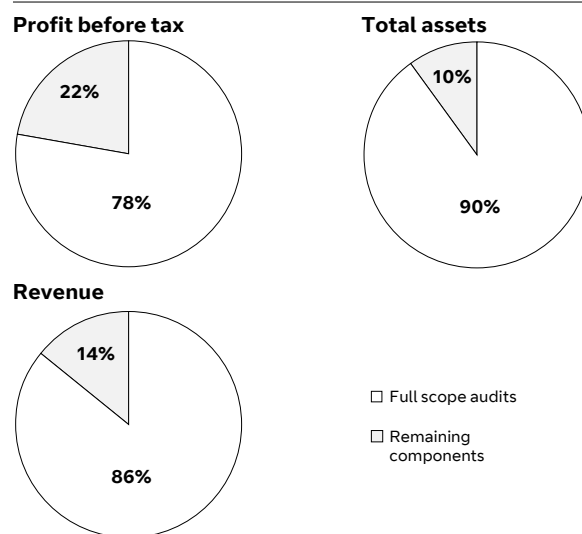
- Reduction in the size and complexity of the underlying operations of the business, which is partly attributable to the recent divestment activities in the BT Italy and BT America components
- Audit evidence obtained from procedures performed in the prior year shows both components have a reducing risk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

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

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

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

Coverage of Group financial statements



The impact of climate change on our audit

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

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

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

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

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

3. Going concern, viability and principal risks and uncertainties

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Going concern

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The impact of rising energy prices, supply shortages, and inflationary pressures;
- The impact of significant supply chain disruptions driven by geo-political factors;
- The impact of plans to deliver new initiatives required to meet savings commitments not being mobilised and executed;
- The impact of an increased level of financial market volatility and deterioration of BT's covenant triggers on the funding obligation of the BT Pension Scheme;
- The likelihood of existing legal matters/claims crystallising within the going concern period.

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

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

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

Accordingly, based on those procedures, we found the Directors' use of the going concern basis of accounting without any material uncertainty for the Group and Parent Company to be acceptable. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Parent Company will continue in operation.

Our conclusions

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the Group and Parent Company's financial statements is appropriate;
- We have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Parent Company's ability to continue as a going concern for the going concern period;
- We have nothing material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements

on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Parent Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and

- The related statement under the Listing Rules set out on [page 132](#) is materially consistent with the financial statements and our audit knowledge.

Disclosures of emerging and principal risks and longer-term viability

Our responsibility

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

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

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

We are also required to review the Viability statement set out on [page 81](#) under the Listing Rules.

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

Our reporting

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

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

4. Key audit matters

What we mean

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

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

We include below the Key Audit Matters (KAM) in decreasing order of audit significance together with our key audit procedures

to address those matters and our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, for the purpose of our audit of the financial statements as a whole. We do not provide a separate opinion on these matters.

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

At the date of disposal

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

Our assessment of risk vs FY22

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

Our results

FY23: Acceptable

FY22: N/A

Description of the Key Audit Matter

Accounting Judgement and Subjective Valuation

BT have classified the Sports JV (“JV”) as a joint venture and have therefore deconsolidated BT Sport from the group as described in note 25.

Assessment of joint control

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

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

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

The valuation of BT’s equity interest in the JV as described in note 23. A change in the methodology applied or a small change in key assumptions around forecast cashflows, exit multiple or discount rate can significantly impact the valuation.

The valuation of the off-market element of the wholesale distribution minimum guarantee contract between BT and the JV. A small change in the assumption of market price or market minimum volume commitment can significantly impact the valuation as described in note 23.

Overall assessment

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

The effect of these matters is that, as part of our risk assessment, we determined that the profit on disposal has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 23) disclose the sensitivity estimated by the Group.

Our response to the risk

Our procedures to address the risk included:

Assessment of joint control

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

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

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

Valuation of BT’s equity interest in the JV

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

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

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

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

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

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

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

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

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

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

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

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

Overall assessment

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

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

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

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

Communications with BT Group plc's Audit and Risk Committee

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

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

Areas of particular auditor judgement

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

- A number of factors formed part of the control assessment. Taken individually these factors could result in a different outcome, so significant judgement was required to assess the different factors, before weighting them and reaching an overall conclusion.
- The appropriateness of the valuation of BT's equity interest in the Joint Venture, particularly the selection of comparable market data inputs and valuation model. The balance is sensitive to a number of assumptions and the overall estimate could fall within a range of reasonable amounts.
- The appropriateness of the valuation of the off-market element of the minimum guarantee contract with the JV given the limited number of market based valuation points. Having found the estimate of the off-market element of the minimum guarantee contract with the JV to be at the high end of the range we consider

to be acceptable, we exercised judgement to determine the acceptability of the amount recognised, taking into account the clarity of the associated disclosure and potential for management bias due to the impact on future reported underlying profit.

Our results

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

Further information in the Annual Report and Accounts

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

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

Financial Statement Elements

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

Our assessment of risk vs FY22

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

FY23: Acceptable

FY22: Acceptable

Description of the Key Audit Matter

Subjective Valuation

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

Significant judgement is required to determine the value of a portion of these unquoted investments, which are valued based on inputs that are not directly observable. BT engage valuation experts to value these assets.

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

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of unquoted plan assets in the BTPS has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

The financial statements (note 20) disclose as part of sensitivities of growth assets the key sensitivities of key assumptions for the valuation of unquoted plan assets.

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

Our response to the risk

Our procedures to address the risk included:

Assessing valuers' credentials: Evaluating the scope, competencies and objectivity of the Group's external experts who assisted in determining the key unobservable inputs and market indices listed above.

Benchmarking assumptions: Challenging, with the support of our own valuation specialists, the key unobservable inputs, such as estimated rental value and market value, used in determining the fair value of a sample of UK and overseas property assets, and discount rates used in determining the mature infrastructure and certain secure income assets by comparing them to discount rates for comparable external assets.

Comparing valuations: Developing, with the support of our own valuation specialists, an independent expectation of the fair value for a sample of UK and overseas property based on changes in valuation for the relevant geography and asset type obtained from external market data and the historical valuation for each property. Challenging, with the support of our own actuarial specialists, the fair value of the longevity insurance contract by comparing it to an independently developed range of fair values using assumptions, such as the discount rate and projected future mortality, based on external data.

Test of details: Comparing the Group's fund managers' historical estimated net asset values to the latest audited financial statements of those funds to assess the Group's ability to accurately estimate the fair value of private equity and non-core credit assets.

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

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

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

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

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

Areas of particular auditor judgement

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

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

Our results

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

Further information in the Annual Report and Accounts

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

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

Financial Statement Elements

	FY23	FY22
BTPS Obligation	£41.6bn	£54.3bn

Our assessment of risk vs FY22

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

FY23: Acceptable

FY22: Acceptable

Description of the Key Audit Matter

Subjective Valuation

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

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

The effect of these matters is that, as part of our risk assessment, we determined the valuation of the BTPS defined benefit obligation had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 20) disclose the sensitivity of key assumptions for the obligation estimated by the Group.

Our response to the risk

Our procedures to address the risk included:

Evaluation of management's expert: Evaluating the scope, competency and objectivity of the Group's external experts who assisted in determining the actuarial assumptions used to determine the defined benefit obligation.

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

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

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

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

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

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

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

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

Areas of particular auditor judgement

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

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

Our results

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

Further information in the Annual Report and Accounts

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

4.4 Accuracy of revenue due to the complexity of the billing systems (Group)**Financial Statement Elements**

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

Our assessment of risk vs FY22

↔	Same Refer to pages 161 to 164 (financial disclosures note 5 Revenue)
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Our results

FY23: Acceptable

FY22: Acceptable

Description of the Key Audit Matter

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

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

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

Our response to the risk

Our procedures to address the risk included:

Process Understanding: Obtaining an understanding of the revenue processes by observing transactions from customer initiation to cash received for certain revenue streams.

Test of Detail: Comparing a sample of revenue transactions, including credit notes, to supporting evidence e.g., customer bills, orders, price lists and cash received (all where applicable). We performed an assessment of whether the overstatements of revenue identified through these procedures were material, taking into account findings from other areas of the audit and qualitative aspects of the financial statements as a whole.

We performed the detailed tests above rather than seeking to rely on the Group's controls because our knowledge of the design of these controls indicated that we would be unlikely to obtain the required evidence to support reliance on controls.

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

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

- Our definition of the Key Audit Matter and our audit approach, including the extent of our planned control reliance.
- The findings from our substantive testing. We performed an assessment of whether the overstatements of revenue identified through these procedures were material, taking into account findings from other areas of the audit and qualitative aspects of the financial statements as a whole.

Areas of particular auditor judgement

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

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

Our results

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

Further information in the Annual Report and Accounts

Refer to [pages 161 to 162](#) for the accounting policy on Revenue and note 5 for the financial disclosures.

4.5 Recoverability of parent company investment in subsidiaries**Financial Statement Elements**

	FY23	FY22
Investment in subsidiary	£11.3bn	£11.2bn

Our assessment of risk vs FY22

↔	Same Refer to page 227 (Company financial statements note 2)
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Our results

FY23: Acceptable

FY22: Acceptable

Description of the Key Audit Matter

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

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

Our response to the risk

Our procedures to address the risk included:

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

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

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

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

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

Areas of particular auditor judgement

We did not identify any areas of particular auditor judgement.

Our results

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

Further information in the Annual Report and Accounts

Refer to [page 226](#) for the accounting policy on Investment in Subsidiaries Undertakings and [page 227](#) for the financial disclosures.

5. Our ability to detect irregularities, and our response

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

Fraud risk assessment

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

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

- considering remuneration incentive schemes and performance targets for management and Directors including the EPS target for management remuneration;
- using analytical procedures to identify any unusual or unexpected relationships.

Risk communications

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

Fraud risks

As required by auditing standards, and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries.

On this audit we do not believe there is a fraud risk related to revenue recognition because non-long-term contract revenues are not judgemental and consist of a high number of low value transactions, and long-term contracts are generally low in complexity with most having a revenue recognition profile aligned to billing.

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

Procedures to address fraud risks

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

We also performed procedures including:

- identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to unusual or seldom used accounts;
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias;
- evaluating the business purpose for significant unusual transactions

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

Laws and regulations risk assessment

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the Group's procedures for complying with regulatory requirements.

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

Risk communications

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Direct laws context and link to audit

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

Most significant indirect law/ regulation areas

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, regulations affecting telecommunication providers (including compliance with Ofcom regulation), and certain aspects of company legislation recognising the nature of the Group's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Known actual or suspected matters

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

Significant actual or suspected breaches discussed with ARC

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

Context

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. Our determination of materiality

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

£95m (FY22: £100m)

Materiality for the group financial statements as a whole

What we mean

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

Basis for determining materiality and judgements applied

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

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

We normalised by adding back adjustments that do not represent the normal, continuing operations of the Group. The items we adjusted for were BT Sport related items as disclosed in note 9. As such, we based our Group materiality on Group normalised profit before tax of £1.905bn. In FY22, we determined normalised profit before tax of £2.265bn by averaging over the last 5 years due to fluctuations as a result of Covid-19.

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

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

£61.70m (FY22: £65.00m)

Performance materiality

What we mean

Our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Basis for determining performance materiality and judgements applied

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

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

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

£4.75m (FY22: £5.00m)

Audit misstatement posting threshold

What we mean

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

procedures, for example if we identify smaller misstatements which are indicators of fraud.

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

Basis for determining the audit misstatement posting threshold and judgements applied

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

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

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

7. The scope of our audit

Group scope

What we mean

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

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

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

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

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

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

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

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

The Group audit team has also performed audit procedures on the following areas on behalf of the components:

- Testing of IT Systems
- Litigation and Claims

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

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

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

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

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

Group audit team oversight**What we mean**

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

In working with component auditors, we:

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

8. Other information in the annual report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

All other information**Our responsibility**

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Our reporting

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

Strategic report and directors' report**Our responsibility and reporting**

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

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

Directors' remuneration report**Our responsibility**

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

Our reporting

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

Corporate governance disclosures**Our responsibility**

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

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

Our reporting

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

Our responsibility

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

Our reporting

We have nothing to report in this respect.

Other matters on which we are required to report by exception**Our responsibility**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Our reporting

We have nothing to report in these respects.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on [page 131](#), the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

10. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Luke

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
17 May 2023

Group income statement

Year ended 31 March 2023

	Notes	Before specific items (‘Adjusted’) £m	Specific items ^a £m	Total (Reported) £m
Revenue	4, 5	20,669	12	20,681
Operating costs	6	(17,494)	(568)	(18,062)
<i>Of which net impairment losses on trade receivables and contract assets^b</i>		(138)	–	(138)
Operating profit (loss)	4	3,175	(556)	2,619
Finance expense	28	(889)	(5)	(894)
Finance income		63	–	63
Net finance expense		(826)	(5)	(831)
Share of post tax profit (loss) of associates and joint ventures	25	(59)	–	(59)
Profit (loss) before taxation		2,290	(561)	1,729
Taxation	10	(132)	308	176
Profit (loss) for the year		2,158	(253)	1,905
Earnings per share	11			
Basic		22.0p	(2.6)p	19.4p
Diluted		21.4p	(2.5)p	18.9p

Group income statement

Year ended 31 March 2022

	Notes	Before specific items (‘Adjusted’) £m	Specific items ^a £m	Total (Reported) £m
Revenue	4, 5	20,845	5	20,850
Operating costs	6	(17,673)	(292)	(17,965)
<i>Of which net impairment losses on trade receivables and contract assets^b</i>		(102)	19	(83)
Operating profit (loss)	4	3,172	(287)	2,885
Finance expense	28	(833)	(101)	(934)
Finance income		12	–	12
Net finance expense		(821)	(101)	(922)
Share of post tax profit (loss) of associates and joint ventures	25	–	–	–
Profit (loss) before taxation		2,351	(388)	1,963
Taxation	10	(349)	(340)	(689)
Profit (loss) for the year		2,002	(728)	1,274
Earnings per share	11			
Basic		20.3p	(7.4)p	12.9p
Diluted		19.7p	(7.2)p	12.5p

a For a definition of specific items, see [page 233](#). An analysis of specific items is provided in note 9.

b Impairment losses have been presented separately in accordance with IAS 1.

Group statement of comprehensive income

Year ended 31 March

	Notes	2023 £m	2022 £m
Profit for the year		1,905	1,274
Other comprehensive income (loss)			
<i>Items that will not be reclassified to the income statement</i>			
Remeasurements of the net pension obligation	20	(2,876)	2,865
Tax on pension remeasurements	10	732	(399)
<i>Items that have been or may be reclassified to the income statement</i>			
Exchange differences on translation of foreign operations	30	87	65
Fair value movements on assets at fair value through other comprehensive income	30	(3)	6
Movements in relation to cash flow hedges:			
– net fair value gains (losses)	30	1,055	204
– recognised in income and expense	30	(713)	(54)
Tax on components of other comprehensive income that have been or may be reclassified	10, 30	(90)	(31)
Share of post tax other comprehensive loss in associates and joint ventures	25	(1)	–
Other comprehensive (loss) income for the year, net of tax		(1,809)	2,656
Total comprehensive income (loss) for the year		96	3,930

Group balance sheet

At 31 March

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

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

Adam Crozier Chairman	Philip Jansen Chief Executive	Simon Lowth Chief Financial Officer
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Group statement of changes in equity

	Notes	Share capital ^a £m	Share premium ^b £m	Own shares ^c £m	Merger reserve ^d £m	Other reserves ^e £m	Retained (loss) earnings £m	Total equity (deficit) £m
At 1 April 2021		499	1,051	(143)	998	436	8,838	11,679
Profit for the year		–	–	–	–	–	1,274	1,274
Other comprehensive income (loss) – before tax		–	–	–	–	275	2,865	3,140
Tax on other comprehensive income (loss)	10	–	–	–	–	(31)	(399)	(430)
Transferred to the income statement		–	–	–	–	(54)	–	(54)
Total comprehensive income (loss) for the year		–	–	–	–	190	3,740	3,930
Dividends to shareholders	12	–	–	–	–	–	(227)	(227)
Unclaimed dividend over 10 years		–	–	–	–	–	2	2
Share-based payments	22	–	–	–	–	–	108	108
Tax on share-based payments	10	–	–	–	–	–	11	11
Net buyback of own shares	21	–	–	(131)	–	–	(65)	(196)
Transfer to realised profit		–	–	–	–	(7)	7	–
Other movements ^f		–	–	–	–	–	(11)	(11)
At 31 March 2022		499	1,051	(274)	998	619	12,403	15,296
Adoption of amendments to IAS 37	1	–	–	–	–	–	(12)	(12)
At 1 April 2022		499	1,051	(274)	998	619	12,391	15,284
Profit for the year		–	–	–	–	–	1,905	1,905
Other comprehensive income (loss) – before tax		–	–	–	–	1,141	(2,879)	(1,738)
Tax on other comprehensive income (loss)	10	–	–	–	–	(90)	732	642
Transferred to the income statement		–	–	–	–	(713)	–	(713)
Total comprehensive income (loss) for the year		–	–	–	–	338	(242)	96
Dividends to shareholders	12	–	–	–	–	–	(753)	(753)
Share-based payments	22	–	–	–	–	–	80	80
Tax on share-based payments	10	–	–	–	–	–	(9)	(9)
Net buyback of own shares	21	–	–	(148)	–	–	(34)	(182)
Other movements		–	–	–	–	–	(2)	(2)
At 31 March 2023		499	1,051	(422)	998	957	11,431	14,514

- a The allotted, called up, and fully paid ordinary share capital of BT Group plc at 31 March 2023 was £499m comprising 9,968,127,681 ordinary shares of 5p each (FY22: £499m comprising 9,968,127,681 ordinary shares of 5p each).
- b The share premium account, comprising the premium on allotment of shares, is not available for distribution.
- c For further analysis of own shares, see note 21.
- d The merger reserve balance at 1 April 2021 includes £998m related to the group reorganisation that occurred in November 2001 and represented the difference between the nominal value of shares in the new parent company, BT Group plc, and the aggregate of the share capital, share premium account and capital redemption reserve of the prior parent company, British Telecommunications plc. In addition, on 29 January 2016, the company issued 1,594,900,429 ordinary shares of 5p at 470.7p per share. These shares were used as part consideration for the acquisition of EE. As a result of this transaction the merger reserve was credited with £7,424m net of £3m issue costs. In FY21, following settlement of intercompany loans by qualifying consideration of £1,574m, equivalent balances were transferred from merger reserve to realised profit.
- e For further analysis of other reserves, see note 30.
- f In June 2021, BT exercised an option to purchase the minority shareholding in a subsidiary (BT Communications South Africa). The obligation to purchase the subsidiary's equity instruments is accounted for as a financial liability with a corresponding debit to equity. Non-controlling interests are not material to the group so are not accounted for separately.

Group cash flow statement

Year ended 31 March

	Notes	2023 £m	2022 £m
Cash flow from operating activities			
Profit before taxation		1,729	1,963
Share of post tax (profit) loss of associates and joint ventures		59	–
Net finance expense		831	922
Operating profit		2,619	2,885
Other non-cash charges		89	76
Loss (profit) on disposal of businesses		157	(37)
Loss (profit) on disposal of property, plant and equipment and intangible assets		2	–
Depreciation and amortisation, including impairment charges		4,818	4,405
(Increase) decrease in inventories		(47)	(3)
Decrease (increase) in programme rights		7	(17)
(Increase) decrease in trade and other receivables		(285)	(53)
(Increase) decrease in contract assets		(17)	(51)
Increase (decrease) in trade and other payables		232	99
Increase (decrease) in contract liabilities		41	(93)
(Decrease) increase in other liabilities ^a		(919)	(1,169)
(Decrease) increase in provisions		(109)	(80)
Cash generated from operations		6,588	5,962
Income taxes refunded (paid)		136	(52)
Net cash inflow from operating activities		6,724	5,910
Cash flow from investing activities			
Interest received		41	6
Dividends received from joint ventures, associates and investments		9	1
Acquisition of subsidiaries		–	76
Proceeds on disposal of subsidiaries, associates and joint ventures		29	–
Proceeds on disposal of current financial assets ^b		11,868	13,402
Purchases of current financial assets ^b		(12,705)	(12,432)
Net (purchase) disposal of non-current asset investments		(5)	(8)
Proceeds on disposal of property, plant and equipment and intangible assets		–	2
Purchases of property, plant and equipment and intangible assets ^c		(5,307)	(4,607)
(Increase) decrease in amounts owed by joint ventures	24	(265)	–
Settlement of minimum guarantee liability with sports joint venture	23	(61)	–
Net cash outflow from investing activities		(6,396)	(3,560)
Cash flow from financing activities			
Equity dividends paid		(751)	(228)
Interest paid		(709)	(755)
Repayment of borrowings ^d		(513)	(1,374)
Proceeds from bank loans and bonds		2,203	744
Payment of lease liabilities		(727)	(659)
Cash flows from collateral received		(17)	(29)
Changes in ownership interests in subsidiaries		–	(86)
Proceeds from issue of own shares		5	13
Repurchase of ordinary share capital		(138)	(184)
Increase (decrease) in amounts owed to joint ventures	27	11	–
Net cash outflow from financing activities		(636)	(2,558)
Net decrease in cash and cash equivalents		(308)	(208)
Opening cash and cash equivalents ^e		692	896
Net decrease in cash and cash equivalents		(308)	(208)
Effect of exchange rate changes		(3)	4
Closing cash and cash equivalents^e	26	381	692

a Includes pension deficit payments of £994m (FY22: £1,121m).

b Primarily consists of investment in and redemption of amounts held in liquidity funds.

c Consists of additions to property, plant and equipment, engineering stores and software of £5,056m (FY22: £4,807m) and movements in capital accruals of £251m (FY22: £23m) less net refund in respect of spectrum acquisition of £nil (FY22: £223m).

d Repayment of borrowings includes the impact of hedging.

e Net of bank overdrafts of £11m (FY22: £85m).

Notes to the consolidated financial statements

1. Basis of preparation

Preparation of the financial statements

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

The consolidated financial statements are prepared on a going concern basis.

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

Having assessed the principal and emerging risks, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the group and parent company financial statements. This assessment covers the period to May 2024, which is consistent with the FRC guidance. When reaching this conclusion, the directors took into account the group's and parent company's overall financial position (including trading results and ability to repay term debt as it matures without recourse to refinancing) and the exposure to principal risks.

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

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

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

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

New and amended accounting standards effective during the year

The following amended standards were effective during the year:

Amendments to IAS 37 for onerous contracts

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

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

IFRS Interpretations Committee agenda decisions

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

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

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

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

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

Other

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

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

New and amended accounting standards that have been issued but are not yet effective

The following new or amended standards and interpretations are applicable in future periods:

IFRS 17 Insurance Contracts

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

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

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

Notes to the consolidated financial statements continued

1. Basis of preparation continued

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

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

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimate (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- Non-Current Liabilities with Covenants (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

Presentation of specific items

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

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

Specific items may not be comparable to similarly titled measures used by other companies. Examples of charges or credits which meet the above definition include significant business restructuring programmes such as the current group-wide cost transformation and modernisation programme, acquisitions and disposals of businesses and investments, charges or credits relating to retrospective regulatory matters, property rationalisation programmes, significant out of period contract settlements, net interest on our pension obligation, and the impact of remeasuring deferred tax balances. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as specific items. Any releases to provisions originally booked as a specific item are also classified as specific. Conversely, when a reversal occurs in relation to a prior year item not classified as specific, the reversal is not classified as specific in the current year.


Specific items for the current and prior year are disclosed in note 9.

2. Critical & key accounting estimates and significant judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying our accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

Our critical accounting estimates are those estimates that carry a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year. We also make other key estimates when preparing the financial statements, which, while not meeting the definition of a critical estimate, involve a higher degree of complexity and can reasonably be expected to be of relevance to a user of the financial statements. Management has discussed its critical and other key accounting estimates and associated disclosures with the *Audit and Risk Committee*.

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

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

Note	Critical estimate	Key estimate	Significant judgement
10. Current and deferred income tax		✓	✓
13. Goodwill impairment		✓	✓
15. Reasonable certainty and determination of lease terms			✓
19. Contingent liabilities associated with litigation		✓	✓
19. Other provisions and contingent liabilities		✓	✓
20. Valuation of pension assets and liabilities	✓		✓
25. BT Sport joint venture	✓		✓

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

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

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

Basis of consolidation

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

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

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

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

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

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

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

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

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

Inventories

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

Government grants

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

Grants for the purchase or production of property, plant and equipment are deducted from the cost of the related assets and reduce future depreciation expense accordingly. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Estimates and judgements applied in accounting for government grants received in respect of Building Digital UK (BDUK) and other rural superfast broadband contracts are described in note 14.

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

Foreign currencies

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

On consolidation, assets and liabilities of foreign undertakings are translated into sterling at year end exchange rates. The results of foreign undertakings are translated into sterling at the rates prevailing on the transaction dates. Foreign exchange differences arising on the retranslation of foreign undertakings are recognised directly in a separate component of equity, the translation reserve.

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

Research and development

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

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

Termination benefits

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

Notes to the consolidated financial statements continued

4. Segment information

Significant accounting policies that apply to segment information

Operating and reportable segments

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

Our organisational structure reflects the different customer groups to which we provide communications products and services via our customer-facing units (CFUs). The CFUs are our reportable segments and generate substantially all of our revenue.

