Detailed analysis of our statutory accounts, independently audited and providing in-depth disclosure on the financial performance and position of the group.

Financial statements

Independent auditors' report to the members of BT Group plc

Report on the audit of the financial statements

1 Our opinion is unmodified

We have audited the financial statements of BT Group plc ("the Company") for the year ended 31 March 2019 which comprise the group income statement, the group statement of comprehensive income, group balance sheet, group statement of changes in equity, group cash flow statement, company balance sheet, company statement of changes in equity, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Additional opinion in relation to IFRSs as issued by the IASB

As explained in the note to the Group financial statements, the Group, in addition to complying with its legal obligation to apply IFRSs as adopted by the EU, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 11 July 2018. The financial year ended 31 March 2019 is our first year as auditor. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole
£115m
4.3% of profit before tax
Coverage
97% group profit before tax
Key audit matters
• Valuation of pension scheme obligation and unquoted investments in the BT Pension Scheme (BTPS) • Long term customer contracts in Global Services and Enterprise • Adequacy of regulatory and litigation provisions • Useful economic lives assigned to internally generated intangible assets • Accuracy of revenue due to the complexity of the billing systems • Recoverability of parent company's investment in subsidiary and debt due from group undertakings

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

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

Independent auditors' report to the members of BT Group plc continued
Report on the audit of the financial statements continued

Valuation of pension scheme obligation and unquoted investments in the BT Pension Scheme (BTPS)
BTPS obligation £58.9 billion

Refer to page 69 Audit & Risk Committee Report, page 145 note 20 accounting policy Retirement benefits and page 145 financial disclosures note 20 Retirement benefit plans.

The risk
Subjective estimate:
Small changes in the assumptions used to value the BTPS obligation, in particular those relating to inflation, mortality and discount rates, can have a significant impact on the BTPS net pension deficit.

The BTPS holds plan assets for which quoted prices are not available. Significant judgement is required in determining the value of these level 3 assets, which together represented 17% (£9.0 billion) of the total pension scheme assets held. The plan asset categories which require significant judgement include property, private equity, infrastructure and the longevity insurance contract.

The effect of these matters is a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 20) disclose the sensitivity of key assumptions for the obligation estimated by the Group and the uncertainties associated with the valuation of level 3 plan assets.

Our response
For the pension scheme obligation our procedures included:
- **Control design and operation:** Evaluating the processes and controls over the assumptions of the BTPS obligation.
- **Benchmarking assumptions:** Challenging, with the support of our own actuarial specialists, the key assumptions, being the inflation, mortality and discount rate, applied to derive the pension obligation against both internally and externally derived data.

For the level 3 plan assets our procedures included:
- **Control design and operation:** Evaluating the processes and controls over the valuation of the BTPS level 3 plan assets.
  Our testing identified weaknesses in the design of these controls. As a result we expanded the extent of our detailed testing over and above that originally planned.

Property/Infrastructure:
- **Assessing valuer's credentials:** Evaluating the competence, capabilities and objectivity of the directors' experts engaged to independently value the property and infrastructure investments.
- **Benchmarking assumptions:** Engaging our own valuation specialist to review the 3rd party valuation reports, including benchmarking assumptions against externally derived indices, comparable assets and market practice with focus on those which are highly sensitive in deriving fair value. Challenging 3rd party valuation experts, through direct discussions, on the valuation methodology and key assumptions applied, using the benchmarking noted above (property only).
- **Expectation vs outcome:** Performing trend analysis on key data inputs used by the 3rd party experts in determining the valuation. (infrastructure only).
- **Test of details:** Agreeing key inputs in the 3rd party valuations to a sample of property lease agreements (property only).

Private Equity:
- **Assessing valuer's credentials:** Evaluating the competence, capabilities and objectivity of the fund managers responsible for overseeing the private equity funds.
- Evaluating the control environment of the funds by obtaining and analysing independently issued controls reports.
- **Test of details:** Obtaining third party investment manager confirmations, reading the latest audited financial statements for the private equity funds and assessing the historical accuracy of previous valuations.

Longevity insurance contract:
- **Methodology choice:** Engaging our own valuation specialist to critically assess the valuation methodology with respect to the Statement of Recommended Practice principals for longevity swap valuations.
- **Benchmarking assumptions:** Engaging our own valuation specialist to compare mortality, discount rate and market premium rate assumptions against internally and externally derived data and producing a valuation range against which we compare the proposed longevity insurance contract valuation. Challenging 3rd party valuation experts, through direct discussions, on the valuation methodology and key assumptions applied using the benchmarking noted above.

For both pension scheme obligation and level 3 plan assets our procedures included:

- **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions. Considering the adequacy the Group's disclosures in respect of the uncertainties associated with the valuation of level 3 plan assets.

Our results

We consider the valuation of the BTPS obligation and unquoted investments to be acceptable.

Long-term customer contracts in Global Services and Enterprise

Refer to page 69 (*Audit & Risk Committee* Report), page 125 financial disclosures note 6 Revenue, page 141 financial disclosures note 17 Trade and other receivables and page 143 financial disclosures note 19 Provisions.

The risk

Subjective estimate:

The Global Services and Enterprise customer-facing units enter into long-term customer contracts, including major contracts which can contain non-standard terms and conditions and bespoke performance obligations, including transition and transformation programmes that are complex and require up-front investment by BT and are expected to result in cash inflows in future periods.

There is significant subjectivity in estimating the overall profit or loss that will be recognised over these contract's terms as this is reliant on future projections of revenues and costs. As a result, a high degree of judgement is required to determine whether contract-specific assets are recoverable and to determine the completeness and amount of provisions against contracts projected to be loss-making.

The effect of these matters is that, as part of our risk assessment, we determined that the completeness and amount of provisions against contracts projected to be loss-making and the recoverability of contract-specific assets 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.

31 March 2019 Sales:

The revenue recognition process for long-term contracts involves a manual process with a high volume of journals being posted throughout the year. We have identified a significant risk of fraud in respect of the existence and amount of revenue recognition on long-term contracts as a result of these manual journals posted to adjust the revenue recognised, as the volume and materiality of these journals posted results in an inherent risk that revenue could be materially manipulated.

Our response

Our procedures included:

- **Control design and operation:** Evaluating the processes and controls over the recoverability of contract-specific assets, estimation of provisions against contracts projected to be loss-making and fraud risk relating to long-term contract revenue recognition.

  Our testing identified weaknesses in the design of these controls. As a result we expanded the extent of our detailed testing over and above that originally planned.

For the major contracts recoverability of contract-specific assets and estimation of provisions against contracts projected to be loss-making our procedures included:

Assessing the Directors' process to identify contracts that have a higher risk of being loss-making, by testing a sample of inputs into management's high-risk model and then applying our own criteria (including quantitative and qualitative factors) to that model to select a sample of contracts which have a higher risk of being loss-making. For the sample of higher risk contracts (which includes those with provisions against contracts projected to be loss-making as well as others), our procedures included:

- **Inquiries of contract management teams:** Obtaining an understanding of the performance and status of the contracts through discussions with contract teams including a mixture of operational and finance personnel.
- **Expectation vs outcome:** Challenging revenue and cost forecasts, including key assumptions such as cost savings or variations underpinning the expected lifetime performance, by comparing future projections against past performance;
- **Test of details:** Obtaining the contractual agreements between BT and the customer and comparing the key obligations and contractual clauses against the contract risk-registers.

  Challenging the Company as to whether all risks had been identified and appropriately valued by comparing risk registers against contractual obligations and benchmarking common risks across contracts
- **Historical accuracy:** Assessing the variances between budget and actual results in the past two years for a sample of higher risk contracts. We used this assessment to inform our sensitivity analysis over the future cash flow projections of the contracts in our high risk sample and incorporated the results in our challenge of the company over the key assumptions on those contracts.

Independent auditors' report to the members of BT Group plc continued
Report on the audit of the financial statements continued

For the risk of fraud relating to revenue recognition process for long-term contracts our procedures included:
- **Test of details:** Reconciling the revenue recognised to the invoices issued during the year. Testing, on a sample basis, the year-end balance sheet position for contract assets, contract liabilities and trade receivables back to supporting evidence.
  Analysing the journal postings to revenue, investigating any unexpected pairings or unusual postings.

Our results
We consider the long-term customer contracts in Global Services and Enterprise to be acceptable.

Adequacy of regulatory and litigation provisions
Regulatory provision £182 million

Litigation provision £84 million

Refer to page 69 *Audit & Risk Committee* Report, and page 143 financial disclosures note 19 Provisions.

The risk
Omitted exposures:
The Group operates in a highly regulated environment and faces legal, competition and regulatory challenges which can lead to potential claims and exposures (together 'regulatory and litigation matters'). In certain litigation and regulatory matters significant judgement is required to determine whether a liability or contingent liability should be recognised or disclosed, as appropriate.

Subjective estimate:
The amounts involved are potentially significant, and the application of accounting standards to estimate the amount, if any, to be provided as a liability inherently subjective.

The effect of these matters is that, as part of our risk assessment, we determined that the regulatory and litigation provisions have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Our response
Our procedures included:
- **Control design and operation:** Evaluating the processes and controls over regulatory and legal provisions.
  Our testing identified weaknesses in the design and operation of these controls. As a result we expanded the extent of our detailed testing over and above that originally planned.

For regulatory provisions our procedures included:
- **Our regulatory expertise:** Analysing, with the support of our own regulatory specialists, the key assumptions, inspecting correspondence with regulators and monitoring external sources of information.
- **Historical comparison:** performing procedures over the historical accuracy of the provisions by comparing the previous estimate made to actual outcomes.
- **Sensitivity analysis:** sensitising the significant assumptions to evaluate the reasonableness of the assumptions
- **Methodology choice:** Assessing whether the bespoke approach to estimating the provision is materially consistent with IAS 37.

For litigation provisions our procedures included:
- **Our legal expertise:** Analysing, with the support of our own legal specialists, the key assumptions, inspecting correspondence with Brazilian authorities and assessing the competency and reputation of the directors' experts.
- **Test of details:** Inspecting the report produced by internal counsel, accompanied by discussions with that counsel;
- **Enquiry of lawyers:** On all significant legal cases, assessing correspondence with the Group's external counsel accompanied by discussions and formal confirmations from that counsel;

For both regulatory and litigation our procedures included:
- **Assessing transparency:** Assessing whether the group's disclosures detailing significant regulatory and litigation proceedings adequately disclose the potential liabilities of the group.

Our results
We consider the provisions recognised, and the contingent liability disclosures made, to be acceptable.

Useful economic lives assigned to internally generated intangible assets
Internally generated intangible assets £1,297 million

Refer to page 69 *Audit & Risk Committee* Report, and page 136 financial disclosures note 14 Intangible assets.

The risk

Subjective estimate:

Useful economic lives assigned to internally generated intangible assets contain a greater inherent level of judgement with regards to appropriate useful economic life in comparison to separately acquired assets.

The effect of these matters is that, as part of our risk assessment, we determined that the useful economic lives assigned to internally generated intangible assets have a higher degree of estimation uncertainty, with useful economic life less typically derived from underlying contractual arrangement (in comparison to separately acquired assets), with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Our response

Our procedures included:

- **Control design and operation:** Evaluating the processes and controls in respect of the determination of the useful economic lives.
- **Test of details:** Challenging that the directors' view on asset lives are supportable considering our knowledge of the business, enquiry of operational managers, inspection of relevant supporting documentation, and benchmarking analysis (where applicable);
- **Historical comparisons:** Assessing whether the results of prior year asset life reviews, including consideration of fully-depreciated assets still in use, have been appropriately taken into account when considering asset lives in the current year.

Our results:

We consider the judgements made in relation to the useful economic lives assigned to internally generated intangible assets to be acceptable.

Accuracy of revenue due to the complexity of the billing systems

Refer to page 125 financial disclosures note 6 Revenue.

The risk

Processing error:

BT non-long-term contract revenue consists of a large number of similar 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 pricing 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 based charges, as well as usage based charges arising on the volume of minutes or data used.

Accuracy of revenue has been determined a key audit matter, as it was a significant area in the audit of the financial statements, having the greatest effect on the allocation of resources in the audit. It is not identified as a significant risk or an area of significant auditor judgement.

Our response

Our procedures included:

- **Control design and operation:** Evaluating the design and testing the operating effectiveness of controls in respect of all major revenue streams, including controls over:
  - the processing of call data records;
  - the authorisation of price changes;
  - the accuracy of invoicing, and
  - cash receipting.

  Our testing included those controls over the recording of revenue transactions from the billing system to the general ledger.

  Our testing identified weaknesses in the design and operation of these controls. As a result we expanded the extent of our tests of detail over and above that originally planned.
- **Test of details:** Comparing a sample of customer bills to supporting evidence eg orders, contracts, call detail records (where applicable) and cash received.

Our results:

We consider revenue relating to non-long-term contract revenue to be acceptable.

Recoverability of parent company's investment in subsidiary and loans to group undertakings

Investment in subsidiary £10,952 million

Refer to page 175 accounting policy on investments and page 175 financial disclosures note 2 Investments.

Loans to group undertakings £5,657 million

Refer to page 116 accounting policy Impairment of financial assets.

Independent auditors' report to the members of BT Group plc continued
Report on the audit of the financial statements continued

The risk
Low risk, high value:
The carrying amount of the parent company's investment in subsidiary and the amount of the loans to group undertakings represent 66% and 34% respectively, of the company's total assets as at 31 March 2019.

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

Our response
Our procedures included:
- **Test of details:** Comparing the carrying amount of the parent company's investment and loans to group undertakings, with the relevant subsidiary draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.

Our results
We consider the group's assessment of the recoverability of the investment in subsidiaries and debt due from group entities to be acceptable.

3 Our application of materiality and an overview of the scope of our audit
Materiality for the group financial statements as a whole was set at £115 million, determined with reference to a benchmark of Group profit before tax from continuing operations of which it represents 4.3%.

Materiality for the parent company financial statements as a whole was set at £110 million, determined with reference to a benchmark of total assets, of which it represents 0.7%, and chosen to be lower than materiality for the group financial statements as a whole.

We agreed to report to the Audit & Risk Committee any corrected or uncorrected identified misstatements exceeding £5.5 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scope of our audit
Of the Group's seven reporting components (one being the parent company), all were subjected to full scope audits. Work on the Group's entire property, plant and equipment balance was performed by the component auditor of the Technology component on behalf of the Group and component teams.

The components within the scope of our work accounted for the following percentages:

	Group profit before tax	Group revenue	Group total assets
Audits for group reporting purposes	97%	99%	100%

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. In the case of the Technology component, the Group team provided instructions of the audit of account balance to be performed over the property, plant and equipment on behalf of the Group and component teams.

The component materialities ranged from £40m to £110m, having regard to the mix of size and risk profile of the Group across the components.

The work on all of the components, excluding the audit of the parent company, was performed by component auditors. The parent company was audited by the Group team. All of the component audit teams were based in the UK. The Group engagement team met frequently in person with the component audit teams as part of the audit planning and completion phases to explain our audit instructions and discuss the component auditors' plans as well as performing more detailed file reviews upon completion of the component auditors' engagements. Telephone conference meetings were also held with these component auditors.

At these meetings with component auditors, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 We have nothing to report on going concern
The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group'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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's 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 a significant reduction in profitability arising from one, or a combination of, the principal risks outlined in the Group's strategic report on page 46.
- The impact of a tightening in capital markets that would adversely affect the Company's ability to raise future debt.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of a disorderly Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:
- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 98 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

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

Independent auditors' report to the members of BT Group plc continued
Report on the audit of the financial statements continued

Disclosures of principal risks and longer-term viability
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Directors' information on page 92 that they have carried out a robust assessment of the 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 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.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

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

Corporate governance disclosures
We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit 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; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception
Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities
Directors' responsibilities
As explained more fully in their statement set out on page 92, 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 other irregularities (see below), 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, other irregularities 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.

Irregularities – ability to detect
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 and 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. 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 component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

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

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, regulations affecting telecommunications providers, and certain aspects of company legislation recognising the financial and regulated nature of the group's activities (reflecting compliance with Ofcom regulation). 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. These limited procedures did not identify actual or suspected non-compliance. Further details in respect of regulations over products subject to charge controls and other regulated pricing regimes is set out in the key audit matter disclosures in section 2 of this report.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the agreed terms with the company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Antony Cates (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

8 May 2019

Group income statement
Year ended 31 March 2019

	Notes	Before specific items ('Adjusted') £m	Specific items[a] £m	Total (Reported) £m
Revenue	5, 6	**23,459**	**(31)**	**23,428**
Operating costs	7	(19,613)	(394)	(20,007)
Operating profit (loss)	5	**3,846**	**(425)**	**3,421**
Finance expense	26	(651)	(139)	(790)
Finance income		34	–	34
Net finance expense		**(617)**	**(139)**	**(756)**
Share of post tax profit (loss) of associates and joint ventures		1	–	1
Profit (loss) before taxation		**3,230**	**(564)**	**2,666**
Taxation	11	(619)	112	(507)
Profit (loss) for the year		**2,611**	**(452)**	**2,159**
Earnings per share	12			
Basic				21.8p
Diluted				21.6p

Year ended 31 March 2018

	Notes	Before specific items ('Adjusted') £m	Specific items[a] £m	Total (Reported) £m
Revenue	5, 6	**23,746**	**(23)**	**23,723**
Operating costs	7	(19,755)	(587)	(20,342)
Operating profit (loss)	5	**3,991**	**(610)**	**3,381**
Finance expense	26	(558)	(218)	(776)
Finance income		12	–	12
Net finance expense		**(546)**	**(218)**	**(764)**
Share of post tax profit (loss) of associates and joint ventures		(1)	–	(1)
Profit (loss) before taxation		**3,444**	**(828)**	**2,616**
Taxation	11	(671)	87	(584)
Profit (loss) for the year		**2,773**	**(741)**	**2,032**
Earnings per share	12			
Basic				20.5p
Diluted				20.4p

[a] For a definition of specific items, see page 185. An analysis of specific items is provided in note 10.

Group income statement
Year ended 31 March 2017

	Notes	Before specific items ('Adjusted') £m	Specific items[a] £m	Total (Reported) £m
Revenue	5, 6	**24,082**	**(20)**	**24,062**
Operating costs	7	(19,947)	(948)	(20,895)
Operating profit (loss)	5	**4,135**	**(968)**	**3,167**
Finance expense	26	(607)	(210)	(817)
Finance income		13	–	13
Net finance expense		**(594)**	**(210)**	**(804)**
Share of post tax profit (loss) of associates and joint ventures		(9)	–	(9)
Profit (loss) before taxation		**3,532**	**(1,178)**	**2,354**
Taxation	11	(663)	217	(446)
Profit (loss) for the year		**2,869**	**(961)**	**1,908**
Earnings per share	12			
Basic				19.2p
Diluted				19.1p

[a] For a definition of specific items, see page 185. An analysis of specific items is provided in note 10.

Group statement of comprehensive income
Year ended 31 March

	Notes	2019 £m	2018 (Restated)[a] £m	2017 £m
Profit for the year		**2,159**	**2,032**	**1,908**
Other comprehensive income (loss)				
Items that will not be reclassified to the income statement				
Remeasurements of the net pension obligation	20	(2,102)	1,684	(2,789)
Tax on pension remeasurements	11	384	(263)	416
Items that have been or may be reclassified to the income statement				
Exchange differences on translation of foreign operations	28	64	(188)	237
Fair value movements on available-for-sale assets	28	–	11	(3)
Fair value movements on assets at fair value through other comprehensive income	28	3	–	–
Movements in relation to cash flow hedges:				
net fair value gains (losses)	28	176	(368)	884
recognised in income and expense	28	(18)	277	(938)
Tax on components of other comprehensive income that have been or may be reclassified	11, 28	(41)	1	29
Other comprehensive income (loss) for the year, net of tax		**(1,534)**	**1,154**	**(2,164)**
Total comprehensive income (loss) for the year		**625**	**3,186**	**(256)**

[a] Certain results have been restated to reflect the update to the calculation of our IAS 19 accounting valuation of retirement benefit obligations. See note 2 to the consolidated financial statements.

Group balance sheet
At 31 March

	Notes	2019 £m	2018 (Restated)[a] £m	2017 £m
Non-current assets				
Intangible assets	14	14,385	14,447	15,029
Property, plant and equipment	15	17,835	17,000	16,498
Derivative financial instruments	27	1,481	1,312	1,818
Investments	23	54	53	44
Associates and joint ventures		47	38	31
Trade and other receivables	17	445	317	360
Contract assets[b]	6	249	–	–
Deferred tax assets	11	1,347	1,326	1,717
		35,843	**34,493**	**35,497**
Current assets				
Programme rights	16	310	272	264
Inventories		369	239	227
Trade and other receivables	17	3,222	4,014	3,835
Contract assets[b]	6	1,353	–	–
Assets held for sale		89	–	–
Current tax receivable		110	77	73
Derivative financial instruments	27	111	197	428
Investments	23	3,214	3,022	1,520
Cash and cash equivalents	24	1,666	528	528
		10,444	**8,349**	**6,875**
Current liabilities				
Loans and other borrowings	25	2,100	2,281	2,632
Derivative financial instruments	27	48	50	34
Trade and other payables	18	5,790	7,168	7,437
Contract liabilities[b]	6	1,225	–	–
Current tax liabilities		15	83	197
Provisions	19	424	603	625
		9,602	**10,185**	**10,925**
Total assets less current liabilities		**36,685**	**32,657**	**31,447**
Non-current liabilities				
Loans and other borrowings	25	14,776	11,994	10,081
Derivative financial instruments	27	892	787	869
Contract liabilities[b]	6	200	–	–
Retirement benefit obligations	20	7,182	6,847	9,088
Other payables	18	1,479	1,326	1,298
Deferred tax liabilities	11	1,407	1,340	1,240
Provisions	19	582	452	536
		26,518	**22,746**	**23,112**
Equity				
Share capital		499	499	499
Share premium		1,051	1,051	1,051
Own shares	21	(167)	(186)	(96)
Merger reserve		4,147	6,647	6,647
Other reserves	28	718	534	884
Retained earnings		3,919	1,366	(650)
Total equity		**10,167**	**9,911**	**8,335**
		36,685	**32,657**	**31,447**

[a] Certain results have been restated to reflect the update to the calculation of our IAS 19 accounting valuation of retirement benefit obligations. See note 2 to the consolidated financial statements.
[b] Contract assets and contract liabilities arise following adoption of IFRS 15 on 1 April 2018. See notes 1 and 2 to the consolidated financial statements.

The consolidated financial statements on pages 110 to 184 were approved by the Board of Directors on 8 May 2019 and were signed on its behalf by:

Jan du Plessis
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

Group statement of changes in equity

	Notes	Share capital[a] £m	Share premium[b] £m	Own shares[c] £m	Merger reserve[d] £m	Other reserves[e] £m	Retained (loss) earnings (Restated)[f] £m	Total equity (deficit) (Restated) £m
At 1 April 2016		**499**	**1,051**	**(115)**	**8,422**	**685**	**(430)**	**10,112**
Profit for the year		–	–	–	–	–	1,908	1,908
Other comprehensive income (loss) – before tax		–	–	–	–	1,108	(2,779)	(1,671)
Tax on other comprehensive income (loss)	11	–	–	–	–	29	416	445
Transferred to the income statement		–	–	–	–	(938)	–	(938)
Total comprehensive income (loss) for the year		–	–	–	–	199	(455)	(256)
Transfers to realised profit		–	–	–	(1,775)	–	1,775	–
Dividends to shareholders	13	–	–	–	–	–	(1,436)	(1,436)
Share-based payments	22	–	–	–	–	–	57	57
Tax on share-based payments	11	–	–	–	–	–	(6)	(6)
Net buyback of own shares	21	–	–	19	–	–	(155)	(136)
At 1 April 2017		**499**	**1,051**	**(96)**	**6,647**	**884**	**(650)**	**8,335**
Profit for the year		–	–	–	–	–	2,032	2,032
Other comprehensive income (loss) – before tax		–	–	–	–	(545)	2,160	1,615
Tax on other comprehensive income (loss)	11	–	–	–	–	1	(346)	(345)
Transferred to the income statement		–	–	–	–	277	–	277
Total comprehensive income (loss) for the year		–	–	–	–	(267)	3,846	3,579
Dividends to shareholders	13	–	–	–	–	–	(1,524)	(1,524)
Share-based payments	22	–	–	–	–	–	84	84
Tax on share-based payments	11	–	–	–	–	–	(2)	(2)
Net buyback of own shares	21	–	–	(90)	–	–	(78)	(168)
Transfer to realised profit		–	–	–	–	(83)	83	–
At 31 March 2018 – as previously reported		**499**	**1,051**	**(186)**	**6,647**	**534**	**1,759**	**10,304**
Pension restatement[f]		**–**	**–**	**–**	**–**	**–**	**(393)**	**(393)**
At 31 March 2018 – restated		**499**	**1,051**	**(186)**	**6,647**	**534**	**1,366**	**9,911**
IFRS opening balance adjustment[g]		–	–	–	–	–	1,308	1,308
Tax on IFRS opening balance adjustment[g]		–	–	–	–	–	(248)	(248)
At 1 April 2018		**499**	**1,051**	**(186)**	**6,647**	**534**	**2,426**	**10,971**
Profit for the year		–	–	–	–	–	2,159	2,159
Other comprehensive income (loss) – before tax		–	–	–	–	243	(2,102)	(1,859)
Tax on other comprehensive income (loss)	11	–	–	–	–	(41)	384	343
Transferred to the income statement		–	–	–	–	(18)	–	(18)
Total comprehensive income (loss) for the year		–	–	–	–	184	441	625
Dividends to shareholders	13	–	–	–	–	–	(1,503)	(1,503)
Unclaimed Dividend over 10 years		–	–	–	–	–	14	14
Share-based payments	22	–	–	–	–	–	67	67
Tax on share-based payments	11	–	–	–	–	–	–	–
Net buyback of own shares	21	–	–	19	–	–	(23)	(4)
Transfer to realised profit		–	–	–	(2,500)	–	2,500	–
Other movements		–	–	–	–	–	(3)	(3)
At 31 March 2019		**499**	**1,051**	**(167)**	**4,147**	**718**	**3,919**	**10,167**

[a] The allotted, called up, and fully paid ordinary share capital of BT Group plc at 31 March 2019 was £499m comprising 9,968,127,681 ordinary shares of 5p each (2018: £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 2016 includes £998m related to the group reorganisation that occurred in November 2001 and represented the difference between the nominal value of shares in the new parent company, BT Group plc, and the aggregate of the share capital, share premium account and capital redemption reserve of the prior parent company, British Telecommunications plc. In addition, on 29 January 2016, the company issued 1,594,900,429 ordinary shares of 5p at 470.7p per share. These shares were used as part consideration for the acquisition of EE. As a result of this transaction the merger reserve was credited with £7,424m net of £3m issue costs. Following settlement of intercompany loans by qualifying consideration of £1,775m (2016/17) and £2,500m (2018/19), equivalent balances were transferred from merger reserve to realised profit.
[e] For further analysis of other reserves, see note 28.
[f] Certain results have been restated to reflect the update to the calculation of our IAS 19 accounting valuation of retirement benefit obligations. See note 2 to the consoliated financial statements.
[g] Opening retained earnings adjusted following adoption of IFRS 15 on 1 April 2018. See notes 1 and 2 to the consolidated financial statements.

Group cash flow statement
Year ended 31 March

	Notes	2019 £m	2018 £m	2017 £m
Cash flow from operating activities				
Profit before taxation		2,666	2,616	2,354
Share of post tax (profit) loss of associates and joint ventures		(1)	1	9
Net finance expense		756	764	804
Operating profit		3,421	3,381	3,167
Other non-cash charges		(112)	33	20
Loss (profit) on disposal of businesses		5	(1)	(16)
Depreciation and amortisation		3,546	3,514	3,572
Increase in inventories		(138)	(14)	(33)
Decrease (increase) in programme rights		49	(34)	(95)
(Increase) decrease in trade and other receivables[a]		(58)	(156)	168
Decrease in contract assets[b]		15	–	–
Increase (decrease) in trade and other payables		57	(345)	(152)
Decrease in contract liabilities[b]		(72)	–	–
Decrease in other liabilities[c]		(1,934)	(775)	(307)
(Decrease) increase in provisions		(92)	(203)	401
Cash generated from operations		**4,687**	**5,400**	**6,725**
Income taxes paid		(431)	(473)	(551)
Net cash inflow from operating activities		**4,256**	**4,927**	**6,174**
Cash flow from investing activities				
Interest received		23	7	7
Dividends received from associates and joint ventures		–	–	2
Acquisition of subsidiaries[d]		–	(16)	18
Proceeds on disposal of subsidiaries[d], associates and joint ventures		23	2	46
Acquisition of joint ventures		(9)	(9)	(13)
Proceeds on disposal of current financial assets[e]		12,887	11,134	10,834
Purchases of current financial assets[e]		(13,088)	(12,629)	(9,411)
Proceeds on disposal of non-current asset investments[f]		1	19	–
Purchases of non-current asset investments		–	–	(22)
Proceeds on disposal of property, plant and equipment		41	21	26
Purchases of property, plant and equipment and software		(3,678)	(3,362)	(3,145)
Net cash outflow from investing activities		**(3,800)**	**(4,833)**	**(1,658)**
Cash flow from financing activities				
Equity dividends paid		(1,504)	(1,523)	(1,435)
Interest paid		(531)	(555)	(629)
Repayment of borrowings[g]		(1,423)	(1,401)	(1,805)
Proceeds from bank loans and bonds		3,972	3,760	3
Cash flows from derivatives related to net debt		124	(188)	119
Repayment of acquisition facility		–	–	(181)
Repayment of EE revolving credit facility		–	–	(438)
Proceeds from issue of own shares		5	53	70
Repurchase of ordinary share capital		(9)	(221)	(206)
Net cash inflow (outflow) from financing activities		**634**	**(75)**	**(4,502)**
Net increase in cash and cash equivalents		**1,090**	**19**	**14**
Opening cash and cash equivalents[h]		499	511	459
Net increase in cash and cash equivalents		1,090	19	14
Effect of exchange rate changes		5	(31)	38
Closing cash and cash equivalents[h]	24	**1,594**	**499**	**511**

[a] Includes a prepayment of £nil (2017/18: £325m, 2016/17: £nil) in respect of the acquisition of Spectrum.
[b] Contract assets and contract liabilities arise following adoption of IFRS 15 on 1 April 2018. See notes 1 and 2 to the consolidated financial statements.
[c] Includes pension deficit payments of £2,024m (2017/18: £872m, 2016/17: £274m).
[d] Acquisitions and disposals of subsidiaries are shown net of cash acquired or disposed of and in 2017 included £20m true-up of consideration following the audit of the completion balance sheet relating to the acquisition of EE.
[e] Primarily consists of investment in and redemption of amounts held in liquidity funds.
[f] Relates to sale of fair value through equity investment in 2018/19 and assets held for sale classified within trade and other receivables in 2017/18.
[g] Repayment of borrowings includes the impact of hedging and repayment of lease liabilities.
[h] Net of bank overdrafts of £72m (2017/18: £29m, 2016/17: £17m).

