BTPS

Annual Report and Accounts 2021

www.btps.co.uk

Contents

About BTPS

The BT Pension Scheme (BTPS or the Scheme) is the largest company pension scheme in the UK and one of the largest pension funds in Europe. A defined benefit pension scheme for employees, former employees and dependants of BT Group plc (BT) and some of its associated companies, the Scheme closed to new members in 2001 and to future accrual for most members in June 2018.

The Scheme's Trustee is BT Pension Scheme Trustees Limited, a corporate Trustee with ultimate fiduciary responsibility for the Scheme and its members.

The Trustee's key responsibility is to ensure that BTPS pays benefits as they fall due.

More information on the Trustee Board and Scheme governance can be found on **page 7 and page 28**

The Trustee Board has delegated responsibility for day-to-day management of the Scheme to **BT Pension Scheme Management Limited** (BTPSM, a wholly owned subsidiary of the Scheme), the primary service provider to BTPS, subject to ongoing Trustee Board oversight. BTPSM is also the principal investment advisor to the Scheme.

More information on BTPSM and its Executive can be found on **page 12**

To fulfil its key responsibility, the Trustee must ensure that the Scheme is (i) **adequately funded**; (ii) has an **appropriate investment strategy**, having regard to the Scheme's liabilities, support available from BT, the sponsoring employer, and the profile of its members; and (iii) is **administered** and run in a way which demonstrates an appropriate level of care, skill and value for money for members.

The report on Funding and Investment can be found on **page 15** and the Member Services report can be found on **page 24**

At a glance

The Scheme's funding position **improved to 88%** at 30 June 2020, compared to 81% at 30 June 2017.

As at 30 June 2021, there were **274,292** members.

Total benefits paid were **£2.6bn** in the year to 30 June 2021.

The Scheme's net assets were valued at **£57bn** as at 30 June 2021.

The Scheme's net assets were invested **36.3%** in equity-like assets and **63.7%** in cashflow aware assets as at 30 June 2021.

Chair's statement

On behalf of the BTPS Trustee, I am pleased to introduce the Scheme's annual report and financial statements for the financial year to 30 June 2021.

2021 headlines and highlights

The last year has been one of considerable change and challenge. At the time of writing, we continue to feel the effects of the pandemic. Whilst there is hope now that the vaccination programme in the UK can facilitate a reopening of society, the impact of new variants of the virus is unknown, and the prospect of future restrictions remains.

The UK formally left the European Union in January 2021. Whilst a new trade deal with the EU was agreed in December 2020, uncertainty remains over the future regulatory implications for certain sectors, including financial services.

In addition to the pandemic and Brexit, our agenda has included:

- Further strengthening our funding position as agreed with BT as part of the triennial funding valuation process.
- The technology transformation programme to enhance the operational effectiveness of BTPSM's investment team and to continue to improve the service we provide to our members.
- Setting a net zero by 2035 goal for carbon emissions from our investment portfolio.
- Continued focus on delivering value for money to our members. For example, the most recent investment cost benchmarking report which concluded that BTPS remained low cost compared with peers, whilst the administration benchmarking report highlighted a year-on-year reduction in pension administration costs alongside an improvement in the service delivery score.

I have asked Morten (BTPSM CEO), to provide more commentary on this work and the achievements that have been delivered over the past year in his report (see page 9).

2021 Annual Report and Accounts

This annual report and financial statements show the financial position of the Scheme on a particular day (30 June 2021) and the money which has gone in and out of the Scheme since 30 June 2020. This exercise is different to the funding valuation which we completed this year. The funding valuation is a detailed financial health check of the Scheme which is carried out every three years and looks at whether the Scheme is likely to be able to pay the benefits that are due in the longer term. As shown in the financial statements on the following pages, BT made contributions of £2.6bn into the Scheme during the year. As part of the latest funding valuation, we have agreed a new deficit reduction plan with BT. More information is provided in the following section.

Otto Thoresen
Chair of Trustee Board

Chair's statement continued

As explained in more detail in the 'funding and investment' section, the overall return on the Scheme's investments over the year to June was -0.2%, and 6.3% per annum over 3 years. This represents a real return (adjusted for CPI) of -2.6% over the year, and 4.6% per annum over 3 years. The Scheme's investment portfolio is designed to be resilient in stressed markets to help protect the Scheme's funding position. The total return of -0.2% for the year comprises a return of 14.4% on our 'growth' (equity and equity-like) portfolio, and -7.4% on our cashflow aware portfolio. The cashflow aware portfolio includes our allocation to liability-driven investments. For this component of the portfolio, a negative return on the assets will be more than offset by a corresponding reduction in the Scheme's liabilities. More details on our investment performance can be found on page 18.

Funding valuation results

The Trustee was pleased to reach an agreement with BT on a funding plan which is fair, affordable and improves the funding stability of the Scheme. The deficit reduction plan is on track and the Scheme is set to be fully funded by 2030. Throughout the valuation process, we worked closely with BT (with the support of BTPSM) to develop and agree a solution which allows BT to continue to invest in its business strategy. The agreement, together with the ongoing de-risking of the investment strategy, provides an enduring solution giving us greater confidence that we will achieve our objectives. The key features of the plan are set out to the right.

Key features

The funding deficit at 30 June 2020 has been agreed at £7.98bn, broadly in line with the projected position from 30 June 2017, when the deficit was £11.3bn. The key drivers for the reduction are £4.5bn of deficit contributions and lower assumed future life expectancies, partly offset by an allowance for the reform of RPI (more information on this can be found below).

The recently agreed deficit repair plan is made up of:

1. An Asset Backed Funding (ABF) arrangement to meet c£2bn of the deficit. The ABF provides payments of £180m per annum to BTPS over 13 years, secured on EE Limited shares. These payments switch off if the deficit is eliminated earlier than expected.

   On implementation, BT receives tax relief on £1.7bn which represents the fair value of the arrangement (allowing for the possibility that payments may switch-off).

2. Payments between 1 July 2020 and 30 June 2023 of £2.7bn:

- £500m paid in March 2021
- £900m by 31 March 2022
- £800m by 31 March 2023
- £500m by 30 June 2023

3. Payments of £600m per annum from 1 July 2023 to 30 June 2030, which BT can choose to pay either to the BTPS or to a new co-investment vehicle. This vehicle enables:

- funds not needed by the BTPS in 2034 to be returned to BT, reducing the risk of trapped surplus
- assets to be invested as if part of the overall BTPS investment strategy
- assets invested in the co-investment vehicle count as assets of the Scheme for valuation purposes.

4. Potential additional payments of up to £200m per annum to the BTPS, if required, to meet any increase in the deficit above £1bn that arises at a future annual review. The payments will stop once the deficit at a future annual update has improved such that the remaining deficit repair plan is sufficient to meet the deficit. This provides more certainty to BT over the incremental cash impact in the event of any additional deficit.

   The deficit repair plan was determined after considering developments since 30 June 2020, including RPI reform based on the Government's decision in November 2020 (more details below) and a Government consultation on changes to public sector pension schemes launched in October 2020.

   BT has agreed to continue to provide the Trustee with legal protections to 2035 as part of a long-term funding framework.

Further details on these legal protections can be found on **https://newsroom.bt.com/bt-announces-triennial-pension-valuation**

Chair’s statement continued

As required by legislation, the valuation documentation was submitted to the Pensions Regulator (TPR). BT and the Trustee (with support from BTPSM) will continue to monitor the funding position of the Scheme, with the next formal review expected to be undertaken in the normal way at the 2023 valuation.

As there are many facets to the valuation, additional commentary is provided, in the ‘Funding and Investment’ (Scheme funding and Self investment) section, and in the financial statements (SPV disclosure and Related parties disclosure).

RPI reform

During 2020, the Government and the UK Statistics Authority consulted on their proposal to effectively replace RPI as a measure of price inflation with CPIH, with the change happening sometime between 2025 and 2030. We actively engaged in this consultation process to help the Government understand the implications this reform would have on the Scheme and our members with RPI-linked benefits.

In November 2020, the Government announced that this change would happen in 2030. In April 2021, the trustees of the BT Pension Scheme, Ford Pension Schemes and Marks and Spencer Pension Scheme announced that they are seeking a judicial review of the decision to ensure the far-reaching implications on both our Scheme and other DB schemes are fully considered.

The Board and governance

We were delighted that Beryl Shepherd was reappointed to the Board in 2021. Despite the other challenges that the year presented, we did not lose focus on our own governance. For example, we extended the Terms of Reference for our Audit and Risk Committee to more explicitly cover risk and dovetail with the enhancements that the Enterprise Risk Management exercise will deliver for BTPSM. Although our governance arrangements proved effective and resilient in the face of the complexities of the past year, the Board has decided to engage an independent provider to assess our performance and help us identify whether there are any further refinements to be made to ensure our governance framework remains effective.

Close

To close, I would like to thank all the Trustee Directors for their continued commitment and hard work during a very busy year for the Scheme and, during continued challenging circumstances as a result of the pandemic. Throughout the year, we monitored BTPSM’s delivery and operational effectiveness by reference to service performance measures which cover the three service lines (Member Services, Funding and Fiduciary Services, and Trust and Business Services). The BTPS Trustee Directors commend the BTPSM team for their hard work, trusted advice and support during an extraordinarily challenging year. Finally, I would like to thank the Member Panel for the feedback they have provided to help us continue to deliver improvements to the service we deliver to our members.

Otto Thoresen
30 September 2021

Trustee Board

The following are the Trustee Directors:

Otto Thoresen (A) has extensive experience in pensions, financial services and consumer issues across a range of private and public sector organisations. Before starting his portfolio career he was Director General of the Association of British Insurers from 2011 to 2015. Previously he was Chief Executive of AEGON UK from 2005 to 2011. He was the independent reviewer of the Treasury Review of Generic Financial Advice – the Thoresen Review – published in 2008 which led to the creation of the Money Advice Service. Otto became Chair of the National Employment Savings Trust (NEST) Corporation on 1 February 2015. He is also Chair of the board of Aviva International Insurance, and the board of Aberdeen Asset Management's Life subsidiary.

Nigel Cotgrove (B) was a National Officer of the Communication Workers Union (CWU) for 31 years until July 2020. In that role he was the national lead for occupational pensions in telecoms, IT and financial service companies for two decades. This included negotiating on all BT pension issues such as changes to the BTPS; improvements to the defined contribution pension; and the creation of the hybrid pension. He was part of the Airwave Solutions DC Pension Governance Committee between 2007 and 2020.

Nigel has served on the Members' Panel at the National Employment Savings Trust (NEST) since 2016, and is also a Trustee of the CWU 2000 Defined Benefit Pension.

Nigel is a member of the CWU and the National Federation of Occupational Pensioners (NFOP).

Andrew Kerr (B) was employed by BT from 1975 to 2008. He served on the National Executive Committee of the CWU from 1997, and was the President from 1999 to 2008 when he was elected to his current position as Deputy General Secretary (Telecoms and Financial Services). He is responsible for leading negotiations with BT on all occupational matters which has included pensions. Andrew has previously held Trustee positions on the BT Retirement Plan, the National Communications Union (NCU) Staff Superannuation Scheme and was a Governance Committee member of the BT Retirement Saving Scheme. He has a pension from the BT Pension Scheme and is a member of the NFOP.

Ben Marshall (B) has been a trustee of a number of pension schemes continuously for over thirty years, and until his recent retirement was both chair of the General Federation of Trade Unions Pension Scheme and a member of the board of governance of the Steria Defined Contribution Scheme since its creation in 2010. He has also been a trustee of the BT Retirement Plan (now the BTRSS and now a Group Personal Pension Plan), and the Accenture AHRS DC Scheme.

Emily Clark (C) has been the Chief Economist of BT Group since 2016. Emily has created a function which provides economic thinking and analysis to further key commercial, regulatory, policy and strategy goals, wherever it is required in BT. Prior to her current role, Emily was a Director at a City law firm and, before that, an economic consultant, working for clients in a range of sectors including energy, financial services and communications. In all her roles, Emily has been involved in launching and embedding a range of gender diversity initiatives.

Trustee Board continued

Keith Nichols (C) was formerly Chief Financial Officer and member of the board of management at AkzoNobel N.V., where he played a key role in the sale of Organon BioSciences to Schering Plough and in the acquisition of ICI and its related pension liabilities. Prior to joining AkzoNobel N.V. in 2005, he held various senior finance positions across a number of industrial sectors for companies such as Corus Group, TPG N.V., WPP and BET. He is a Fellow of the Association of Corporate Treasurers.

Chris Cheetham (C) was appointed to the Board on 16 September 2020. Chris has over 40 years' experience in the investment management industry and is Chair of the Mineworkers Pension Scheme, which has c.£12 billion of assets and 135,000 members. Chris was Chair of HSBC Asset Management (UK) until June 2020. He is a Non-Executive Director of the Pension Protection Fund, a member of The People's Pension Investment Steering Group and a Trustee of the Science Museum Foundation. Chris began his career with Prudential Portfolio Managers (now M&G) where he worked in a variety of investment management roles, ultimately as Director of Investment Strategy and Research. During his career he held positions as Global CIO of AXA Investment Managers and CEO at AXA Sun Life Asset Management. In May 2003 he joined HSBC as Global Chief Investment Officer.

David Viles (C) joined BT as Director of Risk, Compliance and Assurance in 2018. David began his professional career at Arthur Andersen in 1988, firstly as an auditor and then building a number of consulting businesses, mostly related to risk. David then joined Deloitte and later BP plc, holding various senior risk-related roles. David re-joined Deloitte in 2015 as a senior advisor in its risk management practice.

Beryl Shepherd (B) was employed by BT from July 1978 until November 2019 and was, until August 2019, the president of the CWU and chair of the National Executive Committee of the CWU. She served on the National Executive Committee of the CWU and the Telecom & Financial Services Executive of the CWU from 2002 until 2019 when she relinquished her responsibilities. Beryl is a pensioner member of the Scheme, a member of NFOP and a member of the CWU.

(A) Chair appointed by BT with the agreement of the recognised trade unions.

(B) Member-nominated Trustee Director selected by the recognised trade unions and The National Federation of Occupational Pensioners (NFOP).

(C) Employer-nominated Trustee Director.

CEO update

Looking back over the year since we published our last report, a huge amount has been delivered on behalf of the Scheme and its members. This has been achieved despite challenging circumstances with our colleagues continuing to work remotely as a result of coronavirus.

It's been a year where two topics have dominated; the pandemic and climate change.

The pandemic has touched so many areas of our lives and I know many of our members, colleagues, partners and their families have been personally affected by this. It's been a year of considerable sadness but it has also driven a rapid acceleration in the use of online services for every aspect of our lives and, as we get used to living with this new threat, will continue to affect us all for some time to come.

Climate change has hit hard this year both in terms of the physical impact we're seeing across the globe and the pace of regulatory change driven by a renewed sense of urgency.

At BTPSM, we've had a busy twelve months. We supported the Trustee in agreeing the triennial valuation with BT, the BT Pension Scheme (BTPS) set an ambitious net zero goal, implemented a new pension administration system, modernised the technology platform our investment team uses, and launched a new website and member portal in response to member feedback.

Supporting the 2020 valuation

During the year, BT and the BTPS Trustee agreed the 2020 funding valuation.

Throughout the valuation process, we supported the Trustee in developing and agreeing an enduring solution with BT plc.

You can read more on page 16, but good progress was made since the last full valuation in 2017 and the deficit reduction plan is on track with the Scheme set to be fully funded by 2030.

An interim assessment was carried out as at 30 June 2021. Whilst the full results of this assessment will not be available until later in 2021, initial calculations suggest the estimated Technical Provisions deficit has reduced over the Scheme year from £8bn to around £4.6bn. The main reasons for the reduction in the deficit are the deficit contributions paid by BT (which include an Asset Backed Funding (ABF) arrangement of £1.66bn) and a higher than assumed return on the Scheme's 'growth' (i.e. equity and equity-like) assets. With this reduction in deficit, the agreed contingent contributions should we fall behind plan and with the increased resilience in the investment strategy, we believe we have an enduring funding solution giving us greater confidence that the Scheme's objectives will be achieved.

A net zero goal for the portfolio and the planet

The pandemic has certainly sharpened the focus on the effects of climate change and the opportunity that exists to build back better.

As the UK's largest corporate pension scheme, BTPS is acutely aware that how and where we invest matters, and this is a responsibility we have always taken very seriously. We also know from the surveys we conduct with our members that they expect us to use our investments to make a positive impact.

Morten Nilsson
BTPSM Chief Executive Officer

CEO update continued

In 2020, we amended our core investment principle from finance first to sustainable long-term value creation. This was an evolution in our approach to responsible investment and one of the primary drivers has been the acceptance that climate change is a clear and present risk to the Scheme, not a future risk.

In October 2020, the Scheme set an ambitious 2035 net zero greenhouse gas emissions goal. Getting to net zero will involve both reducing emissions from the Scheme's portfolio and investing in assets that will support the transition towards a low carbon economy.

More information on the Trustee's approach to climate change can be found on page 23. This year BTPS also published its first Responsible Investment & Stewardship report which provides much more detail on activities in this area and its plans for the future.

While we've made great strides, we acknowledge there is much more we can do and we're fully committed to playing our part.

Investing in technology

Over the past two years, BTPSM has been undertaking a bold programme of transformational change on behalf of BTPS to deliver real improvements to the service we provide to members.

This year, we completed two of our largest projects: the introduction of a new administration system and online services for members, and the implementation of a next generation technology platform for our funding and fiduciary services.

We know from the surveys that we regularly conduct with members that there was room for improvement with our online services. We've worked hard to address these issues and the new member portal and Scheme website, available at btps.co.uk, provides members with more immediate access to a range of information about their pension, as well as helpful tools and calculators to help support important decisions and manage their pension online with ease.

The new technology platform for funding and fiduciary services brings together the data, tools and systems that BTPSM is using across a number of teams and functions, under a unified platform that can be accessed online providing high-quality outputs with reduced operational risk.

Brexit

The United Kingdom left the European Union (EU) on 31 January 2020, with a transition period which ended on 31 December 2020. After months of negotiations, the UK and EU finally agreed a free trade deal on 24 December 2020, that will define their future relationship.

The new deal, which came into effect on 1 January 2021, contains new rules for how the UK and the EU will live, work and trade together. Now that the UK is no longer in the EU, it is free to set its own trade policy and can now negotiate deals with other countries. However, some sectors of the deal, including financial services, are subject to future regulatory decisions, adding to uncertainty.

We carried out a detailed Brexit impact analysis across the business units and have taken steps to achieve compliance where needed. We are also keeping a watching brief on ongoing developments.

CEO update continued

COVID-19

Since early 2020, financial markets have been dominated by the pandemic. In March 2020 equity markets fell by around 40% as a wave of lockdowns across the world forced economies to close. Central banks responded with the largest monetary policy stimulus ever.

The Scheme's investment strategy is designed to be defensive, in that the asset portfolio is constructed to be resilient in stressed markets to protect the Scheme's funding position. As the pandemic unfolded, we were satisfied that the investment strategy performed as intended and the Scheme's funding position proved to be resilient in extremely volatile markets.

Change of CIO and structure of the funding & fiduciary services team

After more than 16 years with BTPSM, Frank Naylor, our Chief Investment Officer, retired on 30 June 2021.

Frank is succeeded by Wyn Francis who joined BTPSM in 2008 as Head of Investment Risk and, in 2014, became Deputy Chief Investment Officer.

Wyn is uniquely placed to take the reins as CIO and has unparalleled knowledge of the Scheme.

With Wyn taking over as CIO, coupled with the introduction of the new investment platform, we took the opportunity to conduct a thorough review of the structure of the funding & fiduciary services team to ensure that it is fit for the future.

The new structure we put in place is designed to bring more focus and clarity to functions, enable better strategy execution and improved knowledge sharing.

I want to take this opportunity to thank Frank for his significant contribution over his long career with BTPSM. He leaves a legacy that he can be very proud of and I'm pleased that we are able to retain his counsel as a Board advisor on a part-time basis.

A duty of care

My colleagues and I are here to support the Scheme in delivering members' promised pensions every step of the way to, and through, their retirement. This provides an invaluable sense of purpose. The care we take in administering the Scheme is evident in the pages of this report, in the diligent way we have responded to the COVID-19 crisis and in the way we have continued to achieve good outcomes in very challenging circumstances. We will continue to use our expertise, working together with the Board, and the Scheme sponsor BT, for the benefit of members in the years to come.

The Scheme's investment strategy is designed to be defensive, in that we construct the asset portfolio to be resilient in stressed markets to protect the Scheme's funding position.

About **BTPSM**

About BTPSM

BTPSM is a wholly-owned subsidiary of the Scheme. It is a regulated entity and authorised by the Financial Conduct Authority (FCA). BTPSM is led by a board of directors that are authorised by the FCA.

BTPSM is the primary service provider (fiduciary management services, member services, operational and secretariat services) to BTPS.

The BTPSM Executive Board is responsible for reporting and providing assurance to the Trustee that the business is well managed and aligned to the Trustee's objectives. It also has the legal responsibility to ensure that it has adequate resources and governance arrangements to operate the business including the effective delivery and oversight of Scheme administration, operations, financial performance, and the delivery and oversight of the implementation of the Scheme's investment strategy.

The operational responsibilities and liabilities borne by BTPSM Directors and senior management are distinct from Trustee's fiduciary responsibilities. Accordingly, the BTPSM Board consists entirely of Executive Directors.

Internal control and risk management

BTPSM manages risk in accordance with its risk management framework. This includes the identification and assessment of key risks; mitigation of risks through the control environment; and ongoing monitoring and reporting to the BTPSM Board and its committees. The framework is supported by BTPSM's policies, procedures and governance structure.

The BTPSM Board is ultimately responsible for the oversight of risk management for BTPSM and, as such, is responsible for setting and periodically reviewing the risk strategy in relation to its key areas of risk. This is in relation to both the investment advisory and pension administration services provided by BTPSM to the Scheme. It defines these as strategic, operational and financial risk.

BTPSM's general approach to risk management is to:

- Embed a strong and cohesive risk management culture across all operations to enable the effective management of risks
- Enable decisions taken by BTPSM business and the Board to be informed by appropriate risk and reward considerations
- Enable business units to identify the main risk areas that they are exposed to and document and execute controls contained within its control environment.

Disaster recovery

BTPSM, The Northern Trust Company and JP Morgan Chase (as Scheme master custodian and secondary custodian respectively) have documented plans for recovering from a disaster. This includes the use of alternative disaster recovery sites to which key staff can be relocated. All the main suppliers of services to the Scheme have disaster recovery plans that are regularly reviewed and tested.

About BTPSM

Morten Nilsson*, CEO, joined BTPSM in September 2018 and is responsible for leading all aspects of the business in its support of the Trustee of the Scheme and its members.

Morten has spent most of his career in financial services. He joined the pensions and investment industry in 2001 and spent over 10 years with the £90 billion Danish pension scheme ATP, where he held different senior positions across administration, investments, product and business development. In 2010 he moved to London where he founded NOW: Pensions and, as CEO, grew the business to become one of the largest occupational DC providers in the UK.

Wyn Francis*, CIO, joined BTPSM in 2008 and was confirmed as CIO on 1 January 2021 after serving as Deputy CIO since 2014. Wyn is responsible for advising the Trustee on the investment strategy and implementing that strategy within an agreed delegated authority .

Prior to joining BTPSM, Wyn spent 10 years as a consulting director at PwC and KPMG, where he managed teams responsible for providing market and trading risk management advice. He also held roles structuring and trading interest rate derivatives and managing fixed income portfolios for Credit Agricole and Credit Lyonnais.

Other Executive Committee members:
Gillian Haselden*, Chief Legal, Risk and Compliance Officer
Simon Langworthy*, Chief Administration Officer
Martin Tully*, Chief Operating Officer
Peter James, Interim Chief Operating Officer
Julia Friend, Chief People Officer
Kevin Samborn, Chief Technology Officer
Frank Naylor*, Executive Director (resigned 30 June 2021)

* Director of BT Pension Scheme Management Limited

Report by the Trustee: **Funding and investment**

Funding and investment

Funding

A full actuarial valuation of the Scheme is undertaken at least once every three years based on a range of assumptions including future inflation, pension increases, salary increases, investment returns and longevity.