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

The CFUs are supported by technology units (TUs) comprising Digital and Networks; and corporate units (CUs) including procurement and property management. TUs and CUs are not reportable segments as they did not meet the quantitative thresholds as set out in IFRS 8 'Operating Segments' for any of the years presented.

We aggregate the remaining operations and include within the 'Other' category to reconcile to the consolidated results of the group. The 'Other' category includes unallocated TU costs and our CUs.

Allocation of certain items to segments

Provisions for the settlement of significant legal, commercial and regulatory disputes, which are negotiated at a group level, are initially recorded in the 'Other' segment. On resolution of the dispute, the full impact is recognised in the results of the relevant CFU and offset in the group results through the utilisation of the provision previously charged to the 'Other' segment. Settlements which are particularly significant or cover more than one financial year may fall within the definition of specific items as detailed in note 9.

The costs incurred by TUs and CUs are recharged to the CFUs to reflect the services provided to them. Depreciation and amortisation incurred by TUs in relation to the networks and systems they manage and operate on behalf of the CFUs is allocated to the CFUs based on their respective utilisation. Capital expenditure incurred by TUs for specific projects undertaken on behalf of the CFUs is allocated based on the value of the directly attributable expenditure incurred. Where projects are not directly attributable to a particular CFU, capital expenditure is allocated between them based on the proportion of estimated future economic benefits.

Specific items are detailed in note 9 and are not allocated to the reportable segments as this reflects how they are reported to the *Executive Committee*. Finance expense and income are not allocated to the reportable segments, as the central treasury function manages this activity, together with the overall net debt position of the group.

Measuring segment performance

Performance of each reportable segment is measured based on adjusted EBITDA. Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures. Adjusted EBITDA is considered to be a useful measure of the operating performance of the CFUs because it approximates the underlying operating cash flow by eliminating depreciation and amortisation and also provides a meaningful analysis of trading performance by excluding specific items, which are disclosed separately by virtue of their size, nature or incidence. We also increasingly track adjusted operating profit which reflects the growing depreciation expense arising from our elevated network investment.

Revenue recognition

Our revenue recognition policy is set out in Note 5.

Internal revenue and costs

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

Geographic segmentation

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

4. Segment information continued

Segment revenue and profit

	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Year ended 31 March 2023						
Segment revenue	9,737	4,962	3,328	5,675	27	23,729
Internal revenue	(57)	(113)	–	(2,890)	–	(3,060)
Adjusted^a revenue from external customers	9,680	4,849	3,328	2,785	27	20,669
Adjusted EBITDA^b	2,623	1,394	458	3,449	4	7,928
Depreciation and amortisation ^a	(1,397)	(842)	(317)	(2,059)	(138)	(4,753)
Adjusted^a operating profit (loss)	1,226	552	141	1,390	(134)	3,175
Specific operating profit (loss) – see note 9						(556)
Operating profit						2,619
Net finance expense ^c						(831)
Share of post tax profit (loss) of associates and joint ventures						(59)
Profit before tax						1,729
Year ended 31 March 2022						
Segment revenue	9,858	5,157	3,362	5,441	27	23,845
Internal revenue	(83)	(105)	–	(2,812)	–	(3,000)
Adjusted^a revenue from external customers	9,775	5,052	3,362	2,629	27	20,845
Adjusted EBITDA^b	2,262	1,636	456	3,179	44	7,577
Depreciation and amortisation ^a	(1,421)	(724)	(355)	(1,876)	(29)	(4,405)
Adjusted^a operating profit (loss)	841	912	101	1,303	15	3,172
Specific operating profit (loss) – see note 9						(287)
Operating profit						2,885
Net finance expense ^c						(922)
Share of post tax profit (loss) of associates and joint ventures						–
Profit before tax						1,963

a Before specific items.

b Adjusted EBITDA, defined as profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures.

c Net finance expense includes specific item expense of £5m (FY22: £101m). See note 9.

Internal revenue and costs

	Internal cost recorded by					Total £m
	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	
Year ended 31 March 2023						
Internal revenue recorded by						
Consumer	–	40	16	–	1	57
Enterprise	26	–	32	–	55	113
Global	–	–	–	–	–	–
Openreach	1,805	888	184	–	13	2,890
Total	1,831	928	232	–	69	3,060
Year ended 31 March 2022						
Internal revenue recorded by						
Consumer	–	47	18	–	18	83
Enterprise	19	–	26	–	60	105
Global	–	–	–	–	–	–
Openreach	1,649	937	212	–	14	2,812
Total	1,668	984	256	–	92	3,000

Notes to the consolidated financial statements continued

4. Segment information continued

Capital expenditure

	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Year ended 31 March 2023						
Intangible assets ^a	530	257	81	87	63	1,018
Property, plant and equipment ^b	663	351	171	2,709	144	4,038
Capital expenditure	1,193	608	252	2,796	207	5,056
Year ended 31 March 2022						
Intangible assets ^a	444	249	82	99	70	944
Property, plant and equipment ^b	754	320	119	2,449	221	3,863
Capital expenditure excluding spectrum	1,198	569	201	2,548	291	4,807
Purchase of spectrum ^a	388	91	–	–	–	479
Capital expenditure	1,586	660	201	2,548	291	5,286

a Additions to intangible assets as presented in note 13.

b Additions to property, plant and equipment as presented in note 14, inclusive of movement on engineering stores.

Geographic segmentation

Revenue from external customers

	2023 £m	2022 £m
Year ended 31 March		
UK	18,154	18,470
Europe, Middle East and Africa, excluding the UK	1,372	1,315
Americas	684	620
Asia Pacific	459	440
Adjusted^a revenue	20,669	20,845

a Before specific items.

Non-current assets

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

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

5. Revenue

Significant accounting policies that apply to revenue

Revenue from contracts with customers in scope of IFRS 15

Most revenue recognised by the group (excluding Openreach, where most revenue is recognised under the scope of IFRS 16) is in scope of IFRS 15 and is subject to the following revenue recognition policy.

On inception of the contract we identify a “performance obligation” for each of the distinct goods or services we have promised to provide to the customer. The consideration specified in the contract with the customer is allocated to each performance obligation identified based on their relative standalone selling prices, and is recognised as revenue as they are satisfied.

The table below summarises the performance obligations we have identified for our major service lines and provides information on the timing of when they are satisfied and the related revenue recognition policy. Also detailed in this note is revenue expected to be recognised in future periods for contracts in place at 31 March 2023 that contain unsatisfied performance obligations.

Service line	Performance obligations	Revenue recognition policy
Information and communications technology (ICT) and managed networks	Provision of networked IT services, managed network services, and arrangements to design and build software solutions. Performance obligations are identified for each distinct service or deliverable for which the customer has contracted, and are considered to be satisfied over the time period that we deliver these services or deliverables. Commitments to provide hardware to customers that are distinct from the other promises are considered to be satisfied at the point in time that control passes to the customer.	Revenue for services is recognised over time using a measure of progress that appropriately reflects the pattern by which the performance obligation is satisfied. For time and materials contracts, revenue is recognised as the service is received by the customer. Where performance obligations exist for the provision of hardware, revenue is recognised at the point in time that the customer obtains control of the promised asset. For long-term fixed price contracts revenue recognition will typically be based on the satisfaction of performance obligations in respect of the achievement of contract milestones and customer acceptance, which is the best measure of progress towards the completion of the performance obligation.
Fixed access subscriptions	Provision of broadband, TV and fixed telephony services including national and international calls, connections, line rental and calling features. Performance obligations exist for each ongoing service provided to the customer and are satisfied over the period that the services are provided. Installation services are recognised as distinct performance obligations if their relationship with the other services in the contract is purely functional. These are satisfied when the customer benefits from the service. Connection services are not distinct performance obligations and are therefore combined with the associated service performance obligation.	Fixed subscription charges are recognised as revenue on a straight-line basis over the period that the services are provided. Upfront charges for non-distinct connection and installation services are deferred as contract liabilities and are recognised as revenue over the same period. Variable charges such as call charges are recognised when the related services are delivered. Where installation activities are distinct performance obligations, revenue is recognised at the point in time that the installation is completed.
Mobile subscriptions	Provision of mobile postpaid and prepaid services, including voice minutes, SMS and data services. Performance obligations exist for each ongoing service provided to the customer and are satisfied over the period that the services are provided.	Subscription fees, consisting primarily of monthly charges for access to internet or voice and data services, are recognised as the service is provided. One-off services such as calls outside of plan and excess data usage are recognised when the service is used.
Equipment and other services	Provision of equipment and other services, including mobile phone handsets and hardware such as set-top boxes and broadband routers provided as part of customer contracts. Performance obligations are satisfied at the point in time that control passes to the customer. For other services, performance obligations are identified based on the distinct goods and services we have committed to provide.	Revenue from equipment sales is recognised at the point in time that control passes to the customer. Where payment is not received in full at the time of the sale, such as with equipment provided as part of mobile and fixed access subscriptions, contract assets are recognised for the amount due from the customer that will be recovered over the contract period. Revenue to be recognised is calculated by reference to the relative standalone selling price of the equipment. For other services, revenue is recognised when the related performance obligations are satisfied, which could be over time, in line with contract milestones, or at a point in time depending on the nature of the service.

Notes to the consolidated financial statements continued

5. Revenue continued

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

The fixed access and mobile subscription arrangements sold by our Consumer business are typically payable in advance, with any variable or one-off charges billed in arrears. Contracts are largely inflation-linked with price increases recognised when effective. Payment is received immediately for direct sales of equipment to customers. Where equipment is provided to customers under mobile and fixed access subscription arrangements, payment for the equipment is received over the course of the contract term. For sales by our enterprise businesses, invoices are issued in line with contractual terms. Payments received in advance are recognised as contract liabilities; amounts billed in arrears are recognised as contract assets.

We are applying the practical expedient to recognise revenue “as-invoiced” for certain fixed access and mobile subscription services revenues. Where we have a right to invoice at an amount that directly corresponds with performance to date, we recognise revenue at that amount. We have also adopted the practical expedient not to calculate the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied for these contracts.

We do not have any material obligations in respect of returns, refunds or warranties. Where we act as an agent in a transaction, such as insurance services offered, we recognise commission net of directly attributable costs. Where the actual and estimated costs to completion of the contract exceed the estimated revenue, a loss is recognised immediately.

We exercise judgement in assessing whether the initial set-up, transition and transformation phases of long-term contracts are distinct from the other services to be delivered under the contract and therefore represent distinct performance obligations. This determines whether revenue is recognised in the early stages of the contract, or deferred until delivery of the other services promised in the contract begins.

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

- Transaction volumes or other inputs affecting future revenues which can vary depending on customer requirements, plans, market position and other factors such as general economic conditions.
- Our ability to achieve key contract milestones connected with the transition, development, transformation and deployment phases for customer contracts.
- The status of commercial relations with customers and the implications for future revenue and cost projections.
- Our estimates of future staff and third party costs and the degree to which cost savings and efficiencies are deliverable.

Revenue from lease arrangements in scope of IFRS 16

Some consumer broadband and TV products and arrangements to provide external communications providers with exclusive use of Openreach’s fixed-network telecommunications infrastructure meet the definition of operating leases under IFRS 16.

At inception of a contract, we determine whether the contract is, or contains, a lease following the accounting policy set out in note 15. Arrangements meeting the definition of a lease in which we act as lessor are classified as operating or finance leases at lease inception based on an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case then the lease is a finance lease; if not, it is an operating lease. For sub-leases, we make this assessment by reference to the characteristics of the right-of-use asset associated with the head lease rather than the underlying leased asset.

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

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

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

Where an arrangement is assessed as a finance lease we derecognise the underlying asset and recognise a receivable equivalent to the net investment in the lease. Finance lease receivables are presented in note 17. The receivable is measured based on future payments to be received discounted using the interest rate implicit in the lease, adjusted for any direct costs. Any difference between the derecognised asset and the finance lease receivable is recognised in the income statement. Where the nature of services delivered relates to our core operating activities it is presented as revenue. Where it relates to non-core activities it is presented within other operating income (note 6).

5. Revenue continued

Disaggregation of external revenue

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

	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Year ended 31 March 2023						
ICT and managed networks	–	1,676	1,676	–	–	3,352
Fixed access subscriptions	4,059	1,625	268	2,716	–	8,668
Mobile subscriptions	3,351	1,074	86	–	–	4,511
Equipment and other services	2,270	474	1,298	69	27	4,138
Revenue before specific items	9,680	4,849	3,328	2,785	27	20,669
Specific items ^a (note 9)						12
Revenue						20,681
Year ended 31 March 2022						
ICT and managed networks	–	1,715	1,672	–	–	3,387
Fixed access subscriptions	3,991	1,696	268	2,564	–	8,519
Mobile subscriptions	3,247	1,176	87	–	–	4,510
Equipment and other services	2,537	465	1,335	65	27	4,429
Revenue before specific items	9,775	5,052	3,362	2,629	27	20,845
Specific items ^a (note 9)						5
Revenue						20,850

a Relates to regulatory matters classified as specific. See note 9.

Revenue expected to be recognised in future periods for performance obligations that are not complete (or are partially complete) as at 31 March 2023 is £12,792m (FY22: £13,502m). Of this, £6,592m (FY22: £7,108m) relates to ICT and managed services contracts and equipment and other services which will substantially be recognised as revenue within three years. Fixed access and mobile subscription services typically have shorter contract periods and so £6,200m (FY22: £6,394m) will substantially be recognised as revenue within two years.

Revenue recognised this year relating to performance obligations that were satisfied, or partially satisfied, in previous years was not material. Revenue related to customers' unexercised rights (for example, unused amounts on prepaid SIM cards) was not material.

Lease income

Presented within revenue is £2,909m (FY22: £2,745m) income from arrangements classified as operating leases under IFRS 16 and which represent core business activities for the group. Income relates predominantly to Openreach's leases of fixed-line telecommunications infrastructure to external communications providers, classified as fixed access subscription revenue in the table above, and leases of devices to Consumer customers as part of fixed access subscription offerings, classified as equipment and other services.

During the year we also recognised:

- £29m (FY22: £33m) operating lease income from non-core business activities which is presented in other operating income (note 6). Note 15 presents an analysis of payments to be received across the remaining term of operating lease arrangements.
- £58m (FY22: £44m) revenue in relation to upfront gains from arrangements meeting the definition of a finance lease. These arrangements meet the criteria for revenue recognition as they concern leases and sub-leases of telecommunications infrastructure that represent core business activities of the group.

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

Contract assets and liabilities

Significant accounting policies that apply to contract assets and liabilities

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

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

Where the initial set-up, transition or transformation phase of a long-term contract is considered to be a distinct performance obligation we recognise a contract asset for any work performed but not billed. Conversely a contract liability is recognised where these activities are not distinct performance obligations and we receive upfront consideration. In this case eligible costs associated with delivering these services are capitalised as fulfilment costs, see note 17.

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

Notes to the consolidated financial statements continued

5. Revenue continued

Contract assets and liabilities are as follows:

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

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

The expected credit loss provisions recognised against contract assets vary across the group due to the nature of our customers; the expected loss rate at 31 March 2023 was 3% (FY22: 3%).

6. Operating costs

Year ended 31 March	Notes	2023 £m	2022 £m (re-presented) ^a
Operating costs by nature			
Staff costs:			
Wages and salaries		3,858	3,746
Social security costs		424	400
Other pension costs	20	590	591
Share-based payment expense	22	80	108
Total staff costs		4,952	4,845
Own work capitalised ^a		(1,364)	(1,105)
Net staff costs		3,588	3,740
Net indirect labour costs ^{a,b}		381	470
Net labour costs		3,969	4,210
Product costs		3,368	3,166
Sales commissions		589	628
Payments to telecommunications operators		1,354	1,346
Property and energy costs		1,242	1,028
Network operating and IT costs		913	904
TV programme rights charges ^c		354	879
Provision and installation		591	678
Marketing and sales		363	312
Net impairment losses on trade receivables and contract assets ^d		138	102
Other operating costs		103	256
Other operating income		(243)	(241)
Depreciation and amortisation, including impairment charges		4,753	4,405
Total operating costs before specific items		17,494	17,673
Specific items	9	568	292
Total operating costs		18,062	17,965
Operating costs before specific items include the following:			
Leaver costs ^e		11	15
Research and development expenditure ^f		683	604
Foreign currency (gains)/losses		(9)	3
Inventories recognised as an expense		2,311	2,297

a FY22 comparatives have been re-presented to reclassify £116m capitalised labour from net indirect labour costs to own work capitalised. This change results from a recent system change and improved analysis which affords better visibility of the nature of capitalised labour costs.

b Net of capitalised indirect labour costs of £824m (FY22: £755m (re-presented, see footnote a)).

c TV programme rights charges relate to programme rights assets which were transferred to the sports joint venture in August 2022, see note 23.

d Consists of net impairment losses on trade receivables and contract assets in Consumer of £94m (FY22: £86m), in Enterprise of £30m (FY22: £5m), in Global of £2m (FY22: £7m), in Openreach of £5m (FY22: £3m) and in Other of £1m (FY22: £1m).

e Leaver costs are included within wages and salaries, except for leaver costs of £129m (FY22: £170m) associated with restructuring costs, which have been recorded as specific items.

f Research and development expenditure includes amortisation of £632m (FY22: £543m) in respect of capitalised development costs and operating expenses of £51m (FY22: £61m). In addition, the group capitalised software development costs of £503m (FY22: £601m).

6. Operating costs continued

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

Year ended 31 March	Notes	2023 £m	2022 £m
Depreciation and amortisation before impairment charges			
Intangible assets	13	1,165	1,035
Property, plant and equipment	14	2,878	2,658
Right-of-use assets	15	689	676
Impairment charges			
Intangible assets	13	–	13
Property, plant and equipment	14	11	11
Right-of-use assets	15	10	12
Total depreciation and amortisation before specific items		4,753	4,405
Impairment charges classified as specific items			
Intangible assets	9	–	–
Property, plant and equipment		–	–
Right-of-use assets		65	–
Total depreciation and amortisation		4,818	4,405

Who are our key management personnel and how are they compensated?

Key management personnel comprise Executive and Non-Executive Directors and members of the *Executive Committee*.

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

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

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

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

7. Employees

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

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

Notes to the consolidated financial statements continued

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

The following fees were paid or are payable to the company's auditors, KPMG LLP and other firms in the KPMG network.

Year ended 31 March	2023 £000	2022 £000
Fees payable to the company's auditors and its associates for:		
Audit services ^a		
The audit of the parent company and the consolidated financial statements	13,558	11,400
The audit of the company's subsidiaries	6,274	6,009
	19,832	17,409
Audit related assurance services^b	2,553	3,169
Other non-audit services		
All other assurance services	55	127
Total services	22,440	20,705

a Services in relation to the audit of the parent company and the consolidated financial statements. This also includes fees payable for the statutory audits of the financial statements of subsidiary companies.

b Includes services that are required by law or regulation to be carried out by an appointed auditor and services that support us to fulfil obligations required by law or regulation. This includes fees for the review of interim results and the accrued fee for the audit of the group's regulatory financial statements. In FY23 this included fees of £1,000,000 to support divestment transactions (FY22: £789,000).

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

The BT Pension Scheme is an associated pension fund as defined in the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011. In FY23 KPMG LLP received total fees from the BT Pension Scheme of £1.6m (FY22: £1.6m) in respect of the following services:

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

9. Specific items

Significant accounting policies that apply to specific items

Our income statement and segmental analysis separately identify trading results on an adjusted basis, being before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence.

This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the *Executive Committee* and assists in providing an additional analysis of our reporting trading results. Specific items may not be comparable to similarly titled measures used by other companies.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include significant business restructuring programmes such as the current group-wide cost transformation and modernisation programme, acquisitions and disposals of businesses and investments, charges or credits relating to retrospective regulatory matters, property rationalisation programmes, significant out of period contract settlements, net interest on our pension obligation, and the impact of remeasuring deferred tax balances. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. Any releases to provisions originally booked as a specific item are also classified as specific. Conversely, when a reversal occurs in relation to a prior year item not classified as specific, the reversal is not classified as specific in the current year.

In FY20 we included the impacts of Covid-19 on various balance sheet items as at 31 March 2020 as specific. Any releases to this provision have been released through specific items in subsequent periods.

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

9. Specific items continued

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

Retrospective regulatory matters

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

Restructuring charges

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

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

BT Sport disposal

During FY23 we completed the disposal of BT Sport operations. We recognised a profit on disposal of £28m in specific items, made up of £155m charges recognised within operating costs net of £183m tax credits. We also recognised a £13m credit within finance costs as specific (FY22: £8m charge), relating to a foreign exchange hedging arrangement with the Sports JV, see note 31. Further details on the BT Sport disposal can be found in note 23.

Sports JV subsequent movements

Subsequent to the disposal, we have recorded a net fair value movement of £34m on the A and C preference shares in the Sports JV (see note 25).

Other divestment-related items

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

Covid-19

In FY20 we recognised one-off charges of £95m relating to the impact of Covid-19 on various balance sheet items. Any releases of this provision have also been booked as a specific item. At 31 March 2023 these provisions had been fully released or utilised.

Impairment charges due to property rationalisation

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

Notes to the consolidated financial statements continued

9. Specific items continued

Interest expense on retirement benefit obligation

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

Tax on specific items

A tax credit of £308m (FY22: £80m) was recognised in relation to specific items. Of this, £183m relates to the BT Sport disposal. Further details can be found in note 25.

Remeasurement of deferred tax balances

In FY22 we remeasured our deferred tax balances following the enactment of the new UK corporation tax rate of 25% from April 2023. The corresponding adjustment comprised a net tax charge of £420m in the income statement and a non-recurring tax credit of £298m in the statement of comprehensive income. This was classified as a specific item due to its size and the out-of-period nature of this charge.

10. Taxation

Significant accounting policies that apply to taxation

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the group's subsidiaries, associates and joint ventures operate and generate taxable income. We evaluate positions taken in tax returns where tax regulation is subject to interpretation, and establish provisions if appropriate based on the amounts likely to be paid to tax authorities.

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

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

Key accounting estimates and significant judgements made in accounting for taxation

We seek to pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws are unclear, and it can take many years to agree an outcome with a tax authority or through litigation. We estimate our tax on country-by-country and issue-by-issue bases. Our key uncertainties are whether our intra-group trading model will be accepted by a particular tax authority; whether intra-group payments are subject to withholding taxes and the deductibility of certain compensation payments made in prior years. We provide for the predicted outcome where an outflow is probable, but the agreed amount can differ materially from our estimates. Approximately 75% by value of the provisions are under active tax authority examination and are therefore likely to be re-estimated or resolved in the coming 12 months. £104m (FY22: £194m) is included in current tax liabilities or offset against current tax assets where netting is appropriate.

Under a downside case an additional amount of £174m could be required to be paid. This amount is not provided as we don't consider this outcome to be probable.

Deciding whether to recognise deferred tax assets is judgemental. We only recognise them when we consider it is probable that they can be recovered. In making this judgement we consider evidence such as historical financial performance, future financial plans and trends, the duration of existing customer contracts and whether our intra-group pricing model has been agreed by the relevant tax authority.

The value of the group's income tax assets and liabilities is disclosed on the group balance sheet. The value of the group's deferred tax assets and liabilities is disclosed below.

10. Taxation continued

Analysis of our taxation expense for the year

Year ended 31 March	2023 £m	2022 £m
United Kingdom		
Corporation tax at 19% (FY22: 19%)	–	–
Adjustments in respect of earlier years ^a	63	223
Non-UK taxation		
Current	(67)	(78)
Adjustments in respect of earlier years	9	7
Total current taxation (expense)	5	152
Deferred taxation		
Origination and reversal of temporary differences	102	(102)
Adjustments in respect of earlier years ^a	56	(190)
Impact of change in UK corporation tax rate to 25% (FY22: 19%)	–	(420)
Remeasurement of temporary differences	13	(129)
Total deferred taxation credit (expense)	171	(841)
Total taxation (expense)	176	(689)

a In FY22, certain prior period tax issues were resolved at a net tax cost of £69m, comprising a £263m deferred tax charge and a £194m current tax credit.

Factors affecting our taxation expense for the year

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

Year ended 31 March	2023 £m	2022 £m
Profit before taxation	1,729	1,963
Expected taxation expense at UK rate of 19% (FY22: 19%)	(328)	(373)
Effects of:		
(Higher)/lower taxes on non-UK profits	–	(4)
Net permanent differences between tax and accounting ^a	352	179
Adjustments in respect of earlier years ^b	126	40
Prior year non-UK losses used against current year profits	5	20
Non-UK losses not recognised ^c	9	(2)
Re-measurement of deferred tax balances	12	(549)
Total taxation credit (expense)	176	(689)
Exclude specific items (note 9)	(308)	340
Total taxation expense before specific items	(132)	(349)

a Includes income that is not taxable or UK income taxable at a different rate, and expenses for which no tax relief is received. In both FY22 and FY23 this included the benefit of the UK super-deduction. In FY23 it also includes the non-taxable profit on the disposal and revaluation of BT Sport.

b Reflects the differences between initial accounting estimates and tax returns submitted to tax authorities, including the release and establishment of provisions for uncertain tax positions.

c Reflects losses made in countries where it has not been considered appropriate to recognise a deferred tax asset, as future taxable profits are not probable.