Notes to the consolidated financial statements

1. Basis of preparation

Preparation of the financial statements

These consolidated financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards (IFRS), Article 4 of the IAS Regulation and International Accounting Standards (IAS) and IFRS and related interpretations, as adopted by the European Union. The consolidated financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board (the IASB) and interpretations as issued by the IFRS Interpretations Committee. The consolidated financial statements are prepared on a going concern basis.

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

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

New and amended accounting standards effective during the year

The following standards have been adopted during the year and have a significant impact on the financial statements.

IFRS 15 'Revenue from Contracts with Customers'

Background

IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers and includes extensive disclosure requirements. It replaced IAS 18 'Revenue' and related interpretations. The standard requires us to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative stand-alone selling price basis, based on a five-step model.

Transition

We chose to adopt IFRS 15 using the cumulative effect method. Under this transition method:

- the standard has been applied only to contracts in progress but not completed as at 1 April 2018
- for contracts that were modified before 1 April 2018, the aggregate effect of all of the modifications that occurred before this date are reflected as at 1 April 2018
- prior year comparatives have not been restated for the effect of IFRS 15 and continue to be reported under IAS 18. Instead our 1 April 2018 opening retained earnings have been adjusted for the full cumulative impact of adopting the standard.

Financial Impact

In the prior year Annual Report we estimated that the likely impact on transition at 1 April 2018 would produce a cumulative increase in retained earnings of between £1.1bn and £1.5bn before tax. The actual increase of £1.3bn before tax (£1.1bn after tax) has primarily been recorded as a contract asset and has led to an additional one-off cash tax payment equally split between 2018/19 and 2019/20.

The cumulative increase in retained earnings is mainly due to the acceleration of handset revenues and, to a lesser extent, deferral of costs, notably third-party contract acquisition costs primarily associated with post pay contracts.

The financial impact of each business area is as follows:

- Under our previous accounting policy, mobile handset revenue was recognised based on the amount the customer pays for the handset when it is delivered to the customer. Generally mobile handsets are either provided free or for a small upfront charge. Under IFRS 15, additional revenue is allocated to the mobile handset at the start of the contract. This is calculated with reference to its relative standalone value within the contract, regardless of the contract pricing. For each mobile handset contract, the revenue recognition profile changes with greater day one recognition of revenue for the handset and a corresponding reduction in ongoing mobile service revenue over the contract period. The difference between the mobile handset revenue recognised and the amounts charged to the customer has been recognised as a contract asset. Over time, we expect the contract asset generated to remain at similar levels as old contracts expire and new ones are signed. However, we will see short-term volatility, for example around key handset launches. This primarily impacted Consumer, and to a lesser extent, mobile handset revenues in Enterprise in respect of the legacy EE business division. There is a similar effect in respect of subsidised equipment although this had a less significant impact due to its lower relative standalone value.
- Previously, sales commissions and other third-party acquisition costs resulting directly from securing contracts with customers were expensed when incurred. Under IFRS 15, these costs are recognised as an asset, and amortised over the period in which the corresponding benefit is received, resulting in earlier profit recognition. The impact is greatest in Consumer in respect of third-party acquisition costs partially associated with post-pay contracts.
- The above two impacts are partly offset by the change in accounting for connections revenue. Previously, the group recognised connections revenue upon performance of the connection activity. Under IFRS 15, connections revenue is deferred and recognised on a straight-line basis over the associated line/circuit contractual period. This means that revenue and profits are recognised later. On transition this created a contract liability as revenue and profits are deferred to future periods. Openreach and Enterprise deliver the majority of this service and therefore experienced the majority of the impact. Over time, this liability is expected to remain at similar levels as old contracts expire and new ones are signed.
- We will provide for expected lifetime losses on contract assets as required by IFRS 9 as set out below.
- The IFRS 15 impact on other areas was not material. This included certain contract fulfilment costs which are recognised as an asset and amortised over the period in which benefit is received and certain expenses that are recognised as a deduction from revenue.

Notes to the consolidated financial statements continued

1. Basis of preparation continued

The impact of the adoption of IFRS 15 on opening retained earnings at 1 April 2018 is shown in note 2. The following tables show, for the year ended 31 March 2019, the impact had the IFRS 15 standard not been adopted on the financial statement line items affected for the income statement and balance sheet. There was no net impact on the key cash flow captions (net cash flow from operating activities, net cash flow from investing activities or net cash flow from financing activities).

Group income statement

Year ended 31 March 2019	As reported (IFRS 15) £m	Adjustments £m	Without adoption of IFRS 15 (IAS 18) £m
Revenue	23,428	(252)	23,176
Operating costs	(20,007)	1	(20,006)
Operating profit	3,421	(251)	3,170
Profit before tax	2,666	(251)	2,415
Tax	(507)	48	(459)
Profit for the year	2,159	(203)	1,956
Earnings per share – basic	21.8p	(2.1p)	19.7p
Earnings per share – diluted	21.6p	(2.0p)	19.6p

Group balance sheet

As at 31 March 2019	As reported (IFRS 15) £m	Adjustments £m	Without adoption of IFRS 15 (IAS 18) £m
Non-current assets			
Contract assets	249	(249)	–
Trade and other receivables	445	(149)	296
Current assets			
Contract assets	1,353	(1,353)	–
Trade and other receivables	3,222	180	3,402
Current tax receivable	110	296	406
Current liabilities			
Trade and other payables	5,790	1,313	7,103
Contract liabilities	1,225	(1,225)	–
Total assets less current liabilities	**36,685**	**(1,363)**	**35,322**
Non-current liabilities			
Other payables	1,479	102	1,581
Contract liabilities	200	(200)	–
Equity			
Retained earnings	3,919	(1,265)	2,654
Total equity and non-current liabilities	**36,685**	**(1,363)**	**35,322**

Disclosures

IFRS 15 requires additional disclosures in our Annual Report. To reflect these expanded requirements we have added a dedicated revenue note (note 6). The key disclosure changes are as follows:

- we have changed our revenue disclosures to comply with the requirements to disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and associated cash flows are affected by economic factors
- we have provided further detail around contract balances and their movements in the year
- we have provided an aggregate amount of the transaction price allocated to performance obligations that are unsatisfied as at the end of the reporting period and an explanation of when these are expected to be recognised as revenue.

IFRS 9 'Financial Instruments'
IFRS 9 sets out requirements for classification, measurement, impairment and de-recognition of financial assets and liabilities, and includes a new hedge accounting model. It replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The standard has not had a material impact on our results, with the key impacts set out below.

Impairment of financial assets

We have revised the methodologies we use to impair financial assets to reflect the forward-looking 'expected credit loss' model introduced by IFRS 9, in contrast to the backward-looking 'incurred credit loss' model used under IAS 39. As a result we now recognise a loss allowance for all expected credit losses on initial recognition of financial assets, including trade receivables and the contract assets recognised on transition to IFRS 15. Providing for loss allowances on our existing financial assets has not had a material impact on the financial statements.

Classification of financial instruments

IFRS 9 introduces new categories of financial instrument: fair value through profit and loss, fair value through other comprehensive income, and amortised cost. These replace the IAS 39 categories of fair value through profit and loss, available-for-sale, loans and receivables, and held-to-maturity.

We have reclassified our financial instruments based on these new categories. Certain investments in liquidity funds, disclosed in note 23, were classified as available-for-sale under IAS 39 but have been reclassified to amortised cost under IFRS 9, because they are held to collect contractual cash flows. All other financial instruments classified as available-for-sale under IAS 39, including all equity instruments, have been reclassified as fair value through other comprehensive income under IFRS 9. All financial instruments previously classified as loans and receivables and held-to-maturity under IAS 39 have been reclassified as amortised cost under IFRS 9, and the classification of all instruments classified as fair value through profit and loss under IAS 39 is unchanged under IFRS 9.

Reclassification of liquidity fund investments has not had a material impact on the accounting as they are short-term in nature and amortised cost can reasonably be expected to equate to fair value. The reclassifications have not changed the accounting for any other instruments and therefore their carrying amounts are unchanged under IFRS 9.

Hedging

We have chosen to adopt the IFRS 9 hedge accounting requirements because they enable us to align our hedge accounting more closely with our risk management activities in

1. Basis of preparation continued

the future. Adoption of the revised requirements has had no impact on the effectiveness of our existing hedges, however, it has been necessary for us to revise hedge documentation to ensure compliance with enhanced IFRS 9 documentation requirements.

We have taken the exemption not to restate comparative information for prior periods with respect to classification and measurement requirements, including the move to the expected credit loss model. Consequently, we have not restated prior period comparatives on adoption of IFRS 9.

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

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4).
- Transfers of investment property (Amendments to IAS 40).
- Annual Improvements to IFRS Standards 2014–2016 Cycle – various standards.
- IFRIC 22 Foreign currency transactions and advance consideration.

New and amended accounting standards that have been issued but are not yet effective

IFRS 16 'Leases' is effective for the accounting period starting 1 April 2019 and will have a material impact on our financial statements.

Background
IFRS 16 was published in January 2016 and replaces IAS 17 'Leases' and related interpretations. The standard requires lessees to recognise a right-of-use asset and lease liability for all leases meeting the lease definition set out by the standard unless certain exemptions are available. Accounting for lessors is largely unchanged.

Transition
We will adopt IFRS 16 on a modified retrospective basis. On transition, remaining payments payable under lease arrangements will be discounted using an appropriate incremental borrowing rate and recognised as lease liabilities. Right-of-use assets will be recognised equivalent to the lease liability, adjusted for any pre-existing prepaid lease payments, accrued lease expenses, and related onerous lease and decommissioning provisions.

We will recognise the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 1 April 2019, ie the date of initial application. Results in the 2019/20 financial year will be reported under IFRS 16 and the Annual Report 2020 will be the first Annual Report to include the results on this basis.

We have made significant progress in implementing the standard. A cross-functional project team has been engaged in identifying arrangements in scope of IFRS 16, determining appropriate accounting policies and judgements, and implementing a system solution capable of quantifying the impact of the standard and processing accounting entries on a business-as-usual basis.

Practical expedients and judgements
We have elected to make use of the following practical expedients and exemptions available under IFRS 16:

- low-value leases and short-term leases will be excluded from IFRS 16 accounting, ie they will be accounted for in the same manner as operating leases currently are
- onerous lease provisions in existence at the date of initial adoption will be derecognised and applied against the corresponding right-of-use asset as a proxy for impairment
- leases of intangible assets such as software licenses will continue to be accounted for under IAS 38 'Intangible Assets'
- where we are lessee in a contract containing both lease components and non-lease components, we will account for the arrangement as though it comprises a single lease component
- initial direct costs will be excluded when measuring the right-of-use asset
- hindsight will be used when assessing the lease term.

Anticipated impact
BT as lessee
All arrangements previously disclosed as operating lease commitments will now be recognised on the balance sheet. A key driver will be group's portfolio of leased land and buildings, the majority of which is currently recognised off balance sheet following a sale and operating leaseback transaction in 2001. Cell and switch site leases represent another material element, due to the long lease terms associated with these arrangements.

On the basis of progress made in implementing the standard, we expect the following impact on adoption:

- lease liabilities of between £5.6bn – £6.6bn will be recognised as a result of bringing operating lease commitments onto the balance sheet. Corresponding right-of-use assets will be recognised, adjusted for accrued lease payments and provisions currently recognised as liabilities. We do not anticipate a material impact on retained earnings due to the transition options selected
- the increase in liabilities will have a corresponding impact on net debt and gearing ratios
- depreciation expense and interest expense will replace the current operating lease expense, resulting in increased EBITDA
- profit after tax will see a reduction in the periods immediately following transition to IFRS 16, driven by interest expense charged in respect of the new leases being 'frontloaded' when compared to the previous straight-line operating lease expense
- within the cash flow statement, lease payments will now be presented within cash flows from operating activities and cash flows from financing activities in respect of depreciation and interest expense respectively. The timing of cash flows will remain unchanged.

BT as lessor
Lessor accounting is substantially unchanged under IFRS 16 and we do not expect the standard to have a material impact on the accounting for arrangements currently identified as leases. However, "last mile" arrangements provided by Openreach to communications providers and currently accounted for as service contracts meet the revised IFRS 16 lease definition, with Openreach as lessor.

Connection fees received will now be deferred over the lease term, which is longer than the current contractual deferral period as it also covers the duration that we are 'reasonably certain' that communications providers will retain the use of the line beyond the contractual period. We have determined that this is six months for all last mile arrangements with the exception of

Notes to the consolidated financial statements continued

1. Basis of preparation continued

FTTP, which is unchanged. Additional deferred income will be recognised in respect of active arrangements at the transition date, with a corresponding adjustment to retained earnings. This is not expected to have a material impact on the balance sheet or income statement.

Other standards
The following standards and interpretations are applicable in future periods but are not expected to have a significant impact on the consolidated financial statements.

- IFRIC 23 Uncertainty over Tax Treatments
- IFRS 17 Insurance Contracts

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.

Furthermore, we consider a columnar presentation to be appropriate, as it improves the clarity of the presentation and is consistent with the way that financial performance is measured by management and reported to the Board and the *Executive Committee.*

Specific items may not be comparable to similarly titled measures used by other companies. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, regulatory settlements, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as specific items.

Specific items for the current and prior years are disclosed in note 10.

2. Prior year restatement and opening balance adjustments

Revision of segment results
During the year we reduced the number of our customer-facing units with a corresponding impact on reportable segments. Our BT Consumer and EE customer-facing units were brought together on 1 April 2018, and our Business and Public Sector and Wholesale and Ventures customer-facing units were combined on 1 October 2018. The group now has four customer-facing units:

- Consumer (formerly BT Consumer and EE)
- Enterprise (formerly Business and Public Sector and Wholesale and Ventures)
- Global Services
- Openreach.

During the year we also transferred our Northern Ireland Networks business from Enterprise to Openreach.

Where appropriate, comparative results for all four customer-facing units have been revised to be presented on a consistent basis. This affects the segment information and employees disclosures. See notes 5 and 8 respectively.

Restatement of previously issued financial statements for IAS 19 accounting valuation of retirement benefit obligations
On 27 July 2018 we announced that we had been alerted to an error made by our independent external actuary in the actuary's calculation of our IAS 19 accounting valuation of retirement benefit obligations at 31 March 2018. Our independent external actuary is employed as an expert to calculate the IAS 19 accounting valuation on behalf of management. The error resulted from the incorrect application of changes to demographic assumptions. Management determined that the error was material with respect to the statement of comprehensive income and would require us to restate the previously issued consolidated financial statements for the year ended 31 March 2018.

The accounting error understated the net pension obligation, after tax, at 31 March 2018 by £393m (£476m gross of deferred tax) and overstated total equity in the balance sheet by £393m. The re-measurement gain of the net pension obligation recorded within the statement of comprehensive income for the year ended 31 March 2018 was overstated by £476m and tax expense on the pension re-measurement was overstated by £83m.

The error has no effect on the income statement or the cash flow statement or any amounts included in the financial statements for the year ending 31 March 2017. It also has no effect on the 2017 triennial funding valuation of the BT Pension Scheme, associated cash contributions or on the pension scheme members.

Opening balance adjustments resulting from the implementation of IFRS 15 and IFRS 9
The transition methods we have chosen in applying IFRS 9 and IFRS 15 mean we do not restate comparative information for the impact of these standards. We have instead adjusted the 1 April 2018 balance sheet to reflect the impact on opening retained earnings of recognition of the IFRS 15 contract asset and liability, and for the IFRS 9 expected loss allowance.

Impact of restatement and opening balance adjustments
Set out below is the impact of these items on the group statement of comprehensive income and balance sheet. They are reflected in the group statement of changes in equity as presented on page 113.

2. Prior year restatement and opening balance adjustments continued

Group statement of comprehensive income

	Year ended 31 March 2018 (as published) £m	Pension restatement £m	Year ended 31 March 2018 (restated) £m
Profit for the period	2,032	–	2,032
Other comprehensive income (loss)			
Items that will not be reclassified to the income statement:			
Remeasurements of the net pension obligation	2,160	(476)	1,684
Tax on pension remeasurements	(346)	83	(263)
Items that have been or may be reclassified subsequently to the income statement:			
Exchange differences on translation of foreign operations	(188)	–	(188)
Fair value movements on available-for-sale assets	11	–	11
Movements in relation to cash flow hedges:		–	
net fair value (losses) gains	(368)	–	(368)
recognised in income and expense	277	–	277
Tax on components of other comprehensive income that have been or may be reclassified	1	–	1
Other comprehensive profit (loss) for the period, net of tax	**1,547**	**(393)**	**1,154**
Total comprehensive income (loss) for the period	**3,579**	**(393)**	**3,186**

Group balance sheet

	At 31 March 2018 (as published) £m	Pension restatement £m	At 31 March 2018 (restated) £m	IFRS 9 & 15 opening balance adjustment £m	At 1 April 2018 £m
Non-current assets					
Intangible assets	14,447	–	14,447	–	14,447
Property, plant and equipment	17,000	–	17,000	–	17,000
Trade and other receivables	317	–	317	114	431
Contract assets	–	–	–	198	198
Deferred tax assets	1,243	83	1,326	–	1,326
Other non-current assets	1,403	–	1,403	–	1,403
	34,410	**83**	**34,493**	**312**	**34,805**
Current assets					
Trade and other receivables	4,014	–	4,014	(337)	3,677
Contract assets	–	–	–	1,417	1,417
Cash and cash equivalents	528	–	528	–	528
Other current assets	3,807	–	3,807	–	3,807
	8,349	**–**	**8,349**	**1,080**	**9,429**
Current liabilities					
Loans and other borrowings	2,281	–	2,281	–	2,281
Trade and other payables	7,168	–	7,168	(1,409)	5,759
Contract liabilities	–	–	–	1,406	1,406
Current tax liabilities	83	–	83	248	331
Other current liabilities	653	–	653	–	653
	10,185	**–**	**10,185**	**245**	**10,430**
Total assets less current liabilities	**32,574**	**83**	**32,657**	**1,147**	**33,804**
Non-current liabilities					
Loans and other borrowings	11,994	–	11,994	–	11,994
Contract liabilities	–	–	–	87	87
Retirement benefit obligations	6,371	476	6,847	–	6,847
Other non-current liabilities	3,905	–	3,905	–	3,905
	22,270	**476**	**22,746**	**87**	**22,833**
Equity					
Share capital	499	–	499	–	499
All other reserves	8,046	–	8,046	–	8,046
Retained earnings	1,759	(393)	1,366	1,060	2,426
Total equity	**10,304**	**(393)**	**9,911**	**1,060**	**10,971**
	32,574	**83**	**32,657**	**1,147**	**33,804**

Notes to the consolidated financial statements continued

3. Critical accounting estimates and key 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. Management has discussed its critical accounting estimates and associated disclosures with the *Audit and Risk Committee*. The areas involving a higher degree of judgement or complexity are described in the applicable notes to the financial statements. Critical accounting estimates and key judgements can be identified throughout the notes by the following symbol .

We have the following critical accounting estimates (E) and key judgements (J):

- Current and deferred income tax, see note 11 (E, J).
- Goodwill impairment, see note 14 (E, J).
- Government grants relating to Broadband Delivery UK (BDUK) contracts, see note 15 (J).
- Provisions and contingent liabilities, see note 19 (E, J).
- Pension obligations, see note 20 (E, J).

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

The significant accounting policies applied in the preparation of our consolidated financial statements are set out below. Other significant accounting policies applicable to a particular area are disclosed in the most relevant note. We have applied all policies consistently to all the years presented, unless otherwise stated.

Basis of consolidation

The group financial statements consolidate the financial statements of BT Group plc and its subsidiaries, and include its share of the results of associates and joint ventures using the equity method of accounting. The group recognises its direct rights to (and its share of) jointly held assets, liabilities, revenues and expenses of joint operations under the appropriate headings in the consolidated financial statements.

All business combinations are accounted for using the acquisition method regardless of whether equity instruments or other assets are acquired. No material acquisitions were made in the year.

A subsidiary is an entity that is controlled by another entity, known as the parent or investor. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Non-controlling interests in the net assets of consolidated subsidiaries, which consist of the amounts of those interests at the date of the original business combination and non-controlling share of changes in equity since the date of the combination, are not material to the group's financial statements.

The results of subsidiaries acquired or disposed of during the year are consolidated from and up to the date of change of control. Where necessary, accounting policies of subsidiaries have been aligned with the policies adopted by the group. All intra-group transactions including any gains or losses, balances, income or expenses are eliminated in full on consolidation.

When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The profit or loss on disposal is recognised as a specific item.

Inventories

Network maintenance equipment and equipment to be sold to customers are stated at the lower of cost or net realisable value, taking into account expected revenue from the sale of packages comprising a mobile handset and a subscription. Cost corresponds to purchase or production cost determined by either the first in first out (FIFO) or average cost method.

Government grants

Government grants are recognised when there is reasonable assurance that the conditions associated with the grants have been complied with and the grants will be received.

Grants for the purchase or production of property, plant and equipment are deducted from the cost of the related assets and reduce future depreciation expense accordingly. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Estimates and judgements applied in accounting for government grants received in respect of the BDUK programme and other rural superfast broadband contracts are described in note 15.

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

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions and the translation of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are recognised in the income statement line which most appropriately reflects the nature of the item or transaction.

On consolidation, assets and liabilities of foreign undertakings are translated into sterling at year end exchange rates. The results of foreign undertakings are translated into sterling at average rates of exchange for the year (unless this average is not a reasonable approximation of the cumulative effects of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Foreign exchange differences arising on the retranslation of foreign undertakings are recognised directly in a separate component of equity, the translation reserve.

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

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.

Leases

Under IAS 17, the determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to use the asset.

Leases of property, plant and equipment where we hold substantially all the risks and rewards of ownership are classified as finance leases. Finance lease assets are capitalised at the commencement of the lease term at the lower of the present value of the minimum lease payments or the fair value of the leased asset. The obligations relating to finance leases, net of finance charges in respect of future periods, are recognised as liabilities. Leases are subsequently measured at amortised cost using the effective interest method.

Leases where a significant portion of the risks and rewards are held by the lessor are classified as operating leases. Rentals are charged to the income statement on a straight line basis over the period of the lease.

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

5. 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: Consumer, Enterprise, Global Services and Openreach. The customer-facing units are supported by an internal service unit, Technology, and corporate units including procurement and property management.

The customer-facing units are our reportable segments and generate substantially all of our revenue. Technology and the group's corporate units are not reportable segments as they did not meet the quantitative thresholds as set out in IFRS 8 'Operating Segments' for any of the years presented.

We aggregate the remaining operations and include within the 'Other' category to reconcile to the consolidated results of the group. The 'Other' category includes unallocated Technology costs and our corporate units.

Allocation of certain items to segments
Provisions for the settlement of significant legal, commercial and regulatory disputes, which are negotiated at a group level, are initially recorded in the 'Other' segment. On resolution of the dispute, the full impact is recognised in the results of the relevant customer-facing unit and offset in the group results through the utilisation of the provision previously charged to the 'Other' segment. Settlements which are particularly significant or cover more than one financial year may fall within the definition of specific items as detailed in note 10.

The costs incurred by Technology and corporate units are recharged to the customer-facing units to reflect the services it provides to them. Depreciation and amortisation incurred by Technology in relation to the networks and systems it manages and operates on behalf of the customer-facing units is allocated to the customer-facing units based on their respective utilisation. Capital expenditure incurred by Technology for specific projects undertaken on behalf of the customer-facing units is allocated based on the value of the directly attributable expenditure incurred. Where projects are not directly attributable to a particular customer-facing unit, capital expenditure is allocated between them based on the proportion of estimated future economic benefits.

Specific items are detailed in note 10 and are not allocated to the reportable segments as this reflects how they are reported to the *Executive Committee.* Finance expense and income are not allocated to the reportable segments, as the central treasury function manages this activity, together with the overall net debt position of the group.

Measuring segment performance
Performance of each reportable segment is measured based on adjusted EBITDA. EBITDA is defined as the group profit or loss before interest, taxation, depreciation and amortisation. Adjusted EBITDA is defined as EBITDA before specific items, net non-interest related finance expense, and share of profits or losses of associates and joint ventures. Adjusted EBITDA is considered to be a useful measure of the operating performance of the customer-facing units because it approximates the underlying operating cash flow by eliminating depreciation and amortisation and also provides a meaningful analysis of trading performance by excluding specific items, which are disclosed separately by virtue of their size, nature or incidence.

Revenue recognition
Our revenue recognition policy is set out in the following note.

Internal revenue and costs
Most of our internal trading relates to Openreach and arises on rentals, and any associated connection or migration charges, of the UK access lines and other network products to the customer-facing units, including the use of BT Ireland's network. This occurs both directly, and also indirectly, through Technology which is included within the 'Other' segment. Enterprise internal revenue arises from Consumer for mobile Ethernet access and Technology for transmission planning services. Internal revenue arising in Consumer relates primarily to employee broadband and wi-fi services. Intra-group revenue generated from the sale of regulated products and services is based on market price. Intra-group revenue from the sale of other products and services is agreed between the relevant customer-facing units and therefore the profitability of customer-facing units may be impacted by transfer pricing levels.

Geographic segmentation
The UK is our country of domicile and we generate the majority of our revenue from external customers in the UK. The geographic analysis of revenue is based on the country of origin in which the customer is invoiced. The geographic analysis of non-current assets, which exclude derivative financial instruments, investments and deferred tax assets, is based on the location of the assets.

5. Segment information continued

Segment revenue and profit

As explained in note 2, our reportable segments changed during the year as a result of a reduction in the number of our customer-facing units. The BT Consumer and EE segments disclosed in last year's accounts have been combined into a single reportable segment named 'Consumer', and the Business and Public Sector and Wholesale and Ventures segments now form a single reportable segment, 'Enterprise'. We also transferred our Northern Ireland Networks business from Enterprise to Openreach and reclassified certain internal revenues generated by our Ventures businesses as segmental revenue rather than as an internal recovery of cost. The prior year comparatives presented in this note have been restated to reflect these changes.

Year ended 31 March 2019 (IFRS 15)	Consumer £m	Enterprise £m	Global Services £m	Openreach £m	Other £m	Total £m
Segment revenue	10,695	6,292	4,735	5,075	3	26,800
Internal revenue	(107)	(359)	–	(2,875)	–	(3,341)
Revenue from external customers[a]	**10,588**	**5,933**	**4,735**	**2,200**	**3**	**23,459**
Adjusted EBITDA[b]	**2,534**	**1,990**	**505**	**2,423**	**(60)**	**7,392**
Depreciation and amortisation[a]	(1,024)	(634)	(370)	(1,468)	(50)	(3,546)
Operating profit (loss)[a]	**1,510**	**1,356**	**135**	**955**	**(110)**	**3,846**
Specific items (note 10)						(425)
Operating profit						**3,421**
Net finance expense[c]						(756)
Share of post tax profit (loss) of associates and joint ventures						1
Profit before tax						**2,666**

Year ended 31 March 2018 (restated) (IAS 18)	Consumer £m	Enterprise[d] £m	Global Services £m	Openreach[d] £m	Other £m	Total £m
Segment revenue	10,360	6,647	5,013	5,278	8	27,306
Internal revenue	(103)	(441)	–	(3,016)	–	(3,560)
Revenue from external customers[a]	**10,257**	**6,206**	**5,013**	**2,262**	**8**	**23,746**
Adjusted EBITDA[b]	**2,376**	**2,077**	**434**	**2,615**	**3**	**7,505**
Depreciation and amortisation[a]	(992)	(635)	(424)	(1,401)	(62)	(3,514)
Operating profit (loss)[a]	**1,384**	**1,442**	**10**	**1,214**	**(59)**	**3,991**
Specific items (note 10)						(610)
Operating profit						**3,381**
Net finance expense[c]						(764)
Share of post tax profit (loss) of associates and joint ventures						(1)
Profit before tax						**2,616**

Year ended 31 March 2017 (restated) (IAS 18)	Consumer £m	Enterprise[d] £m	Global Services £m	Openreach[d] £m	Other £m	Total £m
Segment revenue	10,024	6,975	5,479	5,250	10	27,738
Internal revenue	(100)	(480)	–	(3,076)	–	(3,656)
Revenue from external customers[a]	**9,924**	**6,495**	**5,479**	**2,174**	**10**	**24,082**
Adjusted EBITDA[b]	**2,168**	**2,261**	**495**	**2,734**	**(13)**	**7,645**
Depreciation and amortisation[a]	(989)	(613)	(439)	(1,414)	(55)	(3,510)
Operating profit (loss)[a]	**1,179**	**1,648**	**56**	**1,320**	**(68)**	**4,135**
Specific items (note 10)						(968)
Operating profit						**3,167**
Net finance expense[c]						(804)
Share of post tax profit (loss) of associates and joint ventures						(9)
Profit before tax						**2,354**

[a] Before specific items.
[b] Adjusted EBITDA is defined in the alternative performance measures section on page 185.
[c] Net finance expense includes specific item expense of £139m (2017/18: £218m, 2016/17: £210m). See note 10.
[d] On 1 October 2018 we transferred our Northern Ireland Networks business from Enterprise to Openreach which resulted in an increase in segment revenue, Adjusted EBITDA and Operating profit in Openreach of £155m, £95m, and £54m and a decrease in segment revenue, Adjusted EBITDA and Operating profit in Enterprise of £117m, £95m, and £54m for the year ended 31 March 2018 and an increase in segment revenue, Adjusted EBITDA and Operating profit in Openreach of £152m, £101m, and £56m and a decrease in segment revenue, Adjusted EBITDA and Operating profit in Enterprise of £112m, £101m, and £56m for the year ended 31 March 2017. Additionally, within the Enterprise segment, we reclassified £224m and £242m of internal revenue generated by our Ventures businesses as segmental revenue rather than as an internal recovery of cost for the years ended 31 March 2018 and 2017, respectively.