The most recently completed full actuarial valuation was carried out at 30 June 2020. The valuation concluded the funding level of the Scheme (i.e. the ratio of assets to the estimate of accrued liabilities at the date of the valuation) was 87.8%. The corresponding funding deficit was £7,978 million.

The Trustee and BT have agreed a recovery plan such that BT will pay additional contributions in the expectation of returning the Scheme to a fully funded position by 30 June 2030.

Under this recovery plan, BT made deficit contributions of £500 million, £1,660 million and £400 million in March 2021, May 2021 and June 2021 respectively, with further contributions of £500 million due in March 2022 and June 2023, and £400m due in June 2022 and March 2023. The formal recovery plan ends on 31 December 2035, but in practice the Scheme is expected to reach full funding by 30 June 2030, as a result of the following:

- The deficiency contributions set out in the Schedule of Contributions that are due before 30 June 2030.
- Use of the £1,660 million contribution paid in May 2021 to invest in an asset backed funding arrangement that will make payments of £180 million a year to the Scheme over 13 years. The payments may end before that time if the Scheme deficit is removed earlier than expected. This asset is secured on EE Limited shares.
- The above payments of £180 million a year reflect amounts due on an underlying loan note with a face value of £1,925 million. The fair value of the Scheme's investment in the asset backed funding arrangement at the date of this investment was £1,660 million. This is less than the face value of the underlying loan note, reflecting the probability of the Scheme becoming fully funded, and therefore the annual interest payments and capital repayments to the Scheme ending, before the underlying loan note matures.

  The terms of the loan note were agreed on an arms-length basis with appropriate protections for the Scheme, and the Trustees have an entitlement to the full value of the loan note in the event of an insolvency of BT. As such, the asset-backed funding arrangement represents a secure asset for the Scheme, providing a valuable stream of securitised payments. The asset backed funding arrangement described above is undertaken through the entity BT Falcon 1 LP in accordance with the self-investment rules, and the Pensions Regulator (TPR) are generally are generally supportive of such funding solutions where the terms are appropriate. Further details are included within the Self investment section in the Report by the Trustee, and Note 16 to the financial statements.
- From 1 July 2023 to 30 June 2030, BT will pay £600 million a year either directly to the Scheme or to a new co-investment vehicle. If these contributions are paid to the co-investment vehicle their value will be recorded as an asset in the Scheme accounts and, to the extent there is a funding deficit at 30 June 2034, the co-investment vehicle will pay funds to the Scheme. Any remaining funds in the co-investment vehicle would be returned to BT if they are not deemed to be needed by the Scheme when assessed by the Trustee over the period 2034 to 2036.

In addition, BT have agreed to pay up to a further £200 million a year to the Scheme if needed to meet any future emerging funding deficit in excess of £1 billion. The need for these contributions will be assessed every year. This aspect of the agreement provides more certainty that the Scheme will achieve its path to full funding.

No account was taken of the Crown Guarantee in the actuarial valuation.

Good progress has been made since the date of the 2020 valuation and the funding deficit is expected to have improved by around £3.4bn over the last 12 months to around £4.6bn due to the deficit contributions that have been paid since 30 June 2020 (which includes the aforementioned asset backed funding arrangement of £1,660 million) and higher than assumed investment performance on the Scheme's 'growth' (i.e. equity and equity-like) assets. The Scheme Actuary is currently undertaking a formal interim assessment of the funding position of the Scheme as at 30 June 2021.

Investment strategy

The Scheme's main objective is to ensure there are sufficient assets to pay benefits to members and their beneficiaries as they fall due, and that all members and beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme. In considering the approach to meeting this objective we take into account the expected progression of the Scheme's annual benefit payments relative to the

Funding and investment continued

projected level of Scheme assets as the Scheme matures. We have set an objective to reduce the level of investment risk gradually over time and to increase the level of cashflow aware assets as the proportion of retired members increases. By no later than 2034, we currently intend that we will hold sufficient assets such that, when invested in a portfolio consisting predominantly of cashflow aware bond and bond like investments, it would be reasonable and prudent to expect the assets to provide adequate income plus capital repayments each year to enable benefit payments to be met in full as they fall due.

We take an integrated approach to the management of risk and return in the Scheme. The investment of the Scheme's assets is set to be consistent with funding a defined level of benefits within an acceptable level of risk, having regard to the covenant of BT, and the funding requirements in the Scheme Rules and relevant legislation.

The Trustee considers that a strong employer is the best support for the Scheme, and it takes independent advice on the quality of the covenant of BT and its ability to meet its obligations.

Investment risks and returns are monitored by BTPSM on an ongoing basis and reviewed regularly by the Trustee. This is based on sensitivity analyses of the Scheme to a wide range of factors including inflation, interest rates, currency, equity, credit and longevity, in order to assess the potential impact on funding and the risks associated with different asset allocations. The volatility of the Scheme's funding position has been reduced through the implementation of an interest rates and inflation hedging programme.

The Scheme's assets and liabilities are actively monitored, and the Trustee received ongoing reports on these. Delegation to BTPSM as investment manager is clear and ensures the Scheme is well positioned to respond quickly to changes in markets and funding levels.

Over the year, BTPSM has continued to monitor the potential impact on the Scheme's investments and funding position in relation to the ongoing uncertainty relating to the COVID-19 pandemic and the evolving global economic environment. BTPSM has considered the likely impact on equity prices, interest and inflation rates, foreign currency exchange rates, and real estate valuations, and has explored the possible investment responses.

Statement of Investment Principles

A Statement of Investment Principles (SIP) has been agreed by the Trustee following written advice from BTPSM and consultation with BT. The preparation of this statement complies with the requirements of Section 35 of the Pensions Act 1995 and sets out, in general terms, the policy of the Trustee on a number of investment issues. This statement is reviewed regularly, and during the year was updated in September 2020. The most recent Statement of Investment Principles, last revised in September 2021, is available at **btps.co.uk/RegulatoryReporting**

Details on how the Trustee has implemented the SIP in relation to its stewardship activities are included in the Implementation Statement in Appendix 2.

Measuring investment performance

The Trustee monitors investment performance against the Scheme's strategic investment objectives. Reports are provided regularly by BTPSM to the Trustee and include information on Scheme level risks, cash flows and the performance of underlying mandates against their respective benchmarks. Details of the annualised investment returns are provided below:

	2021	2020	2019
Actual	-0.2%	9.9%	9.6%
Real[1] – Adjusted RPI[2]	-4.0%	8.8%	6.7%
Real[1] – Adjusted CPI[2]	-2.6%	9.3%	7.6%

	3 years	5 years	10 years	15 years
Actual	6.3%	6.7%	7.1%	6.0%
Real[1] – Adjusted RPI[2]	3.7%	3.7%	4.5%	3.1%
Real[1] – Adjusted CPI[2]	4.6%	4.6%	5.3%	3.8%

[1] Scheme real adjusted equals Scheme actual less RPI and CPI respectively.
[2] Retail Prices Index (RPI) and Consumer Prices Index (CPI) are measures of UK inflation.

Funding and investment continued

Investment review as at 30 June 2021

Market review
Global equities rose markedly as the vaccine rollout allowed for restrictions to be lifted and economies reopen in 2021. Investor confidence was boosted by both expansionary fiscal and accommodative monetary policy. In the first half of 2021, the US and UK economies both experienced strong growth spurred by household spending. However, the rapid reopening of economies and subsequent supply chain bottlenecks led to a rise in inflation.

Joe Biden won the presidency in the US elections as the Democrats secured control of Congress, paving the way for further fiscal stimulus. A $1.9 trillion 'rescue plan' sealed congressional approval aimed at boosting consumption and accelerating the recovery. This is to be followed by an infrastructure bill and further spending this year; all of which could add to global inflationary pressures.

The question of whether this heightened inflationary environment is transitory or persistent has dominated financial markets in recent months. In the US, core CPI rose year-on-year to 4.5% in June, mainly due to these supply disruptions; for the same period, UK CPI was 2.5%. Encouraged by the narrative from central banks, markets expect these base effects to peak into the autumn and start to unwind in coming months.

For the year ending 30 June 2021, the Morgan Stanley Capital International (MSCI) World Equity Index made all-time highs, returning 36% year-on-year. Sterling was the best performing currency last year, appreciating by 10% against the US dollar. This is, in part, due to the Brexit trade deal being agreed with the EU as fears of a no-deal outcome receded. Oil was the best performing commodity, rising 78% year-on-year, driven by strong global demand as economies reopened, and the OPEC+ group's insistence on maintaining reductions in supply. UK 10-year bond yields rose 50 basis points to 0.7% as the economic recovery improved growth expectations.

Scheme investment performance

The Scheme assets are managed, as a single portfolio, to a risk and return profile set at the most recent actuarial valuation of the Scheme. To deliver on Scheme objectives, a wide range of assets are held, which are grouped by the Trustee for practicality into two purpose-based categories.

Equity or equity-like: Formed of higher returning, growth sensitive assets including public equity, the 'equity-like' allocation is expected to be the largest contributor to the Scheme return target. This contribution will play a key role in improving Scheme funding over time.

Cashflow Aware: The primary objective of the cashflow aware category, which is comprised primarily of fixed income assets such as corporate bonds, is to generate income to cover future pension payments. This allocation also contributes to the Scheme return target. The importance of this allocation will grow as the Scheme matures and pays out more in pensions each year. The level of projected income relative to outgoings is measured by the cashflow coverage metric.

Funding and investment continued

Also within the cash-flow aware category are liability driven investments (LDI): Inflation linked bonds, and inflation and interest rate derivatives. Alongside generating income, these investments also hedge changes in the value of Scheme liabilities due to changes in the level of interest rates and inflation.

The proportion of the change in liability value hedged by the asset portfolio is known as the 'hedge ratio'. This reduces volatility in the Scheme funding position and increases benefit security. The hedge ratio also incorporates a contribution from the fixed income portfolio.

Overall, the Trustee assesses investment performance relative to both liabilities (expected returns) and market-based indices (reference returns). This reflects the fact that markets are highly unpredictable, especially over the shorter term.

Over the last 12 months, the Scheme's equity-like assets produced a return of 14.4%, which was above the expected return by 9.8%. Over the last 3 years, the equity-like asset return was 7.2% per annum, which was ahead of expectations by 2.6% per annum.

Over the past year, the cashflow aware portfolio has performed in line with expectations, providing an effective match to the change in the value of the Scheme's liabilities in the anticipated proportions. During the last few years, the interest rate and inflation hedge ratios have been increased to approximately 85% and 78% respectively, to mitigate the effect of changes in interest rates and inflation expectations. This means that approximately 85% of any change to the Scheme's technical provisions due to changes in interest rates, and approximately 78% of any change to the Scheme's technical provisions due to changes in inflation expectations is expected to be offset by the change in value of the cashflow aware portfolio. This hedge has been implemented incrementally over several years.

A measured implementation approach has been required because of the large size of the Scheme and the desire not to have an adverse impact on market pricing.

The Scheme's cash flow coverage ratio, which measures the proportion of future pension payments covered by cashflow aware assets, including investment grade corporate and government bonds, is currently at 43% and is expected to increase over time as the Scheme matures

The Scheme has entered into a longevity insurance contract to protect the Scheme against costs associated with the increased life expectancy of members. All else being equal, if members do not live for as long as expected, this will reduce the value of both the longevity insurance contract and the Scheme's liabilities, and this reduction in liabilities will more than offset the increased investment loss on the longevity insurance contract.

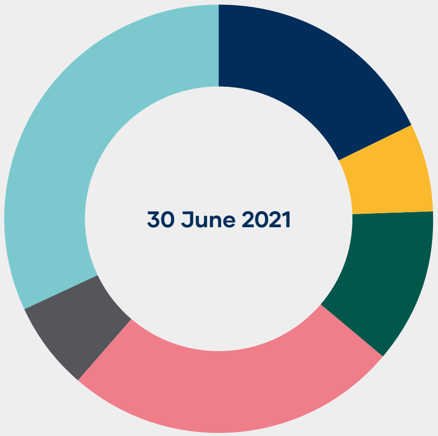
Conversely, if members live for longer than expected, this will increase the value of both the longevity insurance contract and the Scheme's liabilities, and this increase in liabilities will be only partially offset by the gain on the longevity insurance contract.

In effect, the insurance contract reduces the range of outcomes in relation to life expectancy.

During the course of the year to 30 June 2021, the fair value of the longevity insurance contract has increased by £3 million, to an investment liability of £1,031 million as at 30 June 2021.

Funding and investment continued

The distribution of investments



Equities	17.9%
Property	6.7%
Other growth assets	11.7%
Investment grade credit	25.2%
Secure income	6.4%
Government bonds and cash	32.1%

Distribution of investments

The Trustee takes an integrated approach to the management of risk in the Scheme, setting an investment strategy that is consistent with funding a defined level of benefits within an acceptable level of risk while having regard to the quality of the covenant and the affordability to BT. The allocation of assets between different classes of investments is a key factor in delivering this investment strategy and is reviewed regularly by the Trustee.

The distribution of investments as at 30 June 2021 is shown in the chart to the left. Pooled investment vehicles, loans, derivatives, and cash have been re-allocated to the appropriate asset classes to reflect the underlying exposures. Further explanation of these re-allocations is given in Understanding the financial statements, on page 33.

As explained in the Scheme investment performance section, asset classes are grouped into two purpose-based categories:

- Equity or equity-like, which includes equities, property, and other growth assets.
- Cashflow aware, which includes investment grade credit, secure income, and government bonds and cash.

Derivatives and other financial instruments

The Trustee has set objectives and constraints for the Scheme overall, and for the Scheme's investment managers, on the use of derivatives and other financial instruments.

BTPSM uses derivatives to manage the Scheme's risk profile; this includes their use to mitigate the impact on Scheme funding of changes in inflation and interest rates, and to limit the impact of large falls in equity markets. Furthermore, derivatives are used from time-to-time to rebalance the Scheme's asset allocation and for reducing the risks associated with the Scheme's foreign currency exposure.

The Scheme's investment managers, where applicable, use derivatives for the efficient management of the portfolios they manage on behalf of the Scheme. The Scheme's pooled investment funds also use derivatives and other financial instruments to finance their operations, and to manage interest rate and foreign currency risks arising from their operations and from their sources of finance.

Funding and investment continued

Self investment

Regulations require that the Scheme's investments in employer-related investments should not be more than 5% of the Scheme's net assets. At 30 June 2021, the total amount of employer-related investments held by the Scheme was £10 million (2020: £10 million), representing 0.02% (2020: 0.02%) of the Scheme's net assets. There were no properties occupied by BT owned by the Scheme at 30 June 2021 and 30 June 2020.

On 25 June 2018, Britel Scotland II LP subscribed for £2,000 million of bonds issued by BT. Britel Scotland II LP is a Scottish limited partnership in which the Scheme is invested. As the bonds are owned by Britel Scotland II LP, they do not amount to employer-related investments for the purposes of the relevant regulations. At 30 June 2021, the value of the BT bonds held by Britel Scotland II LP was £2,200 million (2020: £2,136 million) representing 3.8% of the Scheme's net assets (2020: 3.7%).

The asset backed funding arrangement, described in more detail in the Scheme funding section, is undertaken through the entity BT Falcon 1 LP. On 12 May 2021, the Scheme invested in BT Falcon 1 LP, a Scottish limited partnership, making a capital contribution of £1,660 million for a limited partnership interest. On the same day, BT Falcon 1 LP purchased a loan note with a nominal value of £1,925 million issued by EE Group Investments Limited, a subsidiary of the BT group. The capital contribution is less than the nominal value of the loan note, which reflects the probability of the Scheme becoming fully funded, and therefore the annual payments to the Scheme ending before the underlying loan note matures. Under the terms of the limited partnership agreement and subject to the conditions therein, on or before 30 June each year, BT Falcon 1 LP will distribute to the Scheme capital and interest amounting to the £180 million that it has received in respect of the loan note, provided that the Scheme was in deficit on a technical provisions basis as at 30 June of the preceding year. As the loan note is held by BT Falcon 1 LP and BT Falcon 1 LP has separate legal personality, it does not amount to an employer-related investment for the purposes of the relevant regulations. As at 30 June 2021, following receipt of the first £180 million payment of capital and interest, the value of the Scheme's limited partnership interest in BT Falcon 1 LP was £1,430 million, representing 2.5% of the Scheme's net assets; whilst the principal amount outstanding on the EE loan note held by BT Falcon 1 LP was £1,800 million.

In its guidance, the Pensions Regulator recognises that innovative funding mechanisms of the kind described above may help employers meet their obligations to schemes.

Security of assets

The Scheme's assets are registered in the name of a custodian Trustee, Britel Fund Trustees Limited, through a deed of appointment on behalf of the Scheme, or are held in safe-keeping with independent professional custodians, appointed by the Trustee. The Trustee's policy is to separate management and custody, which minimises the risk of misuse of Scheme assets. A small proportion of liquid Scheme assets continue to be held with a secondary custodian, to provide a prudent contingency in the unlikely event of short-term business continuity issues with the Scheme's master custodian. This additional capability is in line with regulatory recommendations. Custody arrangements are reviewed regularly by the Trustee, with the assistance of BTPSM, to ensure the custodial arrangements are appropriate. The Northern Trust Company has been master custodian since 18 November 2008 and JP Morgan Chase was appointed as secondary custodian on 18 December 2015.

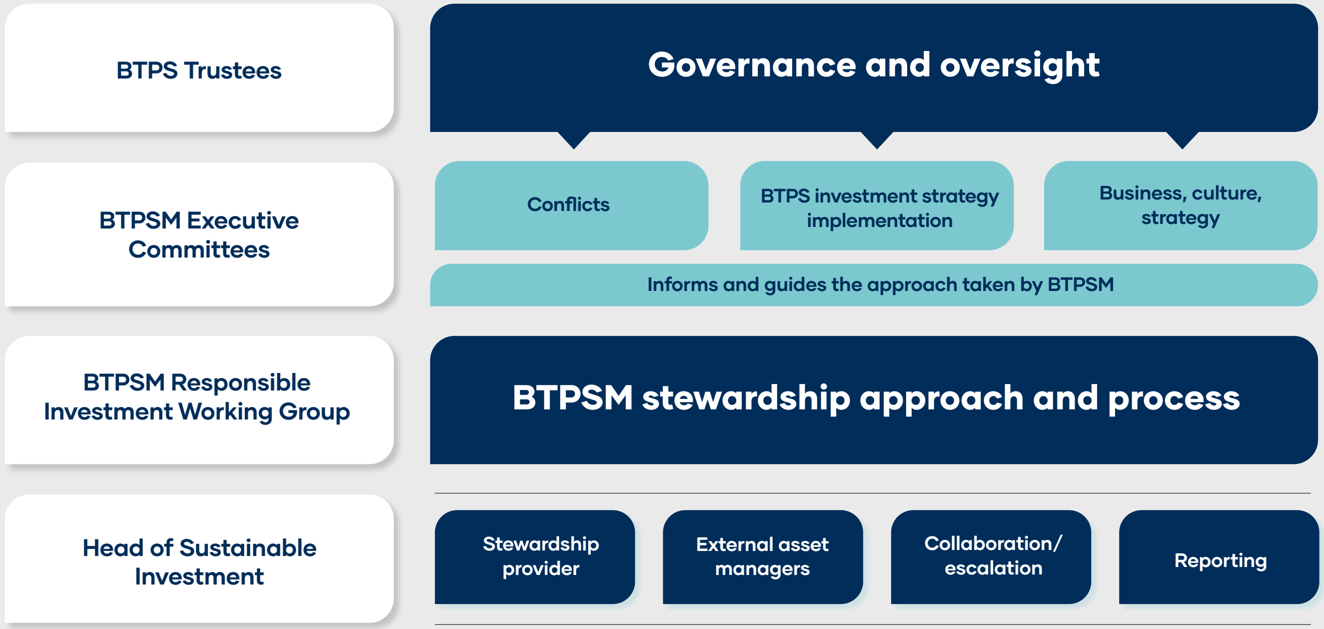
Funding and investment continued

Responsible investment

The Scheme has a long history of being a responsible investor and was a founding signatory of the Principles for Responsible Investment (PRI) in 2006. The Trustee has articulated its commitment to this with the following responsible investment mission statement: "**The Scheme's investments should be managed to create sustainable long-term value, supporting the generation of optimal investment returns to ensure the Scheme can pay all benefits in full**". The implications of this statement in terms of governance, investment strategy, portfolio management and reporting are set out in the Responsible Investment Policy, which can be found at **btps.co.uk/SustainableInvestment**

The Responsible Investment Policy is approved and owned by the Investment Committee. These responsibilities include the consideration of emerging long-term structural risks that may impact the delivery of the Scheme's funding strategy. This committee oversees the Scheme's responsible investment strategy, which includes ensuring that the Scheme's activities comply with and fulfil its fiduciary and regulatory obligations in this area.

Stewardship through BTPS and BTPSM



Funding and investment continued

The day-to-day implementation of the responsible investment strategy has been delegated to BTPSM, with activity focused on the following three core areas:

1. Understanding the risks and opportunities that may face the Scheme because of its long-term investment horizon
2. Integrating financially material environmental, social and governance (ESG) factors into the Scheme's investment process, including in the design of investment mandates, new manager searches and ongoing monitoring of managers
3. Ensuring that the Scheme is delivering long-term value through responsible ownership. The Scheme is committed to being a responsible steward of its assets, including engaging with the companies in which it owns shares to hold management to account, and ensuring that companies consider long-term risks and opportunities, including those relating to environmental, social and governance matters, that contribute to long-term, sustainable value.

ESG integration

ESG integration, which means integrating ESG factors into investment analysis to determine if an investment's risks are outweighed by potential investment returns, can provide investors with a deeper insight into the quality of a company's management, culture, risk profile and other characteristics, before they invest. BTPS believes that integrating financially material environmental, social and particularly governance factors into asset manager and security selection processes will help the Scheme, its investment managers and stewardship service providers to make more informed and better investment decisions.

In line with the Scheme's responsible investment mission statement, the Trustee believes that all financially material considerations, including environmental, social and governance factors must be integrated throughout the investment process. On BTPS' behalf, BTPSM ensures, where appropriate, that new and existing managers are properly integrating ESG factors into their investment processes. This forms a critical component of the assessment and rating of investment managers.

In the initial investment manager selection process, BTPSM focuses on 3 key factors:

- How ESG is integrated into their investment strategy and approach,
- If that ESG approach is consistent with their overall investment strategy, and
- How this work is evidenced in the manager's investment papers and reporting. Regular meetings are undertaken with all the Scheme's investment managers.

BTPSM monitors the application of each manager's responsible investment approach, regularly challenging them around both underlying holdings and the portfolio level attributes.

Climate change and TCFD

The Scheme supports the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), which aim to promote better disclosure of climate-related financial risks in order to improve understanding of the risks and opportunities of climate change. Further details on our governance framework, strategy, and risk management approach in relation to climate-related risks are included in Appendix 1.

SIP Implementation Statement

In accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, the Trustee has prepared an Implementation Statement. This statement sets out how the Trustee has complied with the Scheme's Stewardship Policy, and other policies and practices within the Statement of Investment Principles, during the year. This implementation statement is included in Appendix 2.

Report by the Trustee: **Member services**

Member services

Administration platform and member portal

As part of the Scheme's continued commitment to providing first-class member service, in May 2021 we transitioned to a new administration platform, IntelliPen, provided by Procentia. The move represents a significant enhancement to our administration capability and online offering for members.

A new website **btps.co.uk** and member portal were also launched at the same time. The new portal has been designed to be clear, simple and easy to use, and allows members to access key information about their pension, track requests they make online and securely update any personal information.