Notes to the consolidated financial statements continued

10. Taxation continued

Tax components of other comprehensive income

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

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

Tax (expense) credit recognised directly in equity

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

Deferred taxation

	Fixed asset temporary differences £m	Retirement benefit obligations ^a £m	Share- based payments £m	Tax losses £m	Other £m	Jurisdictional offset £m	Total £m
At 1 April 2021	1,587	(926)	(20)	(66)	(135)	–	440
Expense (credit) recognised in the income statement	1,326	(33)	(5)	(434)	(13)	–	841
Expense (credit) recognised in other comprehensive income	–	764	–	(354)	28	–	438
Exchange differences	–	–	(11)	–	–	–	(11)
Acquisition of subsidiary	–	–	–	(3)	–	–	(3)
Transfer from current tax	–	–	–	–	(34)	–	(34)
At 31 March 2022	2,913	(195)	(36)	(857)	(154)	–	1,671
Non-current							
Deferred tax asset	–	(195)	(36)	(857)	(154)	953	(289)
Deferred tax liability	2,913	–	–	–	–	(953)	1,960
At 31 March 2022	2,913	(195)	(36)	(857)	(154)	–	1,671
Expense (credit) recognised in the income statement	886	(18)	(13)	(1,022)	(4)	–	(171)
Expense (credit) recognised in other comprehensive income	–	(413)	–	(311)	90	–	(634)
Expense (credit) recognised in equity	–	–	9	–	–	–	9
Exchange differences	–	–	–	(4)	(3)	–	(7)
Transfer to held for sale	–	–	–	–	2	–	2
Transfer to current tax	–	–	–	–	41	–	41
At 31 March 2023	3,799	(626)	(40)	(2,194)	(28)	–	911
Non-current							
Deferred tax asset	–	(626)	(40)	(2,194)	(28)	2,179	(709)
Deferred tax liability	3,799	–	–	–	–	(2,179)	1,620
At 31 March 2023	3,799	(626)	(40)	(2,194)	(28)	–	911

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

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

What factors affect our future tax charges?

We expect a large proportion of our capital spend on fibre roll-out to be eligible for the Government's super-deduction regime, which allows for enhanced and accelerated tax relief for qualifying capital expenditure. These enhanced deductions are available for FY22 and FY23, driving a projected UK tax loss and no UK tax payments for these periods. Together with trading losses and pension deficit contribution deductions, these result in c. £8bn of tax losses expected to be carried forward from FY23 to be utilised against UK taxable profit from FY24 onwards. These are represented by a net c. £2.0bn deferred tax asset which is disclosed within the £2,194m deferred tax asset relating to tax losses in the table above.

10. Taxation continued

What are our unrecognised tax losses and other temporary differences?

At 31 March 2023 we had operating losses and other temporary differences carried forward in respect of which no deferred tax assets were recognised amounting to £3.7bn (FY22: £3.8bn). Our other temporary differences have no expiry date restrictions. The expiry date of operating losses carried forward is dependent upon the tax law of the various territories in which the losses arose. A summary of expiry dates for losses in respect of which restrictions apply is set out below:

At 31 March 2023	£m	Expiry
Restricted losses		
Europe	–	2024–2027
Americas	365	2024–2045
Other	3	2024–2030
Total restricted losses	368	
Unrestricted operating losses	3,073	No expiry
Other temporary differences	266	No expiry
Total	3,707	

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

At 31 March 2023 the undistributed earnings of non-UK subsidiaries were £2.5bn (FY22: £1.9bn). No deferred tax liabilities have been recognised in respect of these unremitted earnings because the group is in a position to control the timing of any dividends from subsidiaries and hence any tax consequences that may arise. Under current tax rules, tax of £41m (FY22: £35m) would arise if these earnings were to be repatriated to the UK.

11. Earnings per share

How is earnings per share calculated?

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

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

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

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

12. Dividends

What is the group's dividend policy?

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

What dividends have been paid?

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

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

Notes to the consolidated financial statements continued

13. Intangible assets

Significant accounting policies that apply to intangible assets

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

Goodwill

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

Acquired intangible assets – customer relationships and brands

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

Telecommunications licences

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

Computer software

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

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

Other

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

Estimated useful economic lives

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

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

Impairment of intangible assets

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

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

13. Intangible assets continued

	Goodwill £m	Customer relationships and brands ^a £m	Telecoms licences and other ^b £m	Internally developed software ^c £m	Purchased software ^c £m	Total £m
Cost						
At 1 April 2021	7,838	3,383	3,013	4,753	1,135	20,122
Additions ^d	–	–	479	793	151	1,423
Acquisitions	94	–	–	–	2	96
Disposals and adjustments ^f	(7)	–	(3)	(239)	(272)	(521)
Transfers	–	–	1	45	(44)	2
Exchange differences	43	–	–	1	(1)	43
Transfers to assets held for sale ^e	(51)	–	–	(7)	–	(58)
At 31 March 2022	7,917	3,383	3,490	5,346	971	21,107
Additions	–	–	–	815	203	1,018
Acquisitions	–	–	–	–	–	–
Disposals and adjustments ^f	(21)	–	–	(466)	151	(336)
Transfers	–	–	–	30	(38)	(8)
Exchange differences	72	–	1	2	7	82
Transfer to assets held for sale ^e	(13)	–	–	–	–	(13)
At 31 March 2023	7,955	3,383	3,491	5,727	1,294	21,850
Accumulated amortisation						
At 1 April 2021	–	2,238	734	3,299	494	6,765
Amortisation charge for the year ^g	–	231	179	529	96	1,035
Impairment ^g	–	–	–	–	13	13
Disposals and adjustments ^f	–	–	(5)	(229)	(278)	(512)
Transfers	–	–	–	(2)	2	–
Exchange differences	–	–	–	1	(1)	–
Transfers to assets held for sale ^e	–	–	–	(3)	–	(3)
At 31 March 2022	–	2,469	908	3,595	326	7,298
Amortisation charge for the year ^g	–	231	185	596	153	1,165
Impairment ^g	–	–	–	–	–	–
Disposals and adjustments ^f	–	–	1	(389)	79	(309)
Transfers	–	–	–	(56)	56	–
Exchange differences	–	–	1	1	7	9
At 31 March 2023	–	2,700	1,095	3,747	621	8,163
Carrying amount						
At 31 March 2022	7,917	914	2,582	1,751	645	13,809
At 31 March 2023	7,955	683	2,396	1,980	673	13,687

a The remaining unamortised balance of customer relationships and brands relates to customer relationships recognised on acquisition of EE.

b Telecoms licences and other primarily represents spectrum licences. These include 2100 MHz licence with book value of £643m (FY22: £693m), 1800 MHz with book value of £590m (FY22: £636m), 700MHz with book value of £281m (FY22: £297m), 3400 MHz with book value of £242m (FY22: £258m) and 2600 MHz with book value of £206m (FY22: £227m). Spectrum licences are being amortised over a period between 11 and 19 years.

c Includes a carrying amount of £1,125m (FY22: £1,046m) in respect of assets under construction, which are not yet amortised.

d Additions to telecoms licences and other assets in FY22 include £479m recognised in relation to spectrum which represents the amount paid to Ofcom to secure the spectrum bands together with the related interference mitigation provision.

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

f Disposals and adjustments include the removal of assets from the group's fixed asset registers following disposals and the identification of fully amortised assets (including through operation of the group's annual asset verification exercise). They also include adjustments between gross cost and accumulated amortisation following review of fixed asset registers. These adjustments do not impact the net carrying amount of any asset class.

g In previous years impairment charges were included within the amortisation charge for the year but are now presented separately. FY22 comparatives have been re-presented for comparability.

Notes to the consolidated financial statements continued

13. Intangible assets continued

Impairment of goodwill

✍ Significant accounting policies that apply to impairment of goodwill

We perform an annual goodwill impairment review.

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash generating unit (CGU) level. These CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. Our CGUs are deemed to be Consumer, Enterprise and Global.

We allocate goodwill to each of the CGUs that we expect to benefit from the business combination. Each CGU to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes.

The value in use of each CGU is determined using cash flow projections derived from financial plans approved by the Board covering a five-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. Cash flows beyond the fifth year have been extrapolated using perpetuity growth rates.

🔍 Significant judgements and key accounting estimates made in reviewing goodwill for impairment

Determining our CGUs

The determination of our CGUs is judgemental. The identification of CGUs involves an assessment of whether the asset or group of assets generate largely independent cash inflows. This involves consideration of how our core assets are operated and whether these generate independent revenue streams. Our determination of CGUs is unchanged from FY22.

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

Estimating value in use

Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows and the discount rate for each CGU. Future cash flows used in the value in use calculations are on a nominal basis and based on our latest Board-approved five-year financial plans, representing management's best estimate of future growth. This includes the direct and indirect impacts of inflation and associated mitigations. Expectations about future growth reflect the expectations of growth in the markets to which the CGU relates and consideration of the overall variability relating to individual assumptions at the unit level. The future cash flows are discounted using a pre-tax nominal discount rate that reflects current market assessments of the time value of money. The discount rate used in each CGU is adjusted for the risk specific to the asset, including the countries in which cash flow will be generated, for which the future cash flow estimates have not been adjusted.

13. Intangible assets continued

We tested our goodwill for impairment as at 31 March 2023. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment and sensitivities are disclosed below.

Cost	Consumer £m	Legacy BT Consumer £m	Legacy EE £m	Enterprise £m	Global £m	Total £m
At 1 April 2021	–	1,183	2,768	3,475	412	7,838
Acquisitions and disposals	–	–	–	94	(7)	87
Transfer	3,951	(1,183)	(2,768)	–	–	–
Exchange differences	–	–	–	4	39	43
Transfer to assets held for sale ^a	(51)	–	–	–	–	(51)
At 31 March 2022	3,900	–	–	3,573	444	7,917
Acquisitions and disposals	(26)	–	–	4	1	(21)
Transfer	–	–	–	–	–	–
Exchange differences	–	–	–	4	68	72
Transfer to assets held for sale	–	–	–	(4)	(9)	(13)
At 31 March 2023	3,874	–	–	3,577	504	7,955

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

What discount rate have we used?

The pre-tax discount rates applied to the cash flow forecasts are derived from our post-tax weighted average cost of capital. The assumptions used in the calculation of the group's weighted average cost of capital are benchmarked to externally available data. The pre-tax discount rate used in performing the value in use calculation in FY23 was 9.4% (FY22: 7.6%). We have used the same discount rate for all CGUs except Global where we have used 9.7% (FY22: 7.9%) reflecting higher risk in some of the countries in which Global operates.

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

What growth rates have we used?

The perpetuity growth rates are determined based on the forecast market growth rates of the regions in which the CGU operates, and reflect an assessment of the long-term growth prospects of that market. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the expected average long-term growth rates for those markets or sectors. We used a perpetuity growth rate of 2.4% (FY22: 2.3%) for Global and 2.0% (FY22: 2.0%) for Enterprise and Consumer.

What sensitivities have we applied?

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

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

Notes to the consolidated financial statements continued

14. Property, plant and equipment

Significant accounting policies that apply to property, plant and equipment

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

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

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

Estimated useful economic lives

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

Land and buildings

– Freehold buildings	14 to 50 years
– Short-term leasehold improvements	Shorter of 10 years or lease term
– Leasehold land and buildings	Shorter of unexpired portion of lease or 40 years

Network infrastructure

Transmission equipment	
– Duct	40 years
– Cable	3 to 25 years
– Fibre	5 to 20 years
Exchange equipment	2 to 13 years
Other network equipment	2 to 20 years

Other assets

– Motor vehicles	2 to 10 years
– Computers and office equipment	3 to 7 years

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

Network share assets

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

Impairment of property, plant and equipment

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

Building Digital UK (BDUK) government grants

We receive government grants in relation to BDUK and other rural superfast broadband contracts. Where we have achieved certain service levels, or delivered the network more efficiently than anticipated, we have an obligation to either re-invest or repay grant funding. Where this is the case, we recognise deferred income in respect of the funding that will be re-invested or repaid, and make a corresponding adjustment to the carrying amount of the related property, plant and equipment.

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

Our assessment of how much grant income to defer includes consideration of the difference between the take-up percentage agreed with the local authority and the likelihood of actual take-up. The value of the government grants deferred is disclosed in note 18.

14. Property, plant and equipment continued

	Land and buildings £m	Network infrastructure		Other ^a £m	Assets under construction £m	Total £m
		Held by Openreach £m	Held by other units £m			
Cost						
At 1 April 2021	946	29,108	25,488	1,520	990	58,052
Additions ^b	87	–	111	89	3,548	3,835
Transfers	18	2,128	813	156	(3,117)	(2)
Disposals and adjustments ^c	(28)	40	(1,974)	(271)	29	(2,204)
Transfer to assets held for sale ^d	–	–	–	(50)	(4)	(54)
Exchange differences	(1)	–	1	–	–	–
At 31 March 2022	1,022	31,276	24,439	1,444	1,446	59,627
Additions ^b	7	–	129	7	3,947	4,090
Transfers ^e	89	2,617	913	211	(3,822)	8
Disposals and adjustments ^c	31	(118)	(183)	(33)	(70)	(373)
Transfer to assets held for sale ^d	–	–	(108)	(13)	–	(121)
Exchange differences	16	–	99	6	1	122
At 31 March 2023	1,165	33,775	25,289	1,622	1,502	63,353
Accumulated depreciation						
At 1 April 2021	612	16,076	20,946	1,137	–	38,771
Depreciation charge for the year ^f	37	1,372	1,092	157	–	2,658
Impairment ^f	–	–	–	11	–	11
Transfers	–	–	(1)	1	–	–
Disposals and adjustments ^c	(28)	28	(1,985)	(240)	–	(2,225)
Transfer to assets held for sale ^d	–	–	–	(41)	–	(41)
Exchange differences	–	–	(2)	–	–	(2)
At 31 March 2022	621	17,476	20,050	1,025	–	39,172
Depreciation charge for the year ^f	50	1,466	1,144	218	–	2,878
Impairment ^f	–	–	–	11	–	11
Transfers ^e	–	195	(192)	(4)	–	(1)
Disposals and adjustments ^c	32	(139)	(133)	(36)	–	(276)
Transfer to assets held for sale ^d	–	–	(106)	(11)	–	(117)
Exchange differences	13	–	91	7	–	111
At 31 March 2023	716	18,998	20,854	1,210	–	41,778
Carrying amount						
At 31 March 2022	401	13,800	4,389	419	1,446	20,455
Engineering stores	–	–	–	–	144	144
Total at 31 March 2022	401	13,800	4,389	419	1,590	20,599
At 31 March 2023	449	14,777	4,435	412	1,502	21,575
Engineering stores	–	–	–	–	92	92
Total at 31 March 2023	449	14,777	4,435	412	1,594	21,667

a Other mainly comprises motor vehicles, computers and fixtures and fittings.

b Net of government grants of £150m (FY22: £78m).

c Disposals and adjustments include the removal of assets from the group's fixed asset registers following disposals and the identification of fully depreciated assets (including through operation of the group's annual asset verification exercise). They also include adjustments between gross cost and accumulated depreciation following review of fixed asset registers, and adjustments resulting from changes in assumptions used in calculating lease-end obligations where the corresponding asset is capitalised.

d Transfers to assets held for sale are detailed in note 23.

e Following review of fixed asset registers during the year we transferred £195m accumulated depreciation relating to Openreach network infrastructure that was historically recorded against other units. Prior year comparatives have not been restated as the impact is not qualitatively material. There is no impact on the segmentation of the profit and loss depreciation charge as disclosed in note 4.

f In previous years impairment charges were included within the depreciation charge for the year but are now presented separately. FY22 comparatives have been re-presented for comparability.

Notes to the consolidated financial statements continued

14. Property, plant and equipment continued

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

- £14,777m (FY22: £13,800m) of the carrying amount of the network infrastructure asset class represents Openreach's network infrastructure. The majority of the associated assets are used to deliver fixed-line telecommunications services that have been assessed as containing operating leases, to both internal and external communications providers. Network infrastructure held by Openreach is presented separately in the table above; however it is not practicable to separate out infrastructure not used in operating lease arrangements.
- Other assets includes devices with a carrying amount of £163m (FY22: £169m) that are made available to retail customers under arrangements that contain operating leases. These are not presented separately in the table above as they are not material relative to the group's overall asset base.

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

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

Network infrastructure

Some of our network assets are jointly controlled by EE Limited with Hutchison 3G UK Limited. These relate to shared 3G network and certain elements of network for 4G rural sites. The net book value of the group's share of assets controlled by its joint operation MBNL is £721m (FY22: £562m) and is recorded within network infrastructure. Included within this is £66m (FY22: £73m), being the group's share of assets owned by its joint operation MBNL.

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

15. Leases

Significant accounting policies that apply to leases

Identifying whether a lease exists

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

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

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

Lessee accounting

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

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

The lease term is the non-cancellable period of the lease adjusted for the impact of any extension options that we are reasonably certain that the lessee will exercise, or termination options that we are reasonably certain that the lessee will not exercise.

The incremental borrowing rate is the rate that we would have to pay for a loan of a similar term, and with similar security, to obtain an asset of similar value.

Lease payments include:

- fixed payments
- variable lease payments that depend on an index or rate
- amounts expected to be paid under residual value guarantees
- the exercise price of any purchase options that we are reasonably certain to exercise
- payments due over optional renewal periods where we are reasonably certain to renew
- penalties for early termination of the lease where we are reasonably certain to terminate early

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

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

Right-of-use assets are initially measured at the initial amount of the corresponding lease liabilities, adjusted for any prepaid lease payments, plus any initial direct costs incurred and an estimate of any decommissioning costs that have been recognised as provisions, less any lease incentives received. They are subsequently depreciated using the straight-line method to the earlier of the end of the useful life of the asset or the end of the lease term. Right-of-use assets are tested for impairment following the policy set out in note 14 and are adjusted for any remeasurement of lease liabilities.

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

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

Notes to the consolidated financial statements continued

15. Leases continued

Lessor accounting

At inception or on modification of a contract that contains a lease component, we allocate the consideration in the contract to each lease component on the basis of their relative standalone prices.

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

To classify each lease, we make an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, we consider certain indicators such as whether the lease is for the major part of the economic life of the asset.

When we are an intermediate lessor, we account for our interests in the headlease and the sublease separately. We assess the lease classification of a sublease with reference to the right-of-use asset arising from the headlease, not with reference to the underlying asset. If a headlease is a short-term lease to which we apply the exemption described above, then we classify the sublease as an operating lease.

If an arrangement contains lease and non-lease components, then we apply IFRS 15 to allocate the consideration in the contract.

We apply the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. We further regularly review estimated unguaranteed residual values used in calculating the gross investment in the lease.

We recognise lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Significant judgements made in accounting for leases

The lease term is a key determinant of the size of the lease liability and right-of-use asset recognised where the group acts as lessee; and the deferral period for any upfront connection charges where the group acts as lessor. Determining the lease term requires judgement to evaluate whether we are reasonably certain the lessee will exercise extension options or will not exercise termination options. Key facts and circumstances that create an incentive to exercise those options are considered; these include:

- Our anticipated operational, retail and office property requirements in the mid and long term.
- The availability of suitable alternative sites.
- Costs or penalties associated with exiting lease arrangements relative to the benefits to be gained, including costs of removing leasehold improvements or relocating, and indirect costs such as disruption to business.
- Significant investments in leased sites, in particular those with useful lives beyond the lease term.
- Costs associated with extending lease arrangements including rent increases during secondary lease periods.

Our definition of 'reasonable certainty', and therefore the lease term, will often align with the judgements made in our medium-term plan, in particular for leases of non-specialised property and equipment on rolling (or 'evergreen') arrangements that continue until terminated and which can be exited without significant penalty.

Following initial determination of the lease term, we exercise judgement in evaluating whether events or changes in circumstances are sufficiently significant to change the initial assessment of whether we are reasonably certain the lessee will exercise extension options or will not exercise termination options; and in the subsequent reassessment of the lease term.

Key judgements exercised in setting the lease term

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

15. Leases continued

UK operational property portfolio

Substantially all of our leased property estate is held under an arrangement which can be terminated in 2031, at which point we may either vacate some or all properties or purchase the entire estate. If neither option is taken the lease continues to the next unilaterally available break point in 2041. The lease liability recognised for the arrangement reflects a lease end date of 2031.

On initial recognition we concluded that, although the majority of these properties are expected to be needed on a long-term basis, we couldn't be reasonably certain that we wouldn't exercise the termination option or that we would exercise the purchase option. In coming to this conclusion, we had due regard to material sub-lease arrangements relating to the estate.

As time progresses our assessment may change; if this happens, we will remeasure the lease liability and right-of-use asset to reflect either the rentals due for any properties we will continue to occupy, or the cost of purchasing the estate, using an updated discount rate. There would be no overall impact on net assets.

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

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

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

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

We are permitted to hand a limited number of properties back to the lessor prior to 2031. On initial adoption of IFRS 16 we were not reasonably certain which properties would be handed back and as such the lease term did not reflect the exercise of these options. Subsequently we exercise judgement in identifying significant events that trigger reassessment of our initial conclusion. We exercise similar judgement in identifying events triggering reassessment of whether we are reasonably certain we will not exercise termination options associated with other leased properties.

In doing so we consider decisions associated with our ongoing workplace rationalisation programme, in particular decisions to exit a particular location or lease an alternative property. Generally we remain reasonably certain that we will not exercise a termination option until implementation of the associated business plan has progressed to a stage that we are committed to exiting the property. At that point we reassess the lease term by reference to the time we expect to remain in occupation of the property and any notice period associated with exercise of the option.

Cell sites

Most of the liability recognised in respect of leased cell sites relates to multi-site arrangements with commercial providers. The fixed-term nature of these arrangements means it has not been necessary to exercise significant judgement when determining the lease term. Where the arrangements offer extension options we have been required to conclude whether the options are reasonably certain to be exercised. Although the balance sheet could be materially affected by the conclusion reached in regard to these options, we have not been required to exercise a significant degree of judgement in arriving at the lease term having regard to the period of time covered by the options, the difficulty in predicting the group's long-term network requirements, and the relatively high threshold that 'reasonably certain' represents.

A smaller proportion of the cell site liability relates to arrangements with individual landlords which are either rolling or can be exited with notice. When setting the initial lease term for these arrangements we exercised significant judgement in establishing the period that we are reasonably certain to require use of the site. We broadly aligned lease terms with our medium-term planning horizon after assessing the relative strengths of the following factors:

- Long-term economic incentives to remain on sites including existing capital improvements;
- A need to maintain flexibility in our ability to develop and manage our network infrastructure to react quickly to technological developments and evolving capacity requirements; and
- Incentives to renegotiate arrangements in the medium term to gain more security over sites to support future capital investment.

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

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

Notes to the consolidated financial statements continued

15. Leases continued

Right-of-use assets

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

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

a Additions comprise increases to right-of-use assets as a result of entering into new leases, and upwards remeasurement of existing leases arising from lease extensions or reassessments and increases to lease payments.

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

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

Lease liabilities

Lease liabilities recognised are as follows:

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

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

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

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

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

Note 29 presents a maturity analysis of the payments due over the remaining lease term for lease liabilities currently recognised on the balance sheet. This analysis only includes payments to be made over the reasonably certain lease term. Cash outflows are likely to exceed these amounts as payments will be made on optional periods that we do not currently consider to be reasonably certain, and in respect of leases entered into in future periods.

15. Leases continued

Other information relating to leases

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

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

	To be recognised as revenue (note 5) £m	To be recognised as other operating income (note 6) £m	Total £m
At 31 March 2023			
Less than one year	416	19	435
One to two years	131	15	146
Two to three years	46	15	61
Three to four years	13	14	27
Four to five years	10	13	23
More than five years	–	20	20
Total undiscounted lease payments	616	96	712
At 31 March 2022			
Less than one year	446	20	466
One to two years	148	13	161
Two to three years	40	12	52
Three to four years	3	12	15
Four to five years	3	12	15
More than five years	–	24	24
Total undiscounted lease payments	640	93	733

16. Programme rights

Significant accounting policies that apply to programme rights

Programme rights are recognised on the balance sheet from the point at which the legally enforceable licence period begins. They are accounted for as inventory and held at the lower of cost and net realisable value. They are initially recognised at cost and are consumed from the point at which they are available for use, on a straight-line basis over the programming period, or the remaining licence term, as appropriate, which is generally 12 months.

Additions reflect TV programme rights for which the legally enforceable licence period has started during the year.

Rights for which the licence period has not started are disclosed as contractual commitments in note 32. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 17). No contractual commitments or prepayments exist in respect of programme rights at 31 March 2023 following the BT Sport divestment during the year.

Programme rights were disposed in year as part of the BT Sport divestment, see note 23 for further details.

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

Notes to the consolidated financial statements continued

17. Trade and other receivables

Significant accounting policies that apply to trade and other receivables

Trade receivables are recognised where the right to receive payment from customers is conditional only on the passage of time. We initially recognise trade and other receivables at fair value, which is usually the original invoiced amount. They are subsequently carried at amortised cost using the effective interest method. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

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

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

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

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

At 31 March	2023 £m	2022 £m
Current		
Trade receivables	1,395	1,339
Prepayments	545	523
Accrued income	158	150
Deferred contract costs	369	336
Finance lease receivables ^a	29	3
Amounts due from joint ventures	268	–
Other assets ^{a,b}	296	273
	3,060	2,624
Non-current		
Deferred contract costs	211	226
Finance lease receivables ^a	98	90
Other assets ^{a,b}	194	21
	503	337

a In previous years finance lease receivables were included within other receivables but are now presented separately. FY22 comparatives have been re-presented for comparability.
b Other assets comprise prepayments and £70m (FY22: £nil) of deferred cash consideration relating to the disposal of BT Sport, see note 23.