Notes to the consolidated financial statements continued

5. Segment information continued

Internal revenue and costs

Year ended 31 March 2019	Internal cost recorded by Consumer £m	Enterprise £m	Global Services £m	Openreach £m	Other £m	Total £m
Internal revenue recorded by						
Consumer	–	69	20	–	18	**107**
Enterprise	63	–	51	177	68	**359**
Global Services	–	–	–	–	–	**–**
Openreach	920	401	112	–	1,442	**2,875**
Total	**983**	**470**	**183**	**177**	**1,528**	**3,341**

Year ended 31 March 2018	Internal cost recorded by Consumer £m	Enterprise £m	Global Services £m	Openreach £m	Other £m	Total £m
Internal revenue recorded by						
Consumer	–	65	20	–	18	**103**
Enterprise[a]	130	–	51	173	87	**441**
Global Services	–	–	–	–	–	**–**
Openreach[a]	896	480	125	–	1,515	**3,016**
Total	**1,026**	**545**	**196**	**173**	**1,620**	**3,560**

Year ended 31 March 2017	Internal cost recorded by Consumer £m	Enterprise £m	Global Services £m	Openreach £m	Other £m	Total £m
Internal revenue recorded by						
Consumer	–	62	20	–	18	**100**
Enterprise[a]	148	–	71	165	96	**480**
Global Services	–	–	–	–	–	**–**
Openreach[a]	910	536	158	–	1,472	**3,076**
Total	**1,058**	**598**	**249**	**165**	**1,586**	**3,656**

[a] On 1 October 2018 we transferred our Northern Ireland Networks business from Enterprise to Openreach and we reclassified certain internal revenues generated by our Ventures businesses as segmental revenue rather than an internal recovery of cost. This increases internal revenue recorded by Enterprise by £224m in the year ended 31 March 2018 and £242m in the year ended 31 March 2017. Internal revenue for Openreach has increased by £38m in the year ended 31 March 2018 and £40m in the year ended 31 March 2017.

Capital expenditure

Year ended 31 March 2019	Consumer £m	Enterprise £m	Global Services £m	Openreach £m	Other £m	Total £m
Intangible assets[a]	276	180	93	82	49	680
Property, plant and equipment[b]	718	321	152	1,999	93	3,283
Capital expenditure	**994**	**501**	**245**	**2,081**	**142**	**3,963**
Acquisition of spectrum[a]	–	–	–	–	304	304
Capital expenditure including spectrum	**994**	**501**	**245**	**2,081**	**446**	**4,267**

Year ended 31 March 2018 (restated)	Consumer £m	Enterprise £m	Global Services £m	Openreach £m	Other £m	Total £m
Intangible assets[a]	236	180	92	70	64	642
Property, plant and equipment[b,c]	683	312	186	1,629	70	2,880
Capital expenditure	**919**	**492**	**278**	**1,699**	**134**	**3,522**

Year ended 31 March 2017 (restated)	Consumer £m	Enterprise £m	Global Services £m	Openreach £m	Other £m	Total £m
Intangible assets[a]	225	141	126	74	55	621
Property, plant and equipment[b,c]	628	313	235	1,546	111	2,833
Capital expenditure	**853**	**454**	**361**	**1,620**	**166**	**3,454**

5. Segment information continued

[a] Additions to intangible assets as presented in note 14.
[b] Additions to property, plant and equipment as presented in note 15, inclusive of movement on engineering stores.
[c] On 1 October 2018 we transferred our Northern Ireland Networks business from Enterprise to Openreach. This decreased property, plant and equipment in Enterprise and increased property, plant and equipment in Openreach by £41m and £47m in the years ended 31 March 2018 and 31 March 2017 respectively.

Geographic segmentation

Revenue from external customers

Year ended 31 March	2019 £m	2018 £m	2017 £m
UK	19,683	19,687	19,421
Europe, Middle East and Africa, excluding the UK	2,280	2,489	2,841
Americas	936	996	1,148
Asia Pacific	560	574	672
Revenue[a]	**23,459**	**23,746**	**24,082**

[a] Before specific items.

Non-current assets

At 31 March	2019 £m	2018 £m	2017 £m
UK	30,049	28,835	28,810
Europe, Middle East and Africa, excluding the UK	2,217	2,527	2,535
Americas	336	331	424
Asia Pacific	110	109	149
Non-current assets[a]	**32,712**	**31,802**	**31,918**

[a] Comprising the following balances presented in the group balance sheet: intangible assets; property, plant and equipment; investments in associates and joint ventures; and trade and other receivables.

6. Revenue

We adopted IFRS 15 on 1 April 2018. The impact of initial application of the standard is described in notes 1 and 2.

Significant accounting policies that apply to revenue

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 2019 that contain unsatisfied performance obligations.

Service line	Performance obligations	Revenue recognition policy
ICT and managed networks	Provision of networked IT services, managed network services, and arrangements to design and build software solutions. Performance obligations are identified for each distinct service or deliverable for which the customer has contracted, and are considered to be satisfied over the time period that we deliver these services or deliverables. Commitments to provide hardware to customers that are distinct from the other promises are considered to be satisfied at the point in time that control passes to the customer.	Revenue for services is recognised over time using a measure of progress that appropriately reflects the pattern by which the performance obligation is satisfied. For time and material contracts, revenue is recognised as the service is received by the customer. Where performance obligations exist for the provision of hardware, revenue is recognised at the point in time that the customer obtains control of the promised asset. For long-term fixed price contracts revenue recognition will typically be based on the achievement of contract milestones and customer acceptance.

Notes to the consolidated financial statements continued

6. Revenue continued

Service line	Performance obligations	Revenue recognition policy
Fixed access subscriptions	Provision of broadband, TV and fixed telephony services including local, national and international calls, connections, line rental, and calling features. Performance obligations exist for each ongoing service provided to the customer and are satisfied over the period that the services are provided. Installation services are recognised as distinct performance obligations if their relationship with the other services in the contract is purely functional. These are satisfied when the customer benefits from the service. Connection services are not distinct performance obligations and are therefore combined with the associated service performance obligation.	Fixed subscription charges are recognised as revenue on a straight line basis over the period that the services are provided. Upfront charges for non-distinct connection and installation services are deferred as contract liabilities and are recognised as revenue over the same period. Variable charges such as call charges are recognised when the related services are delivered. Where installation activities are distinct performance obligations, revenue is recognised at the point in time that the installation is completed.
Mobile subscriptions	Provision of mobile postpaid and prepaid services, including voice minutes, SMS, and data services. Performance obligations exist for each ongoing service provided to the customer and are satisfied over the period that the services are provided.	Subscription fees, consisting primarily of monthly charges for access to broadband and other internet access or voice and data services, are recognised as the service is provided. One-off services such as calls outside of plan and excess data usage are recognised when the service is used.
Equipment and other services	Provision of equipment and other services, including mobile phone handsets and hardware such as set top boxes and broadband routers provided as part of customer contracts. Performance obligations are satisfied at the point in time that control passes to the customer. For other services, performance obligations are identified based on the distinct goods and services we have committed to provide.	Revenue from equipment sales is recognised at the point in time that control passes to the customer. Where payment is not received in full at the time of the sale, such as with equipment provided as part of mobile and fixed access subscriptions, contract assets are recognised for the amount due from the customer that will be recovered over the contract period. Revenue to be recognised is calculated by reference to the relative standalone selling price of the equipment. For other services, revenue is recognised when the related performance obligations are satisfied, which could be over time or at a point in time depending on the nature of the service.

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

The fixed element of fixed access and mobile subscription arrangements sold by our Consumer business is typically payable in advance, with any variable or one-off charges billed in arrears. Payment is received immediately for direct sales of equipment to customers. Where equipment is provided to customers under mobile and fixed access subscription arrangements, payment for the equipment is received over the course of the contract term. For sales by our enterprise businesses, invoices are issued in line with contractual terms. Payments received in advance are recognised as contract liabilities, amounts billed in arrears are recognised as contract assets.

We do not have any material obligations in respect of returns, refunds or warranties. Where we act as an agent in a transaction, 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.

6. Revenue continued

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.

Disaggregation of revenue from contracts with customers

The following table disaggregates revenue from contracts with customers by our major service lines and by reportable segment. The prior year comparatives have been presented consistent with the presentation in last year's Annual Report under IAS 18.

Year ended 31 March 2019 (IFRS 15)	Consumer £m	Enterprise £m	Global Services £m	Openreach £m	Other £m	Total £m
ICT and managed networks	–	2,236	2,613	–	–	4,849
Fixed access subscriptions	4,564	2,181	362	2,135	–	9,242
Mobile subscriptions	3,866	1,277	130	–	–	5,273
Equipment and other services	2,158	239	1,630	65	3	4,095
Revenue before specific items	**10,588**	**5,933**	**4,735**	**2,200**	**3**	**23,459**
Specific items (note 10)						(31)
Revenue						**23,428**

Year ended 31 March (IAS 18)	2018 £m	2017 £m
ICT and managed networks	5,530	5,927
Broadband and TV	4,655	4,477
Mobile	6,451	6,358
Calls, lines and connections	5,126	5,069
Transit	265	404
Other products and services	1,719	1,847
Revenue before specific items	**23,746**	**24,082**
Specific items (note 10)	(23)	(20)
Revenue	**23,723**	**24,062**

Revenue expected to be recognised in future periods for performance obligations that are not complete (or are partially complete) as at 31 March 2019 is £14,296m. Of this, £9,425m relates to ICT and managed services contracts and equipment and other services which will substantially be recognised as revenue within five years. Fixed access and mobile subscription services typically have shorter contract periods and so £4,871m 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.

Contract assets and liabilities

Significant accounting policies that apply to contract assets and liabilities

We recognise contract assets for goods and services for which control has transferred to the customer before consideration is due. These assets mainly relate to mobile handsets provided upfront but paid for over the course of a contract. Contract assets are reclassified as receivables when the right to payment becomes unconditional and we have billed the customer.

Contract liabilities are recognised when we have received advance payment for goods and services that we have not transferred to the customer. These primarily relate to fees received for connection and installation services that are not distinct performance obligations.

Where the initial set-up, transition or transformation phase of a long-term contract is considered to be a distinct performance obligation we recognise a contract asset for any work performed but not billed. Conversely a contract liability is recognised where these activities are not distinct performance obligations and we receive upfront consideration. In this case eligible costs associated with delivering these services are capitalised as fulfilment costs, see note 17.

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

Notes to the consolidated financial statements continued

6. Revenue continued

Contract assets and liabilities recognised at 31 March 2019 are as follows:

	31 March 2019 £m	1 April 2018 £m
Contract assets		
Current	1,353	1,417
Non-current	249	198
	1,602	**1,615**
Contract liabilities		
Current	1,225	1,406
Non-current	200	87
	1,425	**1,493**

£1,216m of the contract liability recognised at 1 April 2018 was recognised as revenue during the year. Impairment losses of £36m were recognised on contract assets during the year. Other than business-as-usual movements there were no significant changes in contract asset and liability balances during the year.

7. Operating costs

Year ended 31 March	Notes	2019 £m	2018 £m	2017 £m
Operating costs by nature				
Staff costs:				
Wages and salaries		4,264	4,229	4,134
Social security costs		440	461	477
Other pension costs	20	611	624	521
Share-based payment expense	22	67	84	57
Total staff costs		**5,382**	**5,398**	**5,189**
Own work capitalised		(834)	(798)	(813)
Net staff costs		**4,548**	**4,600**	**4,376**
Net indirect labour costs[a]		267	315	399
Net labour costs		**4,815**	**4,915**	**4,775**
Product costs and sales commissions[b]		4,464	4,429	4,588
Payments to telecommunications operators		2,059	2,306	2,653
Property and energy costs		1,325	1,285	1,202
Network operating and IT costs		1,026	963	983
TV programme rights charges		841	763	714
Provision and installation[b]		624	657	669
Marketing and sales[b]		322	317	365
Other operating costs[b]		831	830	675
Other operating income		(240)	(224)	(187)
Depreciation of property, plant and equipment				
Owned assets	15	2,390	2,381	2,382
Held under finance leases	15	2	10	10
Amortisation of intangible assets[c]	14	1,154	1,123	1,118
Total operating costs before specific items		**19,613**	**19,755**	**19,947**
Specific items	10	394	587	948
Total operating costs		**20,007**	**20,342**	**20,895**
Operating costs before specific items include the following:				
Leaver costs[d]		17	50	86
Research and development expenditure[e]		643	632	638
Operating lease charges		801	732	692
Foreign currency gains		(11)	0	(12)
Inventories recognised as an expense		2,388	2,588	2,680
Government grants		(3)	(3)	(5)

[a] Net of capitalised indirect labour costs of £672m (2017/18: £612m, 2016/17: £463m).
[b] Included within 'other operating costs' in prior years were costs relating to product costs and commissions; provision and installation; and marketing and sales. These are now presented separately. The 'other operating costs' comparative for 2017/18 and 2016/17 has been re-presented for consistency.
[c] Excludes £nil (2017/18: £nil, 2016/17: £62m) of amortisation presented as specific items which relate to a write-off of software costs as a result of the integration of EE.
[d] Leaver costs are included within wages and salaries, except for leaver costs of £257m (2017/18: £168m, 2016/17: £37m) associated with restructuring and EE integration costs, which have been recorded as specific items.
[e] Research and development expenditure reported in the income statement includes amortisation of £581m (2017/18: £573m, 2016/17: £577m) in respect of internally developed computer software and operating expenses of £62m (2017/18: £59m, 2016/17: £61m). In addition, the group capitalised software development costs of £472m (2017/18: £450m, 2016/17: £457m).

7. Operating costs continued

Who are our key management personnel and how are they compensated?

Key management personnel comprise executive and non-executive directors and members of the *Executive Committee.*

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

Year ended 31 March	2019 £m	2018 £m	2017 £m
Short-term employee benefits	13.5	11.8	10.5
Post employment benefits[a]	1.2	1.3	1.3
Share-based payments	5.0	6.2	5.6
Termination benefits	0.6	2.2	–
	20.3	**21.5**	**17.4**

[a] Post employment benefits comprise cash pensions allowances paid to the Chief Executive Officer 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.

8. Employees

	2019		2018		2017	
Number of employees in the group[a]	Year end 000	Average 000	Year end 000	Average 000	Year end 000	Average 000
UK	84.3	83.4	82.2	82.5	82.8	82.2
Non-UK	22.4	23.1	23.6	23.7	23.6	22.8
Total employees	**106.7**	**106.5**	**105.8**	**106.2**	**106.4**	**105.0**

As explained in note 2, we reduced the number of our customer-facing units during the year. BT Consumer and EE have been combined into ‘Consumer’, and Business and Public Sector and Wholesale and Ventures have been combined into ‘Enterprise’. We also transferred c700 employees in our Northern Ireland Networks business from Enterprise to Openreach. The prior year comparatives presented in the table below have been restated to reflect these changes.

	2019		2018		2017	
Number of employees in the group[a]	Year end 000	Average 000	Year end 000	Average 000	Year end 000	Average 000
Consumer	19.7	19.0	18.2	18.0	17.9	16.8
Enterprise[b]	13.4	13.8	13.2	13.5	13.4	13.2
Global Services	16.6	16.8	16.9	17.3	17.5	17.4
Openreach[b]	33.2	31.9	31.2	31.1	30.9	31.6
Other	23.8	25.0	26.3	26.3	26.7	26.0
Total employees	**106.7**	**106.5**	**105.8**	**106.2**	**106.4**	**105.0**

[a] These reflect the full-time equivalent of full and part-time employees.
[b] The 2018 and 2017 comparatives have been restated to reflect the change in segments and the transfer of Northern Ireland Networks as described above.

Notes to the consolidated financial statements continued

9. Audit, audit related and other non-audit services

The following fees were paid or are payable to the company's auditors, KPMG LLP and other firms in the KPMG network, for the year ended 31 March 2019. Figures in the table below for the years ended 31 March 2017 and 2018 are in respect of fees paid to the company's previous auditors, PricewaterhouseCoopers LLP.

Year ended 31 March	2019 £000	2018 £000	2017 £000
Fees payable to the company's auditors and its associates for:			
Audit services[a,b]			
The audit of the parent company and the consolidated financial statements	8,165	5,418	4,316
The audit of the company's subsidiaries	6,061	5,877	5,675
	14,226	**11,295**	**9,991**
Audit related assurance services[c]	**2,236**	**1,771**	**1,865**
Other non-audit services			
Taxation compliance services[d]	–	–	366
Taxation advisory services[e]	–	–	111
All other assurance services[f]	748	211	200
All other services[g]	210	592	2,332
	958	**803**	**3,009**
Total services	**17,420**	**13,869**	**14,865**

[a] Services in relation to the audit of the parent company and the consolidated financial statements, including fees for reports under section 404 of the Sarbanes-Oxley Act. This also includes fees payable for the statutory audits of the financial statements of subsidiary companies. This excludes amounts for the audit of BT Group Employee Share Ownership Trust and Ilford Trustees (Jersey) Limited amounting to £32,000.
[b] During the year a further £446,000 of fees were payable to PricewaterhouseCoopers LLP in relation to the audit of 2017/18 subsidiary accounts and the audit of our restated IAS 19 accounting valuation of retirement benefit obligations, which have not been included in the 2019 balances in the above table.
[c] Services in relation to other statutory filings or engagements that are required by law or regulation to be carried out by an appointed auditor. This includes fees for the review of interim results, the accrued fee for the audit of the group's regulatory financial statements and reporting associated with the group's US debt shelf registration.
[d] Services relating to tax returns, tax audits, monitoring and enquiries.
[e] Fees payable for all taxation advisory services not falling within taxation compliance.
[f] All other assurance services include fees payable to KPMG LLP for agreed upon procedures performed on the estimated impact of the new IFRS 15 revenue accounting standard, which took effect from 1 April 2018 for the 2017/18 audit.
[g] Fees payable for all non-audit services not covered above, principally comprising other advisory services.

The BT Pension Scheme is an associated pension fund as defined in the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011. In the year ended 31 March 2019 KPMG LLP received total fees from the BT Pension Scheme of £1.1m (PricewaterhouseCoopers LLP: 2017/18: £2.1m, 2016/17: £2.1m) in respect of the following services:

Year ended 31 March	2019 £000	2018 £000	2017 £000
Audit of financial statements of associates	1,005	345	251
Audit-related assurance services	53	–	–
Taxation compliance services	–	153	210
Taxation advisory services	–	1,074	493
Other non-audit services	62	565	1,168
Total services	**1,120**	**2,137**	**2,122**

10. Specific items

Significant accounting policies that apply to specific items

We separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence (termed 'specific items'). Specific items are used to derive the adjusted results as presented in the consolidated income statement presented on page 110. Adjusted results are consistent with the way that financial performance is measured by management and assists in providing an additional analysis of the reporting trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, retrospective regulatory matters, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items.

10. Specific items continued

Year ended 31 March	2019 £m	2018 £m	2017 £m
Revenue			
Italian business investigation	–	–	22
Retrospective regulatory matters	31	23	(2)
	31	**23**	**20**
Operating costs			
EE acquisition warranty claims	–	225	–
Restructuring charges	386	241	–
EE integration costs	–	46	215
Property rationalisation costs	36	28	–
Pension equalisation costs	26	–	–
Retrospective regulatory matters	(4)	26	481
Italian business investigation	(55)	22	238
Out of period irrecoverable VAT	–	–	30
Profit (loss) on disposal of businesses	5	(1)	(16)
	394	**587**	**948**
Operating loss	**425**	**610**	**968**
Net finance expense			
Interest expense on retirement benefit obligation	139	218	209
Interest on out of period irrecoverable VAT	–	–	1
	139	**218**	**210**
Net specific items charge before tax	**564**	**828**	**1,178**
Taxation			
Tax credit on specific items above	(112)	(87)	(154)
Tax credit on re-measurement of deferred tax	–	–	(63)
	(112)	**(87)**	**(217)**
Net specific items charge after tax	**452**	**741**	**961**

Restructuring charges
During the year we incurred charges of £386m (2017/18: £241m, 2016/17: £nil), primarily relating to leaver costs. These costs reflect projects within our group-wide cost transformation programme and include costs related to the remaining integration of EE and £23m costs to close the BT Pension Scheme and provide transition payments to affected employees.

EE integration costs
EE integration costs incurred in prior years (2017/18: £46m, 2016/17: £215m) relate to EE related restructuring and leaver costs. In 2016/17, this also included a £62m amortisation charge relating to the write-off of IT assets as we integrated the EE and BT IT infrastructure. In the current year remaining EE integration activities have been combined into the wider restructuring programme.

Retrospective regulatory matters
We have recognised a net charge of £27m (2017/18: £49m, 2016/17: £479m) in relation to regulatory matters in the year. This reflects the completion of the majority of compensation payments to other communications providers in relation to Ofcom's March 2017 findings of its investigation into our historical practices on Deemed Consent by Openreach, and new matters arising. Of this, £31m is recognised in revenue offset by £4m in operating costs.

Pension equalisation costs
During the year we recognised a charge of £26m (2017/18: £nil, 2016/17: £nil) in relation to the high court requirement to equalise pension benefits between men and women due to guaranteed minimum pension (GMP).

Property rationalisation costs
We have recognised a charge of £36m (2017/18: £28m, 2016/17: £nil) relating to the rationalisation of the group's property portfolio and a reassessment of lease-end obligations.

Italian business investigation
During the year we have released £(55)m provisions relating to settlement of various matters in our Italian business (2017/18: a charge of £22m, 2016/17: a charge of £238m).

Interest expense on retirement benefit obligation
During the year we incurred £139m (2017/18: £218m, 2016/17: 209m) of interest costs in relation to our defined benefit pension obligations. See note 20 for more details.

Tax on specific items
A tax credit of £112m (2017/18: £87m, 2016/17: 154m) was recognised in relation to specific items.

Notes to the consolidated financial statements continued

10. Specific items continued

EE acquisition warranty claims

In the prior year we reached settlements with Deutsche Telekom and Orange in respect of any warranty claims under the 2015 EE acquisition agreement, arising from the issues previously announced regarding our operations in Italy. This represents a full and final settlement of these issues and resulted in a specific item charge of £225m.

11. Taxation

Significant accounting policies that apply to taxation

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

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

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

Critical accounting judgements and key estimates made in accounting for taxation

We seek to pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws are unclear, and it can take many years to agree an outcome with a tax authority or through litigation. We estimate our tax on country-by-country and issue-by-issue bases. Our key uncertainties are whether EE's tax losses will be available to us, whether our intra-group trading model will be accepted by a particular tax authority and whether intra-group payments are subject to withholding taxes. We provide for the most likely outcome where an outflow is probable, but the agreed amount can differ materially from our estimates. Approximately 85% 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. £252m (2017/18: £240m) is included in current tax liabilities in relation to these uncertainties.

Under a downside case an additional amount of £556m could be required to be paid, of which £474m would relate to EE losses. This amount is not provided as we don't consider this outcome to be probable.

Deciding whether to recognise deferred tax assets is judgemental. We only recognise them when we consider it is probable that they can be recovered. In making this judgement we consider evidence such as historical financial performance, future financial plans and trends, the duration of existing customer contracts and whether our intra-group pricing model has been agreed by the relevant tax authority.

The value of the group's income tax assets and liabilities is disclosed on the **group balance sheet** on page 112. The value of the group's deferred tax assets and liabilities is disclosed below.

11. Taxation continued

Analysis of our taxation expense for the year

Year ended 31 March	2019 £m	2018 £m	2017 £m
United Kingdom			
Corporation tax at 19% (2017/18: 19%, 2016/17: 20%)	(434)	(578)	(555)
Adjustments in respect of earlier years	(9)	37	33
Non-UK taxation			
Current	(74)	(66)	(109)
Adjustments in respect of earlier years	15	23	–
Total current tax expense	**(502)**	**(584)**	**(631)**
Deferred taxation			
Origination and reversal of temporary differences	(20)	46	96
Adjustments in respect of earlier years	2	(57)	26
Impact of change in UK corporation tax rate to 17% (2017/18: 17%, 2016/17: 17%)	–	–	63
Remeasurement of temporary differences	13	11	–
Total deferred taxation (expense) credit	**(5)**	**–**	**185**
Total taxation expense	**(507)**	**(584)**	**(446)**

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	2019 £m	2018 £m	2017 £m
Profit before taxation	**2,666**	**2,616**	**2,354**
Expected taxation expense at UK rate of 19% (2017/18: 19%, 2016/17: 20%)	(506)	(497)	(471)
Effects of:			
(Higher) lower taxes on non-UK profits	(7)	(8)	(29)
Net permanent differences between tax and accounting[a]	(36)	(100)	(183)
Adjustments in respect of earlier years[b]	8	3	59
Prior year non-UK losses used against current year profits	21	16	120
Non-UK losses not recognised[c]	–	(9)	(8)
Other deferred tax assets not recognised	–	–	–
Lower taxes on profit on disposal of business	–	–	3
Re-measurement of deferred tax balances	13	11	63
Other non-recurring items	–	–	–
Total taxation expense	**(507)**	**(584)**	**(446)**
Exclude specific items (note 10)	(112)	(87)	(217)
Total taxation expense before specific items	**(619)**	**(671)**	**(663)**

[a] Includes income that is not taxable or UK income taxable at a different rate, and expenses for which no tax relief is received. Examples include some types of depreciation and amortisation and the benefit of R&D tax incentives.
[b] Reflects the differences between initial accounting estimates and tax returns submitted to tax authorities, including the release and establishment of provisions for uncertain tax positions.
[c] Reflects losses made in countries where it has not been considered appropriate to recognise a deferred tax asset, as future taxable profits are not probable.

Tax components of other comprehensive income

Year ended 31 March	2019 Tax credit (expense) £m	2018 Tax credit (expense) (Restated) £m	2017 Tax credit (expense) £m
Tax on items that will not be reclassified to the income statement			
Pension remeasurements[a]	384	(263)	416
Tax on items that have been or may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations	(4)	(9)	21
Fair value movements on cash flow hedges			
net fair value gains or losses	(37)	57	(131)
recognised in income and expense	–	(47)	139
	343	**(262)**	**445**
Current tax credit[b]	395	203	122
Deferred tax (expense) credit	(52)	(465)	323
	343	**(262)**	**445**

[a] Certain results have been restated to reflect the update to the calculation of our IAS 19 accounting valuation of retirement benefit obligations. See note 2.
[b] Includes £391m (2017/18: £212m, 2016/17: £110m) relating to cash contributions made to reduce retirement benefit obligations.

Notes to the consolidated financial statements continued

11. Taxation continued

Tax (expense) credit recognised directly in equity

Year ended 31 March	2019 £m	2018 £m	2017 £m
Tax (expense) credit relating to share-based payments	–	(2)	(6)

Deferred taxation

	Fixed asset temporary differences £m	Retirement benefit obligations[b] £m	Share-based payments £m	Tax losses £m	Other £m	Jurisdictional offset £m	Total (Restated) £m
At 1 April 2017	1,432	(1,537)	(17)	(270)	(85)	–	(477)
Expense (credit) recognised in the income statement	11	(104)	4	89	–	–	–
Expense (credit) recognised in other comprehensive income (restated)[a]	–	475	–	–	(10)	–	465
Expense (credit) recognised in equity	–	–	6	–	–	–	6
Exchange differences	–	–	–	(2)	5	–	3
Transfer to current tax	17	–	–	–	–	–	17
At 31 March 2018	**1,460**	**(1,166)**	**(7)**	**(183)**	**(90)**	**–**	**14**
Non-current							
Deferred tax asset	(41)	(1,166)	(7)	(183)	(90)	161	(1,326)
Deferred tax liability	1,501	–	–	–	–	(161)	1,340
At 1 April 2018	**1,460**	**(1,166)**	**(7)**	**(183)**	**(90)**	**–**	**14**
Expense (credit) recognised in the income statement	(60)	(59)	1	114	(1)	–	(5)
Expense (credit) recognised in other comprehensive income	–	15	–	–	37	–	52
Expense (credit) recognised in equity	–	–	(1)	–	–	–	(1)
Exchange differences	–	–	1	(1)	–	–	–
At 31 March 2019	**1,400**	**(1,210)**	**(6)**	**(70)**	**(54)**	**–**	**60**
Non-current							
Deferred tax asset	(27)	(1,210)	(6)	(70)	(54)	20	(1,347)
Deferred tax liability	1,427	–	–	–	–	(20)	1,407
At 31 March 2019	**1,400**	**(1,210)**	**(6)**	**(70)**	**(54)**	**–**	**60**

[a] Certain results have been restated to reflect the update to the calculation of our IAS 19 accounting valuation of retirement benefit obligations. See note 2.
[b] Includes a deferred tax asset of £2m (2017/18: £2m) 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?

The rate of UK corporation tax will change from 19% to 17% on 1 April 2020. As deferred tax assets and liabilities are measured at the rates that are expected to apply in the periods of the reversal, deferred tax balances at 31 March 2019 have been calculated at the rate at which the relevant balance is expected to be recovered or settled.

What are our unrecognised tax losses and other temporary differences?

At 31 March 2019 we had operating losses and other temporary differences carried forward in respect of which no deferred tax assets were recognised amounting to £4.2bn (2017/18: £4.1bn). Our other temporary differences have no expiry date restrictions. The expiry date of operating losses carried forward is dependent upon the tax law of the various territories in which the losses arose.
A summary of expiry dates for losses in respect of which restrictions apply is set out below:

At 31 March 2019	£m	Expiry
Restricted losses		
Europe	16	2019–2038
Americas	205	2019–2038
Other	3	2019–2038
Total restricted losses	**224**	
Unrestricted operating losses	3,905	No expiry
Other temporary differences	108	No expiry
Total	**4,237**	

11. Taxation continued

At 31 March 2019 we had UK capital losses carried forward in respect of which no deferred tax assets were recognised amounting to £16.9bn (2017/18: £16.9bn). These losses have no expiry date, but we consider the future utilisation of significant amounts of these losses to be remote.