Member satisfaction survey

In January 2021, we carried out the third of our member satisfaction surveys. The results showed another year-on-year improvement in member satisfaction, which we believe reflects our continued focus on quality of service since bringing the Scheme's administration in-house. Results also indicated that our online services were an area members felt could be improved. We believe the launch of our new member portal, online video guides and improved feedback mechanisms will help achieve greater satisfaction in these areas. We remain focused on how we can best support our members and remain committed to continuous improvement.

Retirement advice for members

To support current and former employees in making informed decisions regarding their pensions, BT has recently negotiated preferential rates with two firms of financial advisers, both of which are regulated by the Financial Conduct Authority. This service was launched to all non-retired BTPS members in June 2021.

Looking forward

Pensions Dashboard

Over the year we have engaged with the government through their Working Groups on the Pension Dashboard Programme. Following our move to Intellipen, and data cleansing exercises carried out over the last few years, we believe we are well placed to support the roll-out of the initiative.

GMP equalisation

In 2018, the High Court decided that pension schemes should equalise benefits between women and men who have guaranteed minimum pensions (GMPs).

Following additional clarification from the High Court in November 2020, we will shortly be commencing a project to equalise GMPs. This is a highly complex area and it is likely to take some time to implement for all affected members.

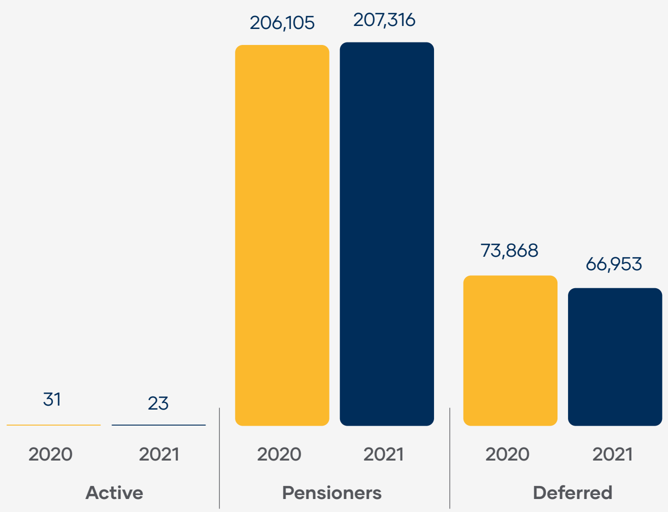
Member services continued

Membership

On 31 March 2001 the Scheme was closed to new entrants. On 30 June 2018 the Scheme was closed to future accrual for most members.

In the year to 30 June 2021, the number of active members fell from 31 to 23. The number of pensions being paid rose from 206,105 to 207,316. The number of members with deferred rights fell from 73,868 to 66,953.

Membership of the Scheme falls into one of three 'sections': Section A, Section B and Section C. Details of these can be found on the website: **www.btps.co.uk**



* The Scheme closed to future accrual on 30 June 2018 for most members. All impacted members became deferred members, leaving an active population of 52 as at 30 June 2019.

Changes to membership

	30 June 2021	30 June 2020	30 June 2019
Membership			
Active members:	23	31	52*
Deferred members:	66,953	73,868	80,872
Current pensioners of whom:	207,316	206,105	205,142
Retired employees	171,817	170,701	169,628
Widows / widowers	33,583	33,419	33,516
Children/dependents	1,916	1,985	1,998
	Year ended 30 June 2021	**Year ended 30 June 2020**	**Year ended 30 June 2019**
Changes to membership			
Normal age retirements from active status	0	3	2
Ill health early retirements	26	53	47
Early retirement	3,574	3,707	3,713
Deferred benefits set up	0	16	28,613*
Normal age retirements from deferred status	2,250	2,192	2,284
Benefits transferred out and trivially commuted	553	666	588
Optants out	0	0	0
Death in service	1	0	1
Death in retirement	6,926	7,278	6,600
Death in deferment	126	96	115
Late retirement	50	33	32
Child leavers	38	16	71
New records set up			
Section B rejoiners	0	0	0
Widows, spouse, widowers, and dependents	1,896	1,913	1,869
Children	47	25	56
Benefits transferred in	0	0	0

Member services continued

Pension increases

Pensions are increased in accordance with legislation and the Rules of the Scheme. Currently, this means that, where applicable, the rate of pension increases for Sections A and B is measured by reference to the Consumer Prices Index (CPI), and the rate of pension increases for Section C is measured by reference to the Retail Prices Index (RPI), up to 5%.

In April 2021, the increase for Sections A and B pensions in payment was 0.5% and the increase for Section C pensions was 1.2%. The Trustee does not have the power to pay pension increases above the level required by the Scheme Rules without the agreement of BT.

For deferred beneficiaries for all sections, each member's pension is revalued for the period between the date of leaving service and the date the pension commences.

Revaluation for each year the benefit was deferred before 2011 is calculated by reference to RPI, and revaluation from 2011 onwards is calculated by reference to CPI.

Cash equivalent transfer values

Transfer values paid during the year were calculated in the manner prescribed by the regulation. Discretionary benefits are not included in the calculation of transfer values.

Judicial review on RPI reform

In April 2021, the trustees of the BT Pension Scheme, Ford Pension Schemes and Marks and Spencer Pension Scheme ('the Schemes') announced that they were seeking a judicial review of the decision effectively to replace RPI with CPIH from 2030.

The Trustees of these defined benefit schemes, which represent nearly 450,000 members and £83bn of assets, believe the far-reaching implications of this decision have not been fully considered.

It is estimated that over 10 million pensioners*, through no fault of their own, will be poorer in retirement either from lower payments or lower transfer values as a result of the effective replacement of RPI with CPIH. Women will suffer the most from this change as they typically live longer.

The reform also significantly reduces the value of RPI-linked assets held to meet pension promises to members, weakening schemes' funding positions and, in turn, adding pressure on sponsoring employers.

The decision to pursue action has not been taken lightly, but the Schemes believe that a judicial review is necessary to protect scheme members and scheme assets from the detrimental effects of this decision.

*Estimate from Insight Investment.

Report by the Trustee: **Governance of the Scheme**

Governance of the Scheme

The Scheme's trustee is BT Pension Scheme Trustees Limited, a corporate trustee with ultimate fiduciary responsibility for the Scheme and its members. The Trustee's key responsibility is to ensure that BTPS pays benefits as they fall due.

The governance arrangements for the Scheme take account of the recommendations and Codes of Practice of the Pensions Regulator (TPR) and best practice, and are kept under continuous review.

The Trustee Board

The Trustee Board's key responsibility is to ensure that BTPS pays benefits as they fall due. The Board discharges its responsibilities through an annual programme of meetings. During the year the Board met 12 times. The Board has a forward agenda in place, for a rolling period of twelve months, to ensure that it meets its statutory obligations and has adequate time to prepare and plan for milestones in the management and operation of the Scheme.

Over the course of the year, the Board considered, monitored or oversaw a wide range of strategic and operational initiatives related to the Scheme's funding, investments and administration, and has kept members informed of these developments. In particular, the Board oversaw the successful conclusion of the triennial valuation.

Trustee Board committees

The Trustee Board has delegated some powers and responsibilities for certain matters to three Board committees. Where powers are delegated to a committee, the committee must act in the same manner, and bear in mind the same considerations, as the Board would have done had there not been any delegation. Terms of reference are in place for each committee and these are reviewed annually to ensure that they remain relevant and fit for purpose.

The membership, responsibilities, activities and details of attendance of the Trustee Board and its Committees and Sub-Committees is set out in Appendix 3.

Trustee policies

The Trustee understands that it needs to have policies and arrangements which ensure compliance with applicable laws and regulations and best practice governance. Trustee Directors are required to comply with a range of policies which relate to personal conduct (e.g. Conflicts of Interest) and those which have a wider application in relation to the operation of the Scheme (e.g. Responsible Investment). The Trustee Directors act in accordance with policies related to Confidentiality, Conflicts of Interest, Anti-Bribery, Gifts and Hospitality, Data Protection and Whistleblowing.

Appointment and removal of Trustee Directors

There is a process in place for the appointment, removal and ongoing appraisal of Trustee Directors. In accordance with the Trustee's Articles of Association and the Trust Deed and Rules, there are nine Trustee Directors (the Chair, four employer-nominated Trustee Directors and four member-nominated Trustee Directors).

Appointment of the Chair

The Chair of the Trustee Board is appointed by BT after consultation with, and agreement of, the recognised trade unions. BT will determine the Chair's period of office.

Employer-nominated Trustee Directors

BT also appoints four employer-nominated Trustee Directors. An employer-nominated Trustee Director can be removed from office by BT.

Member-nominated Trustee Directors

The Trustee's Trust Deed and Rules and Articles of Association require that four member-nominated Trustee Directors are appointed. A member-nominated Trustee Director selection and nomination procedure is in place whereby member-nominated Trustee Directors are appointed by BT after being selected by the recognised trade unions and The National Federation of Occupational Pensioners (NFOP). In the event of a vacancy, the recognised trade unions and NFOP will convene a selection panel to fill that vacancy. Candidates from each constituent organisation will be considered by the selection panel. Existing member-nominated Trustee Directors will be re-nominated at the end of their term of office unless one of the constituent organisations represented on the selection panel disagrees. Additional nominations may be considered. On request by the recognised trade unions and the NFOP, BT will, unless it considers the request to be unreasonable, remove a member-nominated Trustee Director from office.

Governance of the Scheme
continued

Trustee Directors term of appointment

At the end of a term of appointment, Trustee Directors are eligible for re-appointment. Unanticipated vacancies, for example as a result of death or resignation, are normally filled within six months. The Scheme Rules do not provide guidance on the length of service of Trustee Directors. If a Trustee Director fails to attend any meeting of the Trustee Directors for a period of six months, the remaining Trustee Directors, or a majority of them, may send a request to BT to remove that person from office.

Time requirement

Trustee Directors are expected to devote sufficient time as necessary to carry out their duties. The time commitment in the first year following their appointment may be higher as the Trustee Director requires time to familiarise himself or herself with the rules and operation of the Scheme.

Performance

Consistent with the Pensions Regulator's (TPR's) 'best practice' guidelines, a Trustee skills assessment exercise was undertaken in March 2021. The outcome of the assessment is that the BTPS Board and Committees have the right blend of skills and experience to fulfil their duties. In addition, further to an assessment of the Board as a collective, adjustments to meeting protocols have been adopted.

Trustee Knowledge and Understanding (TKU)

All of the Trustee Directors have the relevant skills and knowledge necessary to carry out their roles effectively. The Trustee Directors are required within six months of their appointment to have knowledge and understanding of the laws relating to pensions and trusts, and the principles relating to Scheme funding and investment of assets on behalf of members. They are also required to be familiar with how the Scheme operates and its governing documents.

Working with our regulator

The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes. BTPSM has worked closely with TPR during the year and provided assurance to them on a broad range of matters including internal controls and managing risks, reporting, record keeping and communicating to members. Although TPR suspended its one-to-one supervision activities due to COVID-19, we have kept TPR up-to-date with the steps we have taken to mitigate the risks posed by the COVID-19 pandemic to Scheme governance, member services, investment and risk management.

Internal control and risk management

The Trustee Board is responsible for the Scheme's internal controls and risk management. The responsibility for monitoring risks has been delegated to the relevant Committees, and BTPSM who, in turn, provides escalation and assurance on the management of risks to the respective Committees and the Board. Further information on BTPSM's risk management framework is included in the section 'About BTPSM' on page 12.

For the Trustee,

Otto Thoresen | 30 September 2021

Statement of Trustee's responsibilities in relation to the audited financial statements

Statement of Trustee's responsibilities in relation to the audited financial statements

The audited financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee.

Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement about whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the Statement of Trustee's responsibilities accompanying the Trustee's Summary of contributions.

The Trustee is responsible for such internal controls as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the Scheme and financial information included on the Scheme's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Understanding the financial statements

The disclosures in the financial statements are determined by pensions legislation, UK GAAP including the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), and the guidelines in the Statement of Recommended Practice (SORP) revised 2018 (Pensions SORP). These set out how the assets of the Scheme are to be presented in the Consolidated statement of net assets and the relevant notes. The Scheme can gain exposure to different asset classes by investing in pooled investment vehicles (PIVs), or by using derivatives as well as segregated mandates.

Investments in PIVs and derivatives are shown separately at fair value in the Consolidated statement of net assets. The presentation of these investments, as guided by the Pensions SORP, differs to the asset allocation of the Scheme as managed by the Trustee as at 30 June 2021. The table to the right reclassifies assets such as PIVs, derivatives and loans into their appropriate asset classes so the asset allocation as at 30 June 2021 can be observed.

		Reclassification					
Asset class	**Value per consolidated balance sheet £m**	**PIVs £m**	**Note**	**Other £m**	**Note**	**Managed value £m**	**Managed allocation %**
Equities	10,252	-		(10,252)	7	-	0.0%
Actively managed	-	722	1,5	5,685	4,7,9	6,407	11.2%
Passively managed	-	-	1,5	2,145	4,7,9	2,145	3.7%
Private equity	-	1,562	1,5	163	9	1,725	3.0%
Equities	**10,252**	**2,284**		**(2,259)**		**10,277**	**17.9%**
Bonds	30,599	-		(30,599)	8	-	0.0%
Investment grade credit	-	4	1,5	14,433	3,8,9	14,437	25.2%
Secure income	-	2,015	1,5	1,660	3,8,9	3,675	6.4%
Government bonds and cash	-	1,577	1,5	16,789	3,6,8,9	18,366	32.1%
Bonds, cash & secure income	**30,599**	**3,596**		**2,283**		**36,478**	**63.7%**
Property	**1,458**	**2,289**	**1,5**	**91**	**5,9**	**3,838**	**6.7%**
Absolute return	-	1,039	1,5	-		1,039	1.8%
Mature infrastructure	-	667	1,5	646	9	1,313	2.3%
Non-core credit	-	2,853	1,5	1,482	9	4,335	7.6%
Other growth assets	**-**	**4,559**		**2,128**		**6,687**	**11.7%**
Other categories							
PIVs	12,728	(12,728)	1,5	-	9	-	0.0%
Loans	164	-		(164)	3	-	0.0%
Other net assets	2,079	-		(2,079)	2,9	-	0.0%
	57,280	**-**		**-**		**57,280**	**100.0%**

Footnotes

[1] Investments in pooled investment vehicles (PIVs) have been reclassified into the appropriate asset class.
[2] Other net assets include deposits and short-term investments, derivatives contracts, AVC investments, special purpose vehicles, other investment assets and liabilities, the longevity insurance contract and net current assets. These have been reclassified to their appropriate asset exposures.
[3] Loans include investments in debt instruments and have been reclassified to the investment grade credit or secure income category within the bonds, cash and secure income asset class.
[4] Exposures to equities are obtained in part through the use of derivatives. It is therefore the notional amount of the derivatives that will determine the Scheme's exposure.
[5] The Scheme consolidates entities in accordance with FRS 102 and thus the underlying assets and liabilities of those entities are presented in the appropriate lines in the Consolidated statement of net assets where permitted by the Pensions SORP. Reclassifications between asset classes have therefore been applied so the managed asset exposure is adequately reflected.
[6] The cash balance represents the value of cash and cash equivalents, net of the amount required to back open derivative contracts (refer to footnote 4 above).
[7] Equities have been reclassified between those that are actively and passively managed.
[8] Bonds have been reclassified between investment grade credit or secure income category within the bonds, cash and secure income asset class.
[9] Investments are classified according to the legal nature of the security or investment instrument within the Consolidated statement of net assets. Within the managed allocation, investments are classified according to the sector to which each investment mandate has exposure. Reclassifications between asset classes have therefore been applied so the managed asset exposure is adequately reflected.

Independent auditor's report

To the Trustee of the BT Pension Scheme

Opinion

We have audited the financial statements of BT Pension Scheme ("the Scheme") for the year ended 30 June 2021 which comprise the Consolidated fund account, the Consolidated statement of net assets (available for benefits) and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 30 June 2021 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 **The Financial Reporting Standard applicable in the UK and Republic of Ireland**; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

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 have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustee has prepared the financial statements on the going concern basis as they do not intend to wind up the Scheme, and as they have concluded that the Scheme'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 its 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").

In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Scheme will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of the Trustee and inspection of policy documentation, as to the Scheme's high-level policies and procedures to prevent and detect fraud, as well as enquiring whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Trustee Board, Audit and Risk Committee, and Investment Committee meeting minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that the Trustee or their delegates (including the Scheme administrator and the Scheme management) may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as the valuation of directly held property, the valuation of the longevity contract, the valuation of the Scheme's interest in a special purpose vehicle, and the valuation of Level 3 pooled investment vehicles. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an

Independent auditor’s report

agreed schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These include manual journals posted by Scheme management;
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have material effect on the financial statements from our general commercial and sector experience, and through discussion with the Trustees and their delegates (as required by auditing standards), and from inspection of the Scheme’s regulatory and legal correspondence, and discussed with the Trustees and their delegates the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme’s procedures for complying with regulatory requirements and reading the minutes of Trustee meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

Firstly, the Scheme is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions 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 Scheme 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 Scheme’s registration. We identified the following areas as those most likely to have such an effect: pensions legislation, data protection legislation, and recognising the financial and regulated nature of the Scheme’s activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustees and their delegates and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the schedule of contributions in our statement about contributions on page 37 of the annual report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would be to identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent auditor's report

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions), and the Chair's Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

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 this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on page 32, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show 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 Scheme'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 wind up the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

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

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

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

30 September 2021

Independent auditor's statement about contributions

To the Trustee of the BT Pension Scheme

Statement about contributions

We have examined the summary of contributions payable under the payment schedule to the BT Pension Scheme in respect of the Scheme year ended 30 June 2021 which is set out on page 38.

In our opinion contributions for the Scheme year ended 30 June 2021 as reported in the Summary of Contributions and payable under the Schedule of Contributions have, in all material respects been paid from 1 July 2020 to 11 May 2021 at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 9 May 2018 and from 12 May 2021 to 30 June 2021 at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 12 May 2021.

Scope of work

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 32, the scheme's trustee is responsible for ensuring that there is a prepared, maintained and, from time-to-time, revised payment schedule showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions to the Scheme and to report our opinion to you.

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

This statement is made solely to the Scheme's trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's trustee, for our work, for this statement, or for the opinions we have formed.

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

30 September 2021

Summary of contributions

Statement of Trustee's responsibilities in respect of contributions

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is a prepared, maintained and, from time-to-time, revised Schedule of Contributions showing the rates of contributions payable towards the Scheme by, or on behalf of, the employer and the active members of the Scheme, and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme, and for procuring that contributions are made to the Scheme in accordance with the Schedule.

The below summary has been prepared on behalf of, and is the responsibility of, the Trustee. It sets out the employers' and employees' contributions payable to the Scheme under the Schedule of Contributions for the year ended 30 June 2021. The Scheme's auditor reports on contributions payable under the Schedule, as shown in the '2021 per Schedule' column to the right, in their statement about contributions.

Included within deficit funding contributions are amounts in relation to the Scheme's capital contributions as limited partner to the BT Falcon 1 LP and BT Falcon 2 LP investment vehicles. Under arrangements agreed with BT as part of the funding agreement and other related documentation signed on 12 May 2021:

- BT made deficit funding contributions of £1,660 million and £0.1 million to the Scheme
- The Scheme made capital contributions of £1,660 million and £0.1 million to BT Falcon 1 LP and BT Falcon 2 LP respectively.
- Using the Scheme's and BT's capital contribution proceeds, BT Falcon 1 LP and BT Falcon 2 LP purchased investments with value equivalent to the aggregate proceeds from BT.

As the net cashflow in relation to these transactions is nil in aggregate for each party, it was agreed by all parties that these transactions should be settled net via a cash flow reconciliation deed, and, as such, no gross funds were physically paid or received by any of the parties in respect of such transactions.

	2021 per Schedule £m	2021 additional £m	2021 total £m
Employers' normal contributions	1	0	1
Employees' normal contributions	0	0	0
Employers' deficit funding contributions	2,560	0	2,560
Employers' other contributions	59	0	59
Employees' additional voluntary contributions	0	0	0
	2,620	**0**	**2,620**

Approved on behalf of the Trustee Board,

Otto Thoresen
Chair
30 September 2021

Consolidated fund account

For the year ended 30 June 2021

	Notes	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Contributions and benefits			
Employers' contributions	3	2,620	458
Employees' contributions	3	0	0
Total contributions		**2,620**	**458**
Benefits paid or payable	4	(2,561)	(2,524)
Payments to and on account of leavers	5	(250)	(215)
Administration expenses	6	(66)	(60)
Net withdrawals from dealing with members		**(257)**	**(2,341)**
Return on investments			
Investment income	8	1,013	998
Change in market value of investments	9	(878)	4,173
Investment management expenses	10	(96)	(95)
Interest payable		(1)	(7)
Taxation	11	6	11
Net returns on investments		**44**	**5,080**
Net increase in the Scheme during the year		**(213)**	**2,739**
Net assets of the Scheme			
At 1 July		57,493	54,754
At 30 June		**57,280**	**57,493**

The notes on pages 41 to 69 form part of these financial statements.

Consolidated statement of net assets
(Available for benefits)

As at 30 June 2021

	Notes	30 June 2021 £m	30 June 2020 £m
Investment assets			
Equities		10,252	10,239
Bonds		30,599	31,809
Property		1,458	1,390
Pooled investment vehicles	12	12,728	12,411
Loans		164	197
Derivatives	13	2,565	4,587
AVC investments	14	158	175
Deposits and short-term investments		1,380	1,600
Special purpose vehicles	16	1,430	0
Other investment assets	15	598	573
Total investment assets		**61,332**	**62,981**
Investment liabilities			
Derivatives	13	(1,873)	(1,795)
Longevity insurance contract	17	(1,031)	(1,034)
Other investment liabilities	18	(1,103)	(2,590)
Total investment liabilities		**(4,007)**	**(5,419)**
Total net investments		**57,325**	**57,562**
Current assets	21	135	137
Current liabilities	22	(180)	(206)
Net assets of the Scheme at 30 June		**57,280**	**57,493**

The financial statements summarise the transactions of the Scheme and the net assets at the disposal of the Trustee. It does not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the Actuary's statement and report on actuarial liabilities and these financial statements should be read in conjunction with this report.

The notes on pages 41 to 69 form part of these financial statements.

These financial statements were approved by the Trustee Board on 30 September 2021 and signed on their behalf by:

Otto Thoresen
Chair

David Viles
Trustee Director

Notes to the financial statements

Notes to the financial statements

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including amendments to these regulations issued on 1 March 2016, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (FRS 102) and guidance set out in the revised Statement of Recommended Practice 'Financial Reports of Pension Schemes' (Revised 2018) (Pensions SORP).

The financial statements have been prepared on the going concern basis. In performing the going concern assessment, the principal risks and uncertainties facing the Scheme have been reviewed, and it has been concluded that these risks do not cast significant doubt on the Scheme's ability to continue as a going concern. These risks include investment risks as described in the Report by the Trustee and note 20 of the financial statements, as well as operational risks.

The impact of the COVID-19 pandemic has been an increase in market uncertainty, along with an increase in the risk of disruption to the operational activities of the Scheme, its suppliers, and its counterparties. The impact of the pandemic has been considered when preparing this going concern assessment, including reviewing the cash flow forecasts of the Scheme, and the potential impact of increased market volatility on the Scheme's funding position, for a period of at least 12 months from the date of signing these financial statements. The Scheme has remained operationally resilient following the invocation of business continuity plans by BTPSM, its suppliers, and its counterparties. Consequently, the financial statements have been prepared on the going concern basis.

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Functional and presentational currency

The Scheme's functional currency and presentational currency is Sterling (GBP). Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the year end. Transactions denominated in foreign currencies are translated into Sterling at the spot exchange rate at the date of the transaction. The financial statements of consolidated overseas subsidiary undertakings are translated into Sterling at the exchange rates ruling at the year end.