Amounts due from joint ventures relates to a sterling Revolving Credit Facility (RCF) provided to the Sports JV formed during the year, see note 23. The RCF is in place to provide short-term liquidity required by the Sports JV to fund working capital and commitments to sports rights holders, up to a maximum of £300m (expected to decrease to £200m during FY24). Amounts drawn down by the Sports JV under the RCF accrue interest at a market reference rate, consistent with group's external short-term borrowings, and is held as a financial asset at amortised cost. The expected loss provision is immaterial.

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

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

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

17. Trade and other receivables continued

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

At 31 March	Past due and not specifically impaired						Total £m
	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	
2023							
Expected loss rate %	1%	75%	10%	46%	41%	52%	11%
Gross carrying amount	1,030	20	265	48	59	141	1,563
Loss allowance	(8)	(15)	(26)	(22)	(24)	(73)	(168)
Net carrying amount	1,022	5	239	26	35	68	1,395
2022							
Expected loss rate %	1%	84%	12%	24%	33%	69%	14%
Gross carrying amount	946	20	280	63	70	183	1,562
Loss allowance	(8)	(17)	(34)	(15)	(23)	(126)	(223)
Net carrying amount	938	3	246	48	47	57	1,339

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

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

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

Deferred contract costs

Significant accounting policies that apply to deferred contract costs

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

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

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

Notes to the consolidated financial statements continued

17. Trade and other receivables continued

The following table shows the movement on deferred costs:

	Deferred connection costs £m	Deferred contract acquisition costs – commissions £m	Deferred contract acquisition costs – dealer incentives £m	Transition and transformation £m	Total £m
At 1 April 2021	32	94	348	85	559
Additions	17	98	291	50	456
Amortisation	(14)	(78)	(308)	(33)	(433)
Impairment	(1)	(5)	(10)	(11)	(27)
Other	(10)	15	3	(1)	7
At 31 March 2022	24	124	324	90	562
Additions	15	100	285	70	470
Amortisation	(15)	(94)	(276)	(67)	(452)
Impairment	–	(1)	(1)	–	(2)
Other	(2)	2	(2)	4	2
At 31 March 2023	22	131	330	97	580

18. Trade and other payables

Significant accounting policies that apply to trade and other payables

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

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

At 31 March	2023 £m	2022 £m
Current		
Trade payables	4,196	4,143
Other taxation and social security	581	573
Minimum guarantee from BT Sport disposal ^a	195	–
Accrued expenses	458	549
Deferred income ^b	532	345
Other payables ^c	602	532
	6,564	6,142
Non-current		
Minimum guarantee from BT Sport disposal ^a	465	–
Deferred income ^b	403	594
Other payables ^c	52	30
	920	624

a See note 23.

b Deferred income includes £258m (FY22: £96m) current and £169m (FY22: £392m) non-current liabilities relating to Building Digital UK, for which grants received by the group may be subject to re-investment or repayment depending on the level of take-up.

c During FY23 we reclassified £132m payables to provisions (note 19) following reassessment of the level of certainty over the timing and amount of any outflow of resources.

Current trade and other payables at 31 March 2023 include:

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

19. Provisions & contingent liabilities

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

Significant accounting policies that apply to provisions & contingent liabilities

We recognise provisions when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

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

Provisions are determined by discounting the expected future cash flows at a nominal pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Cash flows are adjusted for the effect of inflation where appropriate.

Key accounting estimates and significant judgements made in accounting for provisions & contingent liabilities

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

As part of this assessment, we also assess the likelihood of contingent liabilities occurring in the future. Contingent liabilities are not recognised as liabilities on our balance sheet. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. We assess the likelihood that a potential claim or liability will arise and also quantify the possible range of financial outcomes where this can be reasonably determined.

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

Key accounting estimates applied in accounting for provisions and contingent liabilities

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

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

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

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

Notes to the consolidated financial statements continued

19. Provisions & contingent liabilities continued

Our regulatory provision represents our best estimate of the cost to settle our present obligation in relation to historical regulatory matters. The charge/credit for the year represents the outcome of management's re-assessment of the estimates and regulatory risks across a range of issues, including price and service issues. The prices at which certain services are charged are regulated and may be subject to retrospective adjustment by regulators. When estimating the likely value of regulatory risk we make key judgements, including in regard to interpreting Ofcom regulations and past and current claims. The precise outcome of each matter depends on whether it becomes an active issue, and the extent to which negotiation or regulatory and compliance decisions will result in financial settlement. The ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement.

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

Establishing contingent liabilities associated with litigation brought against the group may involve the use of key estimates and assumptions, in particular around the ability to form a reliable estimate of any probable outflow. We provide further information in relation to specific matters in the 'contingent liabilities' section below.

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

Other provisions do not include any individually material provisions.

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

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

a Timing of expected cash flows associated with property and network ARO provisions varies depending on the exit dates of individual properties and sites. Provision releases during FY23 primarily relate to the remeasurement of provisions using increased discount rates that reflect an increase in risk-free rates.

b Third party claims described as insurance in prior periods, relabelled to better reflect the nature of the underlying exposures. Within this balance £77m held in respect of our gross exposure to latent disease claims from former colleagues and £30m for motor vehicle claims, with no individually material items in the remaining balance.

c Network share provisions were previously presented separately but are now presented within Other provisions due to their relative immateriality. FY22 comparatives have been restated for comparability. Network share provisions were £5m at 31 March 2022 and £5m at 31 March 2023.

d Other provisions include contract loss provisions of £8m (FY22: £1m) relating to the anticipated total losses in respect of certain contracts.

e Opening balance adjustment arising on adoption of the amendments to IAS 37, see note 1.

f Transfers into third party claims in FY23 relate to the reclassification of balances previously presented in other payables (note 18) following reassessment of the level of certainty over the timing and amount of any outflow of resources.

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

19. Provisions & contingent liabilities continued

Contingent liabilities and legal proceedings

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

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

In respect of each of the claims below, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. There are many reasons why we cannot make these assessments with certainty, including, among others, that they are in early stages, no damages or remedies have been specified, and/or the often slow pace of litigation.

Class action claim

In January 2021, law firm Mishcon de Reya applied to the Competition Appeal Tribunal to bring a proposed class action claim for damages they estimated at £608m (inclusive of compound interest) or £589m (inclusive of simple interest) on behalf of our landline customers alleging anti-competitive behaviour through excessive pricing by BT to customers with certain residential landline services. Ofcom considered this topic more than five years ago. At that time, Ofcom's final statement made no finding of excessive pricing or breach of competition law more generally. The claim seeks to hold against us the fact that we implemented a voluntary commitment to reduce prices for customers that have a BT landline only and not to increase those prices beyond inflation (CPI). At the reporting date we are not aware of any evidence to indicate that a present obligation exists such that any amount should be provided for. In September 2021 the Competition Appeal Tribunal certified the claim to proceed to a substantive trial on an opt-out basis (class members are automatically included in the claim unless they choose to opt-out). We appealed the opt-out nature of that decision and in May 2022 the Court of Appeal determined that the claim should proceed on an opt-out basis. A hearing window has been set for January – April 2024. BT intends to defend itself vigorously.

Italian business

Milan Public Prosecutor prosecutions: in February 2019 the Milan Public Prosecutor served BT Italia S.P.A. (BT Italia) with a notice (which named BT Italia, as well as various individuals) to record the Prosecutor's view that there is a basis for proceeding with its case against BT Italia for certain potential offences, namely the charge of having adopted, from 2011 to 2016, an inadequate management and control organisation model for the purposes of Articles 5 and 25 of Legislative Decree 231/2001. BT Italia disputes this and maintains in a defence brief filed in April 2019 that: (a) BT Italia did not gain any interest or benefit from the conduct in question; and (b) in any event, it had a sufficient organisational, management and audit model that was circumvented/overridden by individuals acting in their own self-interest. However, following a series of committal hearings in Autumn 2020, on 10 November 2020, the Italian court agreed (as is the normal process unless there are limitation or other fundamental issues with the claim) that BT Italia, and all but one of the individuals, should be committed to a full trial. The trial commenced on 26 January 2021 and is ongoing. On 23 April 2021, the Italian court allowed some parties to be joined to the criminal proceedings as civil parties ('parte civile') – a procedural feature of the Italian criminal law system. These claims are directed at certain individual defendants (which include former BT/ BT Italia employees). Those parties have now successfully joined BT Italia as a respondent to their civil claims ('responsabile civile') on the basis that it is vicariously responsible for the individuals' wrongdoing. If successful, the quantum of those claims is not anticipated to be material.

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

Phones 4U

Since 2015 the administrators of Phones 4U Limited have made allegations that EE and other mobile network operators colluded to procure Phones 4U's insolvency. Legal proceedings for an unquantified amount were issued in December 2018 by the administrators. The trial on the question of liability/breach ran from May to July 2022. The parties are now awaiting judgment, and the court has not yet indicated when it will be delivered. A second trial on quantum would be required in the event of a finding for the claimant. We continue to dispute these allegations vigorously.

UK Competition and Markets Authority (CMA) investigation

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

Notes to the consolidated financial statements continued

20. Retirement benefit plans

Background to BT's pension plans

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

- The BT Pension Scheme (BTPS) is the largest UK Defined Benefit plan. It was closed to future benefit accrual in 2018 for the majority of members, and has 62,000 deferred members and 208,000 pensioners. All BTPS members receive pensions benefits at retirement based on salary and years of service, and some members also receive a lump sum payment at retirement. Increases for the majority of benefits are linked to either the Retail Price Index (RPI) or the Consumer Price Index (CPI). The scenarios on [page 196](#) illustrate how sensitive the BTPS liabilities are to inflation expectations. The BTPS constitutes 97% of BT Group's IAS 19 liability.
- The EE Pension Scheme (EEPS) has a Defined Benefit section that was closed to future benefit accrual in 2014 and a Defined Contribution section. The Defined Benefit section constitutes 2% of BT Group's IAS 19 liability.
- The BT Retirement Saving Scheme (BTRSS) is a Defined Contribution, contract-based, plan operated by Standard Life which new UK employees join. There are around 65,000 employees building benefits in the BTRSS.

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

Types of retirement benefit plans

Defined benefit ("DB") plans

DB plan benefits are determined by the plan rules, typically dependent on factors such as age, years of service and pensionable pay, but not on the value of actual contributions made by the company and members. The group is exposed to investment and other experience risks and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions, expected investment income and assets held.

The net defined benefit liability, or deficit, is the present value of all expected future benefit cash flows to be paid by each plan, calculated using the projected unit credit method by professionally qualified actuaries (also known as the Defined Benefit Obligation (DBO) or liabilities) less the fair value of the plan assets.

Defined contribution ("DC") plans

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

Amounts in the financial statements

Group income statement

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

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

a All employees impacted by the closure of the BTPS were eligible for transition payments from the date of closure into their BTRSS pot for a period linked to the employee's age.

20. Retirement benefit plans continued

Group balance sheet

The net defined benefit liability in respect of defined benefit plans reported in the group balance sheet are set out below. EEPS is in a surplus position in FY23 (FY22: deficit position) so assets and liabilities are presented within non-current assets (FY22: non-current liabilities).

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

a In the context of IFRIC 14, BT is not required to limit any pension surplus or recognise additional pensions liabilities in individual plans as economic benefits are available in the form of either future refunds or reductions to future contributions. In particular, a refund of surplus is available following the gradual settlement of the liabilities over time when there are no members remaining in the BTPS or EEPS.

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

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

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Movements in defined benefit plan assets and liabilities

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

	Assets £m	Liabilities £m	Deficit £m
At 31 March 2021	54,612	(59,708)	(5,096)
Service cost (including administration expenses and PPF levy)	(47)	(20)	(67)
Past service credit	–	1	1
Interest on net pension deficit	1,095	(1,188)	(93)
Included in the group income statement			(159)
Return on plan assets above the amount included in the group income statement	780	–	780
Actuarial gain arising from changes in financial assumptions	–	2,932	2,932
Actuarial gain arising from changes in demographic assumptions	–	804	804
Actuarial (loss) arising from experience adjustments ^a	–	(1,651)	(1,651)
Included in the group statement of comprehensive income			2,865
Regular contributions by employer	114	–	114
Deficit contributions by employer	1,121	–	1,121
Included in the group cash flow statement			1,235
Contributions by employees	1	(1)	–
Benefits paid	(2,748)	2,748	–
Other (e.g. foreign exchange)	9	3	12
Other movements			12
At 31 March 2022	54,937	(56,080)	(1,143)
Service cost (including administration expenses and PPF levy)	(38)	(17)	(55)
Past service credit	–	2	2
Interest on net pension deficit	1,480	(1,498)	(18)
Included in the group income statement			(71)
Return on plan assets below the amount included in the group income statement	(14,911)	–	(14,911)
Actuarial gain arising from changes in financial assumptions	–	12,279	12,279
Actuarial gain arising from changes in demographic assumptions	–	891	891
Actuarial (loss) arising from experience adjustments ^a	–	(1,135)	(1,135)
Included in the group statement of comprehensive income			(2,876)
Regular contributions by employer	22	–	22
Deficit contributions by employer	994	–	994
Included in the group cash flow statement			1,016
Contributions by employees	1	(1)	–
Benefits paid	(2,686)	2,686	–
Other (e.g. foreign exchange)	9	(22)	(13)
Other movements			(13)
At 31 March 2023	39,808	(42,895)	(3,087)

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

How is the BTPS governed and managed?

BT Pension Scheme Trustees Limited (the Trustee) has been appointed by BT as an independent trustee to administer and manage the BTPS on behalf of the members in accordance with the terms of the BTPS Trust Deed and Rules and relevant legislation (principally the pensions acts of 1993, 1995, 2004 and 2021). The Trustee's key powers include setting the investment strategy of BTPS (after consultation with BT) and agreeing with BT the actuarial assumptions to be used when assessing the BTPS funding position and the resulting contributions that will be paid.

There are nine Trustee directors, all of whom are appointed by BT, as illustrated below. Trustee directors are usually appointed for a three-year term but are then eligible for re-appointment.

**Chairman of the Trustee directors**

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

**Member nominated Trustee directors**

Appointed by BT based on nominations by trade unions.

**Employer nominated Trustee directors**

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

20. Retirement benefit plans continued

BTPS IAS 19 assets

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

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

Valuation of main quoted investments

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds that are regularly traded are valued using broker quotes.
- Exchange traded derivative contracts are valued based on closing bid prices

Valuation of main unquoted investments

A portion of unquoted investments are valued based on inputs that are not directly observable, which require more judgement. The assumptions used in valuing unquoted investments are affected by market conditions.

- Equities are valued using the International Private Equity and Venture Capital (IPEVC) guidelines where the most significant assumptions are the discount rate and earnings assumptions.
- Property investments are valued on the basis of open market value by an independent valuer using RICS guidelines. The significant assumptions used in the valuation are rental yields and occupancy rates.
- Bonds, including those issued by BT, that are not regularly traded are valued by an independent valuer using pricing models making assumptions for credit risk, market risk and market yield curves.
- Holdings in investment funds are typically valued at the Net Asset Value provided by the fund administrator or investment manager. The significant assumption used in the valuation is the Net Asset Value.
- Infrastructure investments are valued by an independent valuer using a model-based valuation such as a discounted cash flow approach, or at the price of recent market transactions if they represent fair value. Where a discounted cash flow model is used, the significant assumptions used in the valuation are the discount rate and the expected cash flows.
- Over the counter derivatives are valued by an independent valuer using cash flows discounted at market rates. The significant assumptions used in the valuation are the yield curves and cost of carry.
- The longevity insurance contract is measured by discounting the projected cash flows payable under the contract (projected by an actuary, consistent with the terms of the contract). The significant assumptions used to value the asset are the discount rate (including adjustments to the risk free rate) and the mortality assumptions.

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

Asset-backed funding arrangement

The asset-backed funding arrangement, issued to the BTPS in May 2021, has a fair value of £1.3bn at 31 March 2023 (2022: £1.4bn) calculated as the present value of the future stream of payments, allowing for the probability of the BTPS becoming fully funded and therefore the payments to the BTPS ending early. It is not recognised as a pension asset when measuring the group's IAS 19 net defined benefit liability as it is a non-transferable financial instrument issued by the group.

How are the BTPS assets invested?

The Trustee regularly reviews the allocation of assets between different investment classes, taking into account current market conditions and trends. The allocations reflect the Trustee's views on a range of areas, including: i) the balance between seeking returns and incurring risk; ii) the extent to which the assets should be allocated to match movements in the liabilities due to changes in interest rates, inflation and/or longevity (i.e. liability-driven investments, or LDI); iii) the extent to which the assets should provide cash flows to meet expected payments to beneficiaries; and iv) liquidity needed to meet benefit payments and collateral requirements for derivatives contracts.

Financial derivatives (e.g. swaps) are used to reduce the mismatch between movements in the liabilities and the assets from changes in interest rates, inflation, and exchange rates. This provides greater stability in the funding position, and therefore the deficit contributions that may be required from BT. The sensitivity chart on [page 198](#) shows how the use of some of these derivatives adjusts outcomes for the BTPS. While the use of derivatives reduces funding risk, it increases the Scheme's liquidity requirements which is factored into the overall investment strategy. Following the impact of the September 2022 mini-budget on derivatives, the Bank of England and the Pensions Regulator issued guidance on the minimum level of collateral pension schemes should hold. At 31 March 2023, the BTPS held more collateral than these minimum levels.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

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

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

a At 31 March 2023, the BTPS held nil (FY22: nil) equity issued by the group and £1,550m (FY22: £1,930m) of bonds issued by the group.

b This allocation seeks to generate a positive return in all market conditions.

c This allocation includes a range of credit investments, including emerging market, sub-investment grade and unrated credit. The allocation seeks to exploit investment opportunities within credit markets using the expertise of a range of specialist investment managers.

d Around 72% (2022: 83%) of these are index-linked gilts with the remainder in conventional gilts.

e This allocation includes property, infrastructure and credit investments and provides the BTPS contractual income and expected return in excess of corporate bonds.

f The value reflects experience to date on the contract from higher than expected deaths; This partly offset a corresponding reduction in BTPS's liabilities over the same period.

g Other balances comprise net amounts receivable / (payable) by the BTPS, including investment balances due to and from brokers.

BTPS IAS 19 Liabilities

Q Critical accounting estimates and significant judgements made when valuing our pension liabilities

The measurement of the service cost and the liabilities involves judgement about uncertain events including the life expectancy of members, price inflation and the discount rate used to calculate the net present value of the future pension payments. We use estimates for all of these uncertain events. Our assumptions reflect historical experience, market expectations (where relevant), actuarial advice and our judgement regarding future expectations at the balance sheet date.

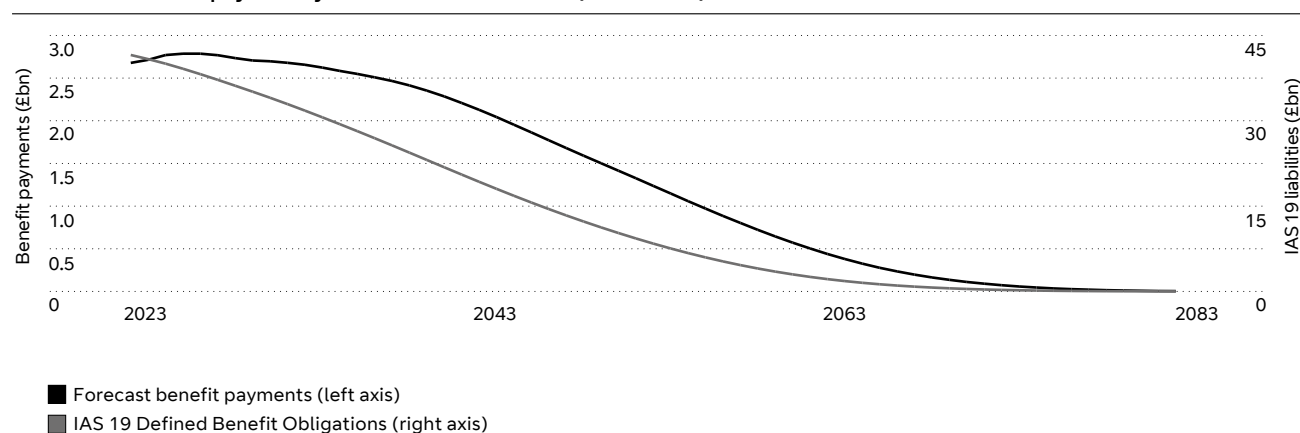
What are the forecast benefits payable from the BTPS?

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

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

20. Retirement benefit plans continued

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



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

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

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

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

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

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

	Detail
Discount rate	<p>The discount rate assumption is calculated by applying the projected BTPS benefit cash flows to a corporate bond yield curve constructed by our external actuary based on the yield on AA-rated £-denominated corporate bonds at the balance sheet date. In setting the yield curve, judgement is required on the selection of appropriate bonds to be included in the universe and the approach used to then derive the yield curve.</p> <p>The increase in the discount rate over the year reflects changes in the market yield of corporate bonds.</p>
RPI and CPI inflation	<p>RPI inflation expectations are calculated by applying the projected BTPS benefit cash flows to an inflation curve derived from market yields on UK government bonds, and making a deduction for an inflation risk premium (to reflect the extra premium paid by investors for inflation linked assets) of 0.2% pa before 2030 and 0.3% pa thereafter.</p> <p>CPI inflation expectations are set with reference to the RPI inflation assumption taking into account market data and independent estimates of the expected difference. Before 2030, CPI inflation is assumed to be 1.0% lower than RPI inflation (2022: 1.0%). RPI will be aligned with CPIH from 2030, and we assume a nil gap between CPI and CPIH inflation as historically these measures have been broadly comparable.</p>
Pension increases	<p>Benefits are assumed to increase in line with the RPI or CPI inflation assumptions. Under the BTPS rules, benefit increases prior to retirement are primarily linked to CPI capped at 5%, and the majority of benefits increase after retirement linked to either CPI for Sections A and B or RPI with a 5% cap for Section C.</p>
Longevity	<p>The longevity assumption takes into account:</p> <ul style="list-style-type: none"> – the actual mortality experience of the BTPS pensioners, based on a formal review carried out for the 2020 triennial funding valuation – future improvements in longevity based on the CMI's 2021 Mortality Projections model published by the UK actuarial profession <p>There is significant uncertainty as to the impact of the Covid-19 pandemic on future life expectancy. We continue to assume that following the pandemic there is a short-term increase in deaths compared to the assumptions adopted prior to the pandemic and we have fully allowed for population mortality data from 2022, but not data from 2020 and 2021. Allowing for the 2022 data reduced the BTPS liabilities by £0.7bn.</p> <p>We continue to assume mortality will improve in the long term by 1% per year.</p>

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Risks underlying the BTPS deficit

Background

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

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

Change in	Impact
Government bond yields	A fall in government bond yields will: <ul style="list-style-type: none"> – increase the IAS 19 liabilities, driven by the fall in the discount rate. – increase the assets, driven by an increase in the value of government bonds, corporate bonds and interest rate derivatives held by the BTPS.
Credit spreads	A fall in credit spreads will lead to a fall in corporate bond yields, and therefore an increase in the IAS 19 liabilities and a corresponding but smaller increase in both asset values and funding liabilities.
Inflation expectations	A significant proportion of the benefits paid to members are currently increased in line with RPI or CPI inflation. <p>Changes in average inflation expectations over the lifetime of the plan</p> <p>An increase in average inflation expectations will:</p> <ul style="list-style-type: none"> – increase the IAS 19 liabilities – increase the value of index-linked bonds, other inflation linked assets and inflation derivatives held by the BTPS <p>Changes in inflation over the next year</p> <p>If inflation over the next year is lower or higher than assumed, it would lead to a fall or increase in the IAS 19 liabilities. We estimate the change in asset values will broadly offset the movement in both the IAS 19 liabilities and funding liabilities. If inflation is higher than the caps that apply to benefits, the assets will increase by more than the liabilities. Similarly, in a deflationary environment, the asset values are expected to fall by more than the IAS 19 liabilities and funding liabilities since the payments on index-linked gilts would be reduced but pensions paid by the BTPS would not.</p>
Growth assets	A significant proportion of the BTPS assets are invested in growth assets, such as equities and property. Although the BTPS has temporary hedges in place to partly offset the impact of a fall in equity markets, and adopts a diverse portfolio, a fall in these growth assets will increase the IAS 19 and funding deficit.
Life expectancy	An increase in the life expectancy of members will result in benefits being paid out for longer, leading to an increase in the IAS 19 liabilities and funding liabilities. <p>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.</p>

Other risks include: changes in legislation or regulation which impact the value of the liabilities or assets; and member take-up of options before and at retirement to reshape their benefits. The scale of the BTPS means that investment changes and any future de-risking actions need to be planned and executed carefully, potentially over an extended timeframe or multiple transactions.

Scenario analysis

The potential negative impact of these risks is illustrated by the following five scenarios. These have been assessed by BT's independent actuary as scenarios that might occur no more than once in every 20 years. The scenarios have been updated to reflect market experience over the last year.