At 31 March 2019 the undistributed earnings of non-UK subsidiaries were £2.5bn (2017/18: £2.4bn). 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 £18.2m (2017/18: £23.0m) would arise if these earnings were to be repatriated to the UK. On 29 March 2017, the UK Government notified the EU of its intention to withdraw membership from the EU. Depending on the outcome of negotiations we could cease to benefit from the EU Parent Subsidiary directive on dividends paid by our EU subsidiaries. In this event, additional tax of up to £27.5m could arise if the undistributed earnings of EU subsidiaries of £970m were to be repatriated to the UK.

12. Earnings per share

How are 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. Options over 36m shares (2017/18: 23m shares, 2016/17: 27m shares) were excluded from the calculation of the total diluted number of shares as the impact of these is antidilutive.

Year ended 31 March	2019	2018	2017
Basic weighted average number of shares (millions)	9,912	9,911	9,938
Dilutive shares from share options (millions)	6	2	27
Dilutive shares from executive share awards (millions)	57	48	29
Diluted weighted average number of shares (millions)	9,975	9,961	9,994
Basic earnings per share	21.8p	20.5p	19.2p
Diluted earnings per share	21.6p	20.4p	19.1p

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 £2,159m (2017/18: £2,032m, 2016/17: £1,908m) and profit after tax attributable to non-controlling interests was £3m (2017/18: £4m, 2016/17: £1m). Profit attributable to non-controlling interests is not presented separately in the financial statements as it is not material.

13. Dividends

What dividends have been paid and proposed for the year?

The Board recommends that a final dividend in respect of the year ended 31 March 2019 of 10.78p per share will be paid to shareholders on 9 September 2019 (2017/18: 10.55p paid to shareholders on 3 September), taking the full year proposed dividend per share in respect of 2018/19 to 15.4p (2017/18: 15.4p, 2016/17: 15.4p) which amounts to approximately £1,527m (2017/18: £1,524m, 2016/17: £1,532m). This final dividend is subject to approval by shareholders at the Annual General Meeting and therefore the liability of approximately £1,069m (2017/18: £1,044m, 2016/17: £1,050m) has not been included in these financial statements. The proposed dividend will be payable to all shareholders on the Register of Members on 9 August 2019. The election date for participation in BT's Dividend Investment Plan in respect of this dividend is 23 August 2019.

The amount of £1,503m (2017/18: £1,524m, 2015/16: £1,436m) for the final and interim dividends is disclosed in our statement of changes in equity and analysed below. This value may differ from the amount shown for equity dividends paid in the group cash flow statement, which represents the actual cash paid in relation to dividend cheques that have been presented over the course of the financial year.

	2019		2018		2017	
Year ended 31 March	pence per share	£m	pence per share	£m	pence per share	£m
Final dividend in respect of the prior year	10.55	1,045	10.55	1,044	9.60	954
Interim dividend in respect of the current year	4.62	458	4.85	480	4.85	482
	15.17	**1,503**	**15.40**	**1,524**	**14.45**	**1,436**

Notes to the consolidated financial statements continued

14. 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.

14. Intangible assets continued

	Goodwill £m	Customer relationships and brands £m	Telecoms licences and other £m	Internally developed software £m	Purchased software £m	Total £m
Cost						
At 1 April 2017	8,034	3,422	2,945	4,363	1,853	20,617
Additions	–	–	–	517	125	642
Acquisitions	14	–	3	–	–	17
Disposals and adjustments[a]	(3)	–	(3)	(55)	(413)	(474)
Exchange differences	(100)	(12)	6	(3)	9	(100)
At 31 March 2018	**7,945**	**3,410**	**2,951**	**4,822**	**1,574**	**20,702**
Additions	–	–	304	520	160	984
Disposals and adjustments[a]	(2)	–	(3)	(945)	(141)	(1,091)
Transfers	–	–	4	120	(80)	44
Exchange differences	63	7	(4)	1	(8)	59
At 31 March 2019	**8,006**	**3,417**	**3,252**	**4,518**	**1,505**	**20,698**
Accumulated amortisation						
At 1 April 2017	–	**813**	**280**	**3,193**	**1,302**	**5,588**
Charge for the year	–	379	141	525	78	1,123
Disposals and adjustments[a]	–	–	(3)	(36)	(426)	(465)
Exchange differences	–	(1)	3	(2)	9	9
At 31 March 2018	**–**	**1,191**	**421**	**3,680**	**963**	**6,255**
Charge for the year	–	377	142	525	110	1,154
Disposals and adjustments[a]	–	–	(3)	(941)	(147)	(1,091)
Transfers	–	–	3	(43)	43	3
Exchange differences	–	3	(3)	–	(8)	(8)
At 31 March 2019	**–**	**1,571**	**560**	**3,221**	**961**	**6,313**
Carrying amount						
At 31 March 2019	8,006	1,846	2,692	1,297	544	14,385
At 31 March 2018	7,945	2,219	2,530	1,142	611	14,447

[a] Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £1.0bn (2017/18: £0.4bn).

Impairment of goodwill

Significant accounting policies that apply to impairment of goodwill
We perform an annual goodwill impairment review.

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash generating unit (CGU) level. These CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. Our CGUs are deemed to be legacy BT Consumer, legacy EE, Enterprise, and Global Services.

We allocate goodwill to each of the Cash Generating Units (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.

Critical accounting estimates and key judgements made in reviewing goodwill for impairment

Determining our CGUs
The determination of our CGUs is judgemental. The identification of CGUs involves an assessment of whether the asset or group of assets generate largely independent cash inflows. This involves consideration of how our core assets are operated and whether these generate independent revenue streams. During the year we reviewed our CGUs and have brought together Business and Public Sector and Wholesale and Ventures into 'Enterprise', aligning our CGUs to our customer-facing units. The legacy BT Consumer and EE CGUs remain as two separate CGUs due to their having independent cash flows.

Notes to the consolidated financial statements continued

14. Intangible assets continued

Estimating value in use
Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate for each CGU. Future cash flows used in the value in use calculations are based on our latest Board-approved five-year financial plans. Expectations about future growth reflect the expectations of growth in the markets to which the CGU relates. The future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money. The discount rate used in each CGU is adjusted for the risk specific to the asset, including the countries in which cash flow will be generated, for which the future cash flow estimates have not been adjusted.

We tested our goodwill for impairment as at 31 December 2018. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment and sensitivities are disclosed below.

Cost	Legacy BT Consumer £m	Legacy EE £m	Enterprise £m	Business and Public Sector	Wholesale and Ventures	Global Services £m	Total £m
At 1 April 2017	1,183	2,768	–	2,570	942	571	8,034
Exchange differences	–	–	–	(8)	–	(92)	(100)
Acquisitions and disposals	–	–	–	–	–	11	11
At 31 March 2018	**1,183**	**2,768**	**–**	**2,562**	**942**	**490**	**7,945**
Transfer	–	–	3,504	(2,562)	(942)	–	–
Exchange differences	–	–	5	–	–	58	63
Acquisitions and disposals	–	–	–	–	–	(2)	(2)
At 31 March 2019	**1,183**	**2,768**	**3,509**	**–**	**–**	**546**	**8,006**

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 2018/19 was 8.2% (2017/18: 8.4%). We've used the same discount rate for all CGUs except Global Services where we have used 8.7% (2017/18: 8.8%) reflecting higher risk in some of the countries in which Global Services operates.

What growth rates have we used?
The perpetuity growth rates are determined based on the forecast market growth rates of the regions in which the CGU operates, and they 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 long-term average growth rates for those markets or sectors. We used a perpetuity growth rate of 2.4% (2017/18: 2.3%) for Global Services and 2.0% (2017/18: 2.0%) for Enterprise and our legacy BT Consumer and EE CGUs.

What sensitivities have we applied?
There is significant headroom in our Enterprise and legacy BT Consumer and EE CGUs. For Global Services, the value in use exceeds the carrying value of the CGU by approximately £1,198m (2017/18: £776m). 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 4.1%;
- an increase in the discount rate from our 8.7% assumption to a revised assumption of 13.6%; or
- shortfalls in trading performance against forecast resulting in operating cash flows decreasing by 42% each year and in perpetuity.

15. Property, plant and equipment

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

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

15. Property, plant and equipment continued

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

Estimated useful economic lives

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

Land and buildings	
• Freehold buildings	14 to 50 years
• Short-term leasehold improvements	Shorter of 10 years or lease term
• Leasehold land and buildings	Unexpired portion of lease or 40 years, whichever is the shorter
Network infrastructure	
Transmission equipment	
• Duct	40 years
• Cable	3 to 25 years
• Fibre	5 to 20 years
Exchange equipment	2 to 13 years
Other network equipment	2 to 20 years
Other assets	
• Motor vehicles	2 to 9 years
• Computers and office equipment	3 to 7 years

Assets held under finance leases are depreciated over the shorter of the lease term or their useful economic life. Residual values and useful lives are reassessed annually and, if necessary, changes are recognised prospectively.

Network share assets

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

Impairment of property, plant and equipment

We test property, plant and equipment for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, we assess the recoverable amount by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant asset and the fair value less costs to dispose. If it is not possible to determine the recoverable amount for the individual asset then we assess impairment by reference to the relevant cash generating unit as described in note 14.

Key judgements made in accounting for our BDUK contracts

We receive government grants in relation to the Broadband Delivery UK (BDUK) programme and other rural superfast broadband contracts. Where we have achieved certain service levels, or delivered the network more efficiently than anticipated, we have an obligation to either re-invest or repay grant funding. Where this is the case, we assess and defer the income with a corresponding increase in capital expenditure.

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.

Notes to the consolidated financial statements continued

15. Property, plant and equipment continued

	Land and buildings[a] £m	Network infrastructure[a] £m	Other[b] £m	Assets in course of construction £m	Total £m
Cost					
At 31 March 2017	1,302	49,372	1,938	1,413	54,025
Additions[c]	12	193	92	2,597	2,894
Transfers	36	2,793	16	(2,845)	–
Disposals and adjustments[d]	(82)	(1,540)	(119)	(48)	(1,789)
Exchange differences	(6)	(35)	(13)	1	(53)
At 31 March 2018	**1,262**	**50,783**	**1,914**	**1,118**	**55,077**
Additions[c]	12	97	119	3,034	3,262
Transfers	13	2,988	18	(3,063)	(44)
Disposals and adjustments[d]	(178)	(1,943)	(333)	102	(2,352)
Exchange differences	(2)	(32)	4	–	(30)
At 31 March 2019	**1,107**	**51,893**	**1,722**	**1,191**	**55,913**
Accumulated depreciation					
At 31 March 2017	817	35,214	1,554	–	37,585
Charge for the year	57	2,213	121	–	2,391
Disposals and adjustments[d]	(96)	(1,613)	(107)	–	(1,816)
Exchange differences	(5)	(24)	(10)	–	(39)
At 31 March 2018	**773**	**35,790**	**1,558**	**–**	**38,121**
Charge for the year	51	2,236	105	–	2,392
Transfers	1	(4)	–	–	(3)
Disposals and adjustments[d]	(104)	(1,940)	(296)	–	(2,340)
Exchange differences	(1)	(30)	4	–	(27)
At 31 March 2019	**720**	**36,052**	**1,371**	**–**	**38,143**
Carrying amount					
At 31 March 2019	**387**	**15,841**	**351**	**1,191**	**17,770**
Engineering stores	–	–	–	65	65
Total at 31 March 2019	**387**	**15,841**	**351**	**1,256**	**17,835**
At 31 March 2018	**489**	**14,993**	**356**	**1,118**	**16,956**
Engineering stores	–	–	–	44	**44**
Total at 31 March 2018	**489**	**14,993**	**356**	**1,162**	**17,000**

[a] The carrying amount of the group's property, plant and equipment includes an amount of £34m (2017/18: £53m) in respect of assets held under finance leases, comprising land and buildings of £34m (2017/18: £42m) and network infrastructure of £nil (2017/18: £11m). The depreciation expense on those assets in 2018/19 was £2m (2017/18: £10m), comprising land and buildings of £2m (2017/18: £3m) and network infrastructure of £nil (2017/18: £7m).
[b] Other mainly comprises motor vehicles, computers and fixtures and fittings.
[c] Net of grant deferral of £63m (2017/18: £74m net grant funding).
[d] Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £1.9bn (2017/18: £1.3bn). Disposals and adjustments also reflect the reclassification of the BT Centre property to held for sale (£89m), and £124m of adjustments resulting from changes in assumptions used in calculating lease-end obligations where the corresponding asset is capitalised.

At 31 March	2019 £m	2018 £m
The carrying amount of land and buildings, including leasehold improvements, comprised:		
Freehold	158	261
Leasehold	229	228
Total land and buildings	**387**	**489**

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 £584m (2017/18: £526m) and is recorded within network infrastructure. Included within this is £125m (2017/18: £132m), being the group's share of assets owned by its joint operation MBNL.

Within network infrastructure are assets with a net book value of £9.0bn (2017/18: £8.3bn) which have useful economic lives of more than 18 years.

16. Programme rights

Significant accounting policies that apply to programme rights
Programme rights are recognised on the balance sheet from the point at which the legally enforceable licence period begins. They are initially recognised at cost and are amortised from the point at which they are available for use, on a straight line basis over the programming period, or the remaining licence term, as appropriate, which is generally 12 months. Programme rights are tested for impairment in accordance with our impairment policy as set out in note 14.

Additions reflect TV programme rights for which the legally enforceable licence period has started during the year. Rights for which the licence period has not started are disclosed as contractual commitments in note 30. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 17).

Programmes produced internally are charged to the income statement over the period of the related broadcast.

	Total £m
At 1 April 2017	264
Additions	771
Amortisation	(763)
At 1 April 2018	272
Additions	879
Amortisation	(841)
At 31 March 2019	**310**

17. Trade and other receivables

Significant accounting policies that apply to trade and other receivables
We initially recognise trade and other receivables at fair value, which is usually the original invoiced amount. They are subsequently carried at amortised cost using the effective interest method. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

We provide services to consumer and business customers, mainly on credit terms. We know that certain debts due to us will not be paid through the default of a small number of our customers. Because of this, we recognise an allowance for doubtful debts on initial recognition of receivables, which is deducted from the gross carrying amount of the receivable. The allowance is calculated by reference to credit losses expected to be incurred over the lifetime of the receivable. In estimating a loss allowance we consider historical experience and informed credit assessment alongside other factors such as the current state of the economy and particular industry issues. We consider reasonable and supportable information that is relevant and available without undue cost or effort.

Once recognised, trade receivables are continuously monitored and updated. Allowances are based on our historical loss experiences for the relevant aged category as well as forward-looking information and general economic conditions. Allowances are calculated by individual customer-facing units in order to reflect the specific nature of the customers relevant to that customer-facing unit.

At 31 March	**2019 £m**	2018 £m	2017 £m
Current			
Trade receivables	1,732	1,741	1,774
Prepayments[a]	698	1,103	733
Accrued income[b]	34	777	955
Deferred contract costs[c]	417	–	–
Other receivables[d]	341	393	373
	3,222	**4,014**	**3,835**

At 31 March	**2019 £m**	2018 £m	2017 £m
Non-current			
Other assets[e]	173	317	360
Deferred contract costs[c]	272	–	–
	445	**317**	**360**

[a] 2017/18 includes £325m in respect of the acquisition of Spectrum.
[b] Accrued income recognised in prior years has been substantially reclassified to contract assets on adoption of IFRS 15. See notes 1 and 2.
[c] Deferred contract costs arise following adoption of IFRS 15 on 1 April 2018. See notes 1 and 2.
[d] Other receivables includes assets held for sale of £nil (2017/18: £nil, 2016/17: £22m). £89m assets held for sale as at 31 March 2019 are presented separately on the face of the balance sheet.
[e] Other assets comprise prepayments and leasing debtors. Included in prior year comparatives are costs relating to the initial set-up, transition or transformation phase of long-term networked IT services contracts (2017/18: £145m, 2016/17: £163m), which are presented within deferred contract costs following adoption of IFRS 15.

Notes to the consolidated financial statements continued

17. Trade and other receivables continued

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

	2019 £m	2018 £m	2017 £m
At 1 April	375	303	195
Expense	95	129	211
Utilised	(165)	(61)	(114)
Exchange differences	(6)	4	11
At 31 March	**299**	**375**	**303**

Included within the 2016/17 expense above are amounts for exposures relating to the Italian business investigation.

Note 27 provides further disclosure regarding the credit quality of our gross trade receivables. Trade receivables are due as follows:

			Past due and not specifically impaired				
At 31 March	Not past due £m	Trade receivables specifically impaired net of provision £m	Between 0 and 3 months £m	Between 3 and 6 months £m	Between 6 and 12 months £m	Over 12 months £m	Total £m
2019	1,229	34	371	42	40	16	**1,732**
2018	1,251	61	293	44	25	67	**1,741**
2017	1,184	146	292	17	41	94	**1,774**

Gross trade receivables which have been specifically impaired amounted to £57m (2017/18: £124m, 2016/17: £238m).

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

	Trade receivables not past due			Accrued income		
At 31 March	2019 £m	2018 £m	2017 £m	2019 £m	2018 £m	2017 £m
Consumer	457	–	–	32	–	–
Enterprise	274	–	–	2	–	–
Global Services	498	477	444	–	222	297
Openreach	–	61	1	–	67	78
BT Consumer	–	157	128	–	86	90
EE	–	206	335	–	122	170
Business and Public Sector	–	253	200	–	134	151
Wholesale and Ventures	–	92	75	–	145	167
Other	–	5	1	–	1	2
Total	**1,229**	**1,251**	**1,184**	**34**	**777**	**955**

Given the broad and varied nature of our customer base, the analysis of trade receivables not past due and accrued income by customer-facing unit is considered the most appropriate disclosure of credit concentrations. Cash collateral held against trade and other receivables amounted to £9m (2017/18: £6m, 2016/17: £4m).

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.

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 2018	7	85	416	161	669
Additions	15	76	446	32	569
Amortisation	(14)	(76)	(426)	(53)	(569)
Impairment	–	(5)	(4)	(1)	(10)
Other	23	6	–	1	30
At 31 March 2019	**31**	**86**	**432**	**140**	**689**

18. Trade and other payables

Significant accounting policies that apply to trade and other payables
We initially recognise trade and other payables at fair value, which is usually the original invoiced amount. We subsequently carry them at amortised cost using the effective interest method.

At 31 March	2019 £m	2018 £m	2017 £m
Current			
Trade payables	4,141	3,991	4,205
Other taxation and social security	564	704	704
Other payables	387	456	672
Accrued expenses	630	492	382
Deferred income[a]	68	1,525	1,474
	5,790	**7,168**	**7,437**

At 31 March	2019 £m	2018 £m	2017 £m
Non-current			
Other payables[b]	873	871	885
Deferred income[a]	606	455	413
	1,479	**1,326**	**1,298**

[a] Deferred income recognised in prior periods has substantially been reclassified to contract liabilities on adoption of IFRS 15, see notes 1 and 2. The remaining balance includes £51m (2017/18: £132m, 2016/17: £71m) current and £586m (2017/18: £404m, 2016/17: £375m) non-current liabilities relating to the Broadband Delivery UK programme, for which grants received by the group may be subject to re-investment or repayment depending on the level of take-up.
[b] Other payables relate to operating lease liabilities and deferred gains on a 2001 sale and finance leaseback transaction.

19. Provisions

Our provisions principally relate to obligations arising from property rationalisation programmes, restructuring programmes, asset retirement obligations, network assets, insurance claims, litigation and regulatory risks.

Significant accounting policies that apply to provisions
We recognise provisions when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Financial liabilities within provisions are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. We measure onerous lease provisions at the lower of the cost to fulfil or to exit the contract.

Critical accounting estimates and key judgements made in accounting for provisions
We exercise judgement in determining the timing and 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 which 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. We've disclosed our assessment of contingent liabilities in note 30.

Notes to the consolidated financial statements continued

19. Provisions continued

Restructuring programmes involve estimation of the direct cost necessary for the restructuring and exclude items that are associated with ongoing activities. The amounts below exclude restructuring costs for which the timing and amount are certain. These are recognised as part of trade and other payables.

Under our property rationalisation programmes we've identified a number of surplus leased properties. Although efforts are being made to sublet this space, this is not always possible. Estimates have been made of the cost of vacant possession and of any shortfall arising from any potential sub-lease income being lower than the lease costs. Any such shortfall is recognised as a provision. We have also made estimates of the costs to restore properties upon vacation where this is required under the lease agreements.

Asset retirement obligations (AROs) involve an estimate of the cost to dismantle equipment and restore network sites upon vacation and the timing of the event. The provision represents the group's best estimate of the amount that may be required to settle the obligation.

Network asset provisions represent our future operational costs and vacant site rentals arising from obligations relating to network share agreements. Costs are expected to be incurred over a period of up to 20 years.

Our regulatory provision represents our best estimate of the cost to settle our present obligation in relation to historical regulatory matters. The charge 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. Estimates are used in assessing the likely value of the regulatory risk.

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

	Restructuring £m	Property £m	Network ARO £m	Network share £m	Regulatory £m	Litigation £m	Other £m	Total £m
At 31 March 2017	11	292	83	50	479	69	177	1,161
Additions	4	37	2	–	51	6	33	133
Unwind of discount	–	11	2	2	–	–	–	15
Utilised or released	(2)	(46)	(16)	(19)	(210)	(11)	(32)	(336)
Transfers	–	–	–	–	–	–	85	85
Exchange differences	(1)	–	–	–	–	–	(2)	(3)
At 31 March 2018	**12**	**294**	**71**	**33**	**320**	**64**	**261**	**1,055**
Additions	–	84	102	2	58	3	66	315
Unwind of discount	–	11	2	1	–	–	–	14
Utilised or released	–	(71)	(13)	(9)	(196)	(9)	(109)	(407)
Transfers	(12)	21	–	–	–	27	(7)	29
Exchange differences	–	–	–	–	–	(1)	1	–
At 31 March 2019	**–**	**339**	**162**	**27**	**182**	**84**	**212**	**1,006**

At 31 March	2019 £m	2018 £m	2017 £m
Analysed as:			
Current	424	603	625
Non-current	582	452	536
	1,006	**1,055**	**1,161**

In 2016/17 we recognised a £300m charge in relation to estimated deemed consent compensation payments. In 2016/17 a related fine of £42m was imposed and was recognised as a payable rather than as a provision. The provision movement in the year reflects the completion of the majority of deemed consent compensation payments, and new matters arising across a range of issues, including price and service issues, and the re-assessment of other regulatory risks and in light of historic regulatory decisions by Ofcom. The movement has been recorded as a specific item.

Included within 'Other' provisions are contract loss provisions of £25m (2017/18: £38m) relating to the anticipated total losses in respect of certain contracts. It is expected that the majority of these provisions will be utilised in the next few years. Although there is a short period remaining to the finalisation of these contracts, there remains uncertainty as to whether potential future changes to key assumptions made when estimating their future losses could have a significant impact. There is no single change in key variables that

19. Provisions continued

could materially affect future expected losses on these contracts, but it is reasonably possible there will be a combination of changes in key variables that could have a material impact. Also included in 'Other' are amounts provided for constructive obligations arising from insurance claims which will be utilised as the obligations are settled.

During the year we have updated property provisions to reflect our reassessment of lease-end obligations to reflect the group's property strategy announced in May 2018, and to update the rate used to discount these provisions. Where additions to the provision relate to capitalised assets there has been a corresponding increase in the asset (see note 15). Other amounts have been charged to the income statement as specific items.

During the year we have updated provisions relating to asset retirement obligations to reflect our latest assessment of the cost to dismantle equipment and restore the sites, and to update the rate used to discount the provisions. The increase in the provision has been reflected in an increase in the corresponding capitalised asset (see note 15).

20. Retirement benefit plans

Background to BT's pension plans

The group has both defined benefit and defined contribution retirement benefit plans. The group's main plans are in the UK and the largest by membership is the BT Pension Scheme (BTPS) which is a defined benefit plan that was closed to new entrants on 31 March 2001. After that date new entrants to BT in the UK have been able to join a defined contribution plan, currently the BT Retirement Saving Scheme (BTRSS), a contract-based arrangement operated by Standard Life.

Sections B and C of the BTPS were closed to future benefit accrual on 30 June 2018 (which represented over 99% of the BTPS active membership at the time) and affected employees have been able to join the BTRSS for future pension accrual. Non-management employees will be eligible to join a new hybrid pension arrangement, the BT Hybrid Scheme, between 1 April 2019 and 30 September 2019. This new arrangement combines elements of both defined benefit and defined contribution pension schemes.

EE Limited operates the EE Pension Scheme (EEPS), which has a defined benefit section that was closed to future benefit accrual in 2014 and a defined contribution section which is open to new joiners.

We also have retirement arrangements around the world in line with local markets and culture.

	What are they?	How do they impact BT's financial statements?
Defined contribution plans	Benefits in a defined contribution plan are linked to: • contributions paid • the performance of each individual's chosen investments • the form in which individuals choose to take their benefits. Contributions are paid into an independently administered fund.	The income statement charge in respect of defined contribution plans represents the contribution payable by the group based upon a fixed percentage of employees' pay. The group has no exposure to investment and other experience risks.
Defined benefit plans	Benefits in a defined benefit plan are: • determined by the plan rules, dependent on factors such as age, years of service and pensionable pay • not dependent upon actual contributions made by the company or members.	The income statement service cost in respect of defined benefit plans represents the increase in the defined benefit liability arising from pension benefits earned by active members in the current period. The group is exposed to investment and other experience risks and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions, expected investment income and assets held.

Significant accounting policies that apply to retirement benefits

Defined benefit plans

Our net obligation in respect of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of the plan assets.

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

- The operating charge reflects the increase in the defined benefit obligation resulting from the pension benefit earned by active employees in the current period, the costs of administering the plans and any past service costs/credits such as those arising from curtailments or settlements.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

- The net finance income or expense reflects the interest on the net retirement benefit obligations recognised in the group balance sheet, based on the discount rate at the start of the year.

Remeasurements of the net pension obligation are recognised in full in the group statement of comprehensive income in the year in which they arise. These comprise the impact on the defined benefit obligation of changes in demographic and financial assumptions compared with the start of the year, actual experience being different to those assumptions and the return on plan assets being above or below the amount included in the net pension interest expense.

Defined contribution plans
The income statement expense for the defined contribution pension plans we operate represents the contributions payable for the year.

Amounts in the financial statements

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

Year ended 31 March	2019 £m	2018 £m	2017 £m
Recognised in the income statement before specific items			
Service cost (including administration expenses & PPF levy):			
defined benefit plans	135	376	281
defined contribution plans	476	265	240
Past service credit[a]	–	(17)	–
Subtotal	**611**	**624**	**521**
Recognised in the income statement as specific items (note 10)			
Costs to close BT Pension Scheme and provide transition payments[b] for affected employees	23	–	–
Cost to equalise benefits between men and women due to guaranteed minimum pension (GMP)[c]	26	–	–
Net interest expense on pensions deficit included in specific items	139	218	209
Subtotal	**188**	**218**	**209**
Total recognised in the income statement	**799**	**842**	**730**

[a] Relates to the removal of future indexation obligations following changes to the benefits provided under certain pension plans operating outside the UK in 2017/18.
[b] All employees impacted by the closure of the BTPS receive transition payments into their BTRSS pot for a period linked to the employee's age. There was no past service cost or credit on closure due to the assumed past service benefit link as an active member being the same as that assumed for a deferred member.
[c] In October, a High Court judgment involving the Lloyds Banking Group's defined benefit pension schemes was handed down, resulting in the group needing to recognise additional liability to equalise benefits between men and women due to GMPs, in common with most UK defined benefit schemes.

Group balance sheet
The net pension obligation in respect of defined benefit plans reported in the group balance sheet is set out below. The prior year retirement benefit obligation has been restated as a result of a prior period accounting error, refer to note 2 for more details.

	2019			2018		
At 31 March	Assets £m	Present value of liabilities £m	Deficit £m	Assets £m	Present value of liabilities (Restated) £m	Deficit (Restated) £m
BTPS	52,186	(58,855)	(6,669)	49,894	(56,259)	(6,365)
EEPS	816	(997)	(181)	763	(920)	(157)
Other plans[a]	362	(694)	(332)	299	(624)	(325)
Retirement benefit obligation	**53,364**	**(60,546)**	**(7,182)**	**50,956**	**(57,803)**	**(6,847)**
Adjustments due to effect of asset ceiling (IFRIC 14)			–			–
Deferred tax asset			1,208			1,164
Net pension obligation			**(5,974)**			**(5,683)**

[a] Included in the present value of obligations of other plans is £101m (2017/18: £97m) related to unfunded pension arrangements.

Included within trade and other payables in the group balance sheet is £42m (2017/18: £17m) in respect of contributions payable to defined contribution plans.

BT is not required to limit any pensions surplus or recognise additional pensions liabilities in individual plans as economic benefits are available in the form of either future refunds or reductions to future contributions. This is on the basis that IFRIC 14 applies enabling a refund of surplus following the gradual settlement of the liabilities over time until there are no members remaining in the scheme.

20. Retirement benefit plans continued

Movements in defined benefit plan assets and liabilities

The table below shows the movements on the pension assets and liabilities and shows where they are reflected in the financial statements. The prior year retirement benefit obligation has been restated as a result of a prior period accounting error, refer to note 2 for more details.