Foreign exchange gains and losses arising on conversion or translation are dealt with in the Consolidated fund account as part of the Change in market value of investments.

Contributions

Employers' and employees' normal contributions and employers' deficit and other funding contributions are accounted for on an accruals basis in accordance with the Schedule of Contributions certified by the Actuary. Additional voluntary contributions are accounted for on an accruals basis.

Benefits

Pensions in payment are accounted for in the year in which they relate. Payments represent all valid benefit claims notified to the Trustee during the Scheme year. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving. Pension benefits include realised gains or losses on the longevity insurance contract incurred during the year.

Transfers

Individual transfers in and out of the Scheme are accounted for on a cash basis. Group transfers are accounted for on a cash basis, unless the terms of the agreements signed by the Trustee relating to such transfers state otherwise.

Administration and other expenses

Administration and other expenses are accounted for on an accruals basis.

Basis of consolidation

Under FRS 102, the Pensions SORP and the Pensions Act, it is not a requirement for the Scheme to consolidate subsidiary undertakings and joint ventures. The Trustee has elected to prepare consolidated financial statements for the Scheme, that consolidate subsidiaries which were set up for the operation of the Scheme or subsidiaries that are not held exclusively with a view to resale, in line with the requirements of FRS 102 and the Pensions SORP. Subsidiaries that are held exclusively with a view to resale, such as those held as part of the Scheme's investment portfolio, have not been consolidated and are held at fair value in the Consolidated statement of net assets.

Notes to the financial statements

Investments in subsidiary undertakings

A subsidiary undertaking is defined as an entity controlled by another entity. Control is defined as the power to govern the operating and financial policies of an entity to obtain benefits from its activities.

Under FRS 102, a subsidiary undertaking shall be excluded from consolidation and included at fair value where the investment is held exclusively with a view to subsequent resale. FRS 102's definition of "held exclusively with a view to subsequent resale" includes an interest which is held as part of an investment portfolio. An interest held as part of an investment portfolio is one where its value to the investor is through fair value as part of a directly or indirectly held basket of investments rather than as a vehicle through which the investor carries out business.

A summary of subsidiary undertakings that are consolidated is included in the note 26 'Subsidiary undertakings'. The results of subsidiary undertakings that are consolidated in these financial statements are included from the date of acquisition and up to the date of disposal using the acquisition method of accounting. Consolidation is based on the latest available financial statements for those undertakings with a year end up to three months prior to that of the Scheme. In the case where an undertaking has a year end of more than three months prior to that of the Scheme then management information is used. Adjustments are made to align the accounting policies of the relevant undertaking with those of the Scheme.

Investments in joint ventures

Investments in joint ventures are contractual arrangements to undertake economic activity subject to joint control. The Scheme invests in joint ventures as part of its investment portfolio. The Scheme is not required to consolidate investments in joint ventures but it may choose to do so where permitted. The fair value of the net assets in a joint venture are presented in a manner that best represents the nature of the investments. Investments in joint ventures are presented as pooled investment vehicles.

Investments

Purchases and sales of securities are accounted for on a trade date basis. Property purchases are accounted for on exchange of unconditional contracts, otherwise on completion, and sales are accounted for on completion.

Offsetting financial assets and liabilities

Financial assets and liabilities are not offset unless there is a legally enforceable right to offset the assets and liabilities and the Scheme intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Valuation of investments

Investment assets and liabilities are included in the financial statements at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Securities listed on order-driven exchanges are valued at closing bid prices at the year end. Other securities listed on recognised stock exchanges are valued at closing bid prices. For bond investments this valuation is reduced by the accrued interest therein, with accrued interest included in Other investment assets. Bond investments are classified as Level 1 in the fair valuation hierarchy where the valuation can be supported by quoted trade prices in active markets.

Unquoted securities consist of equities, bonds, pooled investment vehicles and loans and are included at fair values estimated by the Trustee using appropriate valuation techniques. Unquoted equities are valued in accordance with International Private Equity and Venture Capital (IPEVC) guidelines based on the latest information provided by investment managers, and the price of recent market transactions if they represent fair value. Unquoted bonds are valued using the latest market prices or discounted cash flow models that consider credit risk. Unquoted pooled investment vehicles are fair valued at year end published or available net asset valuations provided by investment managers. Unquoted corporate loans are carried at fair value using the latest available prices in the market. Loans advanced for other investment activities are carried at cost less any provision for impairment.

Notes to the financial statements

UK investment properties are independently valued by CBRE Limited, chartered surveyors, on the basis of market value in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards 2017 including the International Valuation Standards and RICS Valuation – professional standards UK January 2014 (Revised April 2015) (the 'Red Book'). Overseas properties are valued by independent nationally recognised appraisal firms that hold the Member of the Appraisal Institute designation. The valuations take into consideration the current estimate of the rental values and market yields of properties.

Derivatives are fair valued using the following valuation techniques:

- For exchange traded derivatives that are assets, fair value is based on closing bid prices. For exchange traded derivatives that are liabilities, fair value is based on closing offer prices
- Future contracts are exchange traded and fair value is determined using the exchange price for closing out the contract at the year end.

Options can be exchange traded or over-the-counter contracts. For exchange traded options contracts, fair value is determined using the exchange price for closing out the option at the year end. For over-the-counter options contracts, fair value is determined using pricing models that consider the time value of money, volatility and the current market and contractual prices of the underlying instruments.

Swaps are over-the-counter contracts and fair value is the current value of the future expected net cash flows, taking into account the time value of money. Fair value is calculated using discounted cash flows and market data at year end.

Open forward foreign currency contracts are over-the-counter contracts and are valued using forward currency rates at the year end. The unrealised appreciation or depreciation on open forward foreign currency contracts is calculated based on the discounted net present value of the difference between the contracted rate and the rate to close out the contract. The longevity insurance contract is valued based on the future expected net cash flows, taking into account the time value of money and using market data at the year end.

Special purpose vehicles

In accordance with the Pensions SORP, the ABF arrangement described in the Report by the Trustee is classified as a special purpose vehicle. Special purpose vehicles entitle the scheme to receive a stream of cashflows over a fixed period. The Scheme's right to receive these cashflows ceases in the event the Scheme becomes fully funded before the end of the fixed period. Special purpose vehicles are valued using a stochastic valuation approach that considers the time value of money and the probability of the Scheme becoming fully funded before the end of the fixed period.

Distributions from the special purpose vehicle are treated as either income or capital receipts in accordance with the agreement between the Scheme and the Scottish Limited Partnership through which the arrangement is conducted.

Notes to the financial statements

Investment income
Dividend income from equity investments is accounted for on the ex-dividend date. Interest income from bonds, deposits and short-term investments is taken into account on an accruals basis. Rental income from property is accounted for on an accruals basis. Income from pooled investment vehicles is accounted for when declared by the investment manager. Insurance risk and premium fees on the longevity insurance contract are recognised in the year incurred.

Change in market value of investments
The change in market value of investments during the year comprises all increases and decreases in the fair values of investments held at any time during the year, including profits and losses realised on sales of investments during the year and unrealised changes in market value of investments held during the year.

Sale and repurchase agreements
Securities sold subject to repurchase agreements are included in the financial statements within their respective investment classes at the year end fair value of the securities to be repurchased. Cash received is recognised as an asset and the corresponding obligation is recognised as a liability. Securities purchased subject to reverse repurchase agreements are included in the financial statements within Other investment assets at the year end fair value of the securities to be repurchased. The Scheme does not recognise the cash delivered to the counterparty as a receivable.

Collateral
Cash collateral balances due from and due to brokers are included in the financial statements within Other investment assets and liabilities. Non-cash collateral posted by the Scheme by way of title transfer is derecognised in the Scheme's financial statements. Non-cash collateral pledged to the Scheme is not recognised, whilst non-cash collateral pledged by the Scheme continues to be recognised in the financial statements.

Commitments
Commitments for property investments are stated at the amount authorised by the Trustee to provide development finance and to purchase properties. Commitments for securities investments are stated at the amount which may be called on partially paid and unpaid shares or which may be due on sub-underwriting contracts or which remain undrawn in commitments to pooled investment vehicles.

Accounting estimates and judgements
No significant judgements have been made by the Trustee in the application of the principal accounting policies. Significant assumptions and estimates have been made in the valuation of the Scheme's financial assets and liabilities classified as level 3 under the fair valuation hierarchy. Details of these financial assets and liabilities, the valuation techniques applied, and the significant valuation assumptions, are provided in note 19 of these financial statements.

As noted above, UK investment properties are valued in accordance with the RICS Red Book standards. There is risk to the fair value of the Scheme's property investments, comprising variation in the yields that the market attributes to the real estate investments and the market income that may be earned. Real estate investments can be impacted adversely by external factors such as the general economic climate, supply and demand dynamics in the market, competition, and increase in operating costs.

Notes to the financial statements

3. Contributions

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Employers' normal contributions	1	1
Employers' deficit funding contributions[1]	2,560	400
Employers' other contributions[2,3] (refer to note 6)	59	57
Employers' contributions	**2,620**	**458**
Employees' normal contributions	0	0
Employees' additional voluntary contributions	0	0
Employees' purchase of added years	0	0
Employees' contributions	**0**	**0**
Total contributions	**2,620**	**458**

[1] Deficit funding contributions are being paid by the employer into the Scheme in accordance with a recovery plan, due to end on 31 December 2035, in order to improve the Scheme's funding position.

[2] Employers' other contributions include reimbursement of the Pension Protection Fund levy (PPF levy) in accordance with the Schedule of Contributions certified on 9 May 2018 and 12 May 2021.

[3] An amount of £30 million is included within employers' other contributions in respect of administrative expenses.

4. Benefits paid or payable

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Pensions[4]	2,168	2,115
Commutations of pensions and lump sum retirement benefits	387	400
Lump sum death benefits	4	8
Taxation where lifetime or annual allowance exceeded[5]	2	1
	2,561	**2,524**

[4] In July 2014 a longevity insurance arrangement was entered into to protect the Scheme against costs associated with potential increases in life expectancy. This arrangement covers approximately 20% of the Scheme's longevity risk. Pensions benefits include a realised loss of £17 million on the arrangement during the year (2020: Realised loss of £12 million).

In 2019 the High Court clarified that trustees will need to equalise benefits to allow for inequalities that arise from the calculation and payment terms for gross minimum pensions (GMP). As a result, some members will receive higher pensions, and will be eligible for back pay of historical pension entitlements. The latest available estimate of the amount of historical entitlements to be settled by the Scheme is £8 million.

A liability has not been recognised in respect of these back payments, which will be recorded as benefits paid in the year they are settled.

[5] Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime allowance or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability. This included twenty seven cases in respect of lifetime allowances amounting to £1.530 million (2020: twenty six cases amounting to £0.670 million), and two cases in respect of annual allowances amounting to £0.022 million (2020: six cases amounting to £0.091 million).

Notes to the financial statements

5. Payments to and on account of leavers

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Individual transfers in	-	38
Group transfers in	-	2
Individual transfers out	(250)	(255)
	(250)	**(215)**

6. Administration expenses

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Net PPF levy and associated costs (refer to note 3)	29	28
Administration expenses[6]	37	32
	66	**60**

[6] Administration expenses include pensions administration expenses, actuary fees, custody fees, legal fees, other professional fees, and includes £0.4 million of expenses in respect to related party transactions (2020: £0.6 million). Refer to note 24 'Related party transactions' for further information.

Notes to the financial statements

7. Auditors' remuneration

A summary of remuneration received by KPMG LLP as auditors to the Scheme and subsidiary undertakings during the year are disclosed in the table below.

	Year ended 30 June 2021 £k	Year ended 30 June 2020 £k
Fees payable to the Scheme auditor for audit of the Scheme financial statements	367	343
Fees payable to the Scheme auditor for audit of the Scheme subsidiaries pursuant to legislation	1,217	1,061
Total audit fees	**1,584**	**1,404**
Audit related assurance services	16	-
Taxation compliance services	-	-
Other assurance services	-	-
All other services	-	-
Total non-audit fees	**16**	**-**
Fees payable to the Scheme's auditor in respect of associated pension scheme	18	21
	1,618	**1,425**

Remuneration payable to other audit firms

Remuneration paid to other audit firms relates to the audit and non-audit fees payable by the Scheme and its subsidiaries to audit firms other than KPMG LLP.

	Year ended 30 June 2021 £k	Year ended 30 June 2020 £k
Audit fees	1,036	1,126
Non-audit fees	3,871	4,025
	4,907	**5,151**

Notes to the financial statements

8. Investment income

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Dividends from equities	166	202
Income from bonds[8]	531	562
Net rental income from properties[9]	52	61
Income from pooled investment vehicles	50	55
Derivatives	172	125
Longevity insurance contract	(29)	(30)
Special purpose vehicles	55	–
Interest on deposits and short-term investments	16	23
	1,013	**998**

[8] Refer to note 24 'Related party transactions' for further information.

[9] Net rental income from properties is stated after deducting £21 million of property related expenses (2020: £20 million).

9. Reconciliation of investments

	Market value at 30 June 2020, £m	Net investment / (disinvestment), £m	Change in market value, £m	Market value at 30 June 2021, £m
Investment assets/(liabilities)				
Equities	10,239	(1,376)	1,389	10,252
Bonds	31,809	288	(1,498)	30,599
Property	1,390	96	(28)	1,458
Pooled investment vehicles	12,411	(387)	704	12,728
Loans	197	(26)	(7)	164
Derivatives[10]	2,792	(1,124)	(976)	692
AVC investments	175	(37)	20	158
Special purpose vehicles	–	1,480	(50)	1,430
Longevity insurance contract	(1,034)	–	3	(1,031)
	57,979	**(1,086)**	**(443)**	**56,450**
Deposits and short-term investments	1,600		(273)	1,380
Other investment assets/(liabilities)	(2,017)		(162)	(505)
	57,562		**(878)**	**57,325**

[10] Derivatives include both derivative assets and liabilities which are presented separately in the Consolidated statement of net assets.

Notes to the financial statements

	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Net investment / (disinvestment) £m
Investment assets / liabilities			
Equities	7,624	(9,000)	(1,376)
Bonds	7,783	(7,495)	288
Property	96	–	96
Pooled investment vehicles	2,991	(3,378)	(387)
Loans	11	(37)	(26)
Derivatives[10]	2,783	(3,907)	(1,124)
AVC investments	3	(40)	(37)
Special purpose vehicles	1,660	(180)	1,480
	22,951	**(24,037)**	**(1,086)**

Transaction costs are incremental costs directly attributable to the acquisition or disposal of an investment and are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs incurred during the year amounted to £9 million and includes fees, commissions and taxes (2020: £10 million). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments and costs charged within pooled investment vehicles, however they are not separately provided to the Scheme.

Year ended 30 June 2021	Transaction costs				
	Fees £m	Commissions £m	Taxes £m	Other £m	Total £m
Investment assets / liabilities					
Equities	–	4	4	–	8
Bonds	–	–	–	–	–
Property	–	–	–	–	–
Pooled investment vehicles	–	–	–	–	–
Derivatives	–	1	–	–	1
	–	**5**	**4**	**–**	**9**

Notes to the financial statements

Year ended 30 June 2020	Fees £m	Transaction costs Commissions £m	Taxes £m	Other £m	Total £m
Investment assets / liabilities					
Equities	–	4	4	–	8
Bonds	–	–	–	–	–
Property	–	1	–	–	1
Pooled investment vehicles	–	–	–	–	–
Derivatives	–	1	–	–	1
	-	**6**	**4**	**-**	**10**

10. Investment management expenses

	Year ended 30 June 2021 £m	Year ended 30 June 2020 £m
Investment management expenses[11]	96	95
	96	**95**

[11] Investment management expenses include £28 million of expenses to operate BT Pension Scheme Management Limited (2020: £28 million).

Notes to the financial statements

11. Taxation

The Scheme is a registered pension scheme under the provisions of Schedule 36 of the Finance Act 2004 for taxation purposes and in turn has been granted Exempt Approved Scheme Tax Status by HMRC that enables the Scheme to benefit from specific statute that exempts it from income tax on investment income and capital gains tax on gains on disposal. However, income from trading activities is not investment income and therefore does not fall under the specific exemption and will be assessed to tax in the normal way. The tax charge or credit presented in the Consolidated fund account represents irrecoverable withholding taxes or refunds of withholding taxes arising on investment income and deferred taxation.

In managing the tax risk of the Scheme the Trustee will preserve the Exempt Approved Scheme Tax Status of the Scheme and comply fully with and keep up-to-date with all relevant tax laws and regulations in all relevant jurisdictions in which the Scheme operates and/or invests.

12. Pooled investment vehicles

	30 June 2021 £m	30 June 2020 £m
Equities	29	116
Bonds	1,351	977
Hedge funds	5,150	5,438
Liquidity funds	1,577	1,530
Mature infrastructure	667	686
Private equity	1,666	1,359
Property	2,288	2,305
	12,728	**12,411**

Included within pooled investment vehicles are certain investments where legal or contractual restrictions can limit the timing of redemptions. This is a characteristic of the investments which is considered as part of the initial investment decision making process, and these restrictions are actively monitored on an ongoing basis.

Notes to the financial statements

13. Derivatives

Objectives
The Trustee has authorised the use of derivatives as part of the overall investment strategy for the Scheme. The main objectives for the use of derivatives are summarised below.

Futures contracts
Futures contracts are entered into as a method of managing the Scheme's exposure to a particular market or sector. Futures contracts provide an efficient way of modifying portfolio risk to remain within asset allocations governed by the investment strategy of the Scheme.

Options contracts
Options contracts are purchased or sold as a method of managing the Scheme's exposure to a particular market or sector.

Swap contracts
Swap contracts are used to modify the Scheme's exposure to various asset classes. Interest rate swaps are held to decrease the Scheme's interest rate risk exposure. Inflation swaps are held to decrease the Scheme's inflation risk exposure.

Foreign exchange forward contracts
Foreign exchange forward contracts are used to manage the Scheme's currency exposures. Disclosure of the derivatives held at year end are set out opposite.

Assets	30 June 2021 £m	30 June 2020 £m
Futures	5	2
Options	51	154
Swaps	2,465	4,299
Forward foreign exchange	44	132
	2,565	**4,587**

Liabilities	30 June 2021 £m	30 June 2020 £m
Futures	(24)	(27)
Options	(57)	(14)
Swaps	(1,564)	(1,531)
Forward foreign exchange	(228)	(223)
	(1,873)	**(1,795)**

Notes to the financial statements

13. Derivatives

The economic exposure represents the notional value of securities purchased or sold under the futures contracts. All of the contracts settle in less than one year (2020: all contracts settle in less than one year). As at 30 June 2021 the Scheme held cash collateral of £203 million on futures contracts (2020: Scheme held cash collateral of £174 million on futures contracts).

Futures	30 June 2021				30 June 2020			
	Exposure				Exposure			
Type of contract	Long £m	Short £m	Asset £m	Liability £m	Long £m	Short £m	Asset £m	Liability £m
Exchange traded								
Equities	172	(2,142)	2	(2)	–	(1,742)	1	(4)
Fixed interest	80	(1,470)	3	(8)	266	(1,125)	1	(6)
	252	**(3,612)**	**5**	**(10)**	**266**	**(2,867)**	**2**	**(10)**
Over the counter								
Fixed interest	–	(10)	–	(14)	–	(13)	–	(17)
	–	**(10)**	**–**	**(14)**	**–**	**(13)**	**–**	**(17)**
	252	**(3,622)**	**5**	**(24)**	**266**	**(2,880)**	**2**	**(27)**

Notional amount of outstanding contracts represents the value of underlying securities protected by the purchased options. All of the contracts settle within five years (2020: all of the contracts settle within sixteen years).

Options	30 June 2021				30 June 2020			
	Exposure				Exposure			
Type of contract	Long £m	Short £m	Asset £m	Liability £m	Long £m	Short £m	Asset £m	Liability £m
Exchange traded								
Currency	–	–	–	–	–	–	–	–
Equities	3,288	–	21	–	2,217	(806)	62	(10)
	3,288	**–**	**21**	**–**	**2,217**	**(806)**	**62**	**(10)**
Over the counter								
Currency	–	(3,305)	–	(4)	1,150	–	–	(4)
Interest rate swaptions	1,130	(13,032)	30	(53)	5,480	(1,440)	92	–
	1,130	**(16,337)**	**30**	**(57)**	**6,630**	**(1,440)**	**92**	**(4)**
	4,418	**(16,337)**	**51**	**(57)**	**8,847**	**(2,246)**	**154**	**(14)**

Notes to the financial statements

Swaps	30 June 2021					
			Notional			
Type of contract	Expiration	Nature of swap	Long £m	Short £m	Asset £m	Liability £m
Equity total return	<4 years	Common stock	7,053	-	3	(6)
Interest rate	< 49 years	Fixed for floating & floating for fixed	34,830	-	1,818	(964)
Inflation	<48 years	Coupon for floating	16,624	-	572	(510)
Bond total return	< 3 years	UK Government bonds	2,189	-	70	(82)
Credit default	< 5 years	Itraxx Europe	134	(6)	2	(2)
			60,830	**(6)**	**2,465**	**(1,564)**

Swaps	30 June 2020					
			Notional			
Type of contract	Expiration	Nature of swap	Long £m	Short £m	Asset £m	Liability £m
Equity total return	<3 years	Common stock	7,255	-	3	(107)
Interest rate	<50 years	Fixed for floating & floating for fixed	30,041	(4,870)	3,790	(2)
Inflation	<49 years	Coupon for floating	13,559	(152)	1	(1,421)
Bond total return	<4 years	UK Government bonds	1,757	(96)	496	-
Credit default	<10 years	Itraxx Europe	263	(72)	9	(1)
			52,875	**(5,190)**	**4,299**	**(1,531)**

The Scheme held cash collateral of £809 million, received pledged bond collateral of £104 million, and it pledged bond collateral of £1,999 million on swap contracts and the longevity insurance contract (2020: the Scheme held cash collateral of £2,349 million, received pledged bond collateral of £512 million and it pledged bond collateral of £2,162 million on swap contracts and the longevity insurance contract). Collateral amounts reflect the net amount of collateral received or pledged from, or pledged to, each counterparty. Security arrangements in relation to the special purpose vehicle are detailed in note 16.

Notes to the financial statements

Forward foreign exchange							
Currency		30 June 2021			30 June 2020		
Bought	Sold	Notional £m	Asset £m	Liability £m	Notional £m	Asset £m	Liability £m
GBP	USD	14,495	2	(204)	16,049	99	(151)
GBP	EUR	443	1	-	1,133	-	(31)
GBP	Other	570	2	(1)	630	3	(12)
USD	Other	2,512	36	-	2,174	9	(10)
Other	Other	1,713	3	(23)	1,651	21	(19)
		19,733	**44**	**(228)**	**21,637**	**132**	**(223)**

All of the contracts settle in less than one year (2020: all of the contracts settle in less than one year).

14. Additional voluntary contributions

Members additional voluntary contributions (AVCs) are invested separately from the principal Scheme on a money purchase basis with Utmost Life and Pensions, Standard Life Assurance Company, BlackRock Investment Management (UK) Limited and Legal & General Investment Management Limited. These assets are in the form of pension policies securing additional benefits on a money purchase basis for members who elected to pay AVCs. Members participating in these arrangements receive an individual annual statement each year, confirming the amounts held in their account and the movements in the year. The aggregate amount of AVC investments is as follows:

	30 June 2021 £m	30 June 2020 £m
At start of year	175	187
Net withdrawals by members	(37)	(3)
Change in market value of investments	20	(9)
At end of year	**158**	**175**

Notes to the financial statements

15. Other investment assets

	30 June 2021 £m	30 June 2020 £m
Accrued investment income	156	165
Amounts due from brokers	201	118
Margin deposits - initial	193	159
Margin deposits - variation	9	15
Repurchase agreements	-	58
Other[12]	39	58
	598	**573**

[12] Relates to pension surplus on the Hermes Group Pension Scheme valued in accordance with FRS 102. Refer to note 24 'Related party transactions' for further information.