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

a Scenario assumes a fall in the yields on both government and corporate bonds.

b Scenario assumes an increase in the yield on corporate bonds, with no change to yield on government bonds.

c Scenario assumes average RPI and CPI inflation expectations over the lifetime of the plan increase by the same amount.

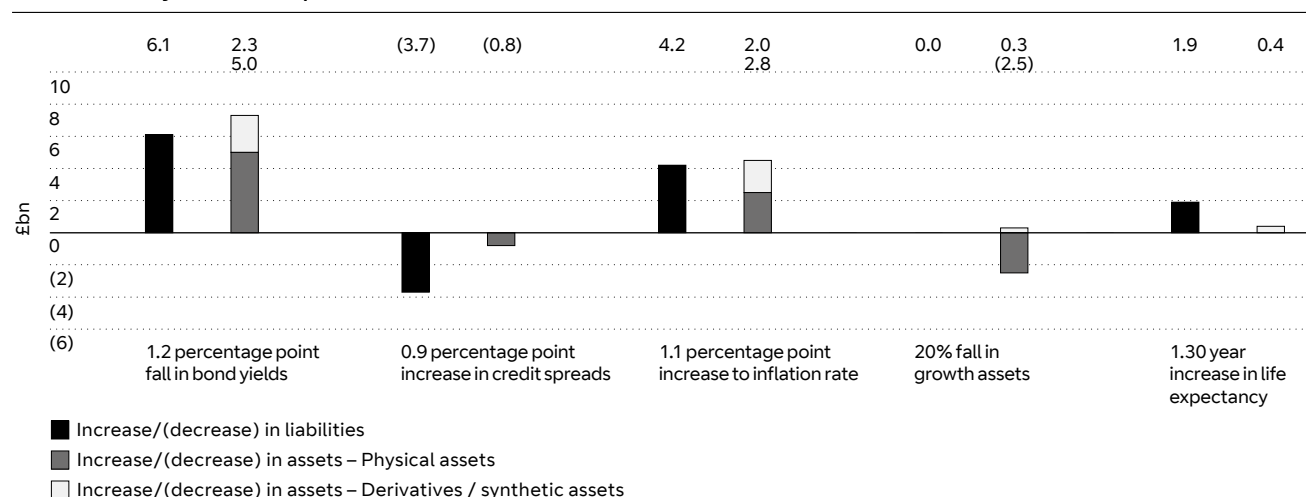
d Impact includes the potential impact of temporary equity hedges held by the BTPS. Scenario considers combinations of changes to the key inputs used to value the growth assets, leading to a 20% fall in the aggregate value of the growth assets prior to temporary hedges held by the BTPS.

The impact shown under each scenario looks at each event in isolation. In practice a combination of events could arise, and the effects are not additive nor are they linear (e.g. doubling the change in bond yields assumed will not exactly double the impact).

20. Retirement benefit plans continued

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

Scenario analysis – IAS 19 position at 31 March 2023



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

BTPS funding

Triennial funding valuation

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

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

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

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

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

Key assumptions at valuation date:

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

^a The discount rate at 30 June 2020 was derived from prudent return expectations that reflect the investment strategy over time, allowing for the BTPS to de-risk to a portfolio consisting predominantly of bond and bond-like investments by 2034.

Notes to the consolidated financial statements continued

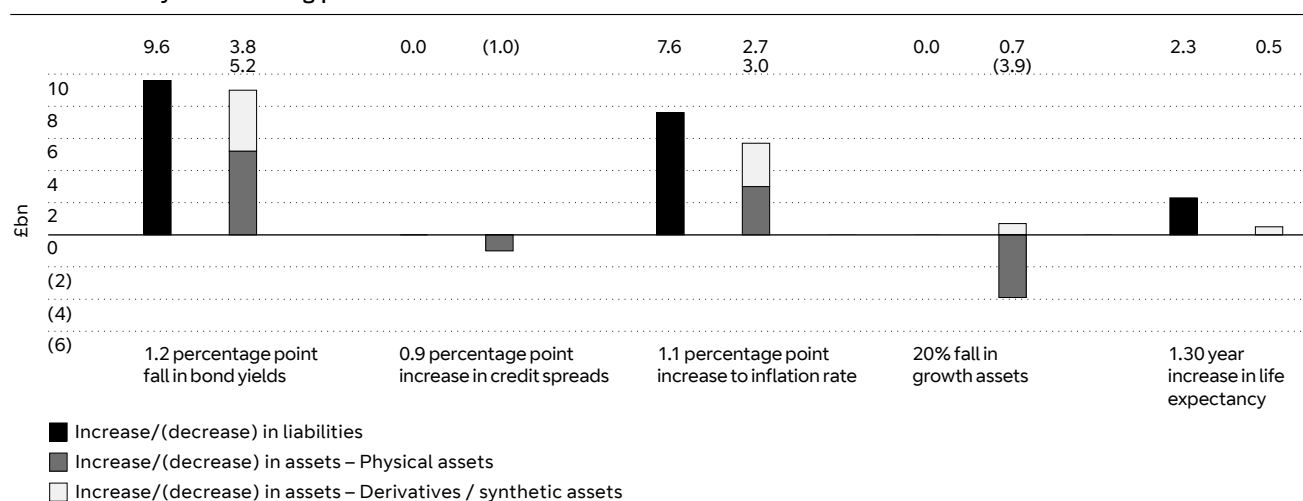
20. Retirement benefit plans continued

Interim updates of the funding position (unaudited)

The Scheme Actuary carried out an interim assessment as at 30 June 2022, estimating the BTPS's funding position to have improved from a deficit of £8.0bn to £4.4bn, predominantly reflecting £3.5bn of contributions from BT. BT and the Trustee will agree cash contributions in the usual way at the next full triennial funding valuation, scheduled to take place as at 30 June 2023.

The impact of changes in market conditions on the funding liabilities differs to the impact on the IAS 19 liabilities. For example, the funding liabilities use a discount rate linked to a risk-free rate and a fixed margin which is reviewed at each triennial valuation, whereas the IAS 19 liabilities use a discount rate based on corporate bond yields (and so are affected by changes in credit spreads). The chart below illustrates the impact of the scenarios set on [page 196](#) on the 30 June 2022 interim assessment of the funding position.

Scenario analysis – Funding position at 30 June 2022



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

Deficit payments from the Group

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

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

These payments are summarised in the table below:

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

a £500m due by 30 June.

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

ABF

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

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

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

20. Retirement benefit plans continued

Co-investment vehicle

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

The co-investment vehicle provides BT with some protection against the risk of overfunding by allowing money to be returned to BT if not needed by the BTPS, enabling BT to provide upfront funding with greater confidence.

To the extent there is a funding deficit at 30 June 2034, the co-investment vehicle will pay funds to the BTPS. BT will receive tax relief on funds paid at this point, rather than in the year when funds are paid from BT into the vehicle. Any remaining funds in the co-investment vehicle will then be returned to BT in three annual payments in 2035, 2036 and 2037, unless the BTPS has subsequently moved into funding deficit or the Trustee, acting prudently but reasonably, decides to defer or reduce these payments.

Protections for BTPS (going concern)

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

Feature	Detail
Future funding commitment	<p>BT will provide additional contributions, of between £150m pa and £200m pa, should the funding deficit fall more than £1bn behind plan at any 30 June interim assessment.</p> <p>The payments will stop once an interim assessment shows the funding deficit is back on plan, i.e. the recovery plan agreed at the last triennial valuation is sufficient to meet the funding deficit.</p> <p>The next annual test will be carried out as at 30 June 2023.</p>
Shareholder distributions	<p>BT will provide additional payments to the BTPS by the amount that shareholder distributions exceed a threshold. For the three years following the 2020 valuation, the threshold allows for 10% per year dividend per share growth based on dividends restarting at 7.7p per share in FY22.</p> <p>BT has agreed to implement a similar protection at each subsequent valuation, with the terms to be negotiated at the time.</p> <p>BT will consult with the Trustee if:</p> <ul style="list-style-type: none"> – it considers share buybacks for any purpose other than relating to employee share awards; – it considers making any shareholder distributions in any of the next 3 years if annual normalised free cash flow of the group is below £1bn in the year and distributions within the year would be in excess of 120% of the above threshold; or – it considers making a special dividend.
Material corporate events	<p>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).</p> <p>The amount payable is one third of the total net cash proceeds, or the amount by which the Protections Deficit exceeds £2bn if lower.</p> <p>BT will consult with the Trustee if:</p> <ul style="list-style-type: none"> – it considers making acquisitions with a total cost of more than £1.0bn in any 12-month period; – it considers making any disposal of more than £1.0bn; – it considers making a Class 1 transaction which will have a material impact on the BTPS (acquisition or disposal); – it is likely to be subject to a takeover offer; or – there is any other corporate or third party events which may have a material detrimental impact on BT's covenant to the BTPS, and BT will use best endeavours to agree appropriate mitigation <p>This obligation is ongoing until otherwise terminated.</p>
Negative pledge	<p>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.</p>

No additional contributions were triggered during FY23.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Protections for BTPS (insolvency)

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

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

Feature	Detail
Crown Guarantee	<p>The Crown Guarantee was granted by the Government when the group was privatised in 1984 and would only come into effect upon the insolvency of BT. In July 2014, the courts established that:</p> <ul style="list-style-type: none"> – 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. <p>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.</p>
Pension Protection Fund (PPF)	Further protection is also provided by the PPF which is the fund responsible for paying compensation in schemes where the employer becomes insolvent.

EEPS funding valuation

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

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

21. Own shares

Significant accounting policies that apply to own shares

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

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

a At 31 March 2023, 36,190,551 shares (FY22: 41,429,938) with an aggregate nominal value of £2m (FY22: £2m) were held at cost as treasury shares and 193,798,578 shares (FY22: 94,120,883) with an aggregate nominal value of £10m (FY22: £5m) were held in the Trust.

b See group cash flow statement. The cash paid for the repurchase of ordinary shares was £138m (FY22: £184m). 40m shares (FY22: 15m) were purchased via forward contracts. The cash received from proceeds on the issue of treasury shares was £5m (FY22: £13m).

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

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

22. Share-based payments

Significant accounting policies that apply to share-based payments

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

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

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

Year ended 31 March	2023 £m	2022 £m
Employee saveshare plans	21	29
Yourshare	12	28
Executive share plans:		
Incentive Share Plan (ISP)	–	14
Deferred Bonus Plan (DBP)	12	11
Retention and Restricted Share Plans (RSP)	35	26
	80	108

What share incentive arrangements do we have?

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

Employee Saveshare Plans

Under HMRC-approved savings-related share option plans, employees save on a monthly basis, over a three- or five-year period, towards the purchase of shares at a fixed price determined when the option is granted. This price is set at a 20% discount to the market price for five-year plans and 10% for three-year plans. The options must be exercised within six months of maturity of the savings contract, otherwise they lapse. Similar plans operate for our overseas employees. The scheme did not operate in FY23 or FY22.

Yourshare

In FY22 and FY21, all eligible employees of the group were awarded £500 of BT shares. The shares are held in trust for a three-year vesting period after which they will be transferred to employees, providing they have been continuously employed during that time. A similar plan operates for overseas employees.

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

Incentive Share Plan (ISP)

Participants are entitled to shares under the ISP in full at the end of a three-year period only if the group has met the relevant pre-determined corporate performance measures and if the participants are still employed by the group. The last ISP award was granted in 2019 and vested in 2022. For this award, 40% of each award is linked to a total shareholder return (TSR) target for a comparator group of companies from the beginning of the relevant performance period; 40% is linked to a three-year cumulative normalised free cash flow measure; and 20% to growth in underlying revenue.

Deferred Bonus Plan (DBP)

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

Retention and Restricted Share Plans (RSP)

Awards are granted to selected employees. Shares in the group are transferred to participants at the end of a specified retention or restricted period if they continue to be employed by the group throughout that period.

Notes to the consolidated financial statements continued

22. Share-based payments continued

Employee Saveshare Plans

Movements in Employee Saveshare options are shown below.

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

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

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

Normal dates of vesting and exercise (based on calendar years)	Exercise price per share	Weighted average exercise price	Number of outstanding options millions	Weighted average remaining contractual life (months)
2023	82p – 170p	107p	87	10
2024	164p	164p	37	22
2025	82p	82p	145	34
Total		102p	269	25

Executive share plans

Movements in executive share plan awards are shown below:

	Number of shares (millions)			
	ISP	DBP	RSP	Total
At 1 April 2021	66	20	47	133
Awards granted	–	7	23	30
Awards vested	–	(4)	(7)	(11)
Awards lapsed	(35)	(1)	(6)	(42)
Dividend shares reinvested	–	–	1	1
At 31 March 2022	31	22	58	111
Awards granted	–	6	29	35
Awards vested	(5)	(5)	(4)	(14)
Awards lapsed	(26)	(1)	(7)	(34)
Dividend shares reinvested	–	2	4	6
At 31 March 2023	–	24	80	104

Fair values

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

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

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

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

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

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

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

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

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

Divestments

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

In FY22 we completed the disposals of Diamond IP, a non-core software business in America, and certain business units in Italy serving customers in the public administration and SME sectors, recording a combined net gain of £35m.

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

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

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

a Balances in FY23 only include the BT Sport disposal.

b Includes allocated goodwill of £83m (FY22: £7m).

c Other assets includes £632m of capitalised programme rights (note 16) and £104m prepayments relating to rights payments made for licence periods that had not yet started. Liabilities include £351m relating to outstanding trade payables to broadcast rights holders for the current licence period.

d FY23 balance comprises the fair value of BT's obligation under the minimum revenue commitment of £712m, less tax credit of £178m.

e Profit on disposal has been recognised as a specific item, refer to note 9.

f FY23 deferred cash consideration balance relates to the discounted cash flows due to BT from fixed consideration payable by WBD in instalments over the next three years.

g Expected to be sold to WBD at the end of BT's earn-out entitlement in consideration for any programme rights funded by BT and is therefore akin to deferred consideration for pre-funded programme rights contributed by BT in to the Sports JV at formation.

Notes to the consolidated financial statements continued

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

BT Sport

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

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

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

BT plc has entered into a distribution agreement with the Sports JV to procure the sport content required to continue to supply our broadband, TV and mobile customers. BT plc's agreement with the Sports JV will extend beyond 2030 and for the first four years includes a minimum revenue guarantee of approximately £500m per annum, after which the agreement will change to a fully variable arrangement.

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

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

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

Assessment of whether BT has joint control over the Sports JV

See note 25 for assessment on control.

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

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

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

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

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

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

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

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

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

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

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

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

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

Valuation of BT's equity interest in the Sports JV

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

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

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

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

We have applied the following sensitivities on these risk factors:

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

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

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

Discounting of cash flows

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

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

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

Assets and liabilities held for sale

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

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

The assets of the disposal groups have been tested for impairment under existing relevant standards immediately prior to classification as held for sale with no impairment recognised. As the estimated fair value from the transactions, net of any costs incurred or liabilities recognised, is higher than the carrying value of the disposal group, no impairment has been recognised subsequent to classification as held for sale.

Notes to the consolidated financial statements continued

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

Where the group is disposing of 100% of underlying operations and assets, we used the selling price agreed with the prospective purchaser as the fair value for the impairment test, which was classified as Level 3 on the fair value hierarchy. For the BT Sport transaction, we used the discounted cash flows due to BT over the first four years of the Sports JV, plus a potential exit value from the sale of the group's equity interest, as total gross consideration; BT's obligation under the minimum revenue guarantee in the distribution agreement has been treated as a reduction to the fair value of the consideration in the impairment test. The inputs into the fair value calculation are classified as Level 3 on the fair value hierarchy and supported by internal valuation models over which we have applied sensitivities on the future cash flows from the Sports JV and the trading multiples for the exit valuation.

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

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

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

a Intangible assets includes goodwill of £13m (FY22: £51m) that has been allocated to the disposal group.

b £310m of programme rights relating to sports broadcasting rights acquired for the BT Sport operations were not reclassified to held for sale in FY22 as the carrying amount of these assets were principally recovered through continuing use before completion of the transaction.

24. Investments

Significant accounting policies that apply to investments

Investments classified as amortised cost

These investments are measured at amortised cost. The carrying amount of these balances approximates to fair value. Any gain or loss on derecognition is recognised in the income statement.

Investments classified as fair value through profit and loss

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

Equity instruments classified as fair value through other comprehensive income

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

At 31 March	2023 £m	2022 £m
Non-current assets		
Fair value through other comprehensive income	23	34
Fair value through profit or loss	6	–
Total non-current asset investments	29	34
Current assets		
Investments held at amortised cost	3,548	2,679
Current asset investments	3,548	2,679

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

24. Investments continued

Fair value estimation

Fair value hierarchy At 31 March 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Fair value through other comprehensive income	–	–	23	23
Fair value through profit or loss	6	–	–	6
Total	6	–	23	29
At 31 March 2022				
Non-current and current investments				
Fair value through other comprehensive income	4	–	30	34
Total	4	–	30	34

The three levels of valuation methodology used are:

- Level 1 – uses quoted prices in active markets for identical assets or liabilities.
- Level 2 – uses inputs for the asset or liability other than quoted prices that are observable either directly or indirectly.
- Level 3 – uses inputs for the asset or liability that are not based on observable market data, such as internal models or other valuation methods.

Level 3 balances consist of investments classified as fair value through other comprehensive income of £23m (FY22: £30m) which represent investments in a number of private companies. If specific market data is not available, these investments are held at cost, adjusted as necessary for impairments, which approximates to fair value.

25. Joint ventures and associates

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

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

Sports JV with Warner Bros. Discovery

In August 2022, we formed the Sports JV with WBD, combining BT Sport and WBD's Eurosport UK business. Further details on the BT Sport transaction are provided in note 23.

Significant judgements made in accounting for the sports joint venture

Assessment of whether BT has joint control over the Sports JV

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

Factors relevant to our assessment:

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

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

Notes to the consolidated financial statements continued

25. Joint ventures and associates continued

Accounting policies adopted by the Sports JV

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

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

- IFRS 3 acquisition accounting should be applied by the Sports JV over the business combination achieved through the transfer of the BT Sport and Eurosport UK businesses from BT and WBD respectively, recognising acquired intangibles on the current and future value of programme rights, and goodwill.
- Revenues from the minimum guarantee in the Sports JV's distribution agreement with BT should be adjusted to reflect a trading agreement on market terms with a separate financing arrangement for the off-market portion accounted for under IFRS 9 – this mirrors the accounting treatment applied by BT (see note 23).
- A and C preference shares issued by the Sports JV to BT should be classified as a financial liability at fair value through profit or loss under IFRS 9.
- Hedge accounting should be applied on the Sports JV's forward contracts with BT (see note 31) with fair value movements on the derivatives recognised in other comprehensive income and held in the cash flow hedge reserve until recycle on settlement of the forward contracts.
- Programme rights should be recognised on the balance sheet from the point at which the licence period begins and are consumed by the Sports JV on a straight-line basis over the programming period which is generally 12 months – this is consistent with the group's accounting policy (see note 16).

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

Ordinary equity shares

On completion of the BT Sport transaction, the group recorded an investment in joint venture at an initial fair value of £414m, relating to our retained ordinary equity interest in the Sports JV entity, in accordance with IFRS 10 and IAS 28. The group has valued this interest in the Sports JV at the estimated fair value at exit, see note 23. Consistent with our accounting policy on associates and joint ventures, we will recognise our share of the change in the Sports JV's net assets under the equity method of accounting.

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

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

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

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

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

a Includes amortisation of £56m on acquired intangibles based on provisional fair value adjustments, net finance income of £6m, and tax income of £17m (current tax charge of £4m less deferred tax credit of £21m).

b Includes cash and cash equivalents of £11m.

c Includes goodwill and acquired intangibles of £645m.

d Includes current financial liabilities (excluding trade and other payables and provisions) of £(281)m of which £(268)m relates to the outstanding liability on the RCF provided by BT (see note 24).

e Includes non-current financial liabilities (excluding trade and other payables and provisions) of £(416)m.

25. Joint ventures and associates continued

The Sports JV's accounting loss for the year reflects amortisation of acquired intangibles from the BT Sport and Eurosport business transfers, reduced revenues from IFRS 15 adjustments for the off-market minimum guarantee with BT (see note 23) and underperformance against business plan. Underperformance has been driven by cost of living pressures affecting the premium sports subscription market and impacts from a prolonged winter break in European club football from the World Cup. Underlying trading, before accounting adjustments, is expected to recover in the medium to long term as wider macroeconomic and inflationary pressures ease and through the Sports JV reducing its cost base to mitigate any future revenue loss.

Preference shares

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

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

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

The preference shares are held at Level 3 on the fair value hierarchy, reflecting a valuation methodology that does not use inputs based on observable market data. See note 24 for further details on fair value estimation. See below for sensitivities we have applied in determining the fair value.

Sensitivities

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

We have applied the following sensitivities to these risk factors:

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

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

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

Notes to the consolidated financial statements continued

26. Cash and cash equivalents

Significant accounting policies that apply to cash and cash equivalents

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

For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above net of outstanding bank overdrafts. Bank overdrafts are included within the current element of loans and other borrowings (note 27).

At 31 March	2023 £m	2022 £m
Cash at bank and in hand	336	324
Cash equivalents		
UK deposits	–	353
Indian rupee deposits	55	90
Other deposits	1	10
Total cash equivalents^a	56	453
Total cash and cash equivalents	392	777
Bank overdrafts (note 27)	(11)	(85)
Cash and cash equivalents per the cash flow statement	381	692

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

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

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

27. Loans and other borrowings

Significant accounting policies that apply to loans and other borrowings

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

What's our capital management policy?

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

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

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

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

27. Loans and other borrowings continued

Net debt and net financial debt

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

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

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

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

a Includes overdrafts of £11m at 31 March 2023 (FY22: £85m).

b There are lease liabilities classified as held for sale, refer to note 23.

c The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency.

Notes to the consolidated financial statements continued

27. Loans and other borrowings continued

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

	At 31 March 2022 £m	Cash flows £m	Net lease additions ^a £m	Foreign exchange £m	Transfer to within one year £m	Other movements ^d £m	At 31 March 2023 £m
Loans and other borrowings due within one year ^b	873	(136)	–	65	943	27	1,772
Lease liabilities due within one year	795	(859)	–	1	863	–	800
Loans and other borrowings due after one year	15,312	1,746	–	525	(943)	109	16,749
Lease liabilities due after one year	4,965	–	449	11	(863)	(3)	4,559
Liabilities classified as held for sale	2	–	–	–	–	1	3
Impact of cross-currency swaps ^c	(234)	–	–	(585)	–	–	(819)
Removal of the accrued interest and fair value adjustments	(251)	–	–	–	–	(13)	(264)
Removal of loans with joint ventures	–	(11)	–	–	–	–	(11)
Gross debt	21,462	740	449	17	–	121	22,789
Less:							
Cash and cash equivalents	(777)	379	–	3	–	3	(392)
Current asset investments	(2,679)	(885)	–	(21)	–	37	(3,548)
Removal of accrued interest ^c	3	–	–	–	–	7	10
Net debt	18,009	234	449	(1)	–	168	18,859

	At 31 March 2021 £m	Cash flows £m	Net lease additions ^a £m	Foreign exchange £m	Transfer to within one year £m	Other movements ^d £m	At 31 March 2022 £m
Loans and other borrowings due within one year ^b	911	(1,421)	–	59	1,341	(17)	873
Lease liabilities due within one year	730	(792)	–	–	857	–	795
Loans and other borrowings due after one year	15,774	743	–	71	(1,341)	65	15,312
Lease liabilities due after one year	5,422	–	397	3	(857)	–	4,965
Liabilities classified as held for sale	–	–	–	–	–	2	2
Impact of cross-currency swaps ^c	(142)	–	–	(92)	–	–	(234)
Removal of the accrued interest and fair value adjustments	(242)	–	–	–	–	(9)	(251)
Gross debt	22,453	(1,470)	397	41	–	41	21,462
Less:							
Cash and cash equivalents	(1,000)	226	–	(3)	–	–	(777)
Current asset investments	(3,652)	970	–	3	–	–	(2,679)
Removal of accrued interest ^c	1	–	–	–	–	2	3
Net debt	17,802	(274)	397	41	–	43	18,009

a Net lease additions are net non-cash movements in lease liabilities during the period, and primarily comprise new and terminated leases, remeasurements of existing leases and lease interest charges.

b Includes accrued interest and bank overdrafts.

c Translation of debt balances at swap rates where hedged by cross-currency swaps.

d Other movements include removal of accrued interest applied to reflect the effective interest rate method, removal of fair value adjustments and movements relating to held for sale assets and liabilities (see note 23).