	Assets £m	Liabilities £m	Deficit £m
At 31 March 2017	51,112	(60,200)	(9,088)
Service cost (including administration expenses and PPF levy)	(67)	(309)	(376)
Past service credit	–	17	17
Interest on pension deficit	1,201	(1,419)	(218)
Included in the group income statement			**(577)**
Return on plan assets above the amount included in the group income statement	10	–	10
Actuarial gain arising from changes in financial assumptions[a]	–	2,251	2,251
Actuarial loss arising from changes in demographic assumptions[a] (Restated)	–	(697)	(697)
Actuarial gain arising from experience adjustments[b]	–	120	120
Included in the group statement of comprehensive income			**1,684**
Regular contributions by employer	264	–	264
Deficit contributions by employer	872	–	872
Included in the group cash flow statement			**1,136**
Contributions by employees	2	(2)	–
Benefits paid	(2,449)	2,449	–
Foreign exchange	11	(13)	(2)
Other movements			**(2)**
At 31 March 2018 (Restated)	**50,956**	**(57,803)**	**(6,847)**
Service cost (including administration expenses and PPF levy)	(49)	(86)	(135)
Costs to close BT Pension Scheme	(6)	–	(6)
Cost to equalise benefits between men and women due to guaranteed minimum pension (GMP)	–	(26)	(26)
Interest on pension deficit	1,356	(1,495)	(139)
Included in the group income statement			**(306)**
Return on plan assets above the amount included in the group income statement	1,607	–	1,607
Actuarial loss arising from changes in financial assumptions[a]	–	(3,920)	(3,920)
Actuarial gain arising from changes in demographic assumptions[a]	–	247	247
Actuarial loss arising from experience adjustments[b]	–	(36)	(36)
Included in the group statement of comprehensive income			**(2,102)**
Regular contributions by employer	43	–	43
Deficit contributions by employer	2,024	–	2,024
Included in the group cash flow statement			**2,067**
Contributions by employees	1	(1)	–
Benefits paid	(2,564)	2,564	–
Foreign exchange	(4)	10	6
Other movements			**6**
At 31 March 2019	**53,364**	**(60,546)**	**(7,182)**

[a] The actuarial gain or loss arises from changes in the assumptions used to value the defined benefit liabilities at the end of the year compared with the assumptions used at the start of the year. This includes both financial assumptions, which are based on market conditions at the year end, and demographic assumptions such as life expectancy.
[b] The actuarial loss or gain arising from experience adjustments on defined benefit liabilities represents the impact on the liabilities of differences between actual experience during the year compared with the assumptions made at the start of the year. Such differences might arise, for example, from members choosing different benefit options at retirement, actual salary increases being different from those assumed or actual benefit increases being different to the pension increase assumption.

How do we value our retirement benefit plans?

Valuation methodology

The IAS 19 liabilities are measured as the present value of the estimated future benefit cash flows to be paid by each scheme, calculated using the projected unit credit method. These calculations are performed for the group by professionally qualified actuaries.

The expected future benefit payments are based on a number of assumptions including future inflation, retirement ages, benefit options chosen and life expectancy and are therefore inherently uncertain. Actual benefit payments in a given year may be higher or lower, for example if members retire sooner or later than assumed, or take a greater or lesser cash lump sum at retirement than assumed.

Critical accounting judgements and key estimates made when valuing our retirement benefit plans

The accounting cost of these benefits and the present value of our pension liabilities involve judgements about uncertain events including the life expectancy of the 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 in determining the pension costs and liabilities in our financial statements. Our assumptions reflect historical experience, external advice and our judgement regarding future expectations. Financial assumptions are based on market expectations at the balance sheet date.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

The fair value of our pension asset is made up of quoted and unquoted investments. The latter require more judgement as their values are not directly observable. The assumptions used in valuing unquoted investments are affected by current market conditions and trends which could result in changes in fair value after the measurement date.

How do we value the assets?
Under IAS 19, plan assets must be valued at the bid market value at the balance sheet date. For the main asset categories:

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Properties are valued on the basis of open market value.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit risk, market risk and market yield curves.
- Holdings in investment funds are valued at fair value which is typically the Net Asset Value provided by the investment manager.
- Certain unlisted investments are valued using a model based valuation such as a discounted cash flow.
- The value of the longevity insurance contract held by the BTPS is measured by discounting the projected cash flows payable under the contract (projected by an actuary, consistent with the terms of the contract).

Overview and governance of the BTPS

What is the profile of the BTPS?
At 31 March 2019 there were 288,000 members of the BTPS. Members belong to one of three sections depending upon the date they first joined the BTPS. The membership is analysed below.

Analysis of BTPS

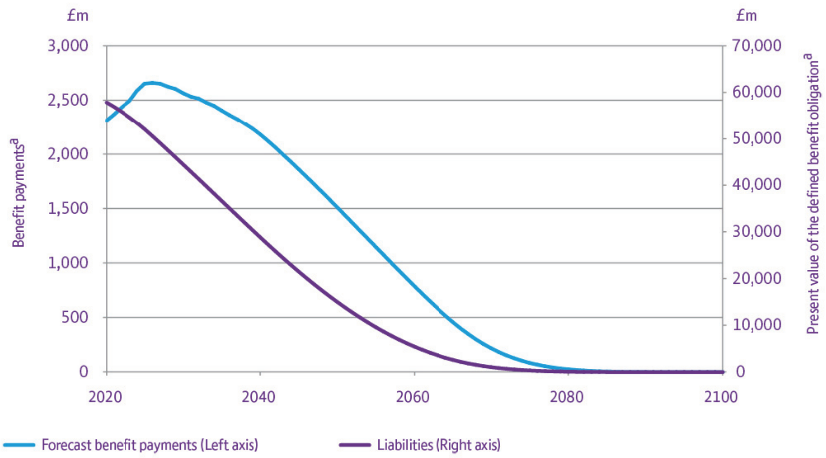
	Active members	Deferred members	Pensioners	Total
Sections A and B liabilities (£bn)[a]	–	9.0	31.5	40.5
Section C liabilities (£bn)	–	14.1	4.3	18.4
Total IAS 19 liabilities (£bn)	**–**	**23.1**	**35.8**	**58.9**
Total number of members	**–[b]**	**83,000**	**205,000**	**288,000**

[a] Sections A and B have been aggregated in this table as Section A members have typically elected to take Section B benefits at retirement.
[b] At 31 March 2019 there are around 50 active members in the BTPS.

The estimated duration of the BTPS liabilities, which is an indicator of the weighted average term of the liabilities, is around 16 years although the benefits payable by the BTPS are expected to be paid over more than 70 years. Whilst benefit payments are expected to increase over the earlier years, the value of the liabilities is expected to reduce.

The chart below illustrates the estimated benefits payable from the BTPS forecast using the IAS 19 assumptions.

Forecast benefits payable by the BTPS at 31 March 2019 (unaudited)



[a] Based on accrued benefits to 30 June 2018.

20. Retirement benefit plans continued

What are the benefits under the BTPS?

Benefits earned for pensionable service prior to 1 April 2009 are based upon a member's final salary and a normal pensionable age of 60.

Between 1 April 2009 and 30 June 2018, Section B and C active members accrued benefits based upon a career average re-valued earnings (CARE) basis and a normal pensionable age of 65. On a CARE basis benefits are built up based upon earnings in each year and the benefit accrued for each year is increased by the lower of inflation or the individual's actual pay increase in each year to retirement.

Under the Scheme rules the determination of the rate of inflation for statutory minimum rates of revaluation and indexation for the majority of benefits is based upon either the Retail Price Index (RPI) or the Consumer Price Index (CPI) which apply to each category of member as shown below.

	Active members	Deferred members	Pensioners
Section B[a]	Benefits accrue on a CARE basis increasing at the lower of RPI or the individual's actual pensionable pay increase	Preserved benefits are revalued before retirement based upon CPI	Increases in benefits in payment are currently based upon CPI
Section C			Increases in benefits in payment are currently based upon RPI up to a maximum of 5%

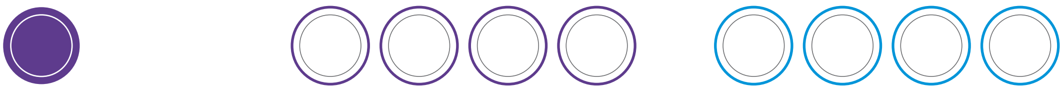
[a] Section A members have typically elected to take Section B benefits at retirement.

In December 2018, the Court of Appeal upheld the High Court's ruling that it is currently not possible to change the index used to calculate pension increases paid in the future to members of Section C of the BTPS from RPI to another index. BT is seeking permission to appeal the decision from the Supreme Court.

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 Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004).

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



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

Member nominated Trustees
Appointed by BT based on nominations by trade unions.

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

BTPS assets

Asset allocation

The allocation of assets between different classes of investment is reviewed regularly and is a key factor in the Trustee's investment policy. The allocations reflect the Trustee's views on the appropriate balance to be struck between seeking returns and incurring risk, and on the extent to which the assets should be allocated to match liabilities. Current market conditions and trends are regularly assessed which may lead to adjustments in the asset allocation.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

The fair value of the assets of the BTPS analysed by asset category are shown below. These are subdivided by assets that have a quoted market price in an active market and those that do not (such as investment funds).

		2019[a]			2018[a]		
		Total assets £bn	***of which quoted[b] £bn***	**Total %**	Total assets £bn	*of which quoted[b] £bn*	Total %
Growth							
Equities	UK	0.5	*0.4*	1	0.5	*0.5*	1
	Overseas developed	7.7	*7.3*	15	7.8	*7.3*	16
	Emerging markets	1.1	*1.1*	2	0.5	*0.4*	1
Private Equity		1.5	–	3	1.9	–	4
Property	UK	3.5	–	7	3.9	–	8
	Overseas	1.1	–	2	1.2	–	2
Other growth assets	Absolute Return[c]	1.2	–	2	1.5	–	3
	Non Core Credit[d]	3.8	*1.1*	7	3.4	*1.0*	7
	Mature Infrastructure	1.4	–	3	1.4	–	3
Liability matching							
Government bonds	UK Index Linked	13.2	*13.2*	25	12.5	*12.5*	25
Investment grade credit	Global	14.3	*10.1*	27	10.0	*8.0*	20
Cash, derivatives and other							
Cash balances		2.7	–	5	3.8	–	7
Longevity insurance contract[e]		(0.7)	–	(1)	(0.4)	–	(1)
Other[f]		0.9	–	2	1.9	–	4
Total		**52.2**	***33.2***	**100**	**49.9**	***29.7***	**100**

[a] At 31 March 2019, the Scheme did not hold any equity issued by the group (2017/18: £3m). The Scheme also held £2,154m (2017/18: £10m) of bonds issued by the group, reflecting the BTPS fully subscribing to £2bn of bonds issued by BT in June 2018 following agreement of the 2017 funding valuation.
[b] Assets with a quoted price in an active market.
[c] This allocation seeks to generate returns irrespective of the direction of markets. Managers within this allocation will typically manage their portfolios without close regard to a specific market benchmark.
[d] This allocation includes a range of credit investments, including emerging market, sub-investment grade and unrated credit. The allocation seeks to exploit investment opportunities within credit markets using the expertise of a range of specialist investment managers.
[e] The Trustee has hedged some of the Scheme's longevity risk through a longevity insurance contract which was entered into in 2014. The value reflects experience to date on the contract from higher than expected deaths. This amount partly offsets a reduction which would be recognised in the Scheme's liabilities over time.
[f] Includes collateral posted in relation to derivatives held by the Scheme.

IAS 19 assumptions

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

	Approach to set the assumption
Discount rate	IAS 19 requires that the discount rate is determined by reference to market yields at the reporting date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension obligations. The assumption is calculated by applying the projected BTPS benefit cash flows to a corporate bond yield curve constructed by our external actuary based on the yield on AA-rated corporate bonds. In setting the yield curve, judgement is required on the selection of appropriate bonds to be included in the universe and the approach used to then derive the yield curve.
RPI inflation	The RPI inflation assumption is set using an inflation curve derived from market yields on government bonds, weighted by projected BTPS benefit cash flows, and making an adjustment for an inflation risk premium (to reflect the extra premium paid by investors for inflation protection), which is currently assumed to be 20bps.
CPI inflation	CPI is assessed at a margin below RPI taking into account market forecasts and independent estimates of the expected difference.
Pension increases	Benefits are assumed to increase in line with the RPI or CPI inflation assumptions, based on the relevant index for increasing benefits, as prescribed by the rules of the BTPS and summarised above.

20. Retirement benefit plans continued

	Approach to set the assumption
Longevity	The longevity assumption takes into account: • the actual mortality experience of the BTPS pensioners, based on a formal review conducted at the 2014 triennial funding valuation • future improvements in longevity based on a model published by UK actuarial profession's Continuous Mortality Investigation (using the CMI 2017 Mortality Projections model with a 1.25% per year long-term improvement parameter).

The key financial assumptions used to measure the liabilities of the BTPS are shown below.

	Nominal rates (per year)			Real rates (per year)[a]		
At 31 March	**2019 %**	2018 %	2017 %	**2019 %**	2018 %	2017 %
Rate used to discount liabilities	**2.35**	2.65	2.40	**(0.87)**	(0.44)	(0.78)
Inflation – increase in RPI	**3.25**	3.10	3.20	**–**	–	–
Inflation – increase in CPI	**2.25**[b]	2.00[c]	2.00[d]	**(1.0)**[b]	(1.1)[c]	(1.2)[d]

[a] The real rate is calculated relative to RPI inflation.
[b] Assumed to be 0.1% lower until 31 March 2023.
[c] Assumed to be 0.1% higher until 31 March 2023.
[d] Assumed to be 0.5% higher until 31 March 2019.

The BTPS represents over 97% of the group's retirement benefit obligation. While the financial assumptions may vary for each plan, the nominal financial assumptions weighted by liabilities across all plans are equal to the figures shown in the table above (to the nearest 0.05%).

Based on the IAS 19 longevity assumptions, the forecast life expectancies for BTPS members aged 60 are as follows:

At 31 March	**2019 Number of years**	2018 Number of years
Male in lower pay bracket	**25.7**	25.8
Male in medium pay bracket	**27.0**	27.1
Male in higher pay bracket	**28.5**	28.5
Female in lower pay bracket	**28.5**	28.5
Female in higher pay bracket	**28.7**	28.7
Average improvement for a member retiring at age 60 in 10 years' time	**0.7**	0.7

Risks underlying the assumptions

Background

The BTPS faces similar risks to other UK DB schemes: things like future low investment returns, high inflation, longer life expectancy and regulatory changes may all mean the BTPS becomes more of a financial burden. Further details are set out on page 47.

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

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

Changes in bond yields	A fall in yields on AA-rated corporate bonds, used to set the IAS 19 discount rate, will lead to an increase in the IAS 19 liabilities. The BTPS's assets include corporate bonds, government bonds and interest rate derivatives which are expected to partly offset the impact of movements in the discount rate. However, yields on these assets may diverge compared with the discount rate in some scenarios.
Changes in inflation expectations	A significant proportion of the benefits paid to members are currently increased in line with RPI or CPI inflation. An increase in long-term inflation expectations will lead to an increase in the IAS 19 liabilities. The BTPS's assets include index-linked government bonds and inflation derivatives which are expected to largely offset the impact of movements in inflation expectations.
Changes in life expectancy	An increase in the life expectancy of members will result in benefits being paid out for longer, leading to an increase in the BTPS liabilities. The BTPS holds a longevity insurance contract which covers around 25% of the BTPS's total exposure to improvements in longevity, providing long-term protection and income to the BTPS in the event that members live longer than currently expected.

Other risks include: volatile asset returns (ie where asset returns differ from the discount rate); changes in legislation or regulation which impact the value of the liabilities or assets; and member take-up of options before and at retirement to reshape their benefits.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Quantification

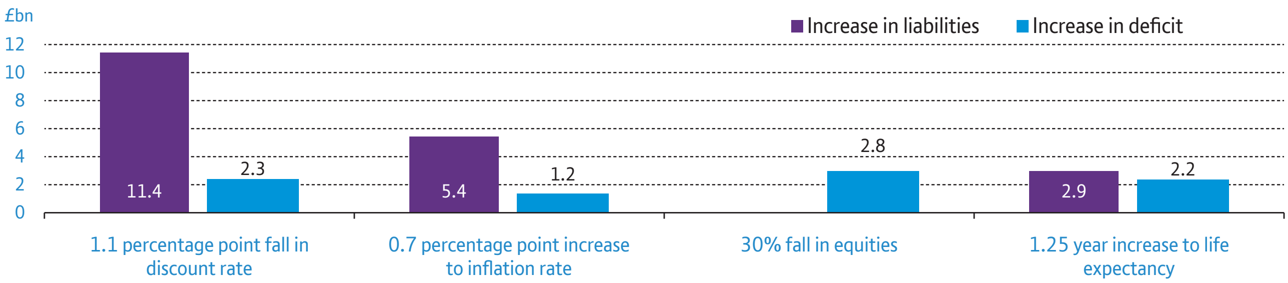
BT's independent actuary has assessed the potential negative impact of the key risks that might occur no more than once in every 20 years illustrated as the following four scenarios:

	1-in-20 events	
Scenario	2019	2018
1. Fall in discount rate[a]	1.1%	1.1%
2. Increase to inflation rate[b]	0.7%	0.7%
3. Fall in equity markets[c]	30.0%	–
4. Increase to life expectancy	1.25 years	1.35 years

[a] Scenario assumes a fall in the yields on both government and corporate bonds.
[b] Assuming RPI, CPI, pension increases and salary increases all increase by the same amount.
[c] Scenario ignores any potential benefit from derivatives held by the scheme.

The impact shown under each scenario looks at each event in isolation – in practice a combination of events could arise.

Sensitivity analysis of the principal assumptions to 1-in-20 events used to measure BTPS IAS 19 liabilities



The sensitivity of the deficit allows for both the change in the liabilities and the assumed change in the assets. For example, the increase in the deficit under the life expectancy scenario incorporates the expected movement in the value of the insurance contract held to hedge longevity risk.

The sensitivities have been prepared using the same approach as 2017/18 which involves calculating the liabilities and deficit using the alternative assumptions stated.

BTPS funding

Triennial funding valuation

The triennial valuation is carried out for the Trustee by a professionally qualified independent actuary. The purpose of the valuation is to design a funding plan to ensure that the BTPS has sufficient funds available to meet future benefit payments. The latest funding valuation was performed as at 30 June 2017. The next funding valuation will have an effective date of no later than 30 June 2020.

The valuation methodology for funding purposes, which is based on prudent assumptions, is broadly as follows:

- Assets are valued at market value at the valuation date.
- Liabilities are measured on an actuarial funding basis using the projected unit credit method and discounted to their present value.

The results of the two most recent triennial valuations are shown below.

	June 2017 valuation £bn	June 2014 valuation £bn
BTPS liabilities	(60.4)	(47.2)
Market value of BTPS assets	49.1	40.2
Funding deficit	(11.3)	(7.0)
Percentage of accrued benefits covered by BTPS assets at valuation date	81.3%	85.2%
Percentage of accrued benefits on a solvency basis covered by the BTPS assets at the valuation date	62.2%	63.0%

20. Retirement benefit plans continued

Key assumptions – funding valuation

These valuations were determined using the following prudent long-term assumptions.

	Nominal rates (per year)		Real rates (per year)[a]	
	June 2017 valuation %	June 2014 valuation %	June 2017 valuation %	June 2014 valuation %
Average single equivalent discount rate	2.6	4.5	(0.8)	1.0
Average long-term increase in RPI	3.4	3.5	–	–
Average long-term increase in CPI	2.4	2.5	(1.0)	(1.0)

[a] The real rate is calculated relative to RPI inflation and is shown as a comparator.

The discount rate at 30 June 2017 was derived from prudent return expectations above a risk-free yield curve based on gilt and swap rates. The discount rate reflects views of future returns at the valuation date, allowing for the Scheme to hold 45% of its investments in growth assets initially, before de-risking to a low risk investment approach by 2034. This gives a prudent discount rate of 1.4% per year above the yield curve initially, trending down to 0.7% per year above the curve in the long-term. The assumption is equivalent to using a flat discount rate of 1.0% per year above the yield curve at the valuation date.

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

Number of years from valuation date	June 2017 assumptions	June 2014 assumptions
Male in lower pay bracket	25.9	26.1
Male in medium pay bracket	27.2	27.5
Male in high pay bracket	28.6	29.0
Female in lower pay bracket	28.6	28.9
Female in high pay bracket	28.9	29.2
Average improvement for a member retiring at age 60 in 10 years' time	0.9	1.3

Payments made to the BTPS

Year ended 31 March	**2019 £m**	2018 £m
Ordinary contributions	33	248
Deficit contributions	2,000	850
Total contributions in the year	**2,033**	**1,098**

Future funding obligations and recovery plan

Under the terms of the Trust Deed, the group is required to have a funding plan, determined at the conclusion of the triennial funding valuation, which is a legal agreement between BT and the Trustee and should address the deficit over a maximum period of 20 years.

In May 2018, the 2017 triennial funding valuation was finalised, agreed with the Trustee and certified by the Scheme Actuary. The funding deficit at 30 June 2017 was £11.3bn. The deficit was agreed to be met over a 13 year period, with the remaining payments shown in the table below.

BT is scheduled to make future deficit payments to the BTPS in line with the table below.

Year to 31 March	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Deficit contribution (£m)	1,250[a]	900[b]	900[c]	907	907	907	907	907	907	907	907

[a] payable by 30 June 2019.
[b] £400m payable by 30 June 2020.
[c] £200m payable by 30 June 2021.

Based on the 2017 funding valuation agreement, the group expects to make contributions of approximately £1,310m to the BTPS in 2019/20, comprising of contributions of approximately £60m for expenses and future accrual and deficit contributions of £1,250m.

Other protections

The 2017 funding agreement with the Trustee included additional features for BT to provide support to the BTPS. These include:

Feature	Detail
Shareholder distributions	BT will provide additional payments to the BTPS by the amount that shareholder distributions exceed a threshold. The threshold allows for 10% per year dividend per share growth plus £200m per year of share buybacks on a cumulative basis. This will apply until 30 June 2021, or until the finalisation of the next valuation if earlier. BT will also consult with the Trustee if it considers share buybacks in excess of £200m per year or making a special dividend. This obligation is on-going until otherwise terminated.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Feature	Detail
Material corporate events	In the event that BT generates net cash proceeds greater than £1.0bn from disposals (net of acquisitions) in any 12-month period ending 30 June, BT will make additional contributions to the BTPS equal to one third of those net cash proceeds. This obligation applies until the next valuation is signed. BT will consult with the Trustee if: • it considers making acquisitions with a total cost of more than £1.0bn in any 12-month period; or • it considers making disposals of more than £1.0bn; or • it considers making a Class 1 transaction (acquisition or disposal); or • it is subject to a takeover offer. This obligation is on-going until otherwise terminated. BT will advise the Trustee should there be other material corporate events which would materially impact BT's covenant to the BTPS. This obligation is on-going until otherwise terminated.
Negative pledge	A negative pledge that future creditors will not be granted superior security to the BTPS in excess of a £1.5bn threshold, to cover both British Telecommunications plc and BT Group plc. This provision applies until the deficit reduces to below £2.0bn at any subsequent funding valuation.

In the highly unlikely event that the group were to become insolvent there are additional protections of BTPS members' benefits:

Feature	Detail
Crown Guarantee	The Crown Guarantee was granted by the Government when the group was privatised in 1984 and would only come into effect upon the insolvency of BT. The Trustee brought court proceedings to clarify the scope and extent of the Crown Guarantee. The Court of Appeal judgment on 16 July 2014 established that: • the Crown Guarantee covers BT's funding obligation in relation to the benefits of members of the BTPS who joined post-privatisation as well as those who joined pre-privatisation (subject to certain exceptions) • the funding obligation to which the Crown Guarantee relates is measured with reference to BT's obligation to pay deficit contributions under the rules of the BTPS. The Crown Guarantee is not taken into account for the purposes of the actuarial valuation of the BTPS and is an entirely separate matter, only being relevant in the highly unlikely event that BT became insolvent.
Pension Protection Fund (PPF)	The Pension Protection Fund (PPF) may take over the BTPS and pay benefits not covered by the Crown Guarantee to members. There are limits on the amounts paid by the PPF and the PPF would not provide exactly the same benefits as those provided under the BTPS Rules.

Other benefit plans

In addition to the BTPS, the group maintains benefit plans around the world with a focus on these being appropriate for the local market and culture.

EE Pension Scheme (EEPS)

The EEPS is the second largest defined benefit plan sponsored by the group. It has a defined benefit section that is closed to future accrual, with liabilities of around £1.0bn, and a defined contribution section with around 11,000 members.

At 31 March 2019, the defined benefit section's assets are invested across a number of asset classes including global equities (23%), property & illiquid alternatives (22%), an absolute return portfolio (25%) and a liability driven investment portfolio (30%).

The triennial valuation of the defined benefit section was performed as at 31 December 2015, and agreed in March 2017. This showed a funding deficit of £141m. The group is scheduled to contribute £1.875m each month between 1 April 2019 and November 2020. The next funding valuation is taking place as at 31 December 2018 and is underway.

BTRSS

The BTRSS is the largest defined contribution scheme maintained by the group with around 69,000 active members. In the year to 31 March 2019, the group contributed £388m to the BTRSS.

21. Own shares

Significant accounting policies that apply to own shares
Own shares are recorded at cost and deducted from equity. When shares 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 31 March 2017	8	(35)	14	(61)	22	(96)
Own shares purchased[b]	43	(125)	32	(96)	75	(221)
Share options exercised[b]	(1)	2	(29)	100	(30)	102
Transfer of shares to satisfy US share scheme	(4)	13	–	–	(4)	13
Executive share awards vested	–	–	(5)	16	(5)	16
At 1 April 2018	**46**	**(145)**	**12**	**(41)**	**58**	**(186)**
Own shares purchased[b]	–	–	5	(9)	5	(9)
Share options exercised[b]	(1)	2	–	–	(1)	2
Executive share awards vested	–	–	(8)	26	(8)	26
At 31 March 2019	**45**	**(143)**	**9**	**(24)**	**54**	**(167)**

[a] At 31 March 2019, 45,308,559 shares (2017/18: 46,224,966) with an aggregate nominal value of £2m (2017/18: £2m) were held at cost as treasury shares and 9,021,714 shares (2017/18: 12,855,378) with an aggregate nominal value of £nil (2017/18: £1m) were held in the Trust.
[b] See group cash flow statement on page 114. In 2018/19 the cash paid for the repurchase of ordinary share capital was £9m (2017/18: £221m). The cash received for proceeds on the issue of treasury shares was £5m (2017/18: £53m).

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

The treasury shares and the shares in the Trust are being used to satisfy our obligations under employee share plans. Further details on Employee Saveshare Plans and Executive share plans are provided in note 22.

22. Share-based payments

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

Service and performance conditions are vesting conditions. Any other conditions are non-vesting conditions which have to be taken into account to determine the fair value of equity instruments granted. In the case that an award or option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either counterparty, this is accounted for as a cancellation. Cancellations are treated as accelerated vesting and all remaining future charges are immediately recognised in the income statement. As the requirement to save under an employee saveshare arrangement is a non-vesting condition, employee cancellations, other than through a termination of service, are treated as an accelerated vesting.

No adjustment is made to total equity for awards that lapse or are forfeited after the vesting date.

Year ended 31 March	2019 £m	2018 £m	2017 £m
Employee Saveshare Plans	38	42	40
Executive Share Plans:			
Incentive Share Plan (ISP)	6	16	–
Deferred Bonus Plan (DBP)	6	4	9
Retention Share Plan (RSP)	17	21	8
Other plans	–	1	–
	67	**84**	**57**

What share incentive arrangements do we have?
Our plans include savings-related share option plans for employees and those of participating subsidiaries, further share option plans for selected employees and a stock purchase plan for employees in the US. We also have several share plans for executives. All share-based payment plans are equity-settled. Details of these plans is set out below.

Notes to the consolidated financial statements continued

22. Share-based payments continued

Employee Saveshare Plans
Under an HMRC-approved savings-related share option plan, employees save on a monthly basis, over a three or five-year period, towards the purchase of shares at a fixed price determined when the option is granted. This price is usually set at a 20% discount to the market price for five-year plans and 10% for three-year plans. The options must be exercised within six months of maturity of the savings contract, otherwise they lapse. Similar plans operate for our overseas employees.

Incentive Share Plan (ISP)
Under the ISP, participants are entitled to these shares in full at the end of a three-year period only if the company has met the relevant pre-determined corporate performance measures and if the participants are still employed by the group. For ISP awards granted in 2018/19, 2017/18 and 2016/17: 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 excluding transit.

Deferred Bonus Plan (DBP)
Under the DBP, awards are granted annually to selected employees. Shares in the company are transferred to participants at the end of three years if they continue to be employed by the group throughout that period.

Retention Share Plan (RSP)
Under the RSP, awards are granted to selected employees. Shares in the company are transferred to participants at the end of a specified retention period if they continue to be employed by the group throughout that period.

Under the terms of the ISP, DBP and RSP, dividends or dividend equivalents earned on shares during the conditional periods are reinvested in company shares for the potential benefit of the participants.

Employee Saveshare Plans

Movements in Employee Saveshare options are shown below.

	Movement in the number of share options			Weighted average exercise price		
Year ended 31 March	**2019 millions**	2018 millions	2017 millions	**2019 pence**	2018 pence	2017 pence
Outstanding at 1 April	**175**	189	197	**306**	313	287
Granted	**80**	69	44	**175**	250	362
Forfeited	**(44)**	(41)	(18)	**298**	328	345
Exercised	**(1)**	(30)	(33)	**247**	169	208
Expired	**(20)**	(12)	(1)	**294**	353	345
Outstanding at 31 March	**190**	**175**	**189**	**254**	**306**	**313**
Exercisable at 31 March	**–**	–	–	**249**	320	237

The weighted average share price for all options exercised during 2018/19 was 249p (2017/18: 311p, 2016/17: 357p).

The following table summarises information relating to options outstanding and exercisable under Employee Saveshare plans at 31 March 2019.

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
2019	319p – 397p	333p	40	10 months
2020	243p – 376p	305p	34	22 months
2021	170p – 353p	232p	43	34 months
2022	243p	243p	29	46 months
2023	170p	170p	43	58 months
Total		**254p**	**189**	**34 months**

22. Share-based payments continued

Executive share plans

Movements in executive share plan awards during 2018/19 are shown below:

	Number of shares (millions)			
	ISP	DBP	RSP	Total
At 31 March 2018	54	6	12	72
Awards granted	33	4	7	44
Awards vested	–	(1)	(7)	(8)
Awards lapsed	(18)	(1)	(1)	(20)
Dividend shares reinvested	5	–	–	5
At 31 March 2019	**74**	**8**	**11**	**93**

Fair values

The following table summarises the fair values and key assumptions used for valuing grants made under the Employee Saveshare plans and ISP in 2018/19, 2017/18 and 2016/17.