16. Special purpose vehicles

	30 June 2021 £m	30 June 2020 £m
Special purpose vehicles	1,430	-
	1,430	**-**

The asset backed funding arrangement, described in more detail in the Scheme funding section of the Report by the Trustee, is undertaken through the entity BT Falcon 1 LP. On 12 May 2021 the Scheme invested as a limited partner in BT Falcon 1 LP, a Scottish limited partnership, in which the other partners are companies in the BT group. The partnership holds a loan note issued by EE Group Investments Limited, a BT group company, with a face value of £1,925 million.

The loan note pays interest at a coupon rate of 3.377% per annum. Repayments to BT Falcon 1 LP follow a linear amortisation profile, with payments on the note due annually in June.

The loan note is due to mature in 2033, 12 years after issue. The Scheme received a deficit funding contribution from BT of £1,660 million to fund its investment in BT Falcon 1 LP. EE Group Investments Limited owns 100% of the shares in EE Limited. BT Falcon 1 LP holds security over certain of EE Group Investments Limited's assets, including its shares in EE Limited, so that in the case of default under the loan note, the Scheme as a limited partner ultimately has recourse to the shares of EE Limited.

The purchase cost of the Scheme's limited partnership interest was £1,660 million. Under the terms of the limited partnership agreement and subject to the conditions therein, on or before 30 June each year, BT Falcon 1 LP will distribute to the Scheme capital and interest amounts it has received in respect of the loan note, provided that the Scheme was in deficit on a technical provisions basis as at 30 June of the preceding year.

The Trustees commissioned Willis Towers Watson to perform a valuation for financial statements purposes of the Scheme's limited partnership interest in BT Falcon 1 LP at inception and at each year end. The valuation is based on the net present value of the coupon receipts, discounted as for securities of similar standing, and uses a stochastic model to estimate the likelihood of becoming fully funded on a technical provisions basis before the term of the partnership is completed. As at 30 June 2021, following receipt of the first £180m payment of capital and interest, the value of the Scheme's limited partnership interest in BT Falcon 1 LP was £1,430 million, representing 2.5% of the Scheme's net assets; whilst the principal amount outstanding of the EE loan note held by BT Falcon 1 LP was £1,800 million.

As the loan note is held by BT Falcon 1 LP and BT Falcon 1 LP has separate legal personality, it does not amount to an employer-related investment for the purposes of the relevant regulations.

Notes to the financial statements

17. Longevity insurance contract

	30 June 2021 £m	30 June 2020 £m
Longevity insurance contract[13]	1,031	1,034
	1,031	**1,034**

[13] Represents unrealised loss on longevity insurance contract involving the exchange of future payments based on expected longevity with future payments based on actual longevity.

18. Other investment liabilities

	30 June 2021 £m	30 June 2020 £m
Amounts due to brokers	273	227
Deferred income	13	14
Margin deposits - initial	8	-
Margin deposits - variation	809	2,349
	1,103	**2,590**

Notes to the financial statements

19. Fair valuation hierarchy

The fair values of financial assets and liabilities have been estimated based on the following fair value hierarchy:

Level 1: Unadjusted quoted price in an active market for identical assets or liabilities that can be accessed at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly

Level 3: Inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing whether inputs are observable and whether the unobservable inputs are significant may require judgment and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability. The Scheme's financial assets and liabilities have been fair valued using the hierarchy categories.

For certain types of investments, the market uncertainty arising as a result of the COVID-19 pandemic increases the level of judgement required in the measurement of fair value. These typically include investments where the valuation approach is based on modelling expected future cashflows to be received from the investment, and are categorised as Level 3 under the fair valuation hierarchy. The valuation policy for each type of Scheme investment is disclosed in Note 2 of the financial statements.

30 June 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	9,460	-	792	10,252
Bonds	17,271	12,053	1,275	30,599
Property	-	-	1,458	1,458
Pooled investment vehicles	-	4,584	8,144	12,728
Loans	-	164	-	164
Derivatives	16	676	-	692
AVC investments	-	158	-	158
Longevity insurance contract	-	-	(1,031)	(1,031)
Deposits and short term investments	1,380	-	-	1,380
Special purpose vehicles	-	-	1,430	1,430
Other investment assets/(liabilities)	(544)	-	39	(505)
	27,583	**17,635**	**12,107**	**57,325**

30 June 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	9,469	-	770	10,239
Bonds	17,376	13,247	1,186	31,809
Property	-	-	1,390	1,390
Pooled investment vehicles	-	4,322	8,089	12,411
Loans	-	197	-	197
Derivatives	44	2,748	-	2,792
AVC investments	-	175	-	175
Longevity insurance contract	-	-	(1,034)	(1,034)
Deposits and short term investments	1,600	-	-	1,600
Other investment assets/(liabilities)	(2,075)		58	(2,017)
	26,414	**20,689**	**10,459**	**57,562**

Notes to the financial statements

Significant assumptions applied in the determination of fair values for financial assets and liabilities subject to valuation techniques are set out below.

Level 2	30 June 2021 £m	30 June 2020 £m	Valuation technique	Significant assumptions
Bonds	12,053	13,247	Evaluated pricing models, broker quotes	Credit risk, market risk, yield curves
Pooled investment vehicles	4,584	4,322	Published net asset values	Redemption discount
Loans	164	197	Amortised cost	Discount rate, credit risk
Derivatives	676	2,748	Forward rates, yield curves	Cost of carry, yield curves
AVC investments	158	175	Published net asset values	Redemption discount
	17,635	**20,689**		

Level 3	30 June 2021 £m	30 June 2020 £m	Valuation technique	Significant assumptions
Equities	792	770	IPEVC guidelines	Discount rate, earnings assumptions
Bonds	1,275	1,186	Evaluated pricing models, broker quotes	Credit risk, market risk, yield curves
Property	1,458	1,390	RICS guidelines	Rental yields, occupancy rates
Pooled investment vehicles	8,144	8,089	Published net asset values	Redemption discount
Longevity insurance contract	(1,031)	(1,034)	Discounted cashflow	Discount rate, cashflow profile, actuarial assumptions
Special purpose vehicles	1,430	–	Discounted cashflow, stochastic analysis	Discount rate, cashflow profile, actuarial assumptions
Other investment assets	39	58	Projected unit method	Discount rate, inflation rate, salary increases, mortality assumptions
	12,107	**10,459**		

Notes to the financial statements

20. Investment risks

Investment objective
The investment objective of the Scheme is to maintain an investment portfolio with appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due. The Trustee sets the investment strategy for the Scheme as detailed in the Statement of Investment Principles (SIP). FRS 102 requires the disclosure of information in relation to market risk and credit risk.

- **Market risk:** This is the risk the fair value or future cash flows of a financial instrument may fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk.
  - **Interest rate risk:** This is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
  - **Currency risk:** This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
  - **Other price risk:** This is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the financial instrument or its issuers, or factors affecting all similar financial instruments traded in the market.
- **Credit risk**: This is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Scheme is exposed to inflation risk and longevity risk as detailed below.

- **Inflation risk:** This is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in inflation.

The Scheme is subject to inflation risk because some of the Scheme's investments are held in inflation linked bonds and derivatives. The Trustee hedges Scheme liabilities on a sensitivity basis as part of the investment strategy. Under this strategy, if inflation increases the value of inflation linked investments will rise to help match the increase in actuarial liabilities arising from an increase in inflation linked pension payments. Similarly, if inflation falls the inflation linked investments will fall in value as will the actuarial liabilities.

- **Longevity risk:** This is the risk of higher than expected life expectancy trends amongst the Scheme's pensioners.

A longevity insurance arrangement has been entered into to protect the Scheme against costs associated with potential increases in life expectancy of the Scheme's pensioners. This arrangement covers approximately 20% of the Scheme's longevity risk.

The Trustee manages investment risks within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These objectives and risk limits are implemented by BTPSM and through investment management agreements in place with investment managers and monitored by the Trustee. Further information on the Trustee's approach to risk management is detailed in this note.

The Scheme is exposed to liquidity risk, which is the risk that the Scheme will encounter difficulty in realising its assets or raising funds to meet its obligations, primarily in respect to funding members' pension benefits and collateral requirements. The Trustee manages the Scheme's liquidity risk by monitoring potential and actual future liquidity requirements on an ongoing basis, ensuring that sufficient cash resources can be made available for projected cash requirements of the Scheme. Expected liquidity requirements have been reviewed and updated in the year to reflect the risk of ongoing market volatility arising as a result of the COVID-19 pandemic.

Notes to the financial statements

20. Investment risks

Interest rate risk
The Scheme is subject to interest rate risk on bonds, pooled investment vehicles, loans, derivatives, deposits and short-term investments. The Trustee hedges Scheme liabilities on a sensitivity basis as part of the investment strategy. Under this strategy, if interest rates fall, the value of these investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, investment values will fall in value, as will the actuarial liabilities, because of an increase in the discount rate.

Currency risk
The Scheme is subject to currency risk as some investments are held in overseas markets, either as segregated investments or pooled investment vehicles. The Trustee manages currency exposures with strategic currency hedging benchmark limits achieved through a currency hedging policy. It is also exposed to indirect currency risk on underlying investments held in pooled investment vehicles.

Other price risk
Other price risk arises in the Scheme's investments portfolio that includes equities, property, pooled investment vehicles and derivatives. The Trustee has set a target investment return expected to be sufficient to support payment of the Scheme's liabilities. A diverse portfolio of investments is used to manage exposure to price movements.

The table below summarises the extent to which various classes of investments are affected by market risks.

	Market risk				
	Interest rate risk	Currency risk	Other price risk	30 June 2021, £m	30 June 2020, £m
Equities	○	◐	●	10,252	10,239
Bonds	●	◐	○	30,599	31,809
Property	○	◐	●	1,458	1,390
Pooled investment vehicles	◐	◐	●	12,728	12,411
Loans	●	◐	○	164	197
Derivatives	●	◐	◐	692	2,792
AVC investments	◐	◐	●	158	175
Longevity insurance contract	◐	○	●	(1,031)	(1,034)
Special purpose vehicles	●	○	●	1,430	-
Deposits and short term investments	●	◐	○	1,380	1,600
Other investment assets/(liabilities)	◐	◐	◐	(505)	(2,017)
				57,325	**57,562**

In the table, the relevant risks affect the asset classes with significant exposure, some exposure or no exposure, with the following definitions:

● An investment risk determined to have significant exposure is a risk that, in the judgment of management, represents a material component of gross overall investment risk exposure to the Scheme, before derivative overlay contracts are taken into consideration to manage investment risk.

◐ An investment risk determined to have some exposure is a risk that, in the judgement of management, has a limited contribution to gross overall investment risk exposure to the Scheme.

○ An investment risk determined to have no exposure is a risk that, in the judgment of management, has either a residual or no contribution to gross overall investment risk to the Scheme.

In addition, the Trustee uses derivative contracts to manage investment risk exposures of the Scheme, as detailed in note 13.

20. Investment risks

Credit risk

The Scheme is subject to direct credit risk as it invests in bonds, pooled investment vehicles, loans, over-the-counter derivatives, special purpose vehicles, and holds deposits and short-term investments. It is also exposed to indirect credit risk on underlying investments held in pooled investment vehicles. The Pensions SORP recommends that credit risk exposure on investments in pooled investment vehicles is disclosed on a look-through basis. Credit quality of direct and indirect investments subject to credit risk is provided in this note.

30 June 2021	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Direct exposure				
Bonds	26,462	1,066	3,071	30,599
Pooled investment vehicles	-	-	12,728	12,728
Loans	-	-	164	164
OTC derivatives	676	-	-	676
Special purpose vehicles	-	-	1,430	1,430
Deposits and short term investments	1,380	-	-	1,380
Gross exposure	**28,518**	**1,066**	**17,393**	**46,977**
Credit derivatives (notional amount of contracts)	(128)	-	-	(128)
Net exposure	**28,390**	**1,066**	**17,393**	**46,849**
Indirect exposure				
Bonds	17	174	112	303
Pooled investment vehicles	-	-	1,291	1,291
Loans	1	79	1,345	1,425
OTC derivatives	2	-	-	2
Deposits and short term investments	-	-	-	-
Gross exposure	**20**	**253**	**2,748**	**3,021**
Credit derivatives (notional amount of contracts)	(46)	-	-	(46)
Net exposure	**(26)**	**253**	**2,748**	**2,975**

Notes to the financial statements

30 June 2020	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Direct exposure				
Bonds	28,002	998	2,809	31,809
Pooled investment vehicles	–	–	12,411	12,411
Loans	–	–	197	197
OTC derivatives	2,748	–	–	2,748
Deposits and short term investments	1,600	–	–	1,600
Gross exposure	**32,350**	**998**	**15,417**	**48,765**
Credit derivatives (notional amount of contracts)	(191)	–	–	(191)
Net exposure	**32,159**	**998**	**15,417**	**48,574**
Indirect exposure				
Bonds	19	139	57	215
Pooled investment vehicles	–	–	1,271	1,271
Loans	7	175	1,386	1,568
OTC derivatives	(15)	–	–	(15)
Deposits and short term investments	–	–	–	–
Gross exposure	**11**	**314**	**2,714**	**3,039**
Credit derivatives (notional amount of contracts)	(62)	–	–	(62)
Net exposure	**(51)**	**314**	**2,714**	**2,977**

An investment grade rating indicates the counterparty to the security has a relatively low risk of default. Credit risk is managed under a credit risk management and counterparty approval policy. Approved counterparties are subject to credit risk assessments, regular monitoring of exposures against approved limits, credit quality and changes in credit conditions. Credit risk on derivatives depends on whether the derivatives are exchange traded or over-the-counter. Exchange traded derivatives are transacted with clearing brokers and credit risk is restricted to margin amounts posted to the clearing broker. Over-the-counter derivatives are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure by the counterparty. International Swaps and Derivatives Association (ISDA) agreements with executed credit support annexes are in place with counterparties. The credit risk for over-the-counter derivatives is managed by collateral arrangements with counterparties.

The Scheme's investments in pooled investment vehicles are unrated. Credit risk on pooled investment vehicles is mitigated by the underlying investments of the pooled investment vehicles being ring-fenced from the investment manager, the regulatory environments in which the investment managers operate and diversification of investments amongst a number of pooled arrangements. Due diligence reviews of investment managers are conducted on an ongoing basis, including the monitoring of any changes to the regulatory and operating environments of investment managers.

Notes to the financial statements

21. Current assets

	30 June 2021 £m	30 June 2020 £m
Employers' contributions due	-	-
Employees' contributions due	-	-
Other debtors	119	134
Bank balances	16	3
	135	**137**

All contributions due to the Scheme were paid in full to the Scheme within the timescale required by the Schedule of Contributions in force at the year end.

22. Current liabilities

	30 June 2021 £m	30 June 2020 £m
Accrued benefits	86	62
Other creditors	94	144
	180	**206**

23. Securities lending

No securities were on loan as at 30 June 2021 (30 June 2020: none).

24. Related party transactions and balances

In considering the Scheme's related party relationships it is necessary to assess the substance of relationships and not merely their legal form.

FRS 102 defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

This note provides information on transactions between the Scheme and related parties, all of which were conducted on terms equivalent to those that prevail in arm's length transactions.

Trustee related party transactions

Members of the Trustee Board represent key management personnel of the Scheme. The compensation of key management personnel is detailed in the table overleaf.

Notes to the financial statements

24. Related party transactions and balances continued

Further to the amounts disclosed opposite, the following Trustee Directors received additional compensation from other group entities: in the year to 30 June 2020, the Law Debenture Pension Trust Corporation plc (represented by David Felder) served as a non-executive director of BTPSM and received £7,813. Emily Clark and David Viles received no fees as they are employed by BT.

Two Trustee Directors were members of the Scheme at 30 June 2021 (2020: two).

Employer-related transactions
Hermes GPE FRWL Holdco Limited (Holdco) is a subsidiary of the Scheme and it invests in Fallago Rig Windfarm Limited (FRWL). FRWL operates a wind farm that is generating electricity from renewable sources in Great Britain. Effective 1 April 2014 to 31 March 2034, FRWL and BT entered into a power purchase agreement. BT agreed to purchase 50% of the metered output generated by the wind farm and certain associated benefits, including Renewable Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs). In addition, effective 1 April 2014 to 31 March 2034, Holdco and BT agreed to make certain payments based upon the difference between the price payable under the power purchase agreement for electrical output and a price specified in the agreement.

	Year ended 30 June 2021 £k	Year ended 30 June 2020 £k
Otto Thoresen	150	150
Chris Cheetham (appointed 16 September 2020)	20	0
Emily Clark (appointed 1 April 2020)	0	0
Nigel Cotgrove (appointed 1 April 2020)	32	8
The Law Debenture Society (represented by David Felder, resigned 16 September 2020)	13	75
Andrew Kerr	48	27
Ben Marshall	40	36
Billy McClory (resigned 31 March 2020)	-	30
Jim McInally (resigned 31 March 2020)	-	47
Keith Nichols	91	91
Beryl Shepherd	35	35
David Viles (appointed 1 April 2020)	0	0
John Wroe (resigned 31 March 2020)	0	61
	429	**560**

Notes to the financial statements

24. Related party transactions and balances continued

Self-investments designated as employer-related investments
As at 30 June 2021 the Scheme held £0 million in BT ordinary shares (2020: £0 million) and £10 million in BT index-linked investments (2020: £10 million). The total amount of employer-related investments represent 0.02% of the net assets of the Scheme (2020: 0.02%). As at 30 June 2021 there were no properties occupied by BT owned by the Scheme (2020: none).

Limited partnership investments not designated as employer-related investments
On 25 June 2018, Britel Scotland II LP subscribed for £2,000 million of bonds issued by BT in the primary market. Britel Scotland II LP is a Scottish limited partnership in which the Scheme is invested. The bonds were issued in three nominal and three CPI-linked tranches as detailed below:

15 years:
£330 million fixed interest and £330 million CPI linked

21 years:
£330 million fixed interest and £330 million CPI linked

24 years:
£340 million fixed interest and £340 million CPI linked

As at 30 June 2021, the notional amount of these bonds held was £1,777 million (2020: £1,777 million), and these investments were valued at £2,200 million (2020: £2,136 million) and represent 3.8% of the net assets of the Scheme (2020: 3.7%). These bonds are held by Britel Scotland II LP, and therefore are not employer-related investments for the purposes of the relevant regulations.

The asset backed funding arrangement, described in more detail in the Scheme funding section, is undertaken through the entity BT Falcon 1 LP. On 12 May 2021, the Scheme invested in BT Falcon 1 LP, a Scottish limited partnership, making a capital contribution of £1,660 million for a limited partnership interest. On the same day, BT Falcon 1 LP purchased a loan note with a nominal value of £1,925 million issued by EE Group Investments Limited, a subsidiary of the BT group. The capital contribution is less than the nominal value of the loan note, which reflects the probability of the Scheme becoming fully funded, and therefore the annual payments to the Scheme ending before the underlying loan note matures. Under the terms of the limited partnership agreement and subject to the conditions therein, on or before 30 June each year, BT Falcon 1 LP will distribute to the Scheme capital and interest amounting to the £180 million it has received in respect of the loan note, provided that the Scheme was in deficit on a technical provisions basis as at 30 June of the preceding year. As the loan note is held by BT Falcon 1 LP and BT Falcon 1 LP has separate legal personality, it does not amount to an employer-related investment for the purposes of the relevant regulations. As at 30 June 2021, following receipt of the first £180m payment of capital and interest, the value of the Scheme's limited partnership interest in BT Falcon 1 LP was £1,430 million, representing 2.5% of the Scheme's net assets; whilst the principal amount outstanding on the EE loan note held by BT Falcon 1 LP was £1,800 million.

Hermes Group Pension Scheme
The Hermes Group Pension Scheme (HGPS) is a defined benefit pension scheme closed to new entrants and future accrual. Effective 15 December 2017, Hermes ceased to be a principal employer of HGPS under the Flexible Apportionment Arrangement. The Trustee of BT Pension Scheme assumed Hermes' liabilities in respect to HGPS as the sole principal employer, as well as obligations for all future contribution payments and expenses. HGPS is funded with the assets of the scheme that are held separately from those of BT Pension Scheme. However, the Trustee of the BT Pension Scheme has the ability to use Scheme assets, if needed, to fund HGPS obligations under its trust deed and rules.

The pension surplus of HGPS at 30 June 2021 amounted to £39 million (2020: £58 million), calculated on an FRS 102 basis by the scheme's actuary. The pension surplus is included in Other investment assets, with any gains and losses on revaluation included in Change in market value of investments.

Notes to the financial statements

24. Related party transactions and balances continued

Hermes Group Pension Scheme	30 June 2021 £m	30 June 2020 £m
Scheme assets	268	279
Scheme liabilities	(229)	(221)
	39	**58**

No contributions were paid or due to HGPS from December 2018.

25. Commitments and contingent liabilities

	30 June 2021 £m	30 June 2020 £m
Property	303	185
Calls on partly paid shares and underwriting commitments	2,106	2,444
	2,409	**2,629**

Notes to the financial statements

26. Subsidiary undertakings

Subsidiary undertaking	Principal activity	Holding	Ownership % 30 June 2021	Ownership % 30 June 2020
Subsidiary undertakings presented on a consolidated basis				
BT Pension Scheme Management Limited[14]	Primary service provider to BTPS	Ordinary shares	100	100
BT Pension Scheme Administration Limited[14]	Pension administration	Ordinary shares	100	100
Procentia Limited[14]	Pensions technology	Ordinary shares	75	75
BTPS Insurance ICC Limited[15]	Longevity insurance	Ordinary shares	100	100
BTPS (No.1) IC Limited[15]	Longevity insurance	Ordinary shares	100	100
Britel Scotland II L.P.[16]	Investment management	Partnership capital	100	100
SMLP Bristol L.P.[14]	Property investment and development	Partnership capital	100	100
Carraway Belfast Investments Unit Trust[17]	Property investment and development	Units	100	100
Carraway Tunbridge Wells Investments Unit Trust[17]	Property investment and development	Units	100	100
NOMA L.P.[16]	Property investment and development	Partnership capital	100	100
Hestia UK Residential Investment 1 Limited Partnership[17]	Property investment and development	Partnership capital	100	100
Retail Value L.P.[14]	Property investment and development	Partnership capital	100	100
Skypark Unit Trust[17]	Property investment and development	Units	–	100
Hermes One Centenary Way L.P. [14]	Property investment and development	Partnership capital	100	100
Hermes Three Chamberlain Square L.P. [14]	Property investment and development	Partnership capital	100	–
Subsidiary undertakings not presented on a consolidated basis				
Ares European Credit Strategies Fund II (B) L.P.[18]	Investment management	Partnership capital	100	100
Argent Group Ltd[14]	Property investment and development	Ordinary shares	100	100
Britel Real Estate Investments (Australia) Trust[22]	Property investment and development	Units	100	100
Hermes National Segregated Account I L.P.[19]	Property investment and development	Partnership capital	99	99
HCN L.P.[18]	Investment management	Partnership capital	100	100
Hermes Group Pension Scheme[14]	Pension scheme	Trustee	100	100
Hermes Direct Lending Fund L.P.[14]	Investment management	Partnership capital	100	100
Hermes GPE FRWL Holdco Limited.[14]	Investment in private equity	Ordinary shares	93	93
Hermes GPE Horizon L.P.[16]	Investment in private equity	Partnership capital	100	100
Hermes GPE Horizon II L.P.[16]	Investment in private equity	Partnership capital	100	100
Hermes Real Estate Senior Debt Holdings S.a.r.l[21]	Property investment and development	Partnership capital	100	100
Lionstone-Hermes Real Estate Venture L.P.[19]	Property investment and development	Partnership capital	99	99
MEPC Fund Unit Trust.[14]	Property investment and development	Units	100	100
Hexagon Real Estate Investments Sarl.[20]	Property investment and development	Ordinary shares	75	75
Orthogonal Partners I L.P.[16]	Investment management	Partnership capital	100	100
Strategic Investment Portfolio L.P[17]	Investment management	Partnership capital	100	100

[14] Registered in England; [15] Registered in Guernsey; [16] Registered in Scotland; [17] Registered in Jersey; [18] Registered in Cayman Islands; [19] Registered in USA; [20] Registered in France; [21] Registered in Luxembourg; [22] Registered in Australia.