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

27. Loans and other borrowings continued

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

At 31 March	2023 £m	2022 £m
0.875% €500m bond due September 2023 ^{a,d}	270	423
4.5% \$675m bond due December 2023 ^a	554	520
1% €575m bond due June 2024 ^{a,d}	415	489
1% €1,100m bond due November 2024 ^{a,d}	726	929
3.50% £250m index linked bond due April 2025	524	468
0.5% €650m bond due September 2025 ^a	571	549
1.75% €1,300m bond due March 2026 ^a	1,143	1,098
1.5% €1,150m bond due June 2027 ^a	1,017	977
2.75% €500m bond due August 2027 ^a	530	–
2.125% €600m bond due September 2028 ^a	442	425
5.125% \$700m bond due December 2028 ^a	573	537
5.75% £600m bond due December 2028	669	680
1.125% €750m bond due September 2029 ^a	657	631
3.25% \$1,000m bond due November 2029 ^a	812	762
9.625% \$2,670m bond due December 2030 ^a (minimum 8.625% ^b)	2,214	2,077
3.75% €800m bond due February 2031 ^a	704	–
3.125% £500m bond due November 2031	503	503
3.375% €500m bond due August 2032 ^a	445	–
3.64% £330m bond due June 2033	339	339
1.613% £330m index linked bond due June 2033	380	362
6.375% £500m bond due June 2037 ^a	523	523
3.883% £330m bond due June 2039	340	340
1.739% £330m index linked bond due June 2039	381	363
5.75% £350m bond due February 2041	347	–
3.924% £340m bond due June 2042	350	350
1.774% £340m index linked bond due June 2042	392	374
2.08% JPY10,000m bond due February 2043 ^a	61	–
3.625% £250m bond due November 2047	250	250
4.25% \$500m bond due November 2049 ^a	408	383
1.874% €500m bond due August 2080 ^{a,c}	443	426
4.250% \$500m Hybrid bond due November 2081 ^{a,c}	404	383
4.875% \$500m Hybrid bond due November 2081 ^{a,c}	409	384
Total listed bonds	17,796	15,545
Other loans ^e	714	555
Bank overdrafts (note 26)	11	85
Total other loans and borrowings	725	640
Total loans and other borrowings	18,521	16,185

a Designated in a cash flow hedge relationship.

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

c Includes call options between 2.5 years and 8.5 years.

d Bond partially redeemed in February 2023.

e Includes £100m relating to an asset monetisation programme, further details below.

Unless previously designated in a fair value hedge relationship, all loans and other borrowings are carried on our balance sheet and in the table above at amortised cost. The fair value of listed bonds is £16,979m (FY22: £16,750m).

The fair value of our listed bonds is estimated on the basis of quoted market prices (Level 1).

The carrying amount of other loans and bank overdrafts equates to fair value due to the short maturity of these items (Level 3).

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

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

Notes to the consolidated financial statements continued

27. Loans and other borrowings continued

Loans and other borrowings are analysed as follows:

At 31 March	2023 £m	2022 £m
Current liabilities		
Listed bonds	1,075	233
Amounts owed to joint ventures	11	–
Other loans and bank overdrafts ^a	686	640
Total current liabilities	1,772	873
Non-current liabilities		
Listed bonds	16,722	15,312
Other loans and bank overdrafts ^a	27	–
Total non-current liabilities	16,749	15,312
Total loans and other borrowings	18,521	16,185

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

The carrying values disclosed in the above table reflect balances at amortised cost adjusted for accrued interest and fair value adjustments to the relevant loans or borrowings. These do not reflect the final principal repayments that will arise after taking account of the relevant derivatives in hedging relationships which are reflected in the table below. All borrowings as at 31 March 2023 were unsecured.

The principal repayments of loans and borrowings at hedged rates amounted to £17,442m (FY22: £15,700m) and repayments fall due as follows:

At 31 March	2023			2022		
	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m
Within one year, or on demand	1,772	(271)	1,501	873	(233)	640
Between one and two years	1,165	15	1,180	935	43	978
Between two and three years	2,669	(141)	2,528	1,415	76	1,491
Between three and four years	404	(33)	371	2,532	(59)	2,473
Between four and five years	1,539	(14)	1,525	379	(8)	371
After five years	10,983	(646)	10,337	10,041	(294)	9,747
Total due for repayment after more than one year	16,760	(819)	15,941	15,302	(242)	15,060
Total repayments	18,532	(1,090)	17,442	16,175	(475)	15,700
Non cash adjustments ^a	(11)			10		
Total loans and other borrowings	18,521			16,185		

a Fair value adjustments and unamortised bond fees.

28. Finance expense

Year ended 31 March	2023 £m	2022 £m
Finance expense		
Interest on:		
Financial liabilities at amortised cost and associated derivatives	753	628
Lease liabilities	133	133
Derivatives	9	4
Fair value movements on derivatives not in a designated hedge relationship	1	4
Reclassification of cash flow hedge from other comprehensive income	(21)	64
Unwinding of discount on provisions and other payables	14	–
Total finance expense before specific items	889	833
Specific items (note 9) ^a	5	101
Total finance expense	894	934

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

29. Financial instruments and risk management

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

How do we manage financial risk?

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

Treasury operation

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

Treasury policy

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

There has been no change in the nature of our risk profile between 31 March 2023 and the date of approval of these financial statements.

How do we manage interest rate risk?

Management policy

Interest rate risk arises primarily from our long-term borrowings. Interest cash flow risk arises from borrowings issued at variable rates, partially offset by cash held at variable rates. Fair value interest rate risk arises from borrowings issued at fixed rates.

Our policy, as set by the Board, is to ensure that at least 70% of ongoing net debt is at fixed rates. Short-term interest rate management is delegated to the treasury operation while long-term interest rate management decisions require further approval by the chief financial officer, the corporate finance director or the group treasury director who each have been delegated such authority from the Board.

Hedging strategy

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

How do we manage foreign exchange risk?

Management policy

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

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

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

Hedging strategy

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

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

Notes to the consolidated financial statements continued

29. Financial instruments and risk management continued

We use cross-currency swaps to swap foreign currency borrowings into sterling. The table below reflects the currency and interest rate profile of our loans and borrowings after the impact of hedging.

At 31 March	2023			2022		
	Fixed rate interest £m	Floating rate interest £m	Total £m	Fixed rate interest £m	Floating rate interest £m	Total £m
Sterling	15,210	1,773	16,983	13,515	1,746	15,261
Euro	–	443	443	–	436	436
Other	–	16	16	–	3	3
Total	15,210	2,232	17,442	13,515	2,185	15,700
Ratio of fixed to floating	87%	13%	100%	86%	14%	100%
Weighted average effective fixed interest rate – sterling	4.0%			3.9%		

The floating rate loans and borrowings and committed facilities bear interest rates fixed in advance for periods up to one year, primarily by reference to RPI, CPI and ARR where applicable.

Sensitivity analysis

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

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

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

At 31 March	2023 £m Increase (reduce)	2022 £m Increase (reduce)
Sterling interest rates	579	666
US dollar interest rates	(371)	(429)
Euro interest rates	(284)	(247)
Sterling strengthening	(169)	(203)

A 1% decrease in interest rates and 10% weakening of sterling against other currencies would have broadly the same impact in the opposite direction.

The impact of a 1% change in interest rates on the group's annual net finance expense and our exposure to foreign exchange volatility in the income statement, after hedging, (excluding translation exposures) would not have been material in FY23 and FY22.

Credit ratings

We continue to target a BBB+/Baa1 credit rating over the cycle, with a BBB/Baa2 floor. We regularly review the liquidity of the group and our funding strategy takes account of medium-term requirements. These include the pension deficit and shareholder distributions.

Our December 2030 bond contains terms that require us to pay higher rates of interest when our credit ratings are below A3 in the case of Moody's or A– in the case of Standard & Poor's (S&P). Additional interest of 0.25% per year accrues for each ratings category downgrade by each agency below those levels effective from the next coupon date following a downgrade. Based on the total notional value of debt outstanding of £2.2bn at 31 March 2023, our finance expense would increase/decrease by approximately £11m a year if the group's credit rating were to be downgraded/upgraded, respectively, by one credit rating category by both agencies.

Our credit ratings were as detailed below:

At 31 March	2023		2022	
	Rating	Outlook	Rating	Outlook
Rating agency				
Fitch	BBB	Stable	BBB	Stable
Moody's	Baa2	Stable	Baa2	Negative
Standard & Poor's	BBB	Stable	BBB	Stable

29. Financial instruments and risk management continued

How do we manage liquidity risk?

Management policy

We maintain liquidity by entering into short and long-term financial instruments to support operational and other funding requirements, determined by using short- and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period. On at least an annual basis the Board reviews and approves the long-term funding requirements of the group and on an ongoing basis considers any related matters. We manage refinancing risk by limiting the amount of borrowing that matures within any specified period and having appropriate strategies in place to manage refinancing needs as they arise. The maturity profile of our loans and borrowings at 31 March 2023 is disclosed in note 27. We have term debt maturities of £0.8bn in FY24.

Our treasury operation reviews and manages our short-term requirements within the parameters of the policies set by the Board. We hold cash, cash equivalents and current investments in order to manage short-term liquidity requirements. At 31 March 2023 we had undrawn committed borrowing facilities of £2.1bn (FY22: £2.1bn) maturing in March 2027.

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

Non-derivative financial liabilities At 31 March 2023	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Lease liabilities £m	Total £m
Due within one year	1,512	643	5,451	3	800	8,409
Between one and two years	1,165	637	–	2	774	2,578
Between two and three years	2,669	616	–	2	676	3,963
Between three and four years	404	575	–	2	640	1,621
Between four and five years	1,539	558	–	2	612	2,711
After five years	10,983	2,891	–	–	2,529	16,403
	18,272	5,920	5,451	11	6,031	35,685
Interest payments not yet accrued	–	(5,660)	–	–	–	(5,660)
Fair value adjustment	(11)	–	–	–	–	(11)
Impact of discounting	–	–	–	(1)	(672)	(673)
Carrying value on the balance sheet^{a,b}	18,261	260	5,451	10	5,359	29,341
At 31 March 2022						
Due within one year	640	568	5,224	4	788	7,224
Between one and two years	935	564	–	4	784	2,287
Between two and three years	1,415	538	–	3	729	2,685
Between three and four years	2,532	515	–	–	626	3,673
Between four and five years	379	477	–	–	589	1,445
After five years	10,041	2,809	–	–	2,983	15,833
	15,942	5,471	5,224	11	6,499	33,147
Interest payments not yet accrued	–	(5,238)	–	–	–	(5,238)
Fair value adjustment	10	–	–	–	–	10
Impact of discounting	–	–	–	–	(739)	(739)
Carrying value on the balance sheet^{a,b}	15,952	233	5,224	11	5,760	27,180

a Foreign currency-related cash flows were translated at closing foreign exchange rates as at the relevant reporting date. Future variable interest cash flows were calculated using the most recent interest or indexation rates at the relevant balance sheet date.

b The carrying amount of trade and other payables excludes £920m (FY22: £624m) of non-current trade and other payables which relates to non-financial liabilities, and £1,113m (FY22: £918m) of other taxation, social security and deferred income.

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

Notes to the consolidated financial statements continued

29. Financial instruments and risk management continued

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

Derivative financial liabilities At 31 March 2023	Derivatives – Analysed by earliest payment date ^a				Derivatives – Analysis based on holding instrument to maturity			
	Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m	Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	47	2,184	(2,088)	143	47	2,184	(2,088)	143
Between one and two years	47	1,125	(1,058)	114	47	1,125	(1,058)	114
Between two and three years	94	939	(882)	151	46	939	(882)	103
Between three and four years	111	381	(364)	128	46	381	(364)	63
Between four and five years	16	161	(135)	42	46	161	(135)	72
After five years	47	2,127	(2,011)	163	130	2,127	(2,011)	246
Total^b	362	6,917	(6,538)	741	362	6,917	(6,538)	741
At 31 March 2022								
Due within one year	300	940	(873)	367	77	940	(873)	144
Between one and two years	247	1,615	(1,508)	354	77	1,615	(1,508)	184
Between two and three years	18	1,679	(1,566)	131	77	1,679	(1,566)	190
Between three and four years	17	736	(685)	68	77	736	(685)	128
Between four and five years	17	511	(513)	15	77	511	(513)	75
After five years	65	4,789	(4,725)	129	279	4,789	(4,725)	343
Total^b	664	10,270	(9,870)	1,064	664	10,270	(9,870)	1,064

a Certain derivative financial instruments contain break clauses whereby either the group or bank counterparty have the right to terminate the swap on certain dates. If the break clause was exercised, the mark to market position would be settled in cash.

b Foreign currency-related cash flows were translated at closing foreign exchange rates as at the relevant reporting date. Future variable interest rate cash flows were calculated using the most recent rate applied at the relevant balance sheet date.

How do we manage energy price risk?

Management policy

UK (excluding Northern Ireland) and European energy prices continue to be exposed to volatility driven by fears of reduced gas supply as Europe continues the shift from Russian gas to LNG and renewables (which themselves are subject to short-term fluctuations given their intermittent nature). In order to manage our exposure to fluctuating energy prices, we have a target for UK (excluding Northern Ireland) energy demand to be at least 80% hedged one quarter before the start of the next financial year, and 50% hedged for the following financial year. We achieve this through forward over the counter hedges and a mixture of new and existing power purchase agreements (PPAs) and derivative virtual PPAs (vPPAs).

Hedging strategy

In each financial year our strategy is to build our PPA and vPPA portfolio, exploring opportunities with 5-10 year contracts delivering favourable net present values. We complement this by monitoring the markets and forward purchasing electricity (power) when the market is favourable. In the forthcoming financial year (FY24) the aim is to be 95% hedged, which allows for headroom for increased outputs from the renewable sources should weather conditions prevail.

How do we manage credit risk?

Management policy

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

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

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

Operational management policy

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

29. Financial instruments and risk management continued

Exposures

The maximum credit risk exposure of the group's financial assets at the balance sheet date is as follows:

At 31 March	Notes	2023 £m	2022 £m
Derivative financial assets		1,479	1,091
Investments	24	3,577	2,713
Trade and other receivables ^a	17	1,821	1,489
Contract assets	5	1,934	1,915
Cash and cash equivalents	26	392	777
Total		9,203	7,985

a The carrying amount excludes £503m (FY22: £337m) of non-current trade and other receivables which relate to non-financial assets, and £1,239m (FY22: £1,135m) of prepayments, deferred contract costs, finance lease receivables and other assets.

The credit quality and credit concentration of cash equivalents, current asset investments and derivative financial assets are detailed in the tables below. Where the opinion of Moody's and Standard & Poor's (S&P) differ, the lower rating is used.

Moody's/S&P credit rating of counterparty	2023 £m	2022 £m
Aa2/AA and above	3,498	1,946
Aa3/AA-	115	1,118
A1/A+	957	768
A2/A	400	269
A3/A-	53	122
Baa1/BBB+	-	-
Baa2/BBB and below ^a	60	-
Total^b	5,083	4,223

a Baa2/BBB rated exposure represents the energy derivatives and carrying value of forward currency contracts with Sports JV.

b We hold cash collateral of £557m (FY22: £555m) in respect of derivative financial assets with certain counterparties.

The concentration of credit risk for our trading balances is provided in note 17, which analyses outstanding balances by CFU. Where multiple transactions are undertaken with a single financial counterparty or group of related counterparties, we enter into netting arrangements to reduce our exposure to credit risk by making use of standard International Swaps and Derivatives Association (ISDA) documentation. We have also entered into credit support agreements with certain swap counterparties whereby, on a daily, weekly and monthly basis, the fair value position on notional £2,024m (FY22: £2,024m) of long-dated cross-currency swaps and interest rate swaps is collateralised.

Offsetting of financial instruments

The table below shows our financial assets and liabilities that are subject to offset in the group's balance sheet and the impact of enforceable master netting or similar agreements.

Financial assets and liabilities At 31 March 2023	Amounts presented in the balance sheet £m	Related amounts not set off in the balance sheet		
		Right of set off with derivative counterparties £m	Cash collateral £m	Net amount £m
Derivative financial assets	1,479	(323)	(557)	599
Derivative financial liabilities	(383)	323	48	(12)
Total	1,096	-	(509)	587
At 31 March 2022				
Derivative financial assets	1,091	(431)	(555)	105
Derivative financial liabilities	(870)	431	67	(372)
Total	221	-	(488)	(267)

Derivatives and hedging

We use derivative financial instruments mainly to reduce exposure to foreign exchange and interest rate risks. Derivatives may qualify as hedges for accounting purposes if they meet the criteria for designation as cash flow hedges or fair value hedges in accordance with IFRS 9.

Notes to the consolidated financial statements continued

29. Financial instruments and risk management continued

Significant accounting policies that apply to derivatives and hedge accounting

All of our derivative financial instruments are held at fair value on the balance sheet.

Derivatives designated in a cash flow hedge

The group designates certain derivatives in a cash flow hedge relationship. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge. To qualify for hedge accounting, hedge documentation must be prepared at inception, the hedge must be in line with BT's risk management strategy and there must be an economic relationship based on the currency, amount and timing of the respective cash flows of the hedging instrument and hedged item. This is assessed at inception and in subsequent periods in which the hedge remains in operation. Hedge accounting is discontinued when it is no longer in line with BT's risk management strategy or if it no longer qualifies for hedge accounting.

The group targets a one-to-one hedge ratio. The economic relationship between the hedged item and the hedging instrument is assessed on an ongoing basis. Ineffectiveness can arise from subsequent change in the forecast transactions as a result of altered timing, cash flows or value.

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. For cash flow hedges of recognised assets or liabilities, the associated cumulative gain or loss is removed from equity and recognised in the same line of the income statement and in the same period or periods that the hedged transaction affects the income statement. Any ineffectiveness arising on a cash flow hedge is recognised immediately in the income statement.

Other derivatives

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting, some derivatives may not qualify for hedge accounting, or may be specifically not designated as a hedge because natural offset is more appropriate. We effectively operate a process to identify any embedded derivatives within revenue, supply, leasing and financing contracts, including those relating to inflationary features. These derivatives are classified as fair value through profit and loss and are recognised at fair value. Any direct transaction costs are recognised immediately in the income statement. Gains and losses on re-measurement are recognised in the income statement in the line that most appropriately reflects the nature of the item or transaction to which they relate.

Where the fair value of a derivative contract at initial recognition is not supported by observable market data and differs from the transaction price, a day one gain or loss will arise which is not recognised in the income statement. Such gains and losses are deferred and amortised to the income statement based on the remaining contractual term and as observable market data becomes available.

The fair values of outstanding swaps and foreign exchange contracts are estimated using discounted cash flow models and market rates of interest and foreign exchange at the balance sheet date.

	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
At 31 March 2023				
Designated in a cash flow hedge	78	1,330	62	255
Other	4	67	24	42
Total derivatives	82	1,397	86	297
At 31 March 2022				
Designated in a cash flow hedge	77	878	25	712
Other	11	125	26	107
Total derivatives	88	1,003	51	819

All derivative financial instruments are categorised at Level 2, with the exception of the energy contracts which are categorised at Level 3 of the fair value hierarchy as defined in note 24.

Instruments designated in a cash flow hedge include interest rate swaps and cross-currency swaps hedging euro, US dollar and Japanese yen-denominated borrowings. Forward currency contracts are taken out to hedge step-up interest on currency denominated borrowings relating to the group's 2030 US dollar bond. The hedged cash flows will affect the group's income statement as interest and principal amounts are repaid over the remaining term of the borrowings (see note 27).

We hedge forecast foreign currency purchases, principally denominated in US dollar, euro, Indian rupees and Hungarian forint 12 months forward with certain specific transactions hedged further forward. The related cash flows are recognised in the income statement over this period.

29. Financial instruments and risk management continued

The amounts related to items designated as hedging instruments were as follows:

Hedged items	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
At 31 March 2023						
Sterling, euro, US dollar and Japanese yen denominated borrowings ^a	12,888	1,316	(290)	(316)	(887)	597
Step up interest on the 2030 US dollar bond ^b	115	–	(2)	(31)	(8)	6
Foreign currency purchases, principally denominated in US dollar, euro, Indian rupees and Hungarian forint ^c	1,211	34	(24)	(35)	(75)	61
Energy contracts ^d		58	(1)	(64)	(85)	49
Total cash flow hedges	14,214	1,408	(317)	(446)	(1,055)	713
Deferred tax		–	–	106		
Derivatives not in a designated hedge relationship		71	(66)	–		
Carrying value on the balance sheet		1,479	(383)	(340)		
At 31 March 2022						
Sterling, euro and US dollar denominated borrowings ^a	11,688	889	(731)	(26)	(83)	61
Step up interest on the 2030 US dollar bond ^b	122	5	–	(29)	(6)	3
Foreign currency purchases, principally denominated in US dollar, euro and Indian rupees ^c	946	30	(3)	(21)	(51)	(10)
Energy contracts ^d		31	(3)	(28)	(64)	–
Total cash flow hedges	12,756	955	(737)	(104)	(204)	54
Deferred tax		–	–	16		
Derivatives not in a designated hedge relationship		136	(133)	–		
Carrying value on the balance sheet		1,091	(870)	(88)		

a Sterling, euro, US dollar and Japanese yen denominated borrowings are hedged using cross-currency swaps and interest rate swaps. Amounts recycled to profit and loss are presented within operating costs and finance expense.

b Step up interest on US dollar denominated borrowings are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within finance expense.

c Foreign currency purchases, principally denominated in US dollar, euro, Indian rupees and Hungarian forint are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within cost of sales, operating costs or fixed assets, in line with the underlying hedged item.

d Energy contracts are hedged using contracts for difference and virtual power purchase agreements in order to provide long-term power cost certainty. Amounts recycled to profit and loss are presented within operating costs.

All hedge relationships were fully effective in the period.

Notes to the consolidated financial statements continued

30. Other reserves

	Other comprehensive income					Total £m
	Capital redemption reserve £m	Cash flow reserve ^a £m	Fair value reserve £m	Cost of hedging reserve ^b £m	Translation reserve ^{c,d} £m	
At 1 April 2021	27	(90)	–	59	440	436
Exchange differences ^e	–	–	–	–	65	65
Net fair value gain (loss) on cash flow hedges ^f	–	59	–	145	–	204
Movements in relation to cash flow hedges recognised in income and expense ^g	–	(86)	–	32	–	(54)
Fair value movement on assets at fair value through other comprehensive income	–	–	6	–	–	6
Tax recognised in other comprehensive income	–	(31)	–	–	–	(31)
Transfer to realised profit ^h	–	–	(7)	–	–	(7)
At 31 March 2022	27	(148)	(1)	236	505	619
Reclassification ⁱ	–	472	–	(472)	–	–
Exchange differences ^e	–	–	–	–	89	89
Net fair value gain (loss) on cash flow hedges ^f	–	864	–	191	–	1,055
Movements in relation to cash flow hedges recognised in income and expense ^g	–	(721)	–	8	–	(713)
Fair value movement on assets at fair value through other comprehensive income	–	–	(3)	–	–	(3)
Tax recognised in other comprehensive income	–	(90)	–	–	–	(90)
At 31 March 2023	27	377	(4)	(37)	594	957

a The cash flow reserve is used to record the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

b The cost of hedging reserve reflects the gain or loss on the portion excluded from the designated hedging instrument that relates to the currency basis element of our cross-currency swaps and forward points on certain foreign exchange contracts. It is initially recognised in other comprehensive income and accounted for similarly to gains or losses in the cash flow reserve.

c The translation reserve is used to record cumulative translation differences on the net assets of foreign operations. The cumulative translation differences are recycled to the income statement on disposal of the foreign operation.

d Movement in translation reserve includes £nil (FY22: £1m) which relate to disposals (see note 23).

e Excludes £2m (FY22: £1m) of exchange differences in relation to retained earnings attributed to non-controlling interests.

f The large swing in the year of £1,055m (FY22: £204m) was due to large fluctuations in interest rates, energy prices and foreign exchange rates.

g Movements in cash flow hedge-related reserves recognised in income and expense of £713m (FY22: £54m) include a net charge to other comprehensive income of £679m (FY22: £126m) which have been reclassified to operating costs, and a net charge of £34m (FY22: credit of £72m) which have been reclassified to finance expense (see note 28).

h Realised profit includes profit on disposal of investments held at fair value through other comprehensive income.

i Reclassification on cash flow hedges includes £472m (FY22: £nil) reclassification from cash flow hedge reserve to cost of hedging reserve.

31. Related party transactions

Key management personnel comprise Executive and Non-Executive Directors and members of the *Executive Committee*. Compensation of key management personnel is disclosed in note 6.

Amounts paid to the group's retirement benefit plans are set out in note 20.

Associates and joint ventures related parties include the Sports JV formed in August 2022 (see note 23). Sales of services to the Sports JV during FY23 were £23m and purchases from the Sports JV were £176m. The amount receivable from the Sports JV as at 31 March 2023 was £10m and the amount payable to the Sports JV was £123m.

As part of the BT Sport transaction, the group has committed to providing the Sports JV with a sterling Revolving Credit Facility (RCF), up to a maximum for £300m, for short-term liquidity required by the Sports JV to fund its working capital and commitments to sports rights holders. Amounts drawn down by the Sports JV under the RCF accrue interest at a market reference rate, consistent with the group's external short-term borrowings. The outstanding balance under the RCF of £268m is treated as a loan receivable and held at amortised cost, see note 17. The capacity of the RCF is expected to reduce to £200m during FY24. There is also a loan payable to the Sports JV of £11m, see note 27.

The Sports JV has a foreign exchange hedging arrangement with the group to secure Euros required to meet its commitments to certain sports rights holders; the group has external forward contracts in place to purchase the Euros at an agreed sterling rate in order to mitigate its exposure to exchange risk. The group holds a £14m derivative liability in respect of forward contracts provided to the Sports JV.