	2019		2018		2017	
Year ended 31 March	Employee Saveshare	ISP	Employee Saveshare	ISP	Employee Saveshare	ISP
Weighted average fair value	41p	156p	56p	202p	72p	328p
Weighted average share price	208p	211p	296p	281p	422p	426p
Weighted average exercise price of options granted	175p	n/a	250p	n/a	362p	n/a
Expected dividend yield	3.47% – 3.83%	n/a	3.12% – 3.21%	n/a	2.9% – 3.4%	n/a
Risk free rates	0.74% – 1.07%	0.7%	0.1% – 0.2%	0.2%	0.5% – 0.8%	0.6%
Expected volatility	23.3% – 25.8%	23.5%	23.1% – 24.3%	23.6%	19.0% – 21.5%	21.8%

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

Volatility has been determined by reference to BT's historical volatility which is expected to reflect the BT share price in the future. An expected life of three 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 2018/19 was 209p (2017/18: 282p, 2016/17: 421p) and for RSP awards granted in 2018/19 217p (2017/18: 282p, 2016/17: 417p).

23. Investments

Significant accounting policies that apply to investments

Investments classified as amortised cost

These investments are measured at amortised cost. Any gain or loss on derecognition is recognised in the income statement.

Investments classified as fair value through profit and loss

These investments are initially recognised at fair value plus direct transaction costs. They are re-measured at subsequent reporting dates to fair value and changes are recognised directly in the income statement.

Debt instruments classified as fair value through other comprehensive income

These investments are initially recognised at fair value plus direct transaction costs. Investments are re-measured at subsequent reporting dates to fair value, and unrealised gains and losses are recognised in other comprehensive income (except for changes in exchange rates for monetary items, interest, and impairment losses, which are recognised in the income statement). On derecognition of the investment, the cumulative gain or loss previously recognised in other comprehensive income is taken to the income statement, in the line that most appropriately reflects the nature of the item or transaction.

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.

Notes to the consolidated financial statements continued

23. Investments continued

IFRS 9 was applied for the first time on 1 April 2018 and introduces new classifications for financial instruments, including investments. Under IAS 39, we classified investments as available-for-sale, loans and receivables, and fair value through profit or loss. On transition to IFRS 9 we have reclassified them as fair value through other comprehensive income, fair value through profit or loss, and amortised cost, as set out in note 1. The current year figures in the following table reflect the classifications under IFRS 9, and the prior year figures reflect the previous classifications under IAS 39.

At 31 March	2019 £m	2018 £m	2017 £m
Non-current assets			
Fair value through other comprehensive income	48	–	–
Available-for-sale	–	46	37
Fair value through profit or loss	6	7	7
	54	**53**	**44**
Current assets			
Fair value through other comprehensive income	–	–	–
Available-for-sale	–	2,575	1,437
Investments held at amortised cost	3,214	–	–
Loans and receivables	–	447	83
	3,214	**3,022**	**1,520**

Investments held at amortised cost consist of investments previously classified as loans and receivables and relate to money market investments denominated in sterling of £2,687m (2017/18: £416m, 2016/17: £35m), in US dollars of £26m (2017/18: £27m, 2016/17: £30m) in euros of £499m (2017/18: £nil, 2016/17: £nil) and in other currencies £2m (2017/18: £4m, 2016/17: £18m). They also include investments in liquidity funds of £2,522m (2017/18: £2,575m, 2016/17: £1,437m) held to collect contractual cash flows. In prior years these were classified as available-for-sale.

Fair value estimation

Fair value hierarchy At 31 March 2019	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	38	–	10	48
Fair value through profit or loss	6	–	–	6
Total	**44**	**–**	**10**	**54**

At 31 March 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Available-for-sale	32	2,575	14	2,621
Fair value through profit or loss	7	–	–	7
Total	**39**	**2,575**	**14**	**2,628**

At 31 March 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Available-for-sale	21	1,437	16	1,474
Fair value through profit or loss	7	–	–	7
Total	**28**	**1,437**	**16**	**1,481**

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.

23. Investments continued

Level 2 balances disclosed in prior years consist of investments classified as available-for-sale and relating to liquidity funds denominated in sterling of £2,180m (2017/18) and £900m (2016/17), and in euros of £395m (2017/18) and £537m (2016/17). Their fair value was calculated by using notional currency amounts adjusted by year end spot exchange rates. These have been reclassified on adoption of IFRS 9 and are now held at amortised cost.

Level 3 balances consist of investments classified as fair value through other comprehensive income (previously available-for-sale) of £10m (2017/18: £14m, 2016/17: £16m) which represent investments in a number of private companies. In the absence of specific market data, these investments are held at cost, adjusted as necessary for impairments, which approximates to fair value.

24. Cash and cash equivalents

Significant accounting policies that apply to cash and cash equivalents
Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less. All are held at amortised cost on the balance sheet, equating to fair value.

For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above net of outstanding bank overdrafts. Bank overdrafts are included within the current element of loans and other borrowings (note 25).

IFRS 9 was applied for the first time on 1 April 2018 and introduces new classifications for financial instruments. Cash and cash equivalents were classified as loans and receivables under IAS 39, and are now classified as financial assets held at amortised cost under IFRS 9. This has not had an impact on the accounting for these instruments, or on their carrying amounts.

At 31 March	**2019 £m**	2018 £m	2017 £m
Cash at bank and in hand	**495**	**446**	**469**
Cash equivalents			
US deposits	3	26	32
UK deposits	1,132	31	1
Other deposits	36	25	26
Total cash equivalents	**1,171**	**82**	**59**
Total cash and cash equivalents	**1,666**	**528**	**528**
Bank overdrafts (note 25)	(72)	(29)	(17)
Cash and cash equivalents per the cash flow statement	**1,594**	**499**	**511**

Cash and cash equivalents include restricted cash of £44m (2017/18: £32m, 2016/17: £43m), of which £40m (2017/18: £29m, 2016/17: £41m) was held in countries where local capital or exchange controls currently prevent us from accessing cash balances. The remaining balance of £4m (2017/18: £3m, 2016/17: £2m) was held in escrow accounts, or in commercial arrangements akin to escrow.

25. Loans and other borrowings

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

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 paying dividends. In order to meet this objective, we may issue or repay debt, issue new shares, repurchase shares, or adjust the amount of dividends paid to shareholders. We manage the capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the group. The Board regularly reviews the capital structure. No changes were made to these objectives and processes during 2018/19, 2017/18 or 2016/17. 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	**2019 £m**	2018 £m	2017 £m
Net debt	11,035	9,627	8,932
Total parent shareholders' equity[a]	10,140	9,877	8,305
	21,175	**19,504**	**17,237**

[a] Excludes non-controlling interests of £27m (2017/18: £34m, 2016/17: £30m). 2017/18 parent shareholders' equity has been restated to reflect the update to the calculation of our IAS 19 accounting valuation of retirement benefit obligations, refer to note 2.

Notes to the consolidated financial statements continued

25. Loans and other borrowings continued

Net debt

Net debt consists of loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. Loans and other borrowings are measured at the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this measure, current asset investments and cash and cash equivalents are measured at the lower of cost and net realisable value. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current), current asset investments and cash and cash equivalents.

A reconciliation from the most directly comparable IFRS measure to net debt is given below.

At 31 March	**2019 £m**	2018 £m	2017 £m
Loans and other borrowings	16,876	14,275	12,713
Less:			
Cash and cash equivalents	(1,666)	(528)	(528)
Current asset investments	(3,214)	(3,022)	(1,520)
	11,996	10,725	10,665
Adjustments:			
To retranslate debt balances at swap rates where hedged by currency swaps	(701)	(874)	(1,419)
To remove accrued interest applied to reflect the effective interest method and fair value adjustments	(260)	(224)	(314)
Net debt	**11,035**	**9,627**	**8,932**

The table below shows the key components of net debt and of the increase of £1,408m this year.

	At 1 April 2018 £m	Issuance/ (maturities) £m	Fair value movements £m	Foreign exchange £m	Transfer to within one year £m	Accrued interest movements £m	**At 31 March 2019 £m**
Debt due within one year[a]	2,281	(1,423)	(8)	(97)	1,281	66	2,100
Debt due after one year	11,994	3,972	(11)	(102)	(1,111)	34	14,776
Cash flows from derivatives related to net debt	–	124	–	–	(124)	–	–
Overdrafts	–	46	–	–	(46)	–	–
Impact of cross-currency swaps[b]	(874)	–	–	182	–	(9)	(701)
Removal of the accrued interest and fair value adjustments[c]	(226)	–	19	–	–	(56)	(263)
Gross debt	**13,175**	**2,719**	**–**	**(17)**	**–**	**35**	**15,912**
Less:							
Cash and cash equivalents	(528)	(1,140)	–	(3)	–	5	(1,666)
Current asset investments	(3,022)	(203)	–	11	–	–	(3,214)
Removal of the accrued interest[c]	2	–	–	–	–	1	3
Net debt	**9,627**	**1,376**	**–**	**(9)**	**–**	**41**	**11,035**

[a] Including accrued interest and bank overdrafts.
[b] Translation of debt balances at swap rates where hedged by cross currency swaps.
[c] Removal of accrued interest applied to reflect the effective interest rate method and removal of fair value adjustments.

25. Loans and other borrowings continued

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

At 31 March	2019 £m	2018 £m	2017 £m
6.625% £500m bond due June 2017[a]	–	–	526
5.95% US$1,100m bond due January 2018[a]	–	–	891
3.25% €600m bond due August 2018[a]	–	541	539
2.35% US$800m bond due February 2019[a]	–	572	642
4.38% £450m bond due March 2019	–	455	460
1.125% €1,000m bond due June 2019[a]	869	883	863
8.625% £300m bond due March 2020	300	300	300
0.625% €1,500m bond due March 2021[a]	1,289	1,309	1,282
0.5% €575m bond due June 2022[a]	495	502	–
1.125% €1,100m bond due March 2023[a]	946	961	942
0.875% €500m bond due September 2023[a]	430	–	–
4.5% US$675m bond due December 2023[a]	524	–	–
1% €575m bond due June 2024[a]	498	506	–
1% €1,100m bond due November 2024[a]	943	959	–
3.50% £250m index linked bond due April 2025	433	419	403
1.75% €1,300m bond due March 2026[a]	1,118	1,137	1,113
1.5% €1,150m bond due June 2027[a]	993	1,009	–
2.125% €500m bond due September 2028[a]	433	–	–
5.125% US$700m bond due December 2028[a]	542	–	–
5.75% £600m bond due December 2028	710	721	731
9.625% US$2,670m bond due December 2030[a] (minimum 8.625%[b])	2,096	1,943	2,191
3.125% £500m bond due November 2031	502	502	–
3.64% £330m bond due June 2033	339	–	–
1.613% £330m index linked bond due June 2033	340	–	–
6.375% £500m bond due June 2037[a]	522	522	522
3.883% £330m bond due June 2039	340	–	–
1.739% £330m index linked bond due June 2039	340	–	–
3.924% £340m bond due June 2042	350	–	–
1.774% £340m index linked bond due June 2042	351	–	–
3.625% £250m bond due November 2047	250	250	–
Total listed bonds	**15,953**	**13,491**	**11,405**
Finance leases	**206**	**223**	**229**
2.21% £350m bank loan due December 2017	–	–	352
Other loans	645	532	710
Bank overdrafts (note 24)	72	29	17
Total other loans and borrowings	**717**	**561**	**1,079**
Total loans and other borrowings	**16,876**	**14,275**	**12,713**

[a] Designated in a cash flow hedge relationship.
[b] The interest rate payable on this bond attracts an additional 0.25% for a downgrade by one credit rating by either Moody's or Standard & Poor's to the group's senior unsecured debt below A3/A– respectively. In addition, if Moody's or Standard & Poor's subsequently increase the ratings then the interest rate will be decreased by 0.25% for each rating category upgrade by each rating agency. In no event will the interest rate be reduced below the minimum rate reflected in the above table.

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 and other long-term borrowings is £17,785m (2017/18: £14,878m, 2016/17: £13,496m) and the fair value of finance leases is £251m (2017/18: £253m, 2016/17: £273m).

The fair value of our bonds and other long-term borrowings is estimated on the basis of quoted market prices (Level 1), or based on similar issuances where they exist (Level 2).

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.

Notes to the consolidated financial statements continued

25. Loans and other borrowings continued

Loans and other borrowings are analysed as follows:

At 31 March	2019 £m	2018 £m	2017 £m
Current liabilities			
Listed bonds	1,367	1,702	1,539
Finance leases	16	18	15
Bank loans	–	–	352
Other loans and bank overdrafts[a]	717	561	726
Total current liabilities	**2,100**	**2,281**	**2,632**
Non-current liabilities			
Listed bonds	14,586	11,789	9,866
Finance leases	190	205	214
Other loans	–	–	1
Total non-current liabilities	**14,776**	**11,994**	**10,081**
Total	**16,876**	**14,275**	**12,713**

[a] Includes collateral received on swaps of £638m (2017/18: £525m, 2016/17: £702m).

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. Apart from finance leases, all borrowings as at 31 March 2019, 2018 and 2017 were unsecured.

The principal repayments of loans and borrowings at hedged rates amounted to £15,912m (2017/18: £13,175m, 2016/17: £10,980m) and repayments fall due as follows:

	2019			2018			2017		
At 31 March	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m
Within one year, or on demand	**2,100**	**(264)**	**1,836**	**2,272**	**(291)**	**1,981**	**2,632**	**(498)**	**2,134**
Between one and two years	1,309	(133)	1,176	1,192	(66)	1,126	1,614	(197)	1,417
Between two and three years	15	–	15	1,332	(154)	1,178	1,166	(43)	1,123
Between three and four years	1,463	(89)	1,374	18	–	18	1,295	(121)	1,174
Between four and five years	964	33	997	1,489	(111)	1,378	12	–	12
After five years	10,975	(461)	10,514	7,899	(405)	7,494	5,844	(724)	5,120
Total due for repayment after more than one year	**14,726**	**(650)**	**14,076**	**11,930**	**(736)**	**11,194**	**9,931**	**(1,085)**	**8,846**
Total repayments	**16,826**	**(914)**	**15,912**	**14,202**	**(1,027)**	**13,175**	**12,563**	**(1,583)**	**10,980**
Fair value adjustments	50			73			150		
Total loans and other borrowings	**16,876**			**14,275**			**12,713**		

Obligations under finance leases are analysed as follows:

	Minimum lease payments			Repayment of outstanding lease obligations		
	2019	2018	2017	2019	2018	2017
At 31 March	£m	£m	£m	£m	£m	£m
Amounts payable under finance leases:						
Due within one year	29	33	29	16	18	14
Between two to five years	109	122	102	66	71	50
After five years	159	193	237	120	130	165
	297	**348**	**368**	**202**	**219**	**229**
Less: future finance charges	(95)	(129)	(139)	–	–	–
Fair value adjustments for purchase price adjustment	4	4	–	4	4	–
Total finance lease obligations	**206**	**223**	**229**	**206**	**223**	**229**

Assets held under finance leases mainly consist of buildings and network assets. Our obligations under finance leases are secured by the lessors' title to the leased assets.

26. Finance expense

Year ended 31 March	2019 £m	2018 £m	2017 £m
Finance expense			
Interest on:			
Financial liabilities at amortised cost and associated derivatives	582	478	567
Finance leases	13	16	15
Derivatives	–	14	12
Fair value movements on derivatives not in a designated hedge relationship	(3)	1	(2)
Reclassification of cash flow hedge from other comprehensive income	45	34	(1)
Unwinding of discount on provisions	14	15	16
Total finance expense before specific items	**651**	**558**	**607**
Specific items (note 10)	139	218	210
Total finance expense	**790**	**776**	**817**

Reconciliation of net finance expense to net interest cash outflow

Net interest cash outflow of £508m (2017/18: £548m, 2016/17: £622m) is £109m lower (2017/18: £2m higher, 2016/17: £28m higher) than the net finance expense in the income statement.

Year ended 31 March	2019 £m	2018 £m	2017 £m
Finance expense before specific items	651	558	607
Finance income before specific items	(34)	(12)	(13)
Net finance expense before specific items	**617**	**546**	**594**
Timing differences:			
Derivative restructuring costs	–	–	1
Timing of coupon payments on bonds	(85)	(6)	19
Deferred income	8	8	8
Principal uplift on CPI and RPI linked bonds	(32)	–	–
Net interest cash outflow	**508**	**548**	**622**

27. Financial instruments and risk management

We issue or hold financial instruments mainly to finance our operations; to finance corporate transactions such as dividends, share buybacks and acquisitions; for the temporary investment of short-term funds; and to manage currency and interest rate risks. In addition, various financial instruments, for example trade receivables and payables arise directly from operations.

How do we manage financial risk?

Our activities expose us to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk.

Treasury operation

We have a centralised treasury operation whose primary role is to manage liquidity and funding requirements as well as our exposure to associated market risks, and credit risk.

Treasury policy

Treasury policy is set by the Board. Group treasury activities are subject to a set of controls appropriate for the magnitude of borrowing, investments and group-wide exposures. The Board has delegated authority to operate these policies to a series of panels responsible for the management of key treasury risks and operations. Appointment to and removal from the key panels requires approval from two of the following: the chairman, the chief executive or the chief financial officer.

There has been no change in the nature of our risk profile between 31 March 2019 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, group director tax, treasury, insurance and pensions or the treasury director who each have been delegated such authority from the Board.

Hedging strategy

In order to manage our interest rate profile, we have entered into cross-currency and interest rate swap agreements to vary the amounts and periods for which interest rates on borrowings are fixed. The duration of the swap agreements matches the duration of the debt instruments. The majority of the group's long-term borrowings are subject to fixed sterling interest rates after applying the impact of these hedging instruments.

Notes to the consolidated financial statements continued

27. Financial instruments and risk management continued

How do we manage foreign exchange risk?

Management policy

Foreign currency hedging activities protect the group from the risk that changes in exchange rates will adversely affect future net cash flows.

The 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, group director tax, treasury, insurance and pensions or the treasury director.

Hedging strategy

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

We enter into forward currency contracts to hedge foreign currency capital purchases, purchase and sale commitments, interest expense and foreign currency investments. The commitments hedged are principally denominated in US dollar, euro and Asia Pacific region currencies. As a result, our exposure to foreign currency arises mainly on non-UK subsidiary investments and on residual currency trading flows. We use cross-currency swaps to swap foreign currency borrowings into sterling.

The table below reflects the currency and interest rate profile of our loans and borrowings after the impact of hedging.

	2019			2018			2017		
At 31 March	**Fixed rate interest £m**	**Floating rate interest £m**	**Total £m**	Fixed rate interest £m	Floating rate interest £m	Total £m	Fixed rate interest £m	Floating rate interest £m	Total £m
Sterling	13,556	1,767	15,323	11,990	676	12,666	9,633	706	10,339
Euro	–	589	589	–	509	509	–	641	641
Total	**13,556**	**2,356**	**15,912**	**11,990**	**1,185**	**13,175**	**9,633**	**1,347**	**10,980**
Ratio of fixed to floating	85%	15%	100%	91%	9%	100%	88%	12%	100%
Weighted average effective fixed interest rate – sterling	4.0%			4.4%			4.9%		

The floating rate loans and borrowings bear interest rates fixed in advance for periods ranging from one day to one year, primarily by reference to LIBOR quoted rates, RPI and CPI.

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/weakening 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	**2019 £m Increase (reduce)**	2018 £m Increase (reduce)	2017 £m Increase (reduce)
Sterling interest rates	672	628	554
US dollar interest rates	(350)	(267)	(348)
Euro interest rates	(399)	(401)	(229)
Sterling strengthening	(219)	(236)	(269)

A 1% decrease in interest rates and 10% weakening in sterling against other currencies would have broadly the same impact in the opposite direction.

27. Financial instruments and risk management continued

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 2018/19, 2017/18 and 2016/17.

Credit ratings
We continue to target a BBB+/Baa1 credit rating over the cycle. We regularly review the liquidity of the group and our funding strategy takes account of medium-term requirements. These include the pension deficit and shareholder distributions.

Our December 2030 bond contains covenants which require us to pay higher rates of interest since our credit ratings fell below A3 in the case of Moody's or A– in the case of Standard & Poor's (S&P). Additional interest of 0.25% per year accrues for each ratings category downgrade by each agency below those levels effective from the next coupon date following a downgrade. Based on the total notional value of debt outstanding of £2.0bn at 31 March 2019, our finance expense would increase/decrease by approximately £10m a year if the group's credit rating were to be downgraded/upgraded, respectively, by one credit rating category by both agencies.

Our credit ratings were as detailed below:

	2019		2018		2017	
At 31 March	Rating	Outlook	Rating	Outlook	Rating	Outlook
Rating agency						
Moody's	Baa2	Stable	Baa2	Stable	Baa1	Negative
Standard & Poor's	BBB	Stable	BBB+	Negative	BBB+	Negative

How do we manage liquidity risk?

Management policy
We maintain liquidity by entering into short and long-term financial instruments to support operational and other funding requirements, determined using short and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period. On at least an annual basis the 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 2019 is disclosed in note 25. We have term debt maturities of £1.2bn in 2019/20.

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 2019 we had undrawn committed borrowing facilities of £2.1bn (2017/18: £2.1bn, 2016/17: £2.1bn) maturing in September 2021.

In the UK, the group has arranged for funders to offer a supplier financing scheme to the group's suppliers. This enables suppliers who sign up to the arrangements to sell their invoices to the funders and to be paid earlier than the invoice due date. The group assesses the arrangement against indicators to assess if debts which vendors have sold to the funder under the supplier financing scheme continue to meet the definition of trade payables or should be classified as borrowings. At 31 March 2019 the payables met the criteria of trade payables.

Maturity analysis
The following table provides an analysis of the remaining contractually-agreed cash flows including interest payable for our non-derivative financial liabilities on an undiscounted basis, which therefore differs from both the carrying value and fair value.

Non-derivative financial liabilities At 31 March 2019	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Total £m
Due within one year	1,886	541	5,158	39	7,624
Between one and two years	1,309	505	–	33	1,847
Between two and three years	15	497	–	35	547
Between three and four years	1,463	496	–	14	1,973
Between four and five years	964	482	–	12	1,458
After five years	10,975	3,543	–	127	14,645
	16,612	**6,064**	**5,158**	**260**	**28,094**
Interest payments not yet accrued	–	(5,850)	–	–	(5,850)
Fair value adjustment	50	–	–	–	50
Impact of discounting	–	–	–	(29)	(29)
Carrying value on the balance sheet[a,b]	**16,662**	**214**	**5,158**	**231**	**22,265**

Notes to the consolidated financial statements continued

27. Financial instruments and risk management continued

Non-derivative financial liabilities At 31 March 2018	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Total £m
Due within one year	2,120	452	4,939	54	7,565
Between one and two years	1,192	404	–	34	1,630
Between two and three years	1,332	365	–	25	1,722
Between three and four years	18	357	–	43	418
Between four and five years	1,489	355	–	19	1,863
After five years	7,899	2,714	–	197	10,810
	14,050	**4,647**	**4,939**	**372**	**24,008**
Interest payments not yet accrued	–	(4,495)	–	–	(4,495)
Fair value adjustment	73	–	–	–	73
Impact of discounting	–	–	–	(72)	(72)
Carrying value on the balance sheet[a,b]	**14,123**	**152**	**4,939**	**300**	**19,514**

Non-derivative financial liabilities At 31 March 2017	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Total £m
Due within one year	2,468	507	5,259	62	8,296
Between one and two years	1,614	415	–	41	2,070
Between two and three years	1,166	364	–	21	1,551
Between three and four years	1,295	327	–	18	1,640
Between four and five years	12	319	–	17	348
After five years	5,844	2,726	–	310	8,880
	12,399	**4,658**	**5,259**	**469**	**22,785**
Interest payments not yet accrued	–	(4,494)	–	–	(4,494)
Fair value adjustment	150	–	–	–	150
Impact of discounting	–	–	–	(177)	(177)
Carrying value on the balance sheet[a,b]	**12,549**	**164**	**5,259**	**292**	**18,264**

[a] Foreign currency-related cash flows were translated at closing rates as at the relevant reporting date. Future variable interest rate cash flows were calculated using the most recent rate applied at the relevant balance sheet date.
[b] The carrying amount of trade and other payables excludes £1,479m (2017/18: £1,326m, 2016/17: £1,298m) of non-current trade and other payables which relates to non-financial liabilities, and £632m (2017/18: £2,229m, 2016/17: £2,178m) of other taxation and social security and deferred income.

Trade and other payables are held at amortised cost. The carrying amount of these balances approximates to fair value due to the short maturity of amounts payable.

The following table provides an analysis of the contractually agreed cash flows in respect of the group's derivative financial instruments. Cash flows are presented on a net or gross basis in accordance with the settlement arrangements of the instruments.

	Derivatives – Analysed by earliest payment date[a]				**Derivatives – Analysed based on holding instrument to maturity**			
Derivative financial liabilities At 31 March 2019	**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	167	1,007	(950)	224	82	1,007	(950)	139
Between one and two years	128	541	(489)	180	77	541	(489)	129
Between two and three years	131	131	(96)	166	71	131	(96)	106
Between three and four years	163	633	(591)	205	71	633	(591)	113
Between four and five years	207	1,095	(1,042)	260	71	1,095	(1,042)	124
After five years	43	3,790	(3,660)	173	467	3,790	(3,660)	597
Total[b]	**839**	**7,197**	**(6,828)**	**1,208**	**839**	**7,197**	**(6,828)**	**1,208**

	Derivatives – Analysed by earliest payment date[a]				Derivatives – Analysed based on holding instrument to maturity			
Derivative financial liabilities At 31 March 2018	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	140	587	(547)	180	91	587	(547)	131
Between one and two years	135	183	(166)	152	91	183	(166)	108
Between two and three years	156	442	(446)	152	85	69	(47)	107
Between three and four years	143	52	(29)	166	80	68	(47)	101
Between four and five years	161	52	(29)	184	80	68	(47)	101
After five years	291	2,234	(2,149)	376	599	2,575	(2,512)	662
Total[b]	**1,026**	**3,550**	**(3,366)**	**1,210**	**1,026**	**3,550**	**(3,366)**	**1,210**

27. Financial instruments and risk management continued

Derivative financial liabilities At 31 March 2017	Derivatives – Analysed by earliest payment date[a] Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m	Derivatives –Analysed based on holding instrument to maturity Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	291	582	(576)	297	92	582	(576)	98
Between one and two years	296	1,139	(1,097)	338	92	1,139	(1,097)	134
Between two and three years	198	–	–	198	92	–	–	92
Between three and four years	114	–	–	114	88	–	–	88
Between four and five years	104	–	–	104	83	–	–	83
After five years	123	–	–	123	679	–	–	679
Total[b]	**1,126**	**1,721**	**(1,673)**	**1,174**	**1,126**	**1,721**	**(1,673)**	**1,174**

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

How do we manage credit risk?

Management policy

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

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

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

Operational management policy

Our credit policy for trading-related financial assets is applied and managed by each of the customer-facing units to ensure compliance. The policy requires that the creditworthiness and financial strength of customers are assessed at inception and on an ongoing basis. Payment terms are set in accordance with industry standards. Where appropriate, we may minimise risks by requesting securities such as deposits, guarantees and letters of credit. We take proactive steps including constantly reviewing credit ratings of counterparties to minimise the impact of adverse market conditions on trading-related financial assets.

Exposures

The maximum credit risk exposure of the group's financial assets at the balance sheet date is as follows:

At 31 March	Notes	2019 £m	2018 £m	2017 £m
Derivative financial assets		1,592	1,509	2,246
Investments	23	3,268	3,075	1,564
Trade and other receivables[a]	17	1,766	2,518	2,729
Contract assets	6	1,602	–	–
Cash and cash equivalents	24	1,666	528	528
		9,894	**7,630**	**7,067**

[a] The carrying amount excludes £445m (2017/18: £317m, 2016/17: £360m) of non-current trade and other receivables which relate to non-financial assets, and £1,456m (2017/18: £1,496m, 2016/17: £1,106m) of prepayments, deferred contract costs and other receivables.

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

Moody's/S&P credit rating of counterparty	2019 £m	2018 £m	2017 £m
Aa2/AA and above	2,522	2,575	1,444
Aa3/AA–	1,376	313	208
A1/A+[a]	1,145	651	952
A2/A[a]	649	628	370
A3/A–[a]	50	180	204
Baa1/BBB+[a]	75	59	561
Baa2/BBB and below[a]	160	207	86
	5,977	**4,613**	**3,825**

[a] We hold cash collateral of £638m (2017/18: £492m, 2016/17: £702m) in respect of derivative financial assets with certain counterparties.

The concentration of credit risk for our trading balances is provided in note 17, which analyses outstanding balances by customer-facing unit. Where multiple transactions are undertaken with a single financial counterparty or group of related counterparties, we enter into netting arrangements to reduce our exposure to credit risk by making use of standard International Swaps and Derivatives Association (ISDA) documentation. We have also entered into credit support agreements with certain swap counterparties whereby, on a daily, weekly and monthly basis, the fair value position on notional £3,289m of long dated cross-currency swaps and interest rate swaps is collateralised. The related net cash inflow during the year was £129m (2017/18: outflow £220m, 2016/17: inflow £100m). The collateral paid and received is recognised within current asset investments and loans and other borrowings, respectively.

Notes to the consolidated financial statements continued

27. Financial instruments and risk management continued

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 2019	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	1,592	(802)	(638)	152
Derivative financial liabilities	(940)	802	90	(48)
Total	**652**	**–**	**(548)**	**104**

Financial assets and liabilities At 31 March 2018	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	1,509	(754)	(492)	263
Derivative financial liabilities	(837)	754	60	(23)
Total	**672**	**–**	**(432)**	**240**

Financial assets and liabilities At 31 March 2017	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	2,246	(693)	(702)	851
Derivative financial liabilities	(903)	693	64	(146)
Total	**1,343**	**–**	**(638)**	**705**

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

Significant accounting policies that apply to derivatives and hedge accounting

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

Derivatives designated in a cash flow hedge

The group designates certain derivatives as cash flow hedges. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge. To qualify for hedge accounting, hedge documentation must be prepared at inception, the hedge must be in line with BT's risk management strategy and there must be an economic relationship based on the currency, amount and timing of the respective cash flows of the hedging instrument and hedged item. This is assessed at inception and in subsequent periods in which the hedge remains in operation. Hedge accounting is discontinued when it is no longer in line with BT's risk management strategy or if it no longer qualifies for hedge accounting.

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity, in the cash flow reserve. 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. 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. Derivative financial instruments are classified as current assets or current liabilities where they have a maturity period within 12 months. Where derivative financial instruments have a maturity period greater than 12 months, they are classified within either non-current assets or non-current liabilities.