The fair value of net assets of subsidiary undertakings that are not consolidated by the Scheme in aggregate amounted to £4,865 million (2020: £4,581 million). This comprised of £5,227 million of assets and £362 million of liabilities (2020: £4,774 million of assets and £193 million of liabilities).

26. Subsequent events

There were no subsequent events requiring disclosure in the Scheme's financial statements.

Actuary’s statement and report on actuarial liabilities

Actuary's statement and report on actuarial liabilities

The most recent actuarial valuation of the Scheme was made as at 30 June 2020.

The main purpose of an actuarial valuation of the Scheme is to determine whether or not the assets already held by the Trustee are sufficient to finance the prospective benefit entitlements of current and former members.

An actuarial valuation requires assumptions to be made about future financial and demographic conditions.

A summary of the results of the actuarial valuation at 30 June 2020 is in the table to the right, together with the assumptions used.

BT Pension Scheme	30 June 2020
Assets - £million	57,493
Liabilities (Technical Provisions) - £million	65,471
Deficit - £million	7,978
Funding level	87.8%
Average nominal discount rate (per annum)	1.4%
Average RPI inflation (per annum)	3.2%
CPI inflation (long term) (per annum)	2.4%
Life expectancy (age at death)	
Average male pensioner age 65	86.9
Average female pensioner age 65	88.6
Average male pensioner at 65 (age 45 now)	88.5
Average female pensioner at 65 (age 45 now)	90.5

The above discount rate is a Scheme average; the full assumption allows for a transition from return seeking assets to liability cashflow hedging assets over time. The above mortality rates are also a Scheme average; the full assumptions take into account influences on mortality expectations such as pension amount. Further details on the assumptions used are set out in the Scheme's Statement of Funding Principles which is available to members on request.

Actuary's statement and report on actuarial liabilities

As set out above, the valuation of the Scheme as a continuing scheme revealed a deficiency of £7,978 million. The Trustee and BT have agreed a recovery plan such that BT will pay additional contributions in the expectation of returning the Scheme to a fully funded position by 30 June 2030. Deficit contributions of £500 million, £1,660 million and £400 million were paid in March 2021, May 2021 and June 2021 respectively, with further contributions of £500 million due in March 2022 and June 2023 and £400m due in June 2022 and March 2023. Details of the other deficit contributions due are documented in the Schedule of Contributions.

The formal recovery plan ends on 31 December 2035, but in practice the Scheme is expected to reach full funding by 30 June 2030, as a result of the following:

- The deficiency contributions set out in the Schedule of Contributions that are due before 30 June 2030.
- Use of the £1,660 million contribution paid in May 2021 to invest in an asset backed funding arrangement that will make payments of £180 million a year to the Scheme. That asset will expire by 2034 and the payments may end before that time if the Scheme deficit is removed earlier than expected. This asset is secured against equity in the EE business.
- From 1 July 2023 to 30 June 2030, BT will pay £600 million a year either directly to the Scheme or to a new co-investment vehicle. If these contributions are paid to this co-investment vehicle their value will be recorded as an asset in the Scheme accounts and, to the extent there is a funding deficit at 30 June 2034, the co-investment vehicle will pay funds to the Scheme. Any remaining funds in the co-investment vehicle would be returned to BT if they are not deemed to be needed by the Scheme when assessed by the Trustee over the period 2034 to 2036.

In addition, BT have agreed to pay up to a further £200 million a year to the Scheme if needed to meet any future emerging funding deficit in excess of £1 billion. The need for these contributions will be assessed every year. This aspect of the agreement provides more certainty that the Scheme will achieve its path to full funding by clarifying how future increased deficits would be funded.

In addition to these deficit contributions, BT agreed to pay contributions in respect of the small number of members who continue to accrue benefits in the Scheme.

BT has also agreed that it will pay additional contributions to the Scheme in certain other circumstances. Full details of these arrangements are set out in the Schedule of Contributions and in a funding agreement between the Trustee and BT.

A copy of the certificate to the most recently agreed Schedule of Contributions is included following this statement.

In the unlikely event that the employer ceased paying contributions to the Scheme ("discontinuance"), the Trustee could seek to meet benefit payments by continuing it as a closed fund. Given the large size of the Scheme and the present capacity of the insurance market it is unlikely to be practicable for the Trustee to secure members' accrued rights by the purchase of appropriate annuities in the event of the Scheme being discontinued.

The terms currently available from life assurance companies are in any event such that the premiums charged to secure accrued rights in full would significantly exceed the realisable value of the Scheme's present assets.

An interim assessment of the Scheme will be carried out as at 30 June 2021. Whilst the full results of this assessment will not be available until later in 2021, initial calculations suggest the estimated Technical Provisions deficit has reduced over the Scheme year from £7,978m to around £4,600m. The main reasons for the reduction in the deficit are the deficit contributions paid by BT and a higher than assumed return on the Scheme's 'growth' (i.e. equity and equity-like) assets. Based on these calculations, the additional contributions of up to £200m a year referred to above are unlikely to be required this year.

Michael Pardoe FIA
Towers Watson Limited (a Willis Towers Watson Company)
30 September 2021

Actuary's statement and report on actuarial liabilities

Form of Actuary's certification of Schedule of Contributions

Name of scheme: BT Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 30 June 2020 to be met by the end of the period specified in the recovery plan.

Adherence to Statement of Funding Principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 12 May 2021.

3. I also certify that any rates of contributions forming part of this schedule which the scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Date: 12 May 2021
Name: Michael Pardoe
Qualification: Fellow of the Institute and Faculty of Actuaries
Address: Watson House, London Road, Reigate, Surrey RH2 9PQ
Name of employer: Towers Watson Limited

Technical provisions statement

Actuarial certification for the purposes of Regulation 7(4)a of the Occupational Pension Schemes (Scheme Funding) Regulations 2005.

Name of scheme: BT Pension Scheme

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Scheme's Technical Provisions as at 30 June 2020 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 12 May 2021.

Michael Pardoe
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company

12 May 2021

Watson House
London Road
Reigate
Surrey
RH2 9PQ

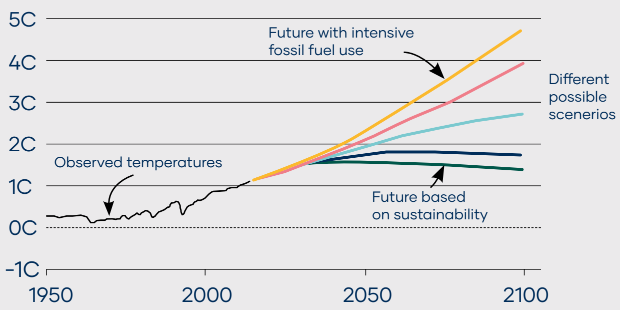
Appendix one: Climate change and TCFD disclosure

BT Pension Scheme & climate change

There is overwhelming scientific evidence that climate change is rapidly accelerating. The world has already experienced around 1.0°C of average warming above preindustrial levels and continued increases will have an irreversible and catastrophic impact on the environment and our way of life. The implications of climate change are systemic and apparent, with extraordinary weather events including flooding, drought, storms and wildfires increasing in frequency, with significant financial and human consequences.

How much hotter could it get?

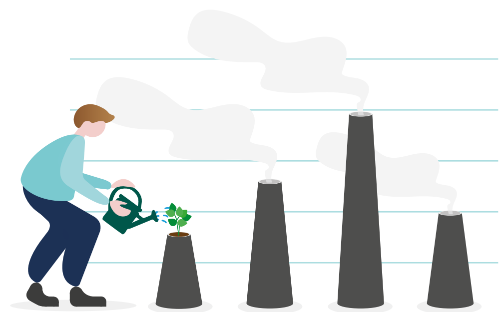
Change in average global temperature relative to 1850-1900, showing observed temperatures and future simulations



Note: Each line shows the average temperature rise for a scenerio
Source: IPCC, 2021: Summary for policymakers

As such, in 2020 BTPS committed to an ambitious goal to achieve net zero greenhouse gas emissions (absolute scope 1-3) by 2035 across its £55 billion portfolio. In setting this goal, the Scheme will reduce the risks posed by climate change and align its investments with efforts to limit global warming to 1.5°C above preindustrial levels. Getting to net zero will involve both reducing emissions from the Scheme's portfolio and investing in assets that will support the transition towards a low carbon economy.

BTPS believes that reducing exposure to carbon emissions over time will improve investment outcomes for the Scheme and help reduce the impact of future climate risks. Investments are potentially exposed to the physical risks of climate change and to the risk that the transition to a low carbon economy will make certain businesses, such as fossil fuel companies, unviable if they fail to change. It also believes that making investments that will aid the low carbon transition will deliver more sustainable returns to enable the Scheme to meet its financial obligations.



NET ZERO 2035

BTPS has set a goal to be net zero greenhouse gas emissions (absolute scope 1-3) by 2035 and, in doing so, to be aligned with the Paris Agreement's goal of net zero by 2050.

We will seek, over time, to decarbonise the portfolio and investment value chain and make investments that will reduce or remove carbon emissions from the atmosphere.

Our goal is supported by four pillars:

1. Portfolio construction

2. Mandates and managers

3. Stewardship

4. Advocacy

Beneath these pillars are 20 climate actions that we are committing to.

The 15-year goal will be overseen by the Board of Trustees and will be made up of five-year targets, fully reassessed every three years and tracked and publicly reported annually through our TCFD reporting.

Appendix one: Climate change and TCFD disclosure

How can climate change impact my pension?

Cilmate – Related Risk, Opportunities and Financial impact

Climate change can negatively or positively impact your pension through costs from disasters such as drought, wildfires and flooding, as well as the long-term expense or opportunities of shifting from fossil fuel to renewable energy. It is therefore important that these risks and opportunities are identified and mitigated. Studies have also found that a more sustainable pension can have up to a 27x more powerful effect on reducing your personal carbon footprint than cutting meat out of diets, limiting international travel, and any other lifestyle changes[1].

Footnotes

[1] https://www.nordea.com/en/doc/sustainable-finance-at-nordea.pdf

Climate change is a complex issue with challenges around data and reporting. As such, the Scheme supports the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), which aim to promote better disclosure of climate-related financial risks in order to improve understanding of the risks and opportunities of climate change.

The TCFD recommendations outline four sections for which stakeholders can report their climate-related financial risks and opportunities:

1. **Governance:** how is the organisation's board and management assessing, managing, and providing oversight of climate related risks and opportunities
2. **Strategy:** how these risks impact on the organisation's business model
3. **Risk:** what and how have risks been identified and managed
4. **Metrics & Targets:** how are the risks being monitored and have the appropriate metrics and targets been selected

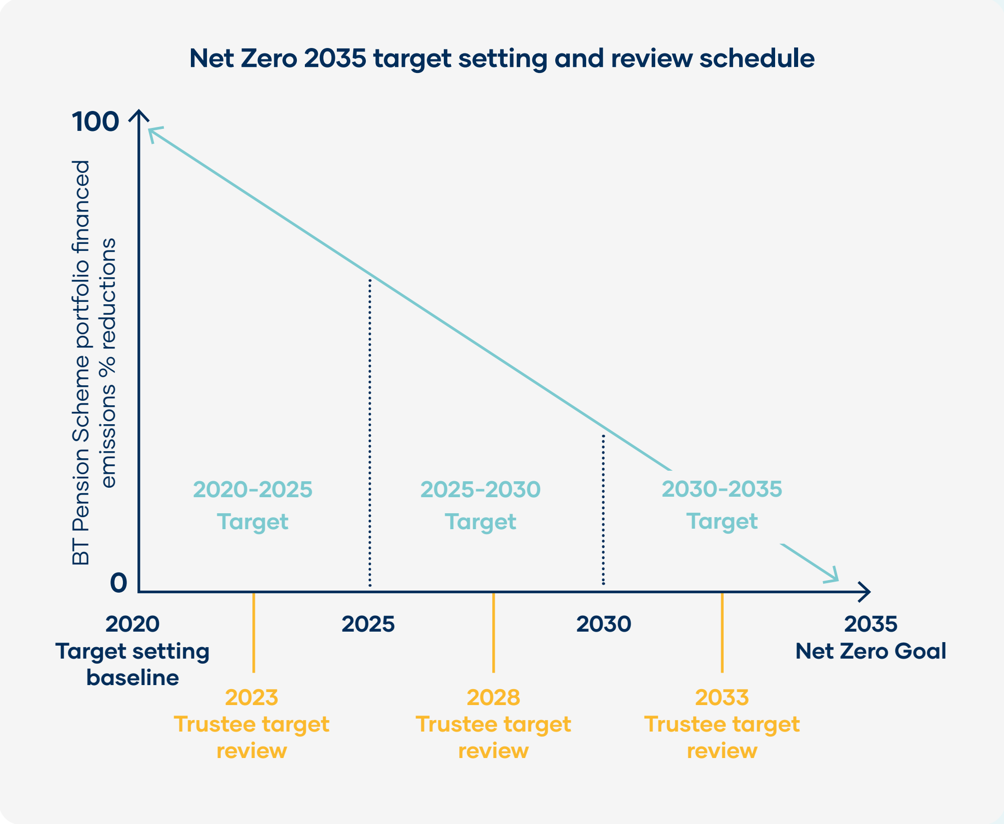
The Scheme has reported in line with the TCFD recommendations since 2018.

Appendix one: Climate change and TCFD disclosure

Governance

The Trustee Board has ultimate authority for all aspects of the management and strategy of the Scheme. The Scheme's 15-year net zero goal is also overseen by the Trustee and the responsibility for monitoring climate-related risks has been delegated to the Board Investment Committee (IC). The net zero 2035 goal is made up of five-year targets, which will be fully re-assessed every three years, and tracked and publicly reported annually through BTPS' TCFD reporting.

Each year the Trustee will undertake a 'deep-dive' to ensure the climate and carbon risk management process remains fit-for-purpose, and to incorporate any developments in best practice. The implementation of the net zero strategy is overseen by the BTPSM executive committee and the day-to-day integration of BTPS' considerations is done by a Net Zero Working Group, made up of investment team members. BTPSM's net zero activities are implemented by the Finance and Facilities teams.



Appendix one: Climate change and TCFD disclosure

Climate change through BTPS & BTPSM

BTPS Board
9 members

Net zero 2035: governance and oversight

BTPSM Executive Committee members

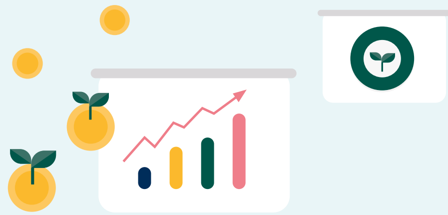
Net zero 2035: implementation plan for BTPS & BTPSM

Net Zero Working Group & Finance & Accounting teams
8 members

Net zero 2035: 4 pillars and 20 climate change actions work and development

Progress so far

During the year the Trustee, BTPSM executive committee and wider BTPSM teams cumulatively received four training sessions regarding climate change and the net zero goal to promote awareness of the goal and the potential climate change risks and opportunities facing the Scheme. Further Trustee climate change training is planned for Q4 2021.



Appendix one: Climate change and TCFD disclosure

Strategy

The Trustee has determined that it will integrate action, awareness and monitoring of climate change into its strategy through the net zero 2035 goal. The importance of climate change has also been integrated into BTPS' Statement of Investment Principles, which guides its approach to investing: **"... the Trustee believes that reducing exposure to carbon emissions over time will improve investment outcomes and reduce the impact of potential adverse outcomes associated with future climate risk. Consequently, the Trustee has established a goal for the Scheme's investment portfolio to achieve net zero carbon emissions by 2035."**

The net zero 2035 goal is supported by four pillars:

1. Portfolio construction

2. Mandates and managers

3. Stewardship

4. Advocacy

Beneath these pillars are 20 climate actions that BTPS is committing to.

Appendix one: Climate change and TCFD disclosure

1. Portfolio construction

Integrating climate risk and opportunities into BTPS' investment strategy and capital allocation will be an important activity. This is where Pillar 1, 'Portfolio Construction', will play a key role. Over the next 15 years, there will be a major change in the investments held by BTPS as by 2035, almost all of the Scheme's members will be retired. As a result, the Scheme's investment strategy will need more investments focused on safe, predictable income such as bonds and secure income assets, to meet members' monthly pension payments. This creates a unique opportunity to make investments in companies that have lower emissions and increase investment in climate change transition solutions. This review and analysis falls within the portfolio construction pillar which has four climate actions to ensure delivery.

1

Portfolio construction

1. Invest to reduce emissions and finance the transition to low carbon economy
2. Climate change scenario analysis and stress testing
3. Assess how climate change will impact future investment returns
4. Actively manage the portfolio to achieve net zero

Progress so far

Work is already underway across all four 'Portfolio Construction' actions. The Net Zero Working Group is exploring transition investment opportunities that are appropriate for the portfolio and BTPSM has appointed a specialist climate change data provider to deliver the best data coverage of the Scheme's assets. The Net Zero Working Group also continues to explore appropriate quantitative and qualitative data and scenario tools. Having a broad mosaic of analyses is important given the wide range of outcomes associated with climate change and huge uncertainty over its future path. BTPS will continue to broaden and deepen its work in this area, and, in particular, using scenario analysis aligned with 1.5°c warming. For more information on scenario analysis, please turn to page 89.

What does net zero mean?

Net zero emissions means achieving a balance between greenhouse gas (GHG) emissions produced and the amount removed from the atmosphere, consistent with limiting global warming to 1.5°C and neutralising the impact of any residual emissions by permanently removing an equivalent amount of carbon dioxide (CO2). For BTPS this will mean reducing the portfolio's emissions through changing investments and investing in technologies which reduce emissions.

Appendix one: Climate change and TCFD disclosure

2. Mandates & managers

One of the key strategies to mitigate the impact of significant long-term risks on Scheme assets is via its investment managers. As part of Pillar 2 of the net zero goal, 'Mandates and Managers', BTPS will align mandate objectives given to new and existing investment managers with its decarbonisation goal. Mandate objectives will vary by asset class and the strategy of the manager. For example, the objectives set for property investment managers will have differences to investment managers investing in the shares of companies. The Scheme will select and retain managers that it believes can help achieve its net zero goal. Managers will be required to report annually against a net zero climate questionnaire, appropriately tailored by asset class. The questionnaire will be reviewed to assess managers' progress in helping the Scheme achieve its goal and, if necessary, manager changes will be made.

2

Mandates & Managers

5. Ask our fund managers to achieve net zero with assets they manage for BTPS
6. Select managers that can help us on the journey; remove those that can't
7. Ask managers to report on their progress
8. Evaluate and challenge our fund managers on their progress towards our goal
9. Encourage fund managers to align their businesses with net zero

Progress so far

Throughout the year BTPSM has begun conversations with the Scheme's investment managers regarding BTPS' net zero target and has started integrating the goal into investment management agreements (IMAs). This will continue to happen across the portfolio. BTPSM has also created a net zero questionnaire to collect and track investment managers' climate data, reporting and emissions performance. As this is the first year, metrics that will work across the portfolio are still being refined, however BTPS calls upon all market participants to push for better climate data disclosure. Please refer to section 'Metrics & Targets' on page 90 for more information.

Appendix one: Climate change and TCFD disclosure

3. Stewardship

Stewardship plays an important role in how the Scheme pushes the companies it invests in to take action on climate change. As such, it is the third pillar of the net zero goal. BTPS will require managers to vote and engage on climate change with companies and other stakeholders in the financial system. It will implement a voting policy reflecting its net zero objectives. Over time, the Scheme expects the companies it invests in to make appropriate emissions disclosures and have clear plans for reducing their emissions to net zero. Failure to engage or make sufficient efforts to curb emissions after a period of engagement is likely to result in divestment from the manager.

3

Stewardship

10. Require our equity managers to follow a set climate voting policy

11. Require fund managers to engage with companies to set net zero targets

12. Expect our fund managers to ultimately divest after a period of unsuccessful engagement

13. Encourage our managers to actively participate with industry groups on climate change

14. Encourage managers to influence other stakeholders in the financial system

Voting

As a shareholder, investors have the right to vote and submit shareholder resolutions at companies' annual general meetings (AGMs). AGM management resolutions normally seek approval from shareholders to support topics such as audit or remuneration, however increasingly shareholders are using their right to vote, or their right to submit a resolution to demonstrate how they wish a company to act in regards to climate change. For example, during 2021, Hermes EOS engaged with all companies scoring 0 or 1 in the Transition Pathway Initiative (TPI) assessment, which considers the quality of management of climate risk. Where companies were not taking sufficient action, Hermes EOS recommended voting against the Chair of the Board, or other relevant board representatives, at the AGM. More detail on Hermes EOS' work on climate change can be found at **Taking action on climate change | Federated Hermes (International) (hermes-investment.com)**

Appendix one: Climate change and TCFD disclosure

Company engagement

Engagement is aimed at ensuring companies manage the physical and transitional risks that climate change poses. This includes advocating for companies to set strategies consistent with the goals of the Paris Agreement to keep global warming well below 2°C. It also involves appropriate management structures and clear disclosure and, in particular, TCFD-aligned reporting that enables more reliable, consistent data to inform investment decision-making. Engagement is conducted via confidential board and executive-level meetings and correspondence, supported, where appropriate, by speaking at AGMs, filing shareholder resolutions and proxy voting.

The Scheme's investment managers have undertaken significant engagement activity across the portfolio in relation to climate change, as illustrated in the following case studies.

Climate change
Equity engagement via Hermes EOS

Reducing emissions in a US food retailer supply chain

In the US, a food retailer had set a symbolic target of reducing emissions by one gigaton – approximately double the emissions of the UK – throughout its operations and supply chain. However, Hermes EOS questioned whether even this was sufficiently aligned to the achievement of the Paris goals. In 2020 the company committed to reaching net-zero emissions for Scopes 1, 2 and 3 emissions by 2040 as part of its ambition to become a regenerative business.

Climate change
Corporate credit engagement via Insight Asset Management

Setting net zero carbon emissions in UK oil & gas company

In the last 12 months, Insight engaged with the company three times to discuss their net zero ambition (net zero carbon emissions) across their entire operations on an absolute basis and believe this company is now one of the best in class from and environmental, social and governance (ESG) perspective. The company has published a comprehensive ESG strategy which targets net zero emissions by 2050. Following the introduction of this strategy, Insight became more positive on the bonds which they felt were attractively valued having suffered from a period of weak performance. As part of this strategy, the company also flagged its intention to examine and potentially reduce its exploration portfolio. The company plans to no longer develop frontier basins and instead focus on already developed geographies.

Appendix one: Climate change and TCFD disclosure

Environmental performance
Real estate engagement via Hermes Real Estate

Improving energy efficiency standards in a UK building

Hermes Real Estate installed a Collaborative Asset Performance Programme (CAPP) at the property, in collaboration with Carbon Credentials, to improve the central running systems and processes of the building. This programme has led to an 11% decrease in energy consumption year-on-year since Q1 2017. The team now has ongoing visibility over the opportunities for efficiencies and ongoing operational trends in building performance. The visibility has led to the implementation of several projects since the start of 2017, including lift control changes, toilet refurbishments, LED installation, Versatemp replacement and alteration to boiler sequencing. More projects are currently being planned to continue to drive reductions. Since its implementation, verified energy savings of 857,666 kWh have been achieved by the programme.