Transactions from commercial trading arrangements with associates and joint ventures, including the Sports JV, are shown below:

At 31 March	2023 £m	2022 £m
Sales of services to associates and joint ventures	29	5
Purchases from associates and joint ventures	216	44
Amounts receivable from associates and joint ventures	10	2
Amounts payable to associates and joint ventures	124	1

Other related party transactions include the purchase of energy from an entity owned by the BT Pension Scheme. Total purchases during the year were £13m (FY22: £12m). £1m was due to the other party as at 31 March 2023 (FY22: £1m). The balance is unsecured and no guarantees have been given.

32. Financial commitments

Financial commitments as at 31 March 2023 include capital commitments of £1,480m (FY22: £1,596m) and device purchase commitments of £217m (FY22: £295m). TV programme rights commitments were £nil (FY22: £997m) as these were transferred to the Sports JV formed with Warner Bros. Discovery (WBD) during FY23 (see note 23); both the group and WBD have guaranteed the Sports JV's obligations under certain programme rights commitments but we consider the risk of these guarantees being called as remote.

Other than as disclosed below and in note 19, there were no contingent liabilities or guarantees at 31 March 2023 other than those arising in the ordinary course of the group's business and on these no material losses are anticipated. We have insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of our operations. Otherwise, the group generally carries its own risks.

Guarantees

BT plc

From March 2019 a formal guarantee was put in place by BT Group plc to fully and unconditionally guarantee the obligations of its wholly owned subsidiary British Telecommunications plc ("BT plc") under its corporate bonds. This guarantee has been given in respect of all bonds issued since that date and was retrospectively applied to bonds issued prior to that date. It applies to all bonds issued in BT plc's Yankee, Euro Medium Term Note and hybrid bond programmes, and under the BT plc £600m 5.75% bonds due in 2028.

Legal and regulatory proceedings

See note 19 for contingent liabilities associated with legal and regulatory proceedings.

33. Post balance sheet events

No material post balance sheet events have been identified.

BT Group plc company balance sheet

Registered number 4190816

At 31 March	Notes	2023 £m	2022 £m
Non-current assets			
Investment in subsidiary undertaking	2	11,278	11,201
Other investments ^a		–	585
		11,278	11,786
Current assets			
Cash and cash equivalents		8	5
		8	5
Current liabilities			
Trade and other payables ^b		80	32
		80	32
Total assets less current liabilities		11,206	11,759
Non-current liabilities			
Loans and other borrowings ^c		303	–
Other payables ^b		26	26
		329	26
Equity			
Ordinary shares		499	499
Share premium		1,051	1,051
Capital redemption reserve		27	27
Own shares		(422)	(274)
Profit and loss account ^d		9,722	10,430
Total equity		10,877	11,733
		11,206	11,759

- a Other investments consists of loan to group undertakings of £nil (FY22: £580m) and accrued interest of £nil (FY22: £5m). In FY22 the loan attracted interest of LIBOR plus 37.5 basis points and was measured at amortised cost using the effective interest rate method. The expected credit loss provision against long-term loan to group undertakings is immaterial.
- b Current trade and other payables consists of loans from group undertakings of £15m (FY22: £16m) and other payables of £65m (FY22: £16m). Other payables (current and non-current) mostly comprise the obligation to purchase own shares into trust via a forward contract.
- c Loans and other borrowings consist of a loan from group undertakings of £303m (FY22: £nil). The loan attracts interest of SONIA plus 60 basis points.
- d As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The loss for the financial year, dealt with in the profit and loss account of the company was £1m (FY22: profit of £2m).

The financial statements of the company on [pages 224 to 227](#) were approved by the Board of Directors on 17 May 2023 and were signed on its behalf by:

Adam Crozier Chairman	Philip Jansen Chief Executive	Simon Lowth Chief Financial Officer
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BT Group plc company statement of changes in equity

	Called up share capital ^a £m	Share premium account £m	Capital redemption reserve £m	Own shares ^b £m	Profit and loss account ^{b,c} £m	Total £m
At 1 April 2021	499	1,051	27	(143)	10,610	12,044
Profit for the financial year	–	–	–	–	2	2
Dividends paid	–	–	–	–	(227)	(227)
Unclaimed dividends over 10 years	–	–	–	–	2	2
Share-based payments	–	–	–	–	3	3
Capital contribution in respect of share-based payments	–	–	–	–	105	105
Net buyback of own shares	–	–	–	(131)	(65)	(196)
At 31 March 2022	499	1,051	27	(274)	10,430	11,733
Loss for the financial year	–	–	–	–	(1)	(1)
Dividends paid	–	–	–	–	(753)	(753)
Share-based payments	–	–	–	–	3	3
Capital contribution in respect of share-based payments	–	–	–	–	77	77
Net buyback of own shares	–	–	–	(148)	(34)	(182)
At 31 March 2023	499	1,051	27	(422)	9,722	10,877

a The allotted, called up and fully paid ordinary share capital of the company at 31 March 2023 was £499m (31 March 2022: £499m), representing 9,968,127,681 (31 March 2022: 9,968,127,681) ordinary shares of 5p each.

b In FY23, 18,984,595 shares (FY22: 19,672,628) were issued from Own shares to satisfy obligations under employee share schemes and executive share awards at a cost of £38m (FY22: £43m). At 31 March 2023, 36,190,551 shares (FY22: 41,429,938) with an aggregate nominal value of £2m (FY22: £2m) were held at cost as treasury shares and 193,798,578 shares (FY22: 94,120,883) with an aggregate nominal value of £10m (FY22: £5m) were held in the Trust.

c As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The loss for the financial year, dealt with in the profit and loss account of the company was £1m (FY22: profit of £2m).

Notes to the company financial statements

1. BT Group plc accounting policies

Principal activity

The principal activity of the company is to act as the ultimate holding company of the BT Group.

Accounting basis

As used in these financial statements and associated notes, the term 'company' refers to BT Group plc (a public company limited by shares). These separate financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Financial statements

The financial statements are prepared on a going concern basis and under the historical cost convention. Refer to [page 155](#) for further details of this assessment.

As permitted by Section 408(3) of the Companies Act 2006, the company's profit and loss account has not been presented.

New and amended accounting standards effective during the year

BT adopted IFRS 17 with retrospective application on 1 April 2023. It is therefore effective from FY24 onwards.

The standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The measurement method for insurance contracts required by IFRS 17 is a probability weighted discounted cash flow model, including a best estimate and an adjustment for non-financial risk calculated for groups of similar contracts.

IFRS 17 primarily impacts insurance entities, however as it applies to individual contracts it is possible that non-insurers could issue contracts that are in scope of the standard such as product breakdown contracts or warranties.

We have assessed the impact of the standard on the BT Group plc legal entity, and concluded that its impact is not material. Contracts in scope of the standard are restricted to parent company guarantees, which we have assessed to have no material impact.

Exemptions

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payments, non-current assets held for sale, financial instruments, capital management, and presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. The company intends to continue to take advantage of these exemptions in future years. Further detail is provided below.

Where required, equivalent disclosures have been given in the consolidated financial statements of BT Group plc.

The BT Group plc consolidated financial statements for the year ended 31 March 2023 contain a consolidated cash flow statement. Consequently, as permitted by IAS 7 'Statement of Cash flows', the company has not presented its own cash flow statement.

The BT Group plc consolidated financial statements for the year ended 31 March 2023 contain related party disclosures. Consequently, the company has taken advantage of the exemption in IAS 24 'Related Party Disclosures' not to disclose transactions with other members of the BT Group.

The BT Group plc consolidated financial statements for the year ended 31 March 2023 contain financial instrument disclosures which comply with IFRS 7 'Financial Instruments: Disclosures'. Consequently, the company is exempt from the disclosure requirements of IFRS 7 in respect of its financial instruments.

Investment in subsidiary undertaking

Investment in subsidiary undertaking is stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable. An impairment loss is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by continuing to hold the asset and benefiting from the net present value of the future cash flows (value in use) of the investment.

Investment impairment is assessed at each reporting date. Estimating value in use and key assumptions used (discount rate and growth rate) in performing the impairment assessment are in line with how we assess the group's goodwill in note 13 to the consolidated group financial statements. There is significant headroom between the carrying value of the investment and the calculated value in use.

Taxation

Full provision is made for deferred taxation on all temporary differences which have arisen but not reversed at the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be sufficient taxable profits from which the underlying timing differences can be deducted. The deferred tax balances are not discounted.

Dividends

Dividend distributions are recognised as a liability in the year in which the dividends are approved by the company's shareholders for final dividends. Interim dividends are recognised when they are paid. Dividend income is recognised on receipt.

Share capital

Ordinary shares are classified as equity. Repurchased shares of the company are recorded in the balance sheet as part of Own shares and presented as a deduction from shareholders' equity at cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less.

Share-based payments

The issuance by the company of share options and awards to employees of its subsidiaries represents additional capital contributions to its subsidiaries. An addition to the company's investment in subsidiaries is recorded with a corresponding increase in equity shareholders' funds. The additional capital contribution is determined based on the fair value of options and awards at the date of grant and is recognised over the vesting period.

2. Investment in subsidiary undertaking

Cost	Total £m
At 1 April 2021	11,096
Additions	105
At 31 March 2022	11,201
Additions	77
At 31 March 2023	11,278

Additions of £77m (FY22: £105m) comprise capital contributions in respect of share-based payments.

The company held a 100% investment in BT Group Investments Limited, a company registered in England and Wales, throughout FY23 and FY22.

3. Other information

Dividends

An interim dividend of 2.31p per share amounting to £226m was paid on 6 February 2023 (FY22: interim dividend of 2.31p per share amounting to £227m paid). A final dividend of 5.39p per share amounting to approximately £534m is proposed in respect of the year ended 31 March 2023 (FY22: final dividend of 5.39p per share amounting to £527m paid in respect of the year ended 31 March 2022).

Employees and directors

The Chairman and Executive and Non-Executive Directors of BT Group plc were the only employees and directors of the company during FY23 and FY22. The costs relating to qualifying services provided to the company's principal subsidiary, British Telecommunications plc, are recharged to that company.

Related undertakings

Company name	Group interest in allotted capital ^a	Share class	Company name	Group interest in allotted capital ^a	Share class	Company name	Group interest in allotted capital ^a	Share class
Held directly								
United Kingdom								
1 Braham Street, London, E1 8EE, United Kingdom								
BT Group Investments Limited	100%	ordinary	IP Trade SA	100%	ordinary	Room 2101-2103, 21/F, International Capital Plaza, No. 1318 North Sichuan Road, Hong Kou District, Shanghai, 200080, China		
BT Group Nominees Limited	100%	ordinary	Bermuda			BT China Limited-Shanghai Branch Office ^b		
Held via other group companies			Century House, 16 Par-la-Ville Road, Hamilton, HM08, Bermuda			1502-1503, AVIC Center, No. 1008, Huafu Road, Futian District, Shenzhen, 518000, China		
Algeria			Communications Global Network Services Limited			BT China Limited – Shenzhen Branch ^b		
20 Micro zone d'Activités Dar El Madina, Bloc B, Loc N01 Hydra, Alger, 16000, Algeria			100%			100%		
BT Algeria Communications SARL	100%	ordinary	Bolivia			Room 3, 4, F7, Tower W3, Oriental Plaza, 1 East Chang An Avenue, Dongcheng District, Beijing, 100738, China		
Argentina			BT Solutions Limited Sucursal Bolivia ^b			BT China Limited		
Maipu No 1210, piso 8 (C1006), Buenos Aires, Argentina			100%			100%		
BT Argentina S.R.L.	100%	ordinary	Bosnia and Herzegovina			Unit 1537B, Floor 15th, No. 55, Xili Road, Shanghai Free Trade Zone, Shanghai, China		
Australia			Trg Heroja 10/1, Sarajevo, 71000, Bosnia and Herzegovina			BT China Communications Limited		
Level 20, 420 George Street, Sydney, NSW 2000, Australia			BTIH Teleconsult Društvo sa organičenom odgovornošću za posredovanje i zastupanje d.o.o. Sarajevo			50%		
BT Australasia Pty Limited	100%	ordinary	100%			Colombia		
	100%	preference	Botswana			Calle 113, 7-21, Torre A Oficina 1015 Teleport Business, Bogota, Colombia		
Austria			Deloitte House, Fairgrounds Office Park, Plot 64518, Gaborone, PO BOX 1839, Botswana			BT Colombia Limitada		
Louis-Häfliger-Gasse 10, 1210, Wien, Austria			BT Global Services Botswana (Proprietary) Limited			100%		
BT Austria GmbH	100%	ordinary	100%			Costa Rica		
Azerbaijan			Brazil			Heredia-Belen La Ribera, Centro Corporativo El Cafeta, Edificio B, segundo piso, Oficinas de Deloitte, San José, Costa Rica		
AZ 1025 The Azure Business Center, 20th Floor, c/o BDO Azerbaijan LLC, Z1025, Khatai district, Afiyaddin Jalilov 26, apt.177, Azerbaijan			Avenida Dr. Ruth Cardoso, 4777 – 14 andar, Pinheiros, São Paulo, SP, 05477-000, Brazil			BT Global Costa Rica SRL		
BT Azerbaijan Limited, Limited Liability Company	100%	ordinary	BT Communications do Brasil Limitada			100%		
Bahrain			BT Global Communications do Brasil Limitada			Côte d'Ivoire		
Suite #2216, Building No. 2504, Road 2832, Al Seef, P.O. BOX 18259, Bahrain			100%			Abidjan Plateau, Rue du commerce, Immeuble Nabil 1er étage, 01 BP 12721 Abidjan 01, Côte d'Ivoire		
BT Solutions Limited (Bahrain Branch) ^b	100%	–	Bulgaria			BT Cote D'Ivoire		
Bangladesh			51B Bulgaria Blvd., fl. 4, Sofia, 1404, Bulgaria			100%		
UTC Building, 19th Floor, Kawran Bazar, Dhaka, 1215, Bangladesh			BT Bulgaria EOOD			Cyprus		
BT Communications Bangladesh Limited	100%	ordinary	BT Global Europe B.V. – Bulgaria branch ^b			BT Solutions Limited ^b		
Barbados			Canada			Arch. Makarios III, 213, Maximos Plaza, Tower 3, Floor 2, Limassol, 3030, Cyprus		
3rd Floor, The Goddard Building, Haggatt Hall, St. Michael, BB11059, Barbados			Regus Brookfield Place, 161 Bay Street 26th and 27th Floors, Toronto ON M5J 2S1, Canada			BT Global Europe B.V. ^b		
BT (Barbados) Limited	100%	ordinary	BT Canada Inc.			100%		
Belarus			Chile			Czech Republic		
58 Voronyanskogo St, Office 89, Minsk 220007, Belarus			Rosario Norte 407, Piso 6, Las Condes, Santiago, Chile			Pujmanovė 1753 / 10a, Nusle, 140 00, Prague 4, Czech Republic		
BT BELRUS Foreign Limited Liability Company	100%	ordinary	Servicios de Telecomunicaciones BT Global Networks Chile Limitada			BT Global Europe B.V., odštěpný závod ^b		
Belgium			China			Denmark		
Telecomlaan 9, 1831 Diegem, Belgium			Building 16, 6th Floor, Room 602-B, No. 269 Wuyi Road, Hi-tech Park, Dalian, 116023, China			Havneholmen 29, 1561, Kobenhavn V, Copenhagen, Denmark		
BT Global Services Belgium BV	100%	ordinary	BT Technology (Dalian) Company Limited			BT Denmark ApS		
Global Security Europe Limited – Belgian Branch ^b	100%	–	100%			100%		
			Denmark			Dominican Republic		
			Av. Abraham Lincoln Esq. Jose Amado Soler, Edif. Progreso, Local 3-A, Sector Ens. Serralles, Santo Domingo, Dominican Republic			BT Dominican Republic, S. A.		
			BT Limited, Beijing Office ^b			100%		
			100%			Ecuador		
			100%			Av. Amazonas N21-252 y Carrión, Edificio Londres, 4° Piso, Quito, Ecuador		
			100%			BT Solutions Limited (Sucursal Ecuador) ^b		
			100%			100%		

Company name	Group interest in allotted capital ^a	Share class
Egypt		
95 C st. El Sayed El Mirghany, Heliopolis Cairo, Egypt		
BT Telecom Egypt LLC	100%	stakes
EI Salvador		
Edificio Avante Penthouse Oficina, 10-01 Y 10-03 Urbanizacion, Madre Selva, Antiguo Cuscatlan, La Libertad, El Salvador		
BT El Salvador, Limitada de Capital Variable	100%	ordinary
Finland		
Mannerheimvägen 12 B 6, 00100 Helsinki, Finland		
BT Nordics Finland Oy	100%	ordinary
France		
Tour Ariane, 5 place de la Pyramide, La Defense Cedex, 92088 PARIS, France		
BT France S.A.S.	100%	ordinary
Germany		
Barthstraße 4, 80339, Munich, Germany		
BT (Germany) GmbH & Co. oHG	100%	ordinary
BT Deutschland GmbH	100%	ordinary
BT Garrick GmbH	100%	ordinary
Frankfurter Straße 21-25, Eschborn, 65760, Frankfurt am Main, Germany		
IP Trade Networks GmbH	100%	ordinary
Widdersdorfer Strasse 252, 50933, Cologne, Germany		
Global Security Europe Limited – Germany Branch ^b	100%	–
Ghana		
5th Floor, Vivo Place, Cantonments City, Rangoon Lane, P.O. Box MB 595, Accra, Ghana		
BT Ghana Limited	100%	ordinary
Greece		
75 Patision Street, Athens, 10434, Greece		
BT Solutions Limited- Greek Branch ^b	100%	–
Guatemala		
5ta avenida 5-55 zona 14, Edificio Europlaza World Business Center, Torre IV, nivel 7, oficina 702, Guatemala City, Guatemala		
BT Guatemala S.A.	100%	unique
Honduras		
Colonia Pueblo Nuevo, Edificio Torre Morazán, Torre No. 1, Piso 9, Municipio del Distrito Central, Departamento de, Francisco Morazán, Tegucigalpa, 10918, Honduras		
BT Sociedad De Responsabilidad Limitada	100%	–
Hong Kong		
Unit 31-105, 31/F, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong		
BT Hong Kong Limited	100%	ordinary
Infonet China Limited	100%	ordinary

Company name	Group interest in allotted capital ^a	Share class
Hungary		
1112 Budapest, Boldizsár utca 4., Hungary		
BT Global Europe B.V. Magyarországi Fioktelepe ^b	100%	–
BT Limited Magyarországi Fioktelepe ^b	100%	–
BT ROC Kft	100%	business
India		
11th Floor, Eros Corporate Tower, Opp. International Trade Tower, Nehru Place, New Delhi, 110019, India		
BT (India) Private Limited	100%	ordinary
BT e-Serv (India) Private Limited	100%	equity
BT Global Business Services Private Limited	100%	ordinary
BT Global Communications India Private Limited	100%	ordinary
BT Telecom India Private Limited	100%	ordinary
A-47, Hauz Khas, New Delhi, Delhi-DL, 110016, India		
Orange Services India Private Limited	100%	ordinary
Indonesia		
Menara Astra, 37F. Jl. Jendral Sudirman Kav 5-6, Jakarta Pusat, Jakarta, 10220, Indonesia		
PT BT Indonesia	100%	ordinary
PT BT Communications Indonesia	95%	ordinary
Isle of Man		
Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man		
Belmullet Limited	100%	ordinary
Communicator Insurance Company Limited	100%	ordinary
Priestgate Limited	100%	ordinary
Israel		
Beit Oz, 14 Abba Hillel Silver Rd, Ramat Gan, 52506, Israel		
B.T. Communication Israel Ltd	100%	ordinary
Italy		
Strada Santa Margherita, 6 / A, 43123, Parma, Italy		
BT Enia Telecomunicazioni S.P.A.	99%	ordinary
Via Mario Bianchini 15, 00142 Roma, Italy		
BT Global Services Limited ^b	100%	–
Via Tucidide 14, 20134, Milano, Italy		
Atlanet SpA	99%	ordinary
Basictel SpA	99%	ordinary
BT Italia S.p.A.	99%	ordinary
Jamaica		
Suite #6, 9A Garelli Avenue, Half way tree, St. Andrew, Kingston 10, Jamaica		
BT Jamaica Limited	100%	ordinary

Company name	Group interest in allotted capital ^a	Share class
Japan		
ARK Mori Building, 12-32 Akasaka, 1-Chome, Minato-Ku, Tokyo, 107-6024, Japan		
BT Japan Corporation	100%	ordinary
Jersey		
26 New Street, St Helier, JE2 3RA, Jersey		
Ilford Trustees (Jersey) Limited	100%	ordinary
PO Box 264, Forum 4, Grenville Street, St Helier, JE4 8TQ, Jersey		
BT Jersey Limited	100%	ordinary
Jordan		
Wadi AlSer – Dahiet Prince Rashid – King Abdullah Street, Building No. 391 – 3rd Floor, Jordan		
BT (International) Holdings Limited (Jordan)	100%	ordinary
Kazakhstan		
No 201, 2nd Floor, Building 1a, Business Centre Nurly-Tau, 5 Al-Farabi Avenue, Almaty, 050057, Kazakhstan		
BT Kazakhstan LLP	100%	–
Kenya		
L R No, 1870/ 1/176, Aln House, Eldama Ravine close, off Eldama Ravine Road, Westlands, P O Box 764, Sarit Centre, Nairobi, 00606, Kenya		
BT Communications Kenya Limited	70%	ordinary
P.O. BOX 10032-00100, Nairobi, Kenya		
BT Telecommunications Kenya Limited		
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 atbildību	100%	ordinary
Lebanon		
Abou Hamad, Merheb, Nohra & Chedid Law Firm, Chbaro Street, 22nd Achrafieh Warde Building, 1st Floor, Beirut, P.O.BOX 165126, Lebanon		
BT Lebanon S.A.L.	100%	ordinary
Lithuania		
Aludariu str 2-33, LT-01113 Vilnius, Lithuania		
UAB BTH Vilnius	100%	ordinary
Luxembourg		
12 rue Eugene Ruppert, L 2453, Luxembourg		
BT Global Services Luxembourg SARL	100%	ordinary
BT Broadband Luxembourg Sàrl	100%	ordinary
Malawi		
KEZA Office Park Blocks 3, First Floor, Near Chichiri, Shopping Mall, Blantyre, Malawi		
BT Malawi Limited	100%	ordinary