27. Financial instruments and risk management continued

Where the fair value of a derivative contract at initial recognition is not supported by observable market data and differs from the transaction price, a day one gain or loss will arise which is not recognised in the income statement. Such gains and losses are deferred and amortised to the income statement based on the remaining contractual term and as observable market data becomes available.

The fair values of outstanding swaps and foreign exchange contracts are estimated using discounted cash flow models and market rates of interest and foreign exchange at the balance sheet date.

At 31 March 2019	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
Designated in a cash flow hedge	102	1,228	40	689
Other	9	253	8	203
Total derivatives	**111**	**1,481**	**48**	**892**

At 31 March 2018	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
Designated in a cash flow hedge	187	1,061	41	587
Other	10	251	9	200
Total derivatives	**197**	**1,312**	**50**	**787**

At 31 March 2017	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
Designated in a cash flow hedge	417	1,508	25	616
Other	11	310	9	253
Total derivatives	**428**	**1,818**	**34**	**869**

All derivative financial instruments are categorised at Level 2 of the fair value hierarchy as defined in note 23.

Instruments designated in a cash flow hedge include interest rate swaps and cross-currency swaps hedging euro- and US dollar-denominated borrowings. Forward currency contracts are taken out to hedge step-up interest on currency denominated borrowings relating to the group's 2030 US dollar bond. The hedged cash flows will affect the group's income statement as interest and principal amounts are repaid over the remaining term of the borrowings (see note 25).

We hedge forecast foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies 12 months forward with certain specific transactions hedged further forward. The related cash flows are recognised in the income statement over this period.

The amounts related to items designated as hedging instruments were as follows:

Hedged items At 31 March 2019	Notional principal £m	Asset £m	Liability £m	Balance in cash flow hedge related reserves (gain)/loss £m	Fair value (gain)/loss recognised in OCI £m	Amount recycled from cash flow hedge related reserves to P&L £m
Sterling, euro and US dollar denominated borrowings[a]	13,518	1,311	(702)	(48)	(130)	(19)
US dollar step up interest on US denominated borrowings[b]	145	3	(1)	(38)	(13)	4
Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies[c]	1,821	16	(26)	(13)	(33)	33
Total cash flow hedges	**15,484**	**1,330**	**(729)**	**(99)**	**(176)**	**18**
Deferred tax		–	–	15		
Derivatives not in a designated hedge relationship		262	(211)	–		
Carrying value on the balance sheet		**1,592**	**(940)**	**(84)**		

Hedged items At 31 March 2018[d]	Notional principal £m	Asset £m	Liability £m	Balance in cash flow hedge related reserves (gain)/loss £m	Fair value (gain)/loss recognised in OCI £m	Amount recycled from cash flow hedge related reserves to P&L £m
Sterling, euro and US dollar denominated borrowings[a]	12,504	1,222	(608)	101	347	(333)
US dollar step up interest on US denominated borrowings[b]	143	–	(6)	(29)	13	3
Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies[c]	1,989	26	(14)	(13)	8	53
Total cash flow hedges	**14,636**	**1,248**	**(628)**	**59**	**368**	**(277)**
Deferred tax		–	–	(22)		
Derivatives not in a designated hedge relationship		261	(209)	–		
Carrying value on the balance sheet		**1,509**	**(837)**	**37**		

Notes to the consolidated financial statements continued

27. Financial instruments and risk management continued

Hedged items At 31 March 2017[d]	Notional principal £m	Asset £m	Liability £m	Balance in cash flow hedge related reserves (gain)/loss £m	Fair value (gain)/loss recognised in OCI £m	Amount recycled from cash flow hedge related reserves to P&L £m
Sterling, euro and US dollar denominated borrowings[a]	10,041	1,845	(621)	87	(800)	938
US dollar step up interest on US denominated borrowings[b]	146	5	(2)	(45)	(21)	4
Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies[c]	2,327	75	(18)	(74)	(63)	(4)
Total cash flow hedges	**12,514**	**1,925**	**(641)**	**(32)**	**(884)**	**938**
Deferred tax		–	–	(95)		
Derivatives not in a designated hedge relationship		321	(262)	–		
Carrying value on the balance sheet		**2,246**	**(903)**	**(127)**		

[a] Sterling, euro and US dollar denominated borrowings are hedged using cross currency swaps and interest rate swaps. Amounts recycled to profit and loss are presented within other operating costs and finance expense.
[b] US dollar step up interest on US denominated borrowings are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within finance expense.
[c] Foreign currency purchases, principally denominated in US dollar, euro and Asia Pacific currencies are hedged using forward currency contracts. Amounts recycled to profit and loss in respect of these items are presented within cost of sales and other operating costs.
[d] We have presented comparatives to this information, now required by IFRS 7 following the adoption of IFRS 9, for 31 March 2018 and 31 March 2017.

All cash flow hedges were fully effective in the period.

28. Other reserves

	Capital redemption reserve £m	Other comprehensive income Cash flow reserve[a] £m	Fair value reserve[b] £m	Cost of hedging reserve[c] £m	Translation reserve[d] £m	Total £m
At 1 April 2016	27	173	16	–	469	685
Exchange differences[e]	–	–	–	–	227	227
Net fair value gain (loss) on cash flow hedges	–	884	–	–	–	884
Movements in relation to cash flow hedges recognised in income and expense	–	(938)	–	–	–	(938)
Fair value movement on available-for-sale assets	–	–	(3)	–	–	(3)
Tax recognised in other comprehensive income	–	8	–	–	21	29
At 31 March 2017	**27**	**127**	**13**	**–**	**717**	**884**
Exchange differences[e]	–	–	–	–	(188)	(188)
Net fair value gain (loss) on cash flow hedges	–	(368)	–	–	–	(368)
Movements in relation to cash flow hedges recognised in income and expense	–	277	–	–	–	277
Fair value movement on available-for-sale assets	–	–	11	–	–	11
Tax recognised in other comprehensive income	–	10	–	–	(9)	1
Transfer to realised profit	–	(83)	–	–	–	(83)
At 31 March 2018	**27**	**(37)**	**24**	**–**	**520**	**534**
Transfer to cost of hedging reserve	–	81	–	(81)	–	–
At 1 April 2018	**27**	**44**	**24**	**(81)**	**520**	**534**
Exchange differences[e]	–	–	–	–	64	64
Net fair value gain (loss) on cash flow hedges	–	168	–	8	–	176
Movements in relation to cash flow hedges recognised in income and expense	–	(31)	–	13	–	(18)
Fair value movement on assets at fair value through other comprehensive income	–	–	3	–	–	3
Tax recognised in other comprehensive income	–	(37)	–	–	(4)	(41)
Transfer to realised profit	–	–	–	–	–	–
At 31 March 2019	**27**	**144**	**27**	**(60)**	**580**	**718**

[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. Amounts 'recognised in income and expense' include a net charge to the cash flow reserve of £30m (2017/18: credit of £295m, 2016/17: charge of £941m) relating to fair value movements on derivatives. The items generating these foreign exchange movements are in designated cash flow hedge relationships.
[b] The fair value reserve (2017/18, 2016/17: available-for-sale reserve) is used to record the cumulative fair value gains and losses on assets classified as fair value through other comprehensive income (2017/18, 2016/17: available-for-sale financial assets). The cumulative gains and losses are recycled to the income statement on disposal of the assets.
[c] The cost of hedging reserve reflects the gain or loss on the portion excluded from the designated hedging instrument that relates to the currency basis element of our cross currency swaps. It is initially recognised in other comprehensive income and accounted for similarly to gains or losses in the cash flow reserve.
[d] The translation reserve is used to record cumulative translation differences on the net assets of foreign operations. The cumulative translation differences are recycled to the income statement on disposal of the foreign operation.
[e] Excludes £(2)m (2017/18: £1m, 2016/17: £10m) of exchange differences in relation to retained earnings attributed to non-controlling interests.

29. Related party transactions

Information about material related party transactions of the BT Group is set out below.

Key management personnel comprise executive and non-executive directors and members of the *Executive Committee.* Compensation of key management personnel is disclosed in note 7.

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

30. Financial commitments and contingent liabilities

Financial commitments were as follows:

At 31 March	2019 £m	2018 £m
Operating lease commitments	6,619	6,597
TV programme rights commitments	2,113	2,823
Capital commitments	1,432	993
Other commitments	253	624
Total	**10,417**	**11,037**

TV programme rights commitments, mainly relating to football broadcast rights, are those for which the licence period has not yet started.

Future minimum operating lease payments were as follows:

Payable in the year ending 31 March:	2019 £m	2018 £m
2019	–	600
2020	755	550
2021	641	513
2022	599	486
2023	555	463
2024	512	449
Thereafter	3,557	3,536
Total future minimum operating lease payments	**6,619**	**6,597**

Operating lease commitments were mainly in respect of land and buildings which arose from a sale and operating leaseback transaction in 2001. Leases have an average term of 13 years (2017/18: 14 years) and rentals are fixed for an average of 13 years (2017/18: 14 years).

Other than as disclosed below, there were no contingent liabilities or guarantees at 31 March 2018 other than those arising in the ordinary course of the group's business and on these no material losses are anticipated. We have insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of our operations. Otherwise, the group generally carries its own risks.

Commitments and guarantees

BT plc

On 27 March 2019 a formal guarantee was put in place for BT Group plc to fully and unconditionally guarantee the obligations of its wholly-owned subsidiary British Telecommunications plc ('BT plc') under it's US dollar-denominated SEC-registered bonds. BT Group will also guarantee the obligations under the existing notes and new notes issued under BT plc's Euro Medium Term Note Programme (EMTN), and under BT plc's £300m 8.625% bonds due in 2020 and £600m 5.75% bonds due in 2028.

BDUK

Under the Broadband Delivery UK programme, grants received by the group may be subject to reinvestment or repayment to the local authority depending on the level of take-up.

Telefónica UK Limited leases

We've provided guarantees relating to certain leases entered into by Telefónica UK Limited (formerly O2 UK Limited) prior to the demerger of mmO2 from BT on 19 November 2001. mmO2 plc (now part of the Telefónica Group) has given BT a counter indemnity for these guarantees. There is no exposure in the event of credit default in respect of amounts used to defease future lease obligations. The guarantee lasts until Telefónica UK Limited has discharged all its obligations.

Legal proceedings

The group is involved in various legal proceedings, including actual or threatened litigation, and government or regulatory investigations. However, save as disclosed below, the group does not currently believe that there are any legal proceedings, or government or regulatory investigations that may have a material adverse impact on the operations or financial condition of the group. In respect of each of the claims below, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. There are many reasons why we cannot make these assessments with certainty, including, among others, that they are in early stages, no damages or remedies have been specified, and/or the often slow pace of litigation.

Notes to the consolidated financial statements continued

30. Financial commitments and contingent liabilities continued

Italian business
US securities class action complaints: The plaintiffs filed a third amended complaint in December 2018. We filed a motion to dismiss that complaint, which plaintiffs opposed. We filed our reply to the plaintiff's opposition to the motion to dismiss on 11 January 2019. We are awaiting a decision from the US District court.

Italian Authorities: On 11 February 2019 the Milan Public Prosecutor served BT Italia S.P.A. with a notice regarding conclusion of their preliminary investigation. The notice (which named BT Italia, as well as various individuals) records the prosecutor's view that as at the conclusion of the preliminary investigation there is a basis for proceeding with its case against BT Italia for certain potential offences under articles 5 and 25 of Legislative Decree 231/2001. BT Italia disputes this and maintains in a defence brief filed on 19 April 2019 that it should not be prosecuted. BT Italia is not presently the subject of any formal charge (nor are any of the individuals named in the prosecutor's notice).

Phones 4U
In December 2016, the administrators of Phones 4U started legal proceedings in the High Court in the United Kingdom against EE, claiming payments under a retail trading agreement for sums then due in respect of revenues (net of costs) from certain customers prior to Phones 4U entering administration. This sharing of revenue under the retail trading agreement was due to continue until September 2019, with related payments continuing until April 2021. On May 2018 we reached a confidential agreement with the administrators of Phones 4U to settle this matter. This settlement is in line with the accruals we held to cover potential payments required by EE.

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. During the year proceedings were issued for an unquantified amount by the administrators and in April 2019 we submitted our defence to this claim. We continue to dispute these allegations vigorously.

Brazilian tax claims
Brazilian tax claims The Brazilian state tax authorities have made tax demands on the exchange of goods and services (ICMS) and regulatory assessments (FUST/FUNTTEL) against certain Brazilian subsidiaries. These are indirect taxes imposed on the provision of telecommunications services in Brazil. The state tax and regulatory authorities are seeking to impose ICMS and FUST/FUNTTEL on revenue earned on activities that the company does not consider as being part of the provision of telecommunications services, such as equipment rental and managed services. We have disputed the basis on which ICMS and FUST/FUNTTEL are imposed and, in the case of ICMS, have challenged the rate which the tax authorities are seeking to apply.

We currently have 33 ICMS cases with a current potential value of £204m (as at the end of March 2019). This is the assessed amount for all cases spanning the period from 1998 to 2012 (plus one outlier case for the period 2013 to 2016 in the state of Minas Gerais and one case for the period 2014 to 2015 in the state of Amazonas). There are currently 56 FUST/FUNTTEL cases with a known overall liability of £19m; with a further £4m estimated (as at the end of April 2019). The judicial process is likely to take many years. There are eight ICMS cases worth approximately £55m which are at an advanced stage. These are currently pending before the Sao Paulo Court of Appeal. We are waiting for the Reporting Judge to schedule the trial hearing and expect to have a date soon, following the February judicial recess.

Regulatory matters
In respect of regulatory risks, the group provides for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. Estimates are used in assessing the likely value of the regulatory risk. The ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement.

Northern Ireland Public Sector Shared Network contract
On 4 April 2019 Ofcom opened an investigation into whether the award of the Public Sector Shared Network contract for Northern Ireland to BT complied with relevant significant market power conditions. We are cooperating with Ofcom's investigation.

Other regulatory matters
We hold provisions reflecting management's estimates of regulatory risks across a range of issues, including price and service issues. The precise outcome of each matter depends on whether it becomes an active issue, and the extent to which negotiation or regulatory decisions will result in financial settlement.

Financial Statements of BT Group plc

BT Group plc company balance sheet

Registered number 04190816

At 31 March	Notes	2019 £m	2018 £m
Non-current assets			
Investments	2	10,952	10,885
Trade and other receivables[a]		4,540	6,928
		15,492	**17,813**
Current assets			
Trade and other receivables[a]		1,117	112
Cash and cash equivalents		2	6
		1,119	**118**
Current liabilities			
Trade and other payables[b]		96	75
		96	**75**
Total assets less current liabilities		**16,515**	**17,856**
Non-current liabilities			
Loans and other borrowings[c]		3,029	2,983
		3,029	**2,983**
Equity			
Ordinary shares		499	499
Share premium		1,051	1,051
Capital redemption reserve		27	27
Merger reserve	3	3,149	5,649
Own shares		(167)	(186)
Profit and loss account[d]		8,927	7,833
Total equity		**13,486**	**14,873**
		16,515	**17,856**

[a] Trade and other receivables primarily relate to a £1,010m equity placing raised in February 2015 and net proceeds of £7,507m, before £3m of issue costs, relating to the sale of EE to British Telecommunications plc on 29 January 2016. Subsequently £4,275m of the loan receivable relating to the sale of EE has been repaid. The balance consists of two loans to group undertakings of £1,061m (2017/18: £1,044m) repayable on 31 January 2058 and £3,479m (2017/18: £5,884m) repayable on 21 December 2064. The loans attract interest of LIBOR plus 102.5 basis points (2017/18: LIBOR plus 90 basis points). Included in the current trade and other receivables are loan to group undertakings of £997m (2017/18: £nil) and accrued interest of £120m (2017/18: £112m).

[b] Trade and other payables consists of loans from group undertakings of £60m (2017/18: £34m) and other creditors of £36m (2017/18: £41m).

[c] Loans and other borrowings consist of a loan from group undertakings of £3,029m (2017/18: £2,983m). The loan is repayable on 31 January 2058 and attracts interest of LIBOR plus 102.5 basis points (2017/18: LIBOR plus 90 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 profit for the financial year, dealt with in the profit and loss account of the company was £44m (2017/18: £61m).

The financial statements of the company on pages 173 to 176 were approved by the Board of Directors on 8 May 2019 and were signed on its behalf by:

Jan du Plessis
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

BT Group plc company statement of changes in equity

	Note	Called up share capital[a] £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Own shares[b] £m	Profit and loss account[b,c] £m	Total £m
At 1 April 2017		499	1,051	27	5,649	(96)	9,290	16,420
Profit for the financial year		–	–	–	–	–	61	61
Dividends paid		–	–	–	–	–	(1,524)	(1,524)
Capital contribution in respect of share-based payments		–	–	–	–	–	84	84
Net buyback of own shares		–	–	–	–	(90)	(78)	(168)
At 1 April 2018		**499**	**1,051**	**27**	**5,649**	**(186)**	**7,833**	**14,873**
Profit for the financial year		–	–	–	–	–	44	44
Transfer to realised profit	3	–	–	–	(2,500)	–	2,500	–
Dividends paid		–	–	–	–	–	(1,503)	(1,503)
Capital contribution in respect of share-based payments		–	–	–	–	–	67	67
Net buyback of own shares		–	–	–	–	19	(23)	(4)
Unclaimed dividends over 10 years		–	–	–	–	–	9	9
At 31 March 2019		**499**	**1,051**	**27**	**3,149**	**(167)**	**8,927**	**13,486**

[a] The allotted, called up and fully paid ordinary share capital of the company at 31 March 2019 was £499m (31 March 2018: £499m), representing 9,968,127,681 (31 March 2018: 9,968,127,681) ordinary shares of 5p each.

[b] In 2018/19 9,066,942 shares (2017/18: 38,627,352) were issued from Own shares to satisfy obligations under employee share schemes and executive share awards at a cost of £28m (2017/18: £130m). At 31 March 2019, 54,330,273 shares (31 March 2018: 59,249,666) with an aggregate nominal value of £3m (31 March 2018: £1m) were held as part of Own shares at cost.

[c] As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The profit for the financial year, dealt with in the profit and loss account of the company, was £44m (2017/18: £61m).

Notes to the company financial statements

1. BT Group plc accounting policies

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

Accounting basis
As used in these financial statements and associated notes, the term 'company' refers to BT Group plc (a public company limited by shares). These separate financial statements of the company are prepared in accordance with, and presented as required by, the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 (FRS 101). These financial statements have been prepared in accordance with FRS 101. FRS 101 incorporates, with limited amendments, International Financial Reporting Standards (IFRS).

Financial statements
The financial statements are prepared on a going concern basis and under the historical cost convention.

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

New and amended accounting standards effective during the year
There have been no new or amended accounting standards or interpretations adopted during the year that have a significant impact on the financial statements.

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

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

The BT Group plc consolidated financial statements for the year ended 31 March 2019 contain a consolidated cash flow statement. Consequently, as permitted by IAS 7 'Statement of Cash flow', the company has not presented its own cash flow statement.

The BT Group plc consolidated financial statements for the year ended 31 March 2019 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 2019 contain financial instrument disclosures which comply with IFRS 7, 'Financial Instruments: Disclosures'. Consequently, the company is exempt from the disclosure requirements of IFRS 7 in respect of its financial instruments.

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

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

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

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

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

Share-based payments
The company does not incur a charge for share-based payments. However, the issuance by the company of share options and awards to employees of its subsidiaries represents additional capital contributions to its subsidiaries. An addition to the company's investment in subsidiaries is recorded with a corresponding increase in equity shareholders' funds. The additional capital contribution is determined based on the fair value of options and awards at the date of grant and is recognised over the vesting period.

2. Investments

Cost	Total £m
At 31 April 2017	10,801
Additions	84
At 31 March 2018	**10,885**
Additions	67
At 31 March 2019	**10,952**

Additions of £67m (2017/18: £84m) comprise capital contributions in respect of share-based payments.

Notes to the company financial statements continued

2. Investments continued

The company held a 100% investment in BT Group Investments Limited, a company registered in England and Wales, throughout 2018/19 and 2017/18.

3. Merger reserve

On 29 January 2016, the company issued 1,594,900,429 ordinary shares of 5p at 470.70p per share resulting in a total of £80m being credited to the share capital.

These shares were used as part consideration for the acquisition of EE, which completed on 29 January 2016. As a result of this transaction, a merger reserve was created of £7,424m net of £3m issue costs. The acquisition of EE was structured by way of a share-for-share exchange. This transaction fell within the provisions of Section 612 of the Companies Act 2006 (merger relief) such that no share premium was recorded in respect of the shares issued. The company chose to record its investment in EE at fair value and therefore recorded a merger reserve equal to the value of the share premium which would have been recorded had Section 612 of the Companies Act 2006 not been applicable ie equal to the difference between the fair value of EE and the aggregate nominal value of the shares issued.

This merger reserve was initially considered unrealised on the basis it was represented by the investment in EE. This was not considered to represent qualifying consideration (in accordance with Tech 02/10 (Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006)), as superseded by Tech 02/17 (Guidance on realised and distributable profits under the Companies Act 2006).

Immediately following the acquisition of EE, the company's investment in EE was transferred to BT in exchange for an intercompany loan. To the extent the loan is settled in qualifying consideration, the related proportion of the merger reserve is considered realised. Hence the merger reserve is an unrealised reserve until it is realised by the settlement of the intercompany loan by qualifying consideration.

During 2018/19, £2,500m (2017/18: £nil) of merger reserve was transferred to realised profit following the settlement of an intercompany loan by qualifying consideration.

4. Other information

Dividends

The Board recommends that a final dividend in respect of the year ended 31 March 2019 of 10.78p per share will be paid to shareholders on 9 September 2019, taking the full year proposed dividend in respect of 2018/19 to 15.4p (2017/18: 15.4p, 2016/17: 15.4p) which amounts to approximately £1,527m (2017/18: £1,524m, 2016/17: £1,532m). This final dividend is subject to approval by shareholders at the Annual General Meeting and therefore the liability of approximately £1,069m (2017/18: £1,044m, 2016/17: £1,050m) has not been included in these financial statements. The proposed dividend will be payable to all shareholders on the Register of Members on 9 August 2019.

Employees

The chairman, the executive directors and the company secretary & general counsel, governance of BT Group plc were the only employees of the company during 2018/19 and 2017/18. The costs relating to qualifying services provided to the company's principal subsidiary, British Telecommunications plc, are recharged to that company.

Related undertakings

Subsidiaries

Company name	Group interest in allotted capital[a]	Share class
Held directly		
United Kingdom		
81 Newgate Street, London, EC1A 7AJ, United Kingdom		
BT Group Investments Limited	100%	ordinary
BT Group Nominees Limited	100%	ordinary
Held via other group companies		
Albania		
Rr. Murat Toptani, Eurocol Center, Kati 8, Tirana, Albania		
BT Albania Limited SH.P.K	100%	ordinary
Algeria		
20 Micro zone d'Activités Dar El Madina, Bloc B, Loc N01 Hydra, Alger, 16000, Algeria		
BT Algeria Communications SARL	100%	ordinary
Argentina		
Lola Mora 421, 15th Floor, Puerto Madero, Buenos Aires, C1107DDA, Argentina		
BT Argentina S.R.L.	100%	ordinary
BT Latam Argentina S.A	100%	common
Australia		
Level 1, 76 Berry Street, North Sydney NSW 2060, Australia		
BT Australasia Pty Limited	100%	ordinary
	100%	preference
Austria		
Louis-Häfliger-Gasse 10, 1210, Wien, Austria		
BT Austria GmbH	100%	ordinary
Azerbaijan		
The Landmark III Building, 8th Floor, c/o Deloitte & Touche, 96 Nizami Street, Baku, AZ 1010, Azerbaijan		
BT Azerbaijan Limited, Limited Liability Company	100%	ordinary
Bahrain		
Suite #650, 6th floor, Building No. 247, Road 1704, Diplomatic Area 317, Bahrain		
BT Solutions Limited (Bahrain Branch)[b]	100%	–
Bangladesh		
House 51 (3rd Floor), Road 9, Block F, Banani, Dhaka, 1213, Bangladesh		
BT Communications Bangladesh Limited	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Barbados		
The Gabbles, Haggatt Hall, St Michael, BB11063, Barbados		
BT (Barbados) Limited	100%	ordinary
Belarus		
58 Voronyanskogo St, Office 89, Minsk 220007, Belarus		
BT BELRUS Foreign Limited Liability Company	100%	ordinary
Belgium		
Telecomlaan 9, 1831 Diegem, Belgium		
BT Global Services Belgium BVBA	100%	ordinary
BT Limited[b]	100%	–
BT Professional Services (Holdings) N.V.	100%	ordinary
Rue de L'Aêropostale 8, 4460 Grâce-Hollogne, Belgium		
IP Trade SA	100%	ordinary
Bermuda		
Century House, 16 Par-la-Ville Road, Hamilton, HM08, Bermuda		
Communications Global Network Services Limited	100%	ordinary
Bolivia		
Avenida Arce esquina Rosendo Gutierrez, Edifico Multicentre Torre B, Piso 12, La Paz, Bolivia		
BT Solutions Limited Sucursal Bolivia[b]	100%	–
Bosnia and Herzegovina		
ul. Despiceva broj 3/II, Sarajevo, Sarajevo-Stari Grad, 71000, Bosnia and Herzegovina		
BTIH Teleconsult Drustvo sa organicenom odgovornoscu za posredovanje i zastupanje d.o.o. Sarajevo	100%	–
Botswana		
Plot 113, Unit 28 Kgale Mews, Gaborone International Finance Park, Gaborone, PO BOX 1839, Botswana		
BT Global Services Botswana (Proprietary) Limited	100%	ordinary
Brazil		
Avenida Das Nações Unidas, 4777- 17 andar- Parte- Jardim Universidade, São Paulo- SP- CEP, 05477- 000, Brazil		
BT Global Communications do Brasil Limitada	100%	quotas

Company name	Group interest in allotted capital[a]	Share class
Avenida Das Nações Unidas, 4777 - 14, andar- parte- Jardim Universidade - São Paulo- SP- CEP, 05477-000, Brazil		
BT LatAm Holdings Brasil Ltda	100%	common
BT Communications do Brasil Limitada	100%	quotas
Rodovia SP 101, KM 9,5, Trecho Campinas-Monte Mor, Unidade 27, Bloco Beta, Distrito Industrial, Hortolandia - SP- CEP, São Paolo, 13185-900, Brazil		
BT Brasil Serviços de Telecomunicações Ltda	100%	quotas
BT LatAm Brasil Ltda.	100%	quotas
British Virgin Islands		
Sea Meadow House, P.O. Box 116, Road Town, Tortola, British Virgin Islands		
BT LatAm (BVI) Corporation	100%	common
Bulgaria		
51B Bulgaria Blvd., fl. 4, Sofia, 1404, Bulgaria		
BT Bulgaria EOOD	100%	ordinary
Canada		
200 King St W, Suite 1904, Toronto ON M5H 3T4, Canada		
BT Canada Inc.	100%	common
Tikit, Inc.	100%	ordinary
Cabo Verde		
Avenida Andrade Corvo, 30, Praia, CP63, Cabo Verde		
B. Telecomunicações, Cabo Verde, Sociedade Unipessoal, SA	100%	ordinary
Chile		
55 Oficina 52, Las Condes, Santiago, 7580067, Chile, Chile		
Servicios de Telecomunicaciones BT Global Networks Chile Limitada	100%	ordinary
China		
Building 16, 6th Floor, Room 602-B, No. 269 Wuyi Road, Hi-tech Park, Dalian, 116023, China		
BT Technology (Dalian) Company Limited	100%	registered
No. 3 Dong San Huan Bei Lu, Chao Yang District, Beijing, 100027, China		
BT Limited, Beijing Office[b]	100%	–

Related undertakings continued

Company name	Group interest in allotted capital[a]	Share class
No. 31 Software Park Road, Tower A, Science & Technology Building, Dalian Software Park, Dalian, 116023, China		
BT Global Services (Dalian) Co. Ltd.	100%	registered
Room 1206, Tower A, United Plaza, 5022 Bin He Avenue, Fu Tian District, Shenzhen, P. R. China		
Infonet Primalliance Shenzhen Co. Ltd.	35%	ordinary
Room 2101-2103, 21/F, International Capital Plaza, No. 1318 North Sichuan Road, Hong Kou District, Shanghai, 200080, China		
BT China Limited-Shanghai Branch Office[b]	100%	–
Room 4B, 7/F, Tower W3, Oriental Plaza, 1 East Chang An Avenue, Dong Cheng District, Beijing, P. R. China		
Infonet Primalliance Beijing Co. Ltd.	66%	ordinary
Room 601, No. 2 BLDG, 750 West Zhong Shan Rd., Shanghai, 200051, P.R .China		
Infonet Primalliance Shanghai Co. Ltd.	28%	ordinary
Room 635-3, No. 2 BLDG, 351 Guo Shou Jing Road, Zhang Jiang High Technology Park, Shanghai, P. R. China		
Infonet Primalliance Holding Co. Ltd.	100%	ordinary
Room 702A, Tower W3,Oriental Plaza, 1 East Chang An Avenue, Dongcheng, Beijing, 100738, China		
BT China Limited	100%	registered
Unit 1537B, Floor 15th, No. 55, Xili Road, Shanghai Free Trade Zone, Shanghai, China		
BT China Communications Limited	50%	ordinary
Colombia		
Calle 113 # 7-21, Torre A oficina 1112, Teleport Business Park, Bogota, Colombia		
América Inalámbrica S.A.	100%	common
BT Colombia Limitada	100%	quotas
BT LatAm Colombia S.A.	100%	common
BT LatAm Holdings (Colombia) S.A.	100%	common
Costa Rica		
Centro Corporativo Internacional, Piso 1, Avenida 6 y 8, Calle 26 y 28, Barrio Don Bosco, Costa Rica		
BT Global Costa Rica SRL	100%	ordinary
BT LatAm Costa Rica, S.A.	100%	common