Corporate credit engagement via Wellington Asset Management

Committing to the Paris-aligned financing targets at a UK bank

Wellington met with a global financial firm to discuss financial performance and the meeting led to a follow-up engagement with an emphasis placed on the firm's climate profile. It is one of the largest financiers of fossil fuels globally. Given its environmental, social and governance (ESG) view of the company, Wellington of the company, Wellington signed a letter imploring them to align their financing activities to those of the Paris Agreement, and disclose metrics and targets that show how the company will meet its goal. The letter's outcome was encouraging. At the company's 2021 annual general meeting, the firm put forth a management sponsored resolution, committing to the Paris-aligned financing targets as Wellington had requested.

Corporate credit engagement via PIMCO Asset Management

Carbon goal alignment with Science-based Target Initiative with a European car manufacturer

PIMCO engaged with the company on the alignment of its electrification strategy and climate ambition with the Paris Agreement on climate change. Moreover, they raised supply chain issues and advised an expansion of their disclosure around upcoming supply chain targets for 2030 and the potential use of CO2 as a criterion for procurement. To date, the company has aligned their new greenhouse gas emissions reduction goal with the Science-Based Target initiative (SBTi), and they are exploring how to disclose more information in due course, for example on absolute emissions targets and how they go beyond regulations.

Case studies

Appendix one: Climate change and TCFD disclosure

Infrastructure engagement via Hermes Infrastructure

Encouraging the future of hydrogen with a UK gas distributor

As Chair of the company's sustainability committee, Hermes Infrastructure encouraged the company to significantly increase its activity around the future role of hydrogen. To support its efforts, it is currently building out a team focusing on: (i) pilot projects to demonstrate technical feasibility and safety, (ii) developing robust economic and consumer-led arguments for the benefits of the role of hydrogen, and (iii) policy advocacy and engagement. Both engagement areas focus on managing climate related risk and delivering emission reductions. Progress will be monitored via each sustainability committee over 2021.

Progress so far

During 2021, BTPSM engaged with all its public equity investment managers to explore setting a net zero voting policy. To support this rapidly evolving space, BTPS also joined 53 leading investors, representing $14 trillion of assets under management, in signing the Institutional Investor Group on Climate Change (IIGCC) statement on **corporate net zero transition plans**. The statement calls on companies to i) disclose a net zero transition plan, ii) identify the director responsible for the plan and iii) provide a means for investors to vote annually on progress against the plan. With a regular, advisory AGM vote, investors can clearly communicate their views on a company's climate change plans and encourage them to take the correct action. BTPSM also began engaging with three of the Scheme's counterparty banks to understand their climate change activities and products to help clients reach net zero emissions. BTPSM will continue its work in establishing a climate voting and engagement policy, and continue engaging with counterparties.

Appendix one: Climate change and TCFD disclosure

4. Advocacy

BTPS recognises the importance of third-party cooperation in achieving its goals and will advocate for index and data providers, ratings agencies, financial industry groups, and consultants to urgently improve climate change data and disclosures. This is Pillar 4 of the net zero goal. It will use its influence to advocate for net zero aligned policy and regulation with policy makers, governments, the investment industry, and other stakeholders. It will encourage the creation of government programmes to mobilise investments in clean and resilient growth. In alignment with BTPS, BTPSM will also incentivise staff to achieve net zero and offset its own operational emissions.

4

Advocacy

15. Call for improved climate data from key stakeholders in the financial system

16. Advocate for net zero aligned policies with policy makers, governments and the investment industry

17. Encourage government programmes to mobilise investment in clean growth

18. Collaborate with industry groups and peers to promote net zero

19. Include net zero in BTPSM's corporate objectives

20. Continue to offset BTPSM's operational emissions

Progress so far

Since October 2020 the Scheme has:

- Publicly and directly advocated for stronger action on climate change through joining the Net Zero Asset Owner Initiative;
- Responded to three government consultations on climate change and signed a joint investor letter in response to a TCFD consultation;
- Engaged with three Members of UK Parliament regarding climate change and presented at the UK Pensions Select Committee regarding climate change and COP26;
- Signed a letter alongside more than 200 leading UK businesses, investors and business networks calling on the Government to deliver a just, clean and sustainable COVID-19 recovery plan;
- Signed the Accounting 4 Sustainability (A4S) Pension Fund Chair Net Zero **Statement of Support**, **the 2021 Global Investor Statement to Governments on the Climate Crisis,** and **contributed to the Accounting 4 Sustainability ESG Toolkit for Pension Chairs and Trustees**;
- Launched and continues to chair the investor-led **Assessing Sovereign Climate Opportunities and Risk (ASCOR) Project** which aims to develop an assessment framework that enables the current and future climate change governance and performance of sovereigns to be fairly and appropriately measured, monitored and compared;
- BTPSM has fully integrated net zero into its corporate objectives and is seeking to work with a carbon auditing firm to reduce its operational emissions footprint.

Appendix one: Climate change and TCFD disclosure

Risk management

Addressing climate change is part of the Scheme's broader responsible investment strategy. The Scheme's risk register has identified climate change as a risk that may have a material adverse impact due to transition and physical risks. Transition risks include changes in climate and energy policies, such as a shift to low-carbon technologies and liability issues, potentially leaving heavy emitters unprofitable. Physical risks such as flooding, extreme heat and wildfires can impact water availability, food security, supply chains and employee safety, and, as such, a company or country's financial stability. These risks are considered relevant over all time horizons. Transition risks are likely to be most relevant over short and medium term horizons. Physical risks are relevant for all time horizons, although their impact is expected to increase over time as climate conditions become increasingly volatile. The Scheme has a climate and carbon risk management process, which uses its risk register and scenario analysis.

Risk register

Climate risk is monitored as part of the regular review of the Investment Committee (IC) risk register. Controls include ongoing monitoring by BTPSM of climate and carbon risk (with high risk exposures and incidents reported to the IC), an annual performance review of the Scheme comparing outcomes against expectations and investment beliefs, and regular asset class deep-dives that include coverage of responsible investment and climate risk. An assessment of the Scheme's exposures to high and low carbon assets, transition and physical risks and scenario analysis will also be conducted annually as part of the Trustee net zero deep-dive.

Appendix one: Climate change and TCFD disclosure

Scenario analysis

For several years, BTPS has undertaken climate change scenario analysis to help determine the impact of different global warming scenarios on its assets. In 2019, the Scheme, together with several other institutional investors, partnered with Mercer to update its 2015 study investigating the potential impact of climate change on investment returns and their resilience. As part of this work, the impact of three different climate scenarios was evaluated, ranging from 2°C, 3°c and 4°C warming. Mercer's modelling was completed in two ways: 1) Scenario analysis: estimating an annual, average climate impact on the return at three levels – total portfolio, asset class, and industry sector – which is in addition to current expected returns in traditional models and 2) Stress testing: capitalising multiple annualised return impacts into a single short-term period (e.g. over less than a year) to compare more sudden climate-related price impacts with more 'traditional' risks that are stress tested in strategy reviews. In addition, Mercer modelling included stress testing for a sudden shift which could result from an Inevitable Policy Response pathway.

BTPS portfolio impact

Out to 2100, the Scheme's 2019 portfolio experiences the most negative impact under a 4°C scenario and least negative impact in a 2°C scenario. Although the differences are marginal on a per annum basis (0.03% pa from 2°C to 4°C), the cumulative ending value of the portfolio will experience the greatest drag in the 4°C scenario. Given the diversified asset class exposure within BTPS, the potential negative impact on the Scheme's expected returns from a 4°C scenario is relatively modest, especially compared to some of the other investment risks the Scheme faces, such as interest rates, inflation and equity risk. However, the Scheme is conscious of the challenges and accuracy of modelling decades into the future, and it is clear from the work completed that adverse climate scenarios do pose a risk to BTPS funding outcomes.

As a defined benefit pension Scheme which will reach maturity in 2034, over time BTPS will allocate increasingly to fixed income assets, to both hedge its liability risk and generate income to pay its members. This means that most of its financial climate risks will lie in this asset class. Also, given the maturity of the Scheme, its largest climate risk will more likely be transition based rather than physically based, as the most damaging physical risks are expected to be in the second half of the century.

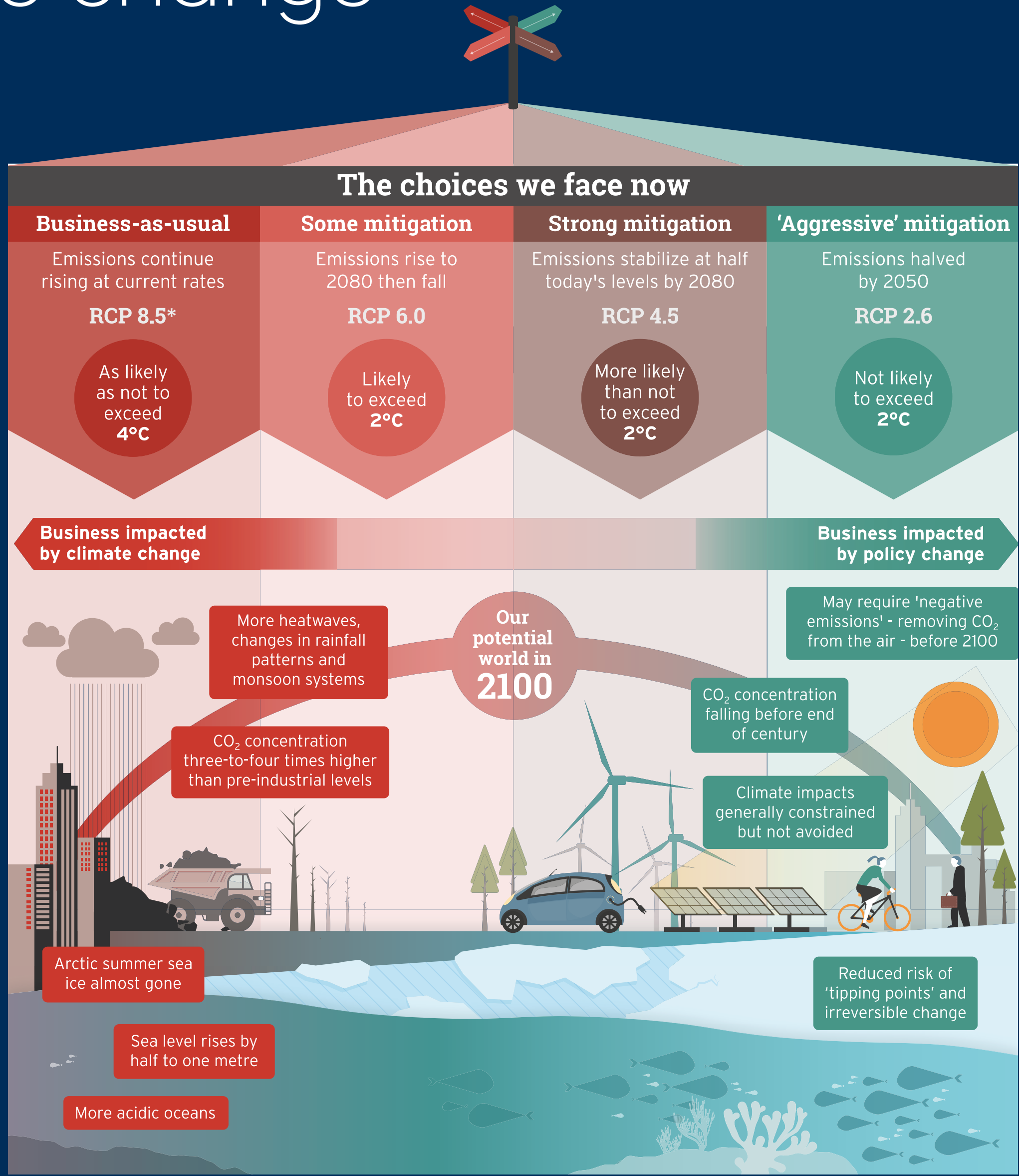
Despite this analysis, it is important to remember that scenario analysis is not a prediction of the future, it is a range of potential outcomes that can change at any point in time. As such, scenarios must be regularly updated with the latest science and policy changes. The investment industry's scenarios must also continue evolving as there are currently many limitations across different asset classes and sectors. BTPS will continue working to improve this and to explore 1.5°C warming scenarios.

Appendix one: Climate change and TCFD disclosure

What is climate scenario analysis?

Scenario analysis is a useful tool to begin understanding the implications of climate change for a business, and to prompt longer term strategic thinking about risks and opportunities.

As the world transitions to a low carbon economy, trends are emerging which present real risks and opportunities for businesses. Technology trends, such as the continuing growth of electric vehicles and the declining costs of renewable energy, should be understood and factored in by business leaders and into their supply chains. Also, as climate change accelerates, there are increasingly frequent or severe physical impacts which will have implications for all companies with physical assets and those whose value and supply chains are dependent on vulnerable resources or regions. Scenario analysis can therefore help investors analyse the potential financial and strategic implications of climate change on their investments.



https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Technical-Supplement-062917.pdf

Appendix one: Climate change and TCFD disclosure

Metrics and targets

The Scheme uses a range of methods for assessing and managing climate change risk. At the individual mandate level, its managers have flexibility to assess risk in the manner that is most appropriate for the assets they are managing on behalf of the Scheme.

The TCFD recommends that asset owners should measure and report the weighted average carbon intensity (WACI[2]) of their portfolios. This metric shows the portfolio's exposure to carbon-intensive companies, expressed in tons CO2e /$M revenue. There are widely acknowledged challenges and limitations of current carbon foot-printing metrics, including data availability and methodological issues. However, disclosing weighted carbon intensity could be an important first step in helping to prompt advancements in the development and provision of decision-useful, climate- related data and risk metrics.

The Scheme does not invest according to a weighted carbon intensity target, however it believes measuring its weighted carbon intensity helps to facilitate dialogue with investment managers on the risks and opportunities of climate change within their portfolios. BTPS sets a strong expectation that managers will consider long-term environmental, social and governance risks and opportunities, particularly those relating to climate change, as part of their investment process. The Scheme also seeks various qualitative insights into how its managers put this into practice.

BT Pension Scheme has gathered data for the emissions associated with 51.2% of its overall portfolio, excluding UK Gilts[3]. For many investors, obtaining climate change data is a challenge and BTPS will continue to work with its investment managers and data providers to improve coverage.

Listed equities

As at 30 June 2021, the weighted average carbon intensity of the Scheme's listed equity portfolio was 148 tonnes of carbon dioxide equivalents per million US dollars of revenue (tCO2e/US$m). As a point of reference, as at the same date, the weighted average carbon intensity of the MSCI World Index, a broad global equity index of developed market companies, was 160 tCO2e/US$m. While the Scheme does not take a benchmark-driven approach to investment, it is encouraging that the carbon intensity of the listed equity portfolio is approximately 8% lower than the MSCI World Index. This is because it means the Scheme's equity portfolio is less exposed to climate change transition risk than it would be if it was invested in line with the broad equity market. Emissions data coverage and availability for listed equities was 100%.

Investment Grade Corporate Bonds

Compared to listed equities, data coverage within the bond universe continues to be limited due to several factors. As a result, at present, data is available for approximately 83% of the Scheme's investment grade corporate credit mandates. In line with the listed equity allocation, the Scheme does not have an explicit carbon intensity target for the investment grade credit portfolios. However, due to the approach applied by the Scheme's investment managers, carbon intensity is expected to be lower than that of an equivalent bond universe. As of 30 June 2021, the weighted average carbon intensity of the Scheme's investment grade credit allocation was 165 tonnes of carbon dioxide equivalents per million US dollars of revenue (tCO2e/US$m). As reference, the weighted average carbon intensity of the Global Investment Grade Credit index, was 238 tCO2e/US$m. This also shows that the Scheme's corporate credit portfolio is 18% lower than the benchmark's WACI and therefore less exposed to transition risks than if it was investing passively, in line with the benchmark.

Emissions data coverage and availability for investment grade corporate credit was 83%.

Footnotes

[2] The carbon intensity of each constituent in the portfolio or index (tCO2e/USD 1 million) is taken and multiplied by its weight in the portfolio or index. The final carbon intensity for the portfolio or index is the sum of these contributions.

[3] Source S&P Trucost Limited, an affiliate of S&P Global Market Intelligence.

Appendix one: Climate change and TCFD disclosure

Property

With buildings accounting for almost a third of the world's energy consumption, greenhouse gas emissions and natural-resource usage, responsible investment is an important factor in property investments, especially as it is the asset class which can have the most tangible benefits from integrating ESG considerations. Not only is investor and tenant demand for well-managed, sustainable buildings a clear value driver, but communities can benefit, and climate and resource efficiency, and flood risk can be integrated into property valuation and ongoing asset management. Through Hermes Real Estate, BTPS' core property manager, this approach has resulted in reduced carbon intensity and greater energy efficiency throughout the lifecycle of the key assets within the portfolio. Since the baseline year of calculation in 2006 to the end of 2020, the Scheme's UK property portfolio carbon emissions have declined by 58% and the year-on-year carbon emissions between 2019-2020 have declined by 6.2%. The Scheme applauds Hermes Real Estate for setting its own 2030 net zero target.

Infrastructure

The Scheme's infrastructure allocation is deployed predominantly in mature core UK assets targeting long-term stable and predictable inflation-protected cash flows. The focus on income sustainability means that the selection process for investments includes the consideration of the climate change impact. This year, the Scheme's infrastructure investment WACI was 572.5 tCO2e/$m, a higher number than our equity and investment grade credit portfolios. However, whilst no assets are excluded, a number of the assets in the portfolio are either low emissions investments, or investments that avoid emission altogether such as renewables. On a net basis, i.e. including the carbon offset generated by renewables, the overall portfolio avoids more emissions than it generates. As a result, as of 30 June 2021, its carbon intensity offset was -68.1 tonnes of carbon dioxide equivalents per million US dollars of revenue (tCO2e/US$m)[4].

Emissions data coverage and availability for infrastructure was 92%.

[4] Source Hermes GPE Infrastructure.

Climate metrics definitions

Weighted Average Carbon Intensity: WACI measures a portfolio's exposure to carbon intensive companies and is recommended by the TCFD for portfolio footprinting. Portfolios exposed to more carbon intensive companies and sectors by percentage of overall value of holdings will tend to have a higher WACI. Since companies with high carbon intensity are likely to face more exposure to carbon related market and regulatory risks, this metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios or benchmarks.

Emissions data coverage: Measures the percentage of the portfolio for which there is emissions data.

Appendix one: Climate change and TCFD disclosure

Data quality

Like many investors, BTPS is dependent on the quality and completeness of climate data and of net zero methodologies for different asset classes. Much improvement in the industry is still needed. BTPS is proactively contributing to the improvement in methodologies including participation in the Net Zero Asset Owner Initiative (AOI), Paris Aligned Investment Initiative (PAII), the Transition Pathway Initiative (TPI), support for the Taskforce on Climate-related Financial Disclosures (TCFD), and broader market engagement. In this regard, the Scheme's priorities are those data and methodologies that will enhance its ability to set a climate solution target and shorter-term alignment targets.

BTPSM's operational emissions

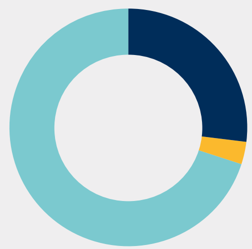
As well as measuring our investments' emissions, we also measure emissions from our offices, energy and transport.

To help mitigate the impact of its footprint, BTPSM works with ClimateCare, a specialist environmental and social impact company to invest in climate and development projects to offset emissions and deliver positive social outcomes in developing communities. In 2020, BTPSM offset 78 tonnes of carbon dioxide, which is the same as 17 people driving a car for a year. This was a halving of emissions compared to 2019 emissions, 160 tonnes, however this drop in emissions was largely due the impact of COVID-19 on operations.

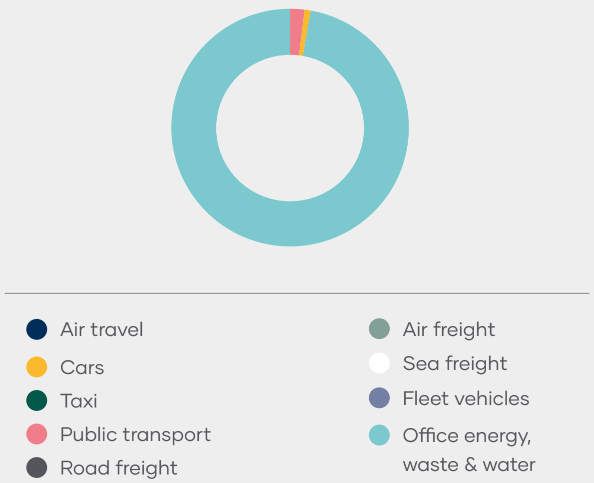
Progress so far

Keen to understand how it can reduce its operational emissions footprint, BTPSM reviewed its London office's energy contract to understand when it could switch to a greener energy option. It also spoke with its landlord to understand how energy improvements in the building could be made. BTPSM will seek to appoint a specialist carbon auditing firm to help better understand how it can reduce its environmental footprint.

BTPSM carbon footprint breakdown – 40 tonnes/CO2



BTPSA carbon footprint breakdown – 38 tonnes/CO2



Appendix one: Climate change and TCFD disclosure

Net zero going forwards

Over the next five years, significant activities will be undertaken in implementing BTPS's net zero goal. In the first 12 months, the Scheme has been improving its understanding of its emissions footprint and integrating the net zero goal into mandates and corporate objectives. In 2023, BTPS will be reviewing the past three years of work to determine what has been successful and what has not. By 2025, BTPS aims to have reduced emissions by 33%. The Scheme will continue to report its progress on an annual basis.

First 12 months

- Join Net Zero Asset Owner Alliance and IIGCC's Paris Aligned Investment Initiative, and support Transition Pathways Initiative
- Undertake a deep-dive on emissions performance and transition investment opportunities
- Apply appropriate scenario analysis across the portfolio, including one in line with 1.5°C warming scenario
- Begin evolving manager mandates and develop manager Net Zero 2035 scorecards
- Set climate change engagement and voting priorities
- Integrate Net Zero 2035 into BTPSM's objectives
- Report on our progress as part of our TCFD reporting

By 2023

- Analyse three annual deep-dives of the Scheme and manager net zero scorecard performance
- Review regulation and government action on climate change
- Undertake a full review of the target to determine what has been successful and what has not, and determine if changes are necessary

By 2025

- Reduce Scheme emissions by a third
- All investment mandates to align with 2035 net zero goals
- Evidence increased investments in transition solutions
- Evidence clear examples of BTPS advocacy in promoting net zero
- Clear examples of BTPS advocacy in promoting net zero
- Undertake one 3-year full reassessment of net zero goal

Appendix two: SIP Implementation Statement

This is the Trustee's statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the voting and engagement policies detailed in the Scheme's Statement of Investment Principles (SIP).

What is the Statement of Investment Principles (SIP)?

Regulatory changes in 2018 and 2019 required trustees of UK defined benefit pension schemes to disclose further information in relation to how they undertake stewardship - exercising voting rights and engaging with their investments - in their SIP, and introduced the concept of an annual Implementation Statement. The legislation states that the Implementation Statement must be included in the annual report and accounts, and that it must also be made publicly available online. To reflect new regulatory requirements, the SIP was reviewed and approved on 30 September 2020. Following the Scheme year end, a revised SIP was approved on 30 September 2021.

The SIP sets out the investment principles and practices that the Trustee follows when governing the Scheme's investments. It describes the rationale for selecting the investment strategy and explains the risks and expected returns of the Scheme, and the Trustee's approach to responsible investing (including climate change). This Implementation Statement is in respect of the Scheme's SIPs that were in place from 1 July 2020 to the date of signing this report. The purpose is to:

- Set out the extent to which, in the opinion of the Trustees, the stewardship activities detailed in the Scheme's SIP, required under section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it), have been followed during the year;
- Describe the voting behaviour by, or on behalf of, the Trustee over the year (including most significant votes), and state any use of services of a proxy voter during that year.