Related undertakings continued

Company name	Group interest in allotted capital ^a	Share class	Company name	Group interest in allotted capital ^a	Share class	Company name	Group interest in allotted capital ^a	Share class
Malaysia			Nicaragua			Poland		
Level 5, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia			De donde fué el Restaurante Marea Alta Ahora quesillos, El Pipe, 2 cuadras al este, 10 Metros al norte, frente al, Hotel El Gran Marquez, Casa #351, Nicaragua, 2815, Nicaragua			126/134 Marszalkowska St., Room 128, 00-008 WARSAW, Warsaw, Poland		
BT Global Technology (M) Sdn. Bhd.	100%	ordinary	BT Nicaragua S.A.	100%	capital	BT Poland Spółka Z Ograniczoną Odpowiedzialnością	100%	ordinary
BT Systems (Malaysia) Sdn Bhd	100%	ordinary	Nigeria			Portugal		
Malta			Civic Towers, Plot GA1, Ozumba Mbadiwe Avenue, Victoria Island, Lagos, Nigeria			Rua D. Francisco Manuel de Melo 21-1, 1070-085 Lisboa, Portugal		
Level 1, LM Complex, Brewery Street, Zone 3, Central Business District, Birkirkara CBD, 3040, Malta			BT (Nigeria) Limited	100%	ordinary	BT Portugal – Telecomunicações, Unipessoal Lda	100%	ordinary
BT Solutions Limited ^b	100%	–	North Macedonia			Puerto Rico		
Mauritius			Str. Dame Gruev no.8, 5th floor, Building “Dom na voenite invalidi”, SKOPJE 1000, North Macedonia			Corporation Service Company Puerto Rico Inc., c/o RVM Professional Services LLC, A4 Reparto Mendoza, Humacao, 00791, Puerto Rico		
c/o Deloitte, 7th Floor Standard Chartered Tower, 19-21 Bank Street, Cybercity, Ebene, 72201, Mauritius			BT Solutions Limited Branch Office in Skopje ^b	100%	–	BT Communications Sales, LLC Puerto Rico branch ^b	100%	–
BT Global Communications (Mauritius) Limited	100%	ordinary	Norway			Qatar		
Mexico			Munkedamsveien 45, Oslo, 0121, Norway			1413, 14th Floor, Al Fardan Office Tower, Doha, 31316, Qatar		
Boulevard Manuel Avila Camacho No. 32, 6th Floor, Lomas de Chapultepec III Section, Miguel Hidalgo, Mexico City CP11000			BT Solutions Norway AS	100%	ordinary	BT Global Services (North Gulf) LLC	49%	ordinary
BT LatAm México, S.A. de C.V.	100%	common	Oman			Republic of Ireland		
Montenegro			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, Basher, Muscat, Sultanate of Oman, Oman			BDO Block 3 Miesian Plaza, 50-58 Baggot Street Lower, Dublin 2, DUBLIN, Ireland D02 Y754		
Vasa Raickovica 4b, Podgorica, Podgorica, Montenegro			BT International Holdings Limited & Co. LLC	100%	ordinary	BT Global Communications (Ireland) Limited	100%	ordinary
BT Montenegro DOO	100%	–	Pakistan			5th Floor, 2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Ireland		
Morocco			Cavish Court, A-35, Block 7&8, KCHSU, Shahrah-e-Faisal, Karachi, 75350, Pakistan			The Faraday Procurement Company Limited		
Bd. Abdelmoumen, Immeuble Atrium, n 374, Lot. Manazyl Al Maymoune, 5eme etage, Casablanca, 20390, Morocco			BT Pakistan (Private) Limited	100%	ordinary	2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland		
BT Solutions Limited – Morocco Branch ^b	100%	–	Panama			BT Communications Ireland Limited	100%	ordinary
Mozambique			50th and 74th Street, San Francisco, PH 909, 15th and 16th Floor, Panama City, Panama			BT Communications Ireland Group Limited	100%	ordinary
Avenida Kenneth Kaunda, number 660, Sommershield, Maputo City, Mozambique			BT de Panama, S.R.L.	100%	ordinary	BT Communications Ireland Holdings Limited	100%	ordinary
BT Mozambique, Limitada	100%	quotas	Paraguay			Whitestream Industries Limited	100%	ordinary
Namibia			Av. Brasilia N° 767 casi Siria, Asunción, Paraguay			Romania		
Unit 3, 2nd floor, Ausspahn Plaza, Dr Agostinho Neto Road, Ausspahnplatz, Windhoek, Private Bag, 12012, Namibia			BT Paraguay S.R.L.	100%	quotas	Cladirea A1, Biroul Nr. 52, Nr 35-37, Str. Oltenitei, Sector 4, Bucharest, Romania		
BT Solutions Limited ^b	100%	–	Peru			BT Global Services Limited Londra Sucursala Bucuresti^b		
Netherlands			Urb. Jardin Av. Las Begonias No. 441, San Isidro, Lima, Peru			Russia		
Herikerbergweg 2, 1101 CM, Amsterdam, Netherlands			BT Peru S.R.L.	100%	ordinary	Room 62, prem xx, Floor 2, Pravdy, 26, 127137, Moscow, Russian Federation		
BT Global Europe B.V.	100%	ordinary	Philippines			BT Solutions Limited Liability Company		
BT (Netherlands) Holdings B.V.	100%	ordinary	11th Floor, Page One Building, 1215 Acacia Ave Madrigal Business Park, Ayala Alabang, Muntinlupa, Metro Manila, 1780, Philippines			Serbia		
BT Nederland N.V.	100%	ordinary	IT Holdings, Inc	100%	ordinary	Dimitrija Georgijevica Starike 20, Belgrade, 11070, Serbia		
BT Professional Services Nederland B.V.	100%	ordinary	40th Floor, PBCom Tower 6795, Ayala Avenue cor. Rufino St, Makati City, 1226, Philippines			BT Belgrade d.o.o		
Global Security Europe Limited ^b	100%	–	BT Communications Philippines Incorporated	100%	ordinary	Sierra Leone		
New Zealand			c/o Sun Microsystems Phil Inc., 8767 Paseo de Roxas, Makati City, Philippines			84 Dundas Street, Freetown, Sierra Leone		
c/o Deloitte, Level 18, 80 Queen Street, Auckland Central, Auckland, 1010, New Zealand			PSPI-Subic, Inc	51%	ordinary	BT (SL) Limited		
BT Australasia Pty Limited – New Zealand Branch ^b	100%	–						

Company name	Group interest in allotted capital ^a	Share class	Company name	Group interest in allotted capital ^a	Share class	Company name	Group interest in allotted capital ^a	Share class
Singapore			Tanzania			British		
Level 3, #03-01/02 & #03-04, Block B, Alexandra Technopark, 438B Alexandra Road, Singapore, 119968			Region Dar Es Salaam, District Kinondoni, Ward Msasani, Street Msasani Peninsula, Road 1 Bains Singh Avenue, Plot number 1403/1, Ground Floor, 14111, United Republic of Tanzania			Telecommunications plc		
BT (India) Private Limited Singapore Branch ^b	100%	–	BT Solutions Limited – Tanzania Branch ^b	100%	–	Bruning Limited	100%	ordinary
BT Global Solutions Pte. Ltd.	100%	ordinary	Thailand			BT (International) Holdings Limited	100%	ordinary
BT Singapore Pte. Ltd.	100%	ordinary	No.63 Athenee Tower, 23rd Floor (CEO Suite, Room No.38), Wireless Road, Kwaeng Lumpini, Khet Pathumwan, Bangkok, 10330, Thailand			BT (RRS LP) Limited	100%	ordinary
Slovakia			BT Siam Communications Co., Ltd			BT Communications Ireland Group Limited – UK Branch ^b	100%	–
Pribinova 10, 811 09, Bratislava, mestské èast' Staré Mesto, Slovakia			BT Siam Limited	69%	preference	BT Corporate Trustee Limited	100%	limited by guarantee
BT Global Europe B.V., o.z. ^b	100%	–	Trinidad and Tobago			BT European Investments Limited	100%	ordinary
BT Slovakia s.r.o.	100%	ordinary	2nd Floor CIC Building, 122-124 Frederick Street, Port of Spain, Trinidad and Tobago			BT Fifty-One	100%	ordinary
Slovenia			BT Solutions Limited^b			BT Fifty-Three Limited	100%	ordinary
Cesta v Mestni Log 1, Ljubljana, 1000, Slovenia			BT Solutions Limited ^b	100%	–	BT Global Security Services Limited	100%	ordinary
BT GLOBALNE STORITVE, telekomunikacijske storitve, obdelava podatkov, podatkovnih baz; d.o.o.	100%	ordinary	Tunisia			BT Global Services Limited	100%	ordinary
South Africa			Rue de l', Euro Immeuble Slim, Block A-2nd floor-Les berges du Lac, Tunis, 1053, Tunisia			BT Holdings Limited	100%	ordinary
BT Building, Woodmead North Office Park, 54 Maxwell Drive, Woodmead, Johannesburg, 2191, South Africa			BT Tunisia S.A.R.L			BT IoT Networks Limited	100%	ordinary
BT Communications Services South Africa (Pty) Limited	70%	ordinary	Turkey			BT Limited	100%	ordinary
BT Limited ^b	100%	–	Acirbadem Mahallesi Çeçen Sk. Akasya A, Kule Kent Etabi Apt. No: 25 A/28-, Üsküdar, Istanbul, Turkey			BT Ninety-Seven Limited	100%	ordinary
Spain			BT Bilisim Hizmetleri Anonim Şirketi			BT Nominees Limited	100%	ordinary
C/ María Tubau, 3, 28050 de Madrid, Spain			BT Telekom Hizmetleri Anonim Şirketi	100%	common	BT OnePhone Limited	100%	ordinary
BT Global ICT Business Spain SLU	100%	ordinary	Uganda			BT Property Holdings (Aberdeen) Limited	100%	ordinary
Sri Lanka			Engoru, Mutebi Advocates, Ground Floor, Rwenzori House, 1 Lumumba Avenue, Kampala, 22510, Uganda			BT Property Limited	100%	ordinary
Level 03, No 11, Castle Lane, Colombo, 04, Sri Lanka			BT Solutions Limited^b			BT Sixty-Four Limited	100%	ordinary
BT Communications Lanka (Private) Limited	100%	ordinary	BT Solutions Limited ^b	100%	–	BT SLE Euro Limited	100%	ordinary
Sudan			Ukraine			BT SLE USD Limited	100%	ordinary
Alskheikh Mustafa Building, Parlman Street, Khartoum, Sudan			Office 702, 34 Lesi Ukrainky Boulevard, Kyiv 01042, Ukraine			BT Solutions Limited	100%	ordinary
Newgate Communication (Sudan) Co. Ltd	100%	ordinary	BT Ukraine Limited Liability Company			BT UAE Limited	100%	ordinary
Sweden			United Arab Emirates			Communications Global Network Services Limited – UK Branch ^b	100%	–
Box 30005, 104 25, Stockholm, Sweden			Office No G03, Ground Floor, EIB Building No 04, Dubai, United Arab Emirates			Communications Networking Services (UK)	100%	ordinary
BT Nordics Sweden AB	100%	ordinary	BT MEA FZ-LLC			EE (Group) Limited	100%	ordinary
Switzerland			Office no.206 BLOCK B, Diamond Business Center 1, Al Barsha South Third, Dubai, P.O. BOX 25205, United Arab Emirates			EE Group Investments Limited	100%	ordinary
Richtistrasse 5, 8304 Wallisellen, Switzerland			BT UAE Limited – Dubai Branch (1)^b			EE Limited	100%	ordinary
BT Switzerland AG	100%	ordinary	BT UAE Limited – Dubai Branch (2)^b			EE Pension Trustee Limited	100%	ordinary
Taiwan			United Kingdom			ESAT Telecommunications (UK) Limited	100%	ordinary
Shin Kong Manhattan Building, 14F, No. 8, Sec. 5, Xinyi Road, Taipei, 11049, Taiwan			1 Braham Street, London, E1 8EE, United Kingdom			Extracllick Limited	100%	ordinary
BT Limited Taiwan Branch ^b	100%	–	Autumnwindow Limited			Global Security Europe Limited	100%	ordinary
			Autumnwindow No.2 Limited			Mainline Communications Group Limited	100%	ordinary
			Autumnwindow No.3 Limited			Mainline Digital Communications Limited	100%	ordinary
			Belmullet (IoM) Limited^b			Newgate Street Secretaries Limited	100%	ordinary
			BPSLP Limited			Numberrapid Limited	100%	ordinary
						Orange Furbs Trustees Limited	100%	ordinary
						Orange Home UK Limited	100%	ordinary
						Orange Personal Communications Services Limited	100%	ordinary
						Pelipod Ltd	100%	ordinary
						Radianz Limited	100%	ordinary
						Southgate Developments Limited	100%	ordinary

Related undertakings continued

Company name	Group interest in allotted capital ^a	Share class
Tudor Minstrel	100%	ordinary
Alexander Bain House, 15 York Street, Glasgow, Lanarkshire, G2 8LA, Scotland		
BT Corporate Limited	99%	ordinary
BT Falcon 1 LP	51%	-
Holland House (Northern) Limited	100%	ordinary
BDO LLP, 5 Temple Square, Temple Street, Liverpool, L2 5RH, United Kingdom		
BT Lancashire Services Limited	100%	ordinary
BDO LLP, 55 Baker Street, London, W1U 7EU, United Kingdom		
BT Centre Nominee 2 Limited	100%	ordinary
BT Facilities Services Limited	100%	ordinary
BT Managed Services Limited	100%	ordinary
EE Finance Limited	100%	ordinary
groupBT Limited	100%	ordinary
Kelvin House, 123 Judd Street, London, WC1H 9NP, United Kingdom		
Openreach Limited	100%	ordinary
The Balance, 2 Pinfold Street, Sheffield, S1 2GU, United Kingdom		
Plusnet plc	100%	ordinary
United States		
c/o Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808, United States		
BT Americas Holdings Inc.	100%	common
BT Americas Inc.	100%	common
BT Communications Sales LLC	100%	units
BT Federal Inc.	100%	common
BT Procure L.L.C.	100%	units
BT United States L.L.C.	100%	units
Infonet Services Corporation	100%	common
Uruguay		
Rincón 487 Piso 11, Montevideo, ZIP CODE 11.000, Uruguay		
BT Solutions Limited		
Sucursal Uruguay ^b	100%	-
Venezuela		
Edificio Parque Cristal, Torre Oeste, Piso 5, Oficina 5, Avenida Francisco de Miranda, Urbanización Los Palos Grandes, Caracas 1060, Venezuela		
BT LatAm Venezuela, S.A.	100%	ordinary
Vietnam		
16th Floor Saigon Tower, 29 Le Duan Road, District 1, Ho Chi Minh City, 710000, Socialist Republic of Vietnam		
BT (Vietnam) Co. Ltd.	100%	ordinary
Zambia		
Plot No. 11058, Haile Selassie Avenue, Zimbabwe, Lusaka, Lusaka Province, 34972, Zambia		
BT Solutions Limited ^b	100%	-
Zimbabwe		
3 Baines Avenue, Box 334, Harare, Zimbabwe		
Numberrapid Limited ^b	100%	-

Associates (note 25)

Company name	Group interest in allotted capital ^a	Share class
Held via other group companies		
Mauritius		
IFS Court, Bank Street, TwentyEight Cybercity, Ebene, 72201, Mauritius		
Mahindra – BT Investment Company (Mauritius) Limited	43%	ordinary
Philippines		
32F Philam Life Tower, 8767 Paseo de Roxas, Makati City, Philippines		
ePLDTSunphilcox JV, Inc	20%	ordinary
SunPhilcox JV, Inc	20%	ordinary
United Kingdom		
24/25 The Shard, 32 London Bridge Street, London, SE1 9SG, United Kingdom		
Digital Mobile Spectrum Limited	25%	ordinary
10 Stadium Business Court, Millennium Way, Pride Park, Derby, DE24 8HP, United Kingdom		
Midland Communications Distribution Limited	35%	ordinary
Phoneline (M.C.D) Limited	35%	ordinary
2nd Floor, Aldgate Tower, 2 Leman Street, London, E1 8FA, United Kingdom		
Youview TV Limited	14%	voting

Joint ventures (note 25)

Company name	Group interest in allotted capital ^a	Share class
Held via other group companies		
United Kingdom		
Chiswick Park Building 2, 566 Chiswick High Road, London, W4 5YB, United Kingdom		
BT Ninety-Five Limited ^c	50%	ordinary
6th Floor, One London Wall, London, EC2Y 5EB, United Kingdom		
Internet Matters Limited	25%	-
St Helen's 1 Undershaft, London, EC3P 3DQ, United Kingdom		
Rugby Radio Station (General Partner) Limited	50%	ordinary
Rugby Radio Station (Nominee) Limited	50%	ordinary
Rugby Radio Station LP	50%	-

All joint ventures are governed by a joint venture agreement.

Joint operations

Company name	Group interest in allotted capital ^a	Share class
Held via other group companies		
United Kingdom		

450 Longwater Avenue, Green Park, Reading, Berkshire, RG2 6GF, United Kingdom

Mobile Broadband Network Limited	50%	ordinary
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EE Limited and Hutchison 3G UK Limited (together 'the Companies') each have a 50% share in the joint operation Mobile Broadband Network Limited ('MBNL'). MBNL's ongoing purpose is the operation and maintenance of radio access sites for mobile networks through a sharing arrangement. This includes: (i) the efficient management of shared infrastructure and a 3G network on behalf of the Companies, (ii) acquiring certain network elements for shared use, and (iii) coordinating the deployment of new infrastructure and networks on either a shared or a unilateral basis (unilateral elements being network assets or services specific to one company only). The group is committed to incurring 50% of costs in respect of restructuring the shared MBNL network, a broadly similar proportion of the operating costs (which varies in line with usage), and 100% of any unilateral elements.

MBNL is accounted for as a joint operation.

Guarantees for the joint operation are given by British Telecommunications plc and CK Hutchison Holdings Limited.

The principal place of business of the joint operation is in the UK.

- a The proportion of voting rights held corresponds to the aggregate interest in percentage held by the holding company and subsidiaries undertaking.
- b No shares issued for a branch.
- c Sports joint venture formed with Warner Bros. Discovery following the sale of BT Sport transaction. In addition to the 50% ordinary A shares we also hold A preference shares and C preference shares, see notes 23 and 25 for more details.

Additional information

Alternative performance measures

Introduction

We assess the performance of the group using a variety of alternative performance measures that are not defined under IFRS and are therefore termed non-GAAP measures. The non-GAAP measures we use are: adjusted revenue, adjusted operating costs, adjusted finance expense, adjusted EBITDA, adjusted operating profit, adjusted profit before tax, adjusted earnings per share, return on capital employed, normalised free cash flow and net debt. We also reference adjusted revenue and adjusted EBITDA on a Sports JV pro forma basis. The rationale for using these measures, along with a reconciliation from the nearest measures prepared in accordance with IFRS, is presented below.

The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

Specific items

Our income statement and segmental analysis separately identify trading results on an adjusted basis, being before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence.

This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the *Executive Committee* and assists in providing an additional analysis of our reporting trading results.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include significant business restructuring programmes such as the current group-wide cost transformation and modernisation programme, acquisitions and disposals of businesses and investments, charges or credits relating to retrospective regulatory matters, property rationalisation programmes, significant out of period contract settlements, net interest on our pension obligation, and the impact of remeasuring deferred tax balances. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. Any releases to provisions originally booked as a specific item are also classified as specific. Conversely, when a reversal occurs in relation to a prior year item not classified as specific, the reversal is not classified as specific in the current year.

Details of items meeting the definition of specific items in the current and prior year are set out in note 9.

Reported revenue, reported operating costs, reported operating profit, reported net finance expense, reported profit before tax and reported earnings per share are the equivalent IFRS measures. A reconciliation from these can be seen in the group income statement on [page 150](#).

Net debt and net financial debt

Net debt consists of loans and other borrowings, lease liabilities (both current and non-current) less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on the balance sheet.

Currency-denominated balances within net debt are translated to sterling at swap rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed. Amounts due to joint ventures held within loans and borrowings are also excluded.

Net debt is a measure of the group's net indebtedness that provides an indicator of overall balance sheet strength. It is a key indicator used by management to assess both the group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

Net financial debt is net debt excluding lease liabilities. It allows for the comparison to net debt measures reported before the introduction of IFRS 16 on 1 April 2019, and reflects a view that lease liabilities are operational debt in substance, rather than financing transactions.

Net debt and net financial debt are considered to be alternative performance measures as they are not defined in IFRS. A reconciliation from loans and other borrowings, lease liabilities, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures to net debt and net financial debt, is set out in note 27.

Return on Capital Employed

We use a return on capital employed (ROCE) measure that serves as an indicator of how efficiently we generate returns from the capital invested in the business. It is a group KPI that is directly relatable to the outcome of investment decisions.

ROCE represents the group's returns as percentage of capital employed.

Returns are defined as adjusted earnings before interest and tax. We use an adjusted measure (before specific items) for the reasons explained in the 'specific items' section above.

Capital employed represents equity, debt and debt-like liabilities. We net the derivative financial instruments and cash and cash equivalent balances that we use to manage financial risk against gross debt, and exclude current and deferred tax balances as the measure is determined on a pre-tax basis.

While our long-term capital investment programmes such as our full fibre rollout deliver value-creating long-term returns, they suppress ROCE in the short-to medium-term.

Additional information continued

The following table sets out the calculation of our ROCE measure. In doing so it reconciles returns to operating profit, the most directly comparable IFRS measure, and presents the components of capital employed.

Year ended 31 March	2023 £m	2022 £m
Reported operating profit for the period	2,619	2,885
Share of post tax profits (losses) of associates and joint ventures	(59)	–
Specific items (non-finance and tax)	556	287
Return for the period	3,116	3,172
Equity, debt and debt-like liabilities		
Loans and other borrowings	18,521	16,185
Lease liabilities	5,359	5,760
Retirement benefit obligations	3,139	1,143
BDUK grant funding deferral	427	488
Total equity	14,514	15,296
Adjust for balances used to hedge financial risk		
Cash and cash equivalents	(392)	(777)
Investments	(3,577)	(2,713)
Net derivative financial instruments	(1,096)	(221)
Adjust for tax balances		
Net deferred tax liabilities	911	1,671
Net current tax receivable	(349)	(406)
Capital employed	37,457	36,426
Return on capital employed	8.3%	8.7%

Adjusted EBITDA

In addition to measuring financial performance of the group and customer-facing units based on adjusted operating profit, we also measure performance based on adjusted EBITDA. Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures.

We consider adjusted EBITDA to be a useful measure of our operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. Adjusted EBITDA is not a direct measure of our liquidity, which is shown by our cash flow statement, and needs to be considered in the context of our financial commitments.

A reconciliation of reported profit for the period, the most directly comparable IFRS measure, to adjusted EBITDA, is set out below.

Year ended 31 March	2023 £m	2022 £m
Reported profit for the period	1,905	1,274
Tax	(176)	689
Reported profit before tax	1,729	1,963
Net finance expense	831	922
Depreciation and amortisation, including impairment charges	4,818	4,405
Share of post tax losses (profits) of associates and joint ventures	59	–
Specific revenue	(12)	(5)
Specific operating costs before depreciation and amortisation	503	292
Adjusted EBITDA	7,928	7,577

Normalised free cash flow

Normalised free cash flow is one of the group's key performance indicators by which our financial performance is measured. It is primarily a liquidity measure. However, we also believe it is an important indicator of our overall operational performance as it reflects the cash we generate from operations after capital expenditure and financing costs, both of which are significant ongoing cash outflows associated with investing in our infrastructure and financing our operations.

Normalised free cash flow is defined as free cash flow (net cash inflow from operating activities after net capital expenditure) after net interest paid and payment of lease liabilities, before pension deficit payments (including their cash tax benefit), payments relating to spectrum, and specific items. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends paid, share buybacks, acquisitions and disposals, and repayment and raising of debt, cash flows relating to short-term funding arrangements with joint ventures, and cash flows relating to the Building Digital UK (BDUK) demand deposit account which have already been accounted for within normalised free cash flow. For non-tax related items the adjustments are made on a pre-tax basis.

Normalised free cash flow is not a measure of the funds that are available for distribution to shareholders.

A reconciliation from cash inflow from operating activities, the most directly comparable IFRS measure, to free cash flow and normalised free cash flow, is set out below.

Year ended 31 March	2023 £m	2022 £m
Cash generated from operations	6,588	5,962
Tax paid	136	(52)
Net cash inflow from operating activities	6,724	5,910
Net purchase of property, plant and equipment and intangible assets	(5,307)	(4,607)
Free cash flow	1,417	1,303
Interest received	41	6
Interest paid	(709)	(755)
Payment of lease liabilities	(727)	(659)
Dividends received from joint ventures, associates and investments	9	1
Net purchase of non-current asset investments	(5)	(8)
Add back pension deficit payments	994	1,121
Remove cash tax benefit of pension deficit payments	–	–
Add back net cash flow from specific items	404	606
Add back refund in respect of spectrum licence auction	–	(223)
Remove cash flows relating to the BDUK demand deposit account	(96)	–
Normalised free cash flow	1,328	1,392

Below we reconcile normalised free cash flow by unit:

Year ended 31 March	2023 £m	2022 £m
Consumer	1,147	917
Enterprise	522	791
Global	63	131
Openreach	211	448
Other	(615)	(895)
Normalised free cash flow	1,328	1,392

From FY24 we are updating our normalised free cash flow metric to reflect the ongoing evolution of the business:

- We will include the sale of cash flows of contract assets related to mobile handsets where the performance obligations have been substantially delivered to the customer. This is a financing cash flow in the cash flow statement as certain performance obligations in the contract need to be fulfilled before the right to consideration is unconditional, but we believe that it is appropriate to include these cash flows in our normalised free cash flow metric because the sale of these cash flows is part of our working capital management, as handset costs are incurred up front but recovered throughout the customer contract term. The corresponding operating cash inflow received from customers will be excluded from normalised free cash flow if it has previously been included at the time of the sale of the contract assets.

- We will include monies received as prepayment for the forward sale of future redundant copper. This is a financing cash flow in the cash flow statement as certain benefits of the asset have not yet been transferred to the buyer, but we believe that it is appropriate to include these cash flows in our normalised free cash flow metric because the forward sale of this asset is in line with our operating activities and is similar in nature to cash flows arising from the net purchase of property, plant and equipment which are already included within normalised free cash flow.

Sports JV pro forma basis

On 3 September 2022 BT Group and Warner Bros. Discovery announced completion of their transaction to form a 50:50 sports joint venture (Sports JV) combining the assets of BT Sport and Eurosport UK. On 18 October 2022 we published unaudited pro forma financial information estimating the impact on the group as if trading in relation to BT Sport had been equity accounted for in previous periods, akin to the Sports JV being in place historically.

Within this Annual Report we reference pro forma information relating to the years ended 31 March 2023 and 2022. The table below provides a bridge between financial information on a reported basis and a Sports JV pro forma basis.

Year ended 31 March	Reported basis		Sports JV pro forma adjustment		Sports JV pro forma basis		Change %
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	
Adjusted revenue							
Consumer	9,737	9,858	(238)	(539)	9,499	9,319	2
BT Group	20,669	20,845	(238)	(539)	20,431	20,306	1
Adjusted EBITDA							
Consumer	2,623	2,262	71	205	2,694	2,467	9
BT Group	7,928	7,577	71	205	7,999	7,782	3

Cautionary statement regarding forward-looking statements

Certain information included in this Annual Report and Accounts is forward looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward looking statements. Forward looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations. Forward looking statements can be identified by the use of forward looking terminology, including terms such as 'believes', 'estimates', 'anticipates', 'expects', 'forecasts', 'intends', 'plans', 'projects', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology. Forward looking statements in this Annual Report and Accounts are not guarantees of future performance. All forward looking statements in this Annual Report and Accounts are based upon information known to the Company on the date of this Annual Report and Accounts. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward looking statements, which speak only at their respective dates. Additionally, forward looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise. Nothing in this Annual Report and Accounts shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.



We're committed to taking action on sustainability.

This annual report contains important information on our financial and operating performance which can also be found online.

To do your bit for sustainability, switch your shareholder communications to digital.

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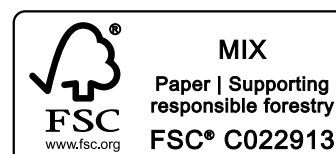


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