Company name	Group interest in allotted capital[a]	Share class
Côte d'Ivoire		
Abidjan Plateau, Rue du commerce, Immeuble Nabil 1er étage, 01 BP 12721 Abidjan 01, Côte d'Ivoire		
BT Côte d'Ivoire	100%	ordinary
Croatia		
Savska 64, 10 000 Zagreb, Croatia		
BT Solutions Limited Podruznica Hrvatska[b]	100%	–
Cyprus		
236 Strovolos Avenue, Strovolos 2048, Nicosia, Cyprus		
BT Solutions Limited[b]	100%	–
Czech Republic		
Katerinska 466/40, Nove Mesto, Prague 2, 120 00, Czech Republic		
BT Limited, organizacni slozka[b]	100%	–
Denmark		
Havnegade 39, 1058, Kobenhavn K, Denmark		
BT Denmark ApS	100%	ordinary
Dominican Republic		
Av. Abraham Lincoln Esq. Jose Amado Soler, Edif. Progresso, Local 3-A, Sector Ens. Serralles, Santo Domingo, Dominican Republic		
BT Dominican Republic, S. A.	100%	ordinary
BT LatAm Dominicana, S.A.	100%	common
Ecuador		
Av. Amazonas N21-252 y Carrión, Edificio Londres, 4° Piso, Quito, Ecuador		
BT Solutions Limited (Sucursal Ecuador)[b]	100%	–
El Salvador		
Boulevard Orden de Malta, Centro Profesional Madre Tierra, Local 10, Primer Nivel, Antiguo Cuscatlán, La Libertad, El Salvador		
BT El Salvador, Limitada de Capital Variable	100%	ordinary
Edificio Centro Profesional Madre Tierra, Local 10, Piso 1, Santa Elena, Antiguo Cuscatlan, El Salvador		
BT LatAm El Salvador, S.A. de CV	100%	common
Egypt		
1 Wadi El Nile St., Mohandessin, Giza, Cairo, Egypt		
BT Telecom Egypt LLC	100%	stakes

Company name	Group interest in allotted capital[a]	Share class
Estonia		
A.H. Tammsaare tee 47, Tallinn, 11316, Estonia		
BT Solutions Limited Eesti Filiaal[b]	100%	–
Finland		
Mannerheimvägen 12 B 6, 00100 Helsinki, Finland		
BT Nordics Finland Oy	100%	ordinary
France		
Tour Ariane, 5 place de la Pyramide, La Defense Cedex, 92088 PARIS, France		
BT France S.A.S.	100%	ordinary
BT Newco France S.A.S.	100%	ordinary
BT Services S.A.S	100%	ordinary
Georgia		
74 Ilia Chavchavadze Avenue, Tbilisi, Georgia		
BT Georgia Limited LLC	100%	–
Germany		
Barthstraße 4, 80339, Munich, Germany		
BT (Germany) GmbH & Co. oHG	100%	ordinary
BT Deutschland GmbH	100%	ordinary
BT Garrick GmbH	100%	ordinary
Franfurterstrasse 21-25, 65760, Eschborn Taunus, Germany		
IP Trade Networks GmbH	100%	ordinary
Ghana		
No 11 Adaman Loop, Near Abeka Junction, P.O. Box AN 19113, Tesano, Accra - North, Ghana		
BT Ghana Limited	100%	ordinary
Gibraltar		
Montagu Pavilion, 8-10 Queensway, Gibraltar		
BT (Gibraltar) Limited	100%	ordinary
Greece		
75 Patision Street, Athens, 10434, Greece		
BT Solutions Limited-Greek Branch[b]	100%	–
Guatemala		
3a Avenida 13–78, Zona 10 Torre Citibank, Nivel 2, Oficina No. 206, Guatemala		
BT Guatemala S.A.	100%	unique
Comsat de Guatemala S.A.	100%	common
BT LatAm Guatemala, S.A.	100%	common

Company name	Group interest in allotted capital[a]	Share class
Honduras		
Colonia Lomas Del Guijarro sur, edificio Plaza azul, 2do. Nivel, local #26, Tegucigalpa, Honduras		
BT Sociedad De Responsabilidad Limitada	100%	–
Edificio Plaza Azul, Piso 2 do Nivel, Local No. 26, Colonia Lomas del Guijarro Sur, Avenida Paris, Calle Viena, Tegucigalpa, Honduras		
BT LatAm Honduras, S.A.	100%	common
Hong Kong		
38th Floor Dorset House, Taikoo Place, 979 King's Road, Island East, Hong Kong		
BT Hong Kong Limited	39%	ordinary
	61%	preference
Infonet Primalliance Co., Limited	100%	ordinary
Infonet China Limited	100%	ordinary
Room 1102, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong		
IP Trade Networks Limited	100%	ordinary
Hungary		
Budafoki út 91-13, 1117 Budapest, Hungary		
BT Limited Magyarorszagi Fioktelepe[b]	100%	–
BT ROC Kft	100%	business
Iceland		
BDO ehf, Skutuvogi 1E, 104 Reykjavik, Iceland		
BT Solutions Limited Útibú á Íslandi[b]	100%	–
India		
602, Tower B, RMZ Infinity, Municipal No. 3, Old Madras Road, Benninganahalli, Bengaluru, Karnataka, 560016, India		
BT Professional Services (India) Private Limited	100%	ordinary
11th Floor, Eros Corporate Tower, Opp. International Trade Tower, Nehru Place, New Delhi, 110019, India		
BT (India) Private Limited	100%	ordinary
BT e-Serv (India) Private Limited	100%	equity
BT Global Business Services Private Limited	100%	ordinary
BT Global Communications India Private Limited	74%	ordinary
BT Telecom India Private Limited	74%	ordinary
A-47, Hauz Khas, New Delhi, Delhi-DL, 110016, India		
Orange Services India Private Limited	100%	ordinary
Indonesia		
World Trade Centre 5, Lantai. 13, Jl. Jend. Sudirman Kav. 29-31, Kel. Karet Setiabudi, Jakarta Selatan, Jakarta, 12920, Indonesia		
PT BT Indonesia	100%	ordinary
PT BT Communications Indonesia	95%	ordinary
PT Sun Microsystems Indonesia	60%	ordinary
Israel		
Beit Oz, 14 Abba Hillel Silver Rd, Ramat Gan, 52506, Israel		
B.T. Communication Israel Ltd	100%	ordinary
Italy		
Strada Santa Margherita, 6 / A, 43123, Parma, Italy		
BT Enìa Telecomunicazioni S.P.A.	87%	ordinary
Via Charles Robert Darwin, no 85, 20019, Settimo Milanese, Italy		
ERPTech S.p.A.	99%	ordinary
Via Correggio 5, 20097, San Donato Milanese, Milan, Italy		
Radianz Italia S.r.l.	100%	ordinary
Via Mario Bianchini 15, 00142 Roma, Italy		
BT Global Services Limited[b]	100%	–
Via Pianezza n° 123, Torino, Italy		
Atlanet SpA	99%	ordinary
Via Tucidide 56, Torre 7, 20134, Milano, Italy		
Basictel SpA	99%	ordinary
BT Italia S.p.A.	99%	ordinary
BT Nederland N.V.[b]	100%	–
Infonet Italia S.p.A	100%	ordinary
Nuova Societa di Telecomunicazioni SpA	99%	ordinary
Jamaica		
26 Beechwood Avenue, Cross Roads, St. Andrew, Kingston 5, Jamaica		
BT Jamaica Limited	100%	ordinary
Japan		
ARK Mori Building, 12-32 Akasaka, 1-Chome, Minato-Ku, Tokyo, 107 - 6024, Japan		
BT Global Japan Corporation	100%	ordinary
BT Japan Corporation	100%	ordinary
Jersey		
26 New Street, St Helier, JE2 3RA, Jersey		
Ilford Trustees (Jersey) Limited	100%	ordinary
First Floor Windward House, La Route de la Liberation, St Helier, JE1 1BG, Jersey		
BT US Investments Limited	100%	ordinary
PO Box 264, Forum 4, Grenville Street, St Helier, JE4 8TQ, Jersey		
BT Jersey Limited	100%	ordinary
Jordan		
Al Gardens Area (Tiaa Al Ali), Al Salheen Neighborhood, Building #185, 7th Floor, Wasfi Al Tal Street, Amman, 11118, Jordan		
BT (International) Holdings Limited (Jordan)	100%	ordinary
Kazakhstan		
36 Al Farabi Ave., Bldg. B, Almaty Financial District, Almaty, Republic of Kazakhstan, 050059, Kazakhstan		
BT Kazakhstan LLP	100%	–
Kenya		
6th Floor, Virtual Offices, Morningside Office Park, Ngong Road, Nairobi, Kenya		
BT Communications Kenya Limited	100%	ordinary
P.O. BOX 10032-00100, Nairobi, Kenya		
BT Telecommunications Kenya Limited	100%	ordinary
Korea		
8th Floor, KTB Building, 66 Yeoui-daero, Yeongdeungpo-gu, Seoul, 07325, Korea		
BT Global Services Korea Limited	100%	common
Kuwait		
Block 2-A, 9th Floor, Ahmad Al Jaber Street, Sharq, Kuwait		
BT Solutions Limited – Kuwait Branch[b]	100%	–
Latvia		
Muitas iela 1A, Riga, LV-1010, Latvia		
BT Latvia Limited, Sabiedriba ar ierobezotu atbildibu	100%	ordinary
Lebanon		
Abou Hamad, Merheb, Nohra & Chedid Law Firm, Chbaro Street, 22nd Achrafieh Warde Building, 1st Floor, Beirut, P.O.BOX 165126, Lebanon		
BT Lebanon S.A.L.	100%	ordinary

Related undertakings continued

Company name	Group interest in allotted capital[a]	Share class
Lithuania		
Aludariu str 2-33, LT-01113 Vilnius, Lithuania		
UAB BTH Vilnius	100%	ordinary
Luxembourg		
12 rue Eugene Ruppert, L 2453, Luxembourg		
BT Global Services Luxembourg SARL	100%	ordinary
BT Professional Services (Luxembourg) S.A.	100%	ordinary
BT Broadband Luxembourg Sàrl	100%	ordinary
BT Luxembourg Investment Holdings Sarl	100%	ordinary
Macedonia		
Str. Dame Gruev no.8, 5th floor, Building "Dom na voenite invalidi", SKOPJE 1000, Macedonia		
BT Solutions Limited Branch Office in Skopje[b]	100%	–
Macao		
Avenida da.Praia Grande, No. 367-371, Keng Ou Building, 15th andar C, em Macao, Macau, Macao		
BT Hong Kong Ltd. – Macau Branch[b]	100%	–
Malawi		
BDO Tax & Advisory Services (Pvt) Ltd, 6th Floor Unit House, 12 Victoria Street PO BOX 3038, Blantyre, Malawi		
BT Malawi Limited	100%	ordinary
Malaysia		
Menara BT, Level 8, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200, Kuala Lumpur, Malaysia		
BT Global Services (M) Sdn Bhd	100%	ordinary
BT Global Services Solutions Sdn Bhd	100%	ordinary
BT Global Technology (M) Sdn. Bhd.	100%	ordinary
BT Systems (Malaysia) Sdn Bhd	100%	ordinary
Malta		
Tower Gate Place, Tal-Qroqq Street, Msida MSD 1703, Malta		
BT Solutions Limited[b]	100%	–
Mauritius		
10 Frere Felix De Valois Street, Port Louis, Mauritius		
BT Global Communications (Mauritius) Limited	100%	ordinary
Mexico		
Av. Renato Leduc 321, Col. Toriello Guerra, 14050 Mexico D.F.		
BT LatAm México, S.A. de C.V.	100%	common
Opimus S.A. de C.V.	100%	common
Moldova		
IPTEH Building, 65 Stefan cel Mare Blvd, Office 806, Chisinau, Republic of Moldova		
BT MDV Limited	100%	ordinary
Montenegro		
Bulevar revolucije 7, Podgorica, 81000, Montenegro		
BT Montenegro DOO	100%	–
Morocco		
193, Avenue HASSAN II, Casablanca, MAROC s/c Domicilia services, Morocco		
BT Solutions Limited – Morocco Branch[b]	100%	–
Espace Jet Business Class, 16/18 Lot Attoufik Sidi Maarouf, Casablanca, 20190, Morocco		
Syntone S.A.R.L.	100%	ordinary
Mozambique		
Av. 25 de Setembro, 1230, 3º, Bloco 5, Caixa Postal 4200, Maputo, 4200, Mozambique		
BT Mozambique, Limitada	100%	quotas
Namibia		
PO Box 2184, 61 Bismarck Street, Windhoek, Namibia		
BT Solutions Limited[b]	100%	–
Netherlands		
Minerva & Mercurius building, Herikerbergweg 2, 1101CM, Amsterdam Zuidoost, Netherlands		
BT (Netherlands) Holdings B.V.	100%	ordinary
BT Nederland N.V.	100%	ordinary
BT Professional Services Nederland B.V.	100%	ordinary
New Zealand		
c/o BDO Auckland, Level 4, 4 Graham Street, Auckland, 1010, New Zealand		
BT Australasia Pty Limited – New Zealand Branch[b]	100%	–
Nicaragua		
Edificio Invercasa, 5to Piso, Suite 505, Via Fontana, frente al colegio La Salle, Managua, Nicaragua		
BT LatAm Nicaragua, S.A.	100%	common
BT Nicaragua S.A.	100%	capital
Niger		
57, Rue des Sorkhos, BP 616, Niamey, Niger		
BT Niger	100%	ordinary
Nigeria		
ADOL House, 15 CIPM Avenue, Central Business District, Alausa, Ikeja, Lagos, Nigeria		
BT (Nigeria) Limited	100%	ordinary
Norway		
Munkedamsveien 45, c/o BDO AS, 0121 Oslo, Norway		
BT Solutions Norway AS	100%	ordinary
Oman		
Maktabi Building, Building No. 458, Unit No. 413 (4th Floor, Road No - R41, Block No. 203, Plot No. 107, Zone No. SW41, Complex No. 271, Al Watiyah, Bausher, Muscat, Sultanate of Oman, Oman		
BT International Holdings Limited & Co. LLC	100%	ordinary
Pakistan		
2nd Floor, Block C, Lakson Square, Building No. 1, Sarwar Shaheed Road, Karachi, 74200, Pakistan		
BT Pakistan (Private) Limited	100%	ordinary
Panama		
Edificio Credicorp Bank, Piso 3, Oficina 301, Cuidad de Panama, Panama		
BT de Panama, S.R.L.	100%	ordinary
BT LatAm Panama, Inc.	100%	common
Paraguay		
Gral Diaz 521, Edificio Internacional Faro, Piso 6, Asuncion, Paraguay		
BT Paraguay S.R.L.	100%	quotas
Peru		
Calle Martir Olaya, 129 of 1901, Miraflores, Lima, Peru		
BT LatAm Peru S.A.C.	100%	common
BT Peru S.R.L.	100%	ordinary
Philippines		
11th Floor, Page One Building, 1215 Acacia Avenue, Madrigal, Business park, Ayala Alabany, Muntinlupa city, 1780 City, Manila, 1780, Philippines		
IT Holdings, Inc	100%	ordinary
Sun Microsystems Philippines, Inc	51%	common
18th Floor, Philamlife Tower, 8767 Paseo de Roxas, Makati City, 1226, Philippines		
BT Communications Philippines Incorporated	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
c/o Sun Microsystems Phil Inc., 8767 Paseo de Roxas, Makati City, Philippines		
PSPI-Subic, Inc	51%	ordinary
Poland		
Al. Armii Ludowej 14, 00-638 Warszawa, International Business Center, Poland		
BT Poland Spółka Z Ograniczoną Odpowiedzialnością	100%	ordinary
Portugal		
Rua D. Francisco Manuel de Melo 21-1, 1070-085 Lisboa, Portugal		
BT Portugal – Telecomunicações, Unipessoal Lda	100%	ordinary
Puerto Rico		
The Prentice-Hall Corporation System, Puerto Rico, Inc., c/o Fast Solutions, LLC, Citi Tower, 252 Ponce de Leon Avenue, Floor 20, San Juan, Puerto Rico, 00918, Puerto Rico		
BT Communications Sales, LLC Puerto Rico branch[b]	100%	–
Qatar		
1413, 14th Floor, Al Fardan Office Tower, Doha, 31316, Qatar		
BT Global Services (North Gulf) LLC	49%	ordinary
Republic of Ireland		
2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland		
BT Communications Ireland Group Limited	100%	ordinary
BT Communications Ireland Holdings Limited	100%	ordinary
BT Communications Ireland Limited	100%	ordinary
BT Global Communications (Ireland) Limited	100%	ordinary
Canal Capital Investment Limited	100%	ordinary
Whitestream Industries Limited	100%	ordinary
Romania		
35-37 Oltenitei Str., Cladirea A1, Biroul Nr. 52, Bucharest, Sector 4, Romania		
BT Global Services Limited Londra Sucursala Bucuresti[b]	100%	–

Company name	Group interest in allotted capital[a]	Share class
Russia		
Room 62, prem xx, Floor 2, Pravdy, 26, 127137, Moscow, Russian Federation		
BT Solutions Limited Liability Company	100%	–
Serbia		
Dimitrija Georgijevica Starike 20, Belgrade, 11070, Serbia		
BT Belgrade d.o.o	100%	ordinary
Sierra Leone		
84 Dundas Street, Freetown, Sierra Leone		
BT (SL) Limited	100%	ordinary
Singapore		
Level 3, #03-01/02 & #03-04, Block B, Alexandra Technopark, 438B Alexandra Road, 119968, Singapore		
BT (India) Private Limited Singapore Branch[b]	100%	–
BT Global Services Technologies Pte. Ltd.	100%	ordinary
BT Global Solutions Pte. Ltd.	100%	ordinary
BT Singapore Pte. Ltd.	100%	ordinary
Sun Vietnam Pte. Ltd.	60%	ordinary
Slovakia		
Dvorakovo nabrezie 4, 811 02, Bratislava, Slovakia		
BT Slovakia s.r.o.	100%	ordinary
Slovenia		
CESTA V MESTNI LOG 1, 1000 LJUBLJANA, Slovenia		
BT GLOBALNE STORITVE, telekomunikacijske storitve, obdelava podatkov, podatkovnih baz; d.o.o.	100%	ordinary
South Africa		
24-18th Street, Menlo Park, Pretoria, 0081, South Africa		
EE Communications (South Africa) Proprietary Limited	100%	ordinary
BT Building North Office Park, 54 Maxwell Drive, Woodmead, 2191, South Africa		
BT Communications Services South Africa (Pty) Limited	70%	ordinary
First Floor, Culross Court North, 16 Culross Road, Bryanston 2021, South Africa		
BT Limited[b]	100%	–

Company name	Group interest in allotted capital[a]	Share class
Spain		
C/ Isabel Colbrand 6-8, 28050, Madrid, Spain		
BT ESPAÑA, Compañia de Servicios Globales de Telecommunicaciones,S.A	100%	ordinary
Sri Lanka		
Charter House 65/2, Sir Chittampalam A., Gardiner Mawatha, Colombo, 2, Sri Lanka		
BT Communications Lanka (Private) Limited	100%	ordinary
Sudan		
Alskheikh Mustafa Building, Parlman Street, Khartoum, Sudan		
Newgate Communication (Sudan) Co. Ltd	100%	ordinary
Sweden		
Box 30005, 104 25, Stockholm, Sweden		
BT Nordics Sweden AB	100%	ordinary
Switzerland		
Richtistrasse 5, 8304 Wallisellen, Switzerland		
BT Switzerland AG	100%	ordinary
Taiwan		
Shin Kong Manhattan Building, 14F, No. 8, Sec. 5, Xinyi Road, Taipei, 11049, Taiwan		
BT Limited Taiwan Branch[b]	100%	–
Tanzania		
BDO East Africa, 1st Floor-Wing B, Infotech Place, Mwai Kibaki Road, Dar es Salaam, Tanzania		
BT Solutions Limited – Tanzania Branch[b]	100%	–
Thailand		
Athenee Tower, 23rd Floor, (CEO Suite, Suite 38 & 40), 63 Wireless Road, Lumpini, Pathumwan, Bangkok, 10330, Thailand		
BT Siam Communications Co. Ltd.	49%	class B
BT Siam Limited	69%	preference
Trinidad and Tobago		
2nd Floor CIC Building, 122-124 Frederick Street, Port of Spain, Trinidad and Tobago		
BT Solutions Limited[b]	100%	–
Tunisia		
BT chez BDO Tunisie, Immeuble, ENNOUR BUILDING 3ème étage, Centre Urbain Nord 1082, Mahrajène Tunis, Tunisia		
BT Tunisia S.A.R.L	100%	ordinary

Related undertakings continued

Company name	Group interest in allotted capital[a]	Share class
Turkey		
Yenisahra Mah. Yavuz Selim Cad. No.19/A D.4 Ataşehir, İstanbu, 34700, Turkey		
BT Bilisim Hizmetleri Anonim Şirketi	100%	ordinary
BT Telekom Hizmetleri Anonim Şirketi	100%	common
Uganda		
6th Floor Block C, Nakawa Business Park, Plot 3 – 5, New Portbell Road, Kampala, Uganda		
BT Solutions Limited[b]	100%	–
Ukraine		
Office 702, 34 Lesi Ukrainky Boulevard, Kyiv 01042, Ukraine		
BT Ukraine Limited Liability Company	100%	stakes
United Arab Emirates		
Office No G03, Ground Floor, EIB Building No 04, Dubai, United Arab Emirates		
BT MEA FZ-LLC	100%	ordinary
Office No. (F6) International Business Center, Building No. (27W10), Three Sails Tower, Cornish, Abu Dhabi, United Arab Emirates		
BT UAE Limited - Abu Dhabi Branch[b]	100%	–
Office no.206 BLOCK B, Diamond Business Center 1, Al Barsha South Third, Dubai, P.O. BOX 25205, United Arab Emirates		
BT UAE Limited - Dubai Branch (1)[b]	100%	–
BT UAE Limited - Dubai Branch (2)[b]	100%	–
United Kingdom		
81 Newgate Street, London, EC1A 7AJ, United Kingdom		
Autumnwindow Limited	100%	ordinary
Autumnwindow No.2 Limited	100%	ordinary
Autumnwindow No.3 Limited	100%	ordinary
BPSLP Limited	100%	ordinary
British Telecommunications plc	100%	ordinary
Bruning Limited	100%	ordinary
BT (International) Holdings Limited	100%	ordinary
BT (RRS LP) Limited	100%	ordinary
BT Centre Nominee 2 Limited	100%	ordinary
BT Communications Ireland Group Limited – UK Branch[b]	100%	–
BT Cornwall Limited	100%	ordinary
BT Corporate Trustee Limited	100%	limited by guarantee
BT European Investments Limited	100%	ordinary
BT Facilities Services Limited	100%	ordinary
BT Fifty-One	100%	ordinary
BT Fifty-Three Limited	100%	ordinary
BT Fleet Limited	100%	ordinary
BT Global Security Services Limited	100%	ordinary
BT Global Services Limited	100%	ordinary
BT Holdings Limited	100%	ordinary
BT IoT Networks Limited	100%	ordinary
BT Lancashire Services Limited	100%	ordinary
BT Law Limited	100%	ordinary
BT LGS Limited	100%	ordinary
BT Limited	100%	ordinary
BT Managed Services (No.2) Limited	100%	ordinary
BT Managed Services Limited	100%	ordinary
BT Nominees Limited	100%	ordinary
BT Property Holdings (Aberdeen) Limited	100%	ordinary
BT Property Limited	100%	ordinary
BT Sixty-Four Limited	100%	ordinary
BT SLE Euro Limited	100%	ordinary
BT SLE USD Limited	100%	ordinary
BT Solutions Limited	100%	ordinary
BT South Tyneside Limited	100%	ordinary
BT UAE Limited	100%	ordinary
Communications Global Network Services Limited – UK Branch[b]	100%	–
Communications Networking Services (UK)	100%	ordinary
Communicator (IOM) Limited – UK Branch[b]	100%	–
ESAT Telecommunications (UK) Limited	100%	ordinary
Extraclick Limited	100%	ordinary
groupBT Limited	100%	ordinary
Newgate Street Secretaries Limited	100%	ordinary
Numberrapid Limited	100%	ordinary
Pelipod Ltd	100%	ordinary
Radianz Limited	100%	ordinary
SEV Automotive And Plant Limited	100%	ordinary
Southgate Developments Limited	100%	ordinary
Tikit Limited	100%	ordinary
Tudor Minstrel	100%	ordinary
Alexander Bain House, 15 York Street, Glasgow, G2 8LA Scotland		
Holland House (Northern) Limited	100%	ordinary
BDO LLP, 55 Baker Street, London, W1U 7EU, United Kingdom		
BT Business Direct Limited	100%	ordinary
BT Fifty	100%	ordinary
BT Forty-Nine	100%	ordinary
BT IT Services Limited	100%	ordinary
BT Lease Holdings Limited	100%	ordinary
BT Leasing Limited	100%	ordinary
BT Moorgate One Limited	100%	ordinary
BT Moorgate Two Limited	100%	ordinary
BT Property Holdings (Oxford) Limited	100%	ordinary
BT Seventy-Three	100%	ordinary
BTexact Technologies Limited	100%	ordinary
BTexact Venturing Limited	100%	ordinary
dabs.com Limited	100%	ordinary
IP Trade Networks Ltd	100%	ordinary
Mobilise Telecoms Limited	100%	ordinary
M-Viron Limited	100%	ordinary
Newgate Leasing Limited	100%	ordinary
Postgate Holding Company	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
Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man		
Belmullet Limited	100%	ordinary
Communicator Insurance Company Limited	99%	ordinary
	1%	preference
Communicator Limited	100%	ordinary
Priestgate Limited	100%	ordinary

Company name	Group interest in allotted capital[a]	Share class
Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom		
EE (Group) Limited	100%	ordinary
EE Finance Limited	100%	ordinary
EE Limited	100%	ordinary
EE Pension Trustee Limited	100%	ordinary
EE Services Limited	100%	ordinary
Everthing Everywhere Limited	100%	ordinary
Mainline Communications Group Limited	100%	ordinary
Mainline Digital Communications Limited	100%	ordinary
Orange Furbs Trustees Limited	100%	ordinary
Orange Home UK Limited	100%	ordinary
Orange Personal Communications Services Limited	100%	ordinary
United States		
c/o Corporation Service Company, 2215-B Renaissance Drive, Las Vegas, NV 89119, United States		
BT LatAm (Nevada) Corp.	100%	common
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 Conferencing Video Inc.	100%	common
BT Federal Inc.	100%	common
BT LatAm Holdings One, Inc.	100%	common
BT LatAm Holdings Three, Inc.	100%	common
BT LatAm Holdings Two, Inc.	100%	common
BT LatAm Services, Inc.	100%	common
BT LatAm, Inc.	100%	common
BT Procure L.L.C.	100%	units
BT United States L.L.C.	100%	units
Infonet Services Corporation	100%	common
IP Trade Network Corp	100%	common
Radianz Americas Inc.	100%	common

Company name	Group interest in allotted capital[a]	Share class
Uruguay		
Rincón 487 Piso 11, Montevideo, ZIP CODE 11.000, Uruguay		
BT Solutions Limited Sucursal Uruguay[b]	100%	–
Venezuela		
Edificio Parque Cristal, Torre Oeste, Piso 5, Oficina 5, Avenida Francisco de Miranda, Urbanización Los Palos Grandes, Caracas 1060, Venezuela		
BT LatAm Venezuela, S.A.	100%	ordinary
BT Global (Venezuela) S.A.	100%	ordinary
Vietnam		
16th Floor, Saigon Tower, 29 Le Duan Road, District 1 Ho Chi Minh City, Socialist Republic of Vietnam		
BT (Vietnam) Co. Ltd.	100%	ordinary
7th Floor, ESTAR Building, 147-149 Vo Van Tan Street, Ward 6, District 3, HCM City, Vietnam		
Sun Vietnam Co., Ltd.	60%	ordinary
Zambia		
Plot No. 4015A, Frost Building, Gallery Office Park, Lagos Road, Rhodespark, Lusaka, Lusaka Province, Zambia		
BT Solutions Limited[b]	100%	–
Zimbabwe		
3 Baines Avenue, Box 334, Harare, Zimbabwe		
Numberrapid Limited[b]	100%	–

Related undertakings continued

Associates

Company name	Group interest in allotted capital[a]	Share class
Held via other group companies		
British Virgin Islands		
Craigmuir Chambers, PO Box 71, Road Town, Tortora, British Virgin Islands		
Ecquaria Limited	50%	ordinary
Italy		
Piazzale Luigi Sturzo, 23, 00144, Roma, Italy		
QXN S.c.p.A.	25%	ordinary
Via XII Ottobre 2N, 16121, Genova, Liguria, Italy		
I2 S.r.l	23%	–
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
Saudi Arabia		
New Acaria Commercial Complex, Al-Siteen Street, Malaz, Riyadh, Saudi Arabia		
British Telecom Al-Saudia Limited	49%	other
United Kingdom		
24/25 The Shard, 32 London Bridge Street, London, SE1 9SG, United Kingdom		
Digital Mobile Spectrum Limited	25%	ordinary
Unit 1, Colwick Quays Business Park, Colwick, Nottingham, Nottinghamshire, NG4 2JY, United Kingdom		
Midland Communications Distribution Limited	35%	ordinary

Joint Ventures and Joint Operations[c]

Company name	Group interest in allotted capital[a]	Share class
Held via other group companies		
United Kingdom		
Sixth Floor, Thames Tower, Station Road, Reading, RG1 1LX, United Kingdom		
Mobile Broadband Network Limited	50%	ordinary
6th Floor, One London Wall, London, EC2Y 5EB, United Kingdom		
Internet Matters Limited	25%	–
81 Newgate Street, London, EC1A 7AJ, United Kingdom		
BT OnePhone Limited	70%	ordinary
St Helen's 1 Undershaft, London, EC3P 3DQ, United Kingdom		
Rugby Radio Station (General Partner) Limited	50%	ordinary
Rugby Radio Station (Nominee) Limited	50%	ordinary
Rugby Radio Station LP	50%	–
10 Lower Thames Street, Third Floor, London, EC3R 6YT, United Kingdom		
Youview TV Limited	14%	voting

Interests in joint operations

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 mobile networks through a sharing arrangement. This includes the efficient management of shared infrastructure and networks on behalf of the Companies, acquiring certain network elements for shared use, and coordinating the deployment of new infrastructure and networks on either a shared or a unilateral basis (unilateral elements being network assets or services specific to one company only). The group is committed to incurring 50% of costs in respect of restructuring the Shared Network, a similar proportion of the operating costs (which varies in line with usage), and 100% of any unilateral elements.

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] All joint ventures are governed by a joint venture agreement or shareholder agreement. MBNL is accounted for as a joint operation.