A copy of this implementation statement will be made available on the BTPS website alongside the Scheme's SIP: **https://www.btps.co.uk/RegulatoryReporting**

Changes to the SIP during the year

To reflect new regulatory requirements, during the year, the SIP was reviewed and approved by the Trustee in September 2020. The previous SIP was approved in September 2019. This Implementation Statement is in respect of the SIPs that were in place from 1 July 2020 to the date of signing this report, and therefore covers the 2019 and the 2020 SIP. Following the Scheme year end, a revised SIP was approved on 30 September 2021.

Appendix two: SIP Implementation Statement

How the Scheme's investments are governed

The main objective of the Trustee is to ensure that there are sufficient assets to pay benefits to members and their beneficiaries as they fall due, and that all members and beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme. In considering their approach to meeting this objective, the Trustee considers the expected progression of the Scheme's total annual benefit payments relative to the projected level of Scheme assets as the proportion of retired members increases over time. The Trustee takes an integrated approach to the management of risk in the Scheme. The Trustee therefore invests the assets of the Scheme consistent with funding a defined level of benefits within an acceptable level of risk, having appropriate regard to the affordability of both the immediate and longer term cash cost to BT, and the funding obligations which BT (and other entities where relevant) may have from time to time to the Scheme. The Trustee recognises the importance of establishing and maintaining stability in the Scheme's funding position and understands that continued investment in risky assets might, over the short to medium term, influence the volatility of the funding level of the Scheme, and hence may influence the level of future contributions that may be required from BT.

The Trustee has established a core set of investment beliefs that provide a framework for consistent and effective investment decision making. This includes beliefs that are related to the nature and characteristics of the Scheme, such as the importance of having an appropriate governance structure, the need to take into account the liabilities when setting investment strategy, and having an understanding of both the competitive advantages and disadvantages facing the Scheme. In addition, the investment beliefs recognise the importance of being a responsible investor and include market-related beliefs, such as those concerning the relationship between risk and return, the importance of diversification, and the belief that markets can be inefficient. The Trustee, supported by its Investment Committee and BTPSM, regularly reviews its investment beliefs against the investment outcomes being delivered by the Scheme.

Appendix two: SIP Implementation Statement

The Trustees' expectations of stewardship, engagement & voting

The following section of the Implementation Statement focuses on how, and the extent to which, the Scheme's policies on stewardship have been followed during the Scheme year. It will also describe the voting behaviour by, or on behalf of, the Trustee (including a selection of significant votes cast by the Trustee or on its behalf) during the year, stating any use of the services of a proxy voter during that year.

In relation to stewardship activities, the Scheme's Statement of Investment Principles (SIP) sets out policies across the following areas:

ESG integration Integrating all financially material considerations, including environmental, social and governance (ESG) factors, throughout the investment process	**Emerging long-term risks** Monitoring emerging long-term risks, such as climate change and technology disruption, that may have a material adverse effect on the Scheme	**Reducing emissions & Net Zero 2035** Reducing exposure to carbon emissions, and establishing a goal for the Scheme's investment portfolio to achieve net zero carbon emissions by 2035	**Members views** Considering the views of members to help inform the Trustees' approach to ESG considerations and stewardship
Investment managers are expected to consider both the risks and opportunities that arise from ESG factors where appropriate in the selection, retention and realisation of the investments they manage on behalf of the Scheme. As relevant to the asset class and strategy, they are expected to provide evidence and ongoing reporting on the ESG integration process across, for example, fundamental analysis, asset valuation and portfolio construction as well as engagement and voting activities. The Trustee delegates the exercise of voting right and engagement activities to Hermes EOS, one of the world's foremost providers of collaborative stewardship services, and where they can demonstrate sufficient capabilities, its investment managers.	Given the time horizon of the Scheme, the Trustee recognises that emerging, long-term risks, including, for example, climate and technology disruption, may have a material adverse impact on the Scheme. These risks are monitored by the Trustee as part of their regular review of the Scheme's risk register. Day-to-day implementation and monitoring of the controls in place to manage these risks is delegated to BTPSM.	The Trustee believes that reducing exposure to carbon emissions over time will improve investment outcomes and reduce the impact of potential adverse outcomes associated with future climate risk. Consequently, the Trustee has established a goal for the Scheme's investment portfolio to achieve net zero carbon emissions by 2035.	The Trustee believes in engaging with members to understand their views on different topics. There are several mechanisms in place that provide this link including through: • BT's recognised Trade Unions (CWU and Prospect) and the National Federation of Occupational Pensioners (NFOP) nominate Trustees • Providing an annual presentation by the Trustee Board, BTPSM and its advisers to BT's recognised Trade Unions and NFOP • Updating members on the Scheme's stewardship, engagement and voting activities via quarterly updates on the BTPS website, the Scheme's report and accounts, including TCFD disclosures, and the Scheme's annual PRI transparency and assessment report • Inviting feedback from members through the annual member newsletter and annual member surveys and supporting a 'member panel' who volunteer to take part in more in-depth research with the Scheme.

Appendix two: SIP Implementation Statement

In January 2021, the results of BTPS' member survey demonstrated that members continue to expect BTPS to take into consideration the ESG impact of its investments, and to use its investments to make a positive impact on the environment and society.

76%
expect BTPS to continue taking into consideration the environmental and social impact of the investments it makes.

67%
expect BTPS to use its investments to make a positive impact on the environment and society.

64%
expect BTPS to actively avoid investments that have a materially negative impact on the environment and society.

43%
expect BTPS to prioritise financial performance over the environmental and social impact of its investments.

These results were also slightly more positive than in 2020 where members surveyed online said:

74%
expect BTPS to continue taking into consideration the environmental and social impact of the investments it makes.

65%
expect BTPS to use its investments to make a positive impact on the environment and society.

62%
expect BTPS to actively avoid investments that have a materially negative impact on the environment and society.

48%
expect BTPS to prioritise performance over the environmental and social impact of its investments.

Trustee Stewardship Training

To ensure the Trustee is kept informed of responsible investment activities, during 2020-2021, the Trustee Investment Committee (IC), which oversees the Scheme's RI strategy, received two presentations regarding net zero and responsible investment activities within the portfolio from BTPSM.

Appendix two: SIP Implementation Statement

Engagement

Before appointing an investment manager, BTPSM seeks to understand the manager's philosophy and approach to determine their suitability for the mandate being awarded. This includes an assessment of the alignment between Trustees' beliefs and goals with those of the manager. In addition, clarity is sought on the manager's investment time horizon, approach to responsible investment, and engagement with underlying companies. It is the expectation of the Trustees that investment managers engage regularly with their portfolios. BTPSM therefore actively monitors and engages with investment managers to ensure their ongoing resilience, adherence to mandate expectations and alignment with Trustee objectives. The monitoring process includes ongoing evaluation of the environmental, social and governance characteristics of the portfolio, and managers' engagement, stewardship and voting activities.

BTPS engagement activities

- During 2020-2021, on behalf of the Trustees, the Scheme's fund managers with voting rights and engagement activity applicable to their strategy were reviewed by BTPSM . Managers were asked to outline the objectives of key portfolio engagements and whether investment decisions had been altered because of the discussions.
- BTPSM evaluated how its largest fund managers integrate climate change risks and opportunities in their investment process as part of the Trustees' commitment to achieving the Scheme's Net Zero 2035 goal. Following this, BTPSM has begun amending the Investment Management Agreements (IMAs) of its fund managers to incorporate explicit net zero objectives into the mandates they manage for BTPS.
- BTPS also publicly and directly advocated for stronger action on climate change through:
- Joining the **Net Zero Asset Owner Alliance** and **Transition Pathways Initiative (TPI)**
- Engaging with key UK policy makers and signing public statements such as the **2021 Global Investor Statement to Governments on the Climate Crisis**, with a particular focus on climate change governance in sovereign debt
- Launching and chairing the **Assessing Sovereign Climate Opportunities and Risk (ASCOR) Project** with other asset owners and international investor climate change networks to develop an assessment framework that enables the current and future climate change governance and performance of sovereigns to be fairly and appropriately measured, monitored and compared.
- Signing the Accounting 4 Sustainability (A4S) Pension Fund Chair Net Zero **Statement of Support**
- Signing the **IIGCC's statement on corporate net zero alignment plans** and, via its fund managers, supporting collaborative engagement in Climate Action 100+.

Appendix two: SIP Implementation Statement

Investment engagement activities

The following section provides insights and statistics on engagement activities undertaken in 2020 by Hermes EOS, the Scheme's main stewardship services provider.

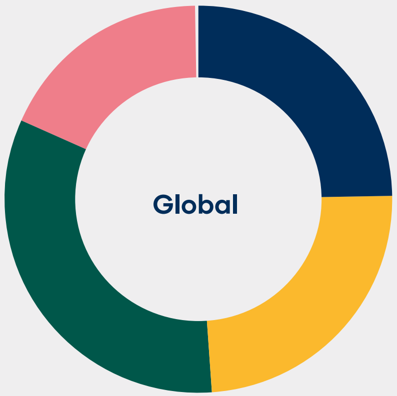
Engagement statistics

In 2020, Hermes EOS engaged with 177 companies on 661 environmental, social, governance, strategy, risk and communication issues and objectives, to promote positive change on a wide range of issues:

Engagement by ESG theme

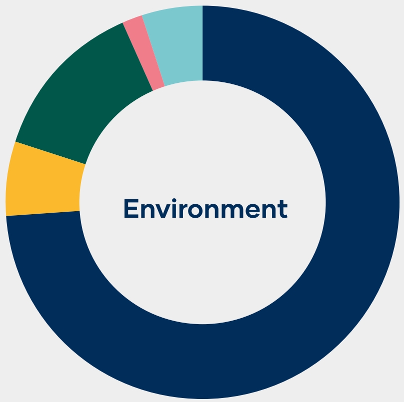
To ensure they achieve positive outcomes, Hermes EOS sets clear and specific objectives within all company engagements. Each objective is tracked using milestones and regularly reviewed until they are completed, or when the company has demonstrably implemented the change requested, or when the activity is discontinued. An example objective is: "development of a strategy consistent with the goals of the Paris Agreement, including setting science-based emissions reduction targets for operating emissions (Scopes 1 and 2 emissions)".

Hermes EOS engaged with **177 companies over the last year**



Environmental	25.0%
Social and ethical	24.2%
Governance	32.6%
Strategy, risk, communication	18.2%

Environmental topics featured in **25.0%** of Hermes EOS engagements over the last year



Climate change	73.9%
Forestry and land use	6.1%
Pollution and waste management	13.4%
Supply chain management	1.8%
Water	4.8%

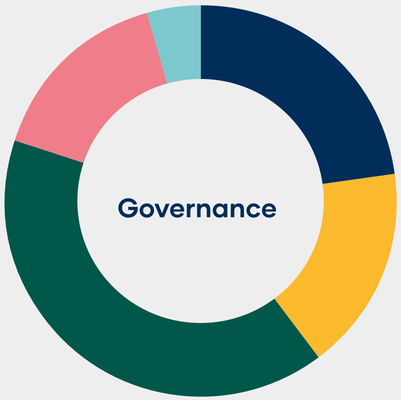
Social and ethical topics featured in **24.2%** of Hermes EOS engagements over the last year

Bribery and corruption	2.5%
Conduct and culture	14.4%
Diversity	18.8%
Human capital management	28.1%
Human rights	27.4%
Labour rights	5.0%
Tax	3.8%

Appendix two: SIP Implementation Statement

Engagement by ESG theme

Governance topics featured in 32.7% of Hermes EOS' engagements over the last year



Board diversity, skills and experience	23.1%
Board independence	16.7%
Executive remuneration	40.3%
Shareholder protection and rights	15.7%
Succession planning	4.2%

Strategy, risk and communication topics featured in 18.2% of Hermes EOS' engagements over the last year

Audit and accounting	7.5%
Business strategy	36.6%
Cyber security	6.7%
Integrated reporting and other disclosure	20.0%
Risk management	29.2%

Further to Hermes EOS, the following pages set out further engagement examples from a selection of BTPS' other investment managers. For more examples and a wider insight into the Scheme's stewardship activities, please refer to **BTPS' 2021 Responsible Investment and Stewardship Report**.

Appendix two: SIP Implementation Statement

Mental health

Equity engagement via GQG Partners

Investor collaboration to improve mental health support for content reviewers at a US technology company

GQG and other like-minded asset managers wrote a letter to an American technology company because it had allegedly exposed content moderators in the US to traumatic work and inadequate wages. Reportedly, most of the company's content reviewers are employed by third-party firms, and their tasks include filtering sensitive content posted on its social media platforms, such as suicide, terrorism, rape, hate speech, murder and child pornography. As a consequence of the emotionally intense work, some workers had developed post-traumatic stress disorder (PTSD), anxiety and depression. On-site mental health support is reportedly inadequate and not provided to former workers, some of whom filed a class action lawsuit against the company alleging its failure to provide a safe working environment. In response, the company stated that it requires its partners to offer 24/7 on-site support with trained practitioners, an on-call service, and access to private healthcare from the first day of employment. Despite the company's assurances, the recurring allegations remain a source of concern.

Accounting

Corporate credit engagement via M&G Investment Management

Changing asset accounting assumptions at a UK oil & gas company

M&G co-signed a letter with other major shareholders to support the changes to the company's accounting assumptions, which saw the oil and gas company write down the value of assets based on a lower future expected oil price. The letter was the culmination of a large amount of lobbying behind the scenes to get exploration and production companies to be realistic about demand and pricing assumptions under a Paris Agreement-aligned world. While there was not necessarily a direct causal link between this pressure and the company's changes, it is worth noting how proactive these views have been and that the changes, which are now becoming standardised across the industry, support better information for investors. This is also likely to help companies make investment decisions that are more aligned with climate targets.

Appendix two: SIP Implementation Statement

Human Rights
Infrastructure engagement via Hermes Infrastructure

Strengthening human and worker rights policies at a UK windfarm

At a Scottish windfarm, extensive engagement with co-shareholders led to a comprehensive review of the wind farm's ESG policy with a focus on managing risk. The policy was updated and expanded to include the consideration of several social matters, primarily on supply chain risks in relation to health, safety and wellbeing, and forced, compulsory and child labour. The policy enhancements and implementation thereof contributed to an improved Global Real Estate Sustainability Benchmark (GRESB) score from 66 in 2019 to 83 in 2020, ranking 3rd out of 6 in its peer group and obtaining 5 GRESB stars.

Voting

When an investor owns shares in a company, they become a part-owner of that business. Having a share also gives them the right to vote at the company's annual general meeting (AGM), which is where companies submit resolutions for shareholders to approve, such as executive remuneration. BTPS believes that making full use of its voting rights is part of its fiduciary duty and requires Hermes EOS and, where applicable, asset managers to execute all votes for the Scheme's directly held public securities. It believes that proxy voting activity should not be conducted in isolation but rather as part of a wider engagement strategy. The Scheme's investment managers and Hermes EOS are afforded a measure of discretion and flexibility, and can follow their own voting policy on most voting topics. BTPSM monitors the investment managers' and Hermes EOS' voting activities and requests they highlight key voting decisions regularly. The investment managers and Hermes EOS are also regularly asked about their approach to conflicts of interest, however there were no concerns raised during the year. The Scheme does not engage in stock lending. BTPS also publishes Hermes EOS' quarterly voting statistics and activities on the Scheme website - **click here** to see more.

Appendix two: SIP Implementation Statement

While the Scheme is invested in a diverse range of asset classes, this section focuses on the equity investments which have voting rights attached. The Scheme's equity holdings, as at the end of the year, are held in both segregated and pooled investment funds and are managed on an active basis. The Scheme's equity holdings are invested with five investment managers.

Manager:
GQG Investment Management

Fund type:
Segregated active equity fund

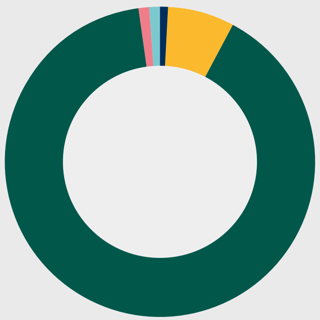
Use of proxy advisor services:
GQG votes its proxies through the proxy advisor ISS and uses bespoke voting policies based on sustainability themes.

Voting activity:

Number of meetings at which the manager was eligible to vote: 50
Number of resolutions on which the manager was eligible to vote: 838
Number of votes cast: 838
Percentage of eligible votes cast: 100%
Percentage of votes (management resolutions) with management: 91%
Percentage of votes (management resolutions) against management: 9%
Percentage of votes (all votes) abstained from: 1%

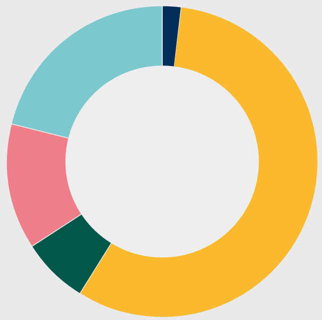
Votes for, against, abstain, withold, no vote required

Abstain	1%
Against	7%
For	90%
Withold	1%
No vote required	1%



Votes against management resolutions

Amended articles	2%
Board structure	57%
Capital structure & dividends	7%
Other	13%
Remuneration	21%



Appendix two: SIP Implementation Statement

Significant votes[1]

Company: Glencore Plc

Vote topic: Approve company's climate action transition plan

Issue: Following the expiry of its 2020 GHG intensity target, the Company has not set any further near-term emissions targets. There are also no clear commitments around thermal coal, which is said to represent 10-15% of EBITDA in the medium-term. Finally, the company had not set targets approved by the Science Based Targets Initiative. A stronger strategy is needed.

Voting instruction: Against

Why a significant vote? There is a potential impact on financial outcome if the company does not adopt a business strategy suitably aligned with the Paris Agreement on climate change.

Company: Amazon.com, Inc.

Vote topic: Shareholder request for company to oversee and report on a civil rights, equity, diversity and inclusion audit

Issue: A vote for this resolution is warranted, as an independent racial equity audit would help shareholders better assess the effectiveness of Amazon's efforts to address the issue of racial inequality and its management of related risks, particularly in light of recent discrimination lawsuits.

Voting instruction: For

Why a significant vote? This is a high-profile vote, given ongoing scrutiny of the company's employee rights, and diversity and inclusion activities.

[1] Significant votes are categorised as a vote which can have a potential impact on financial outcome; votes which might have a material impact on future company performance, for example approval of a merger or a requirement to publish a business strategy that is aligned with the Paris Agreement on climate change; potential impact on stewardship outcome; any decision which may reduce the investor voice (e.g. around shareholder rights), such as a debt for equity swap, management buyout of a significant share of equity, a downgrading of voting rights; it is a significant size of holding in the mandate; it is a high-profile or controversial vote; a significant level of opposition from investors to the company resolution; a significant level of support for an investor resolution; level of media interest; level of political or regulatory interest; level of industry debate; or any vote in non-listed equity asset classes e.g. in private equity, infrastructure or other asset classes.

Appendix two: SIP Implementation Statement

Manager:
TCI Fund Management

Fund type:
Pooled fund

Use of proxy advisor services:
No proxy advisory service used.

Voting activity:

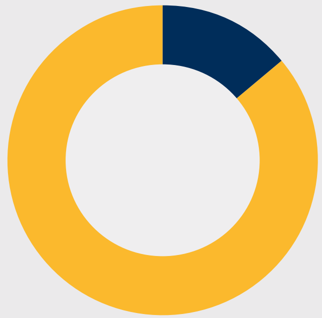
Number of meetings at which the manager was eligible to vote: 16
Number of resolutions on which the manager was eligible to vote: 285
Number of votes cast: 285
Percentage of votes (management resolutions) with management: 97%
Percentage of votes (management resolutions) with management: 3%
Percentage of votes (total votes) abstained from: 0%

Votes for, against, abstained, withhold

Abstrain	0%
Against	3%
For	97%
Withold	0%

Votes against management resolutions

Board structure	14%
Shareholder resolution	86%



Appendix two: SIP Implementation Statement

Manager:
Magellan Investment Management

Fund type:
Segregated active equity fund

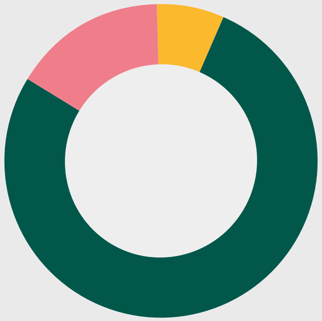
Use of proxy advisor services:
Magellan votes its proxies through Glass Lewis' ViewPoint online voting platform. As a result, Magellan has access to Glass Lewis research, but this analysis is based on Magellan's own voting decisions.

Voting activity:

Number of meetings at which the manager was eligible to vote: 25
Number of resolutions on which the manager was eligible to vote: 380
Number of votes cast: 321
Percentage of eligible votes cast: 84%
Percentage of votes (management resolutions) with management: 97%
Percentage of votes (management resolutions) against management: 3%
Percentage of votes (all votes) abstained from: 0%

Votes for, against, abstain, withhold

Abstain	0%
Against	7%
For	77%
Withold	16%



Votes against management resolutions

Board structure	80%
Remuneration	20%

Appendix two: SIP Implementation Statement

Significant votes

Company: McDonalds

Vote topic: Executive remuneration

Issue: Magellan voted against McDonald's Compensation Committee members (Lloyd H. Dean, Richard H. Lenny, John W. Rogers Jr and Paul S. Walsh) due to McDonald's continued excessive use of stock options. Magellan believes escalation by voting against committee members was warranted given their consistent vote against say-on-pay over a number of years and engagement with the company on this issue. Magellan voted against McDonald's say-on-pay for the fifth year in a row.

Voting instruction: Against

Why a significant vote? Executive remuneration can have a material impact on future company performance, therefore it is essential remuneration is aligned with the shareholder experience.

Appendix two: SIP Implementation Statement

Manager:
Hermes Investment Management

Fund type:
Multiple segregated active equity funds

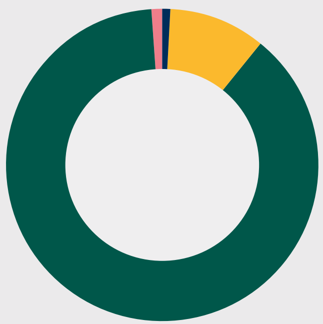
Use of proxy advisor services:
Hermes EOS uses ISS to provide research and voting recommendations. Voting recommendations are based on ISS' research using Hermes EOS' voting guidelines, overlaid with their voting approach, and uses Hermes EOS engagers to focus on key topics and/or companies with significant holdings and/or contentious issues or ongoing engagement objectives.

Voting activity:

Number of meetings at which the manager was eligible to vote: 307
Number of resolutions on which the manager was eligible to vote: 3131
Number of votes cast: 3131
Percentage of eligible votes cast: 100%
Percentage of votes (management resolutions) with management: 89%
Percentage of votes (management resolutions) against management: 10%
Percentage of votes (all votes) abstained from: 1%

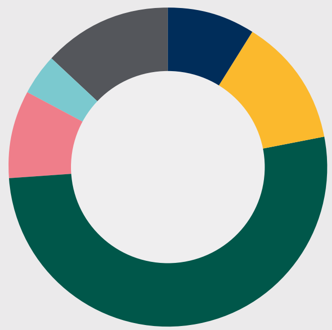
Votes for, against, withold, abstain

Abstain	1%
Against	10%
For	88%
Witheld	1%



Votes against management resolutions

Amended articles	9%
Audit & accounts	13%
Board structure	52%
Capital structure & dividends	9%
Other	4%
Remuneration	13%



Appendix two: SIP Implementation Statement

Significant votes

Company: Alibaba Group Holding Limited

Vote topic: Election of a director

Vote instruction: Against

Issue: EOS wrote to the company to inform it of its AGM 2020 vote recommendations. EOS recommended a vote for all items apart from the proposed election of a director. They explained that they recognise the contribution and capabilities that the proposed director brings to the company as CFO. However, given the control structure and the influence of the partnership, they would like to see the number of executives on the board reduce, so that the board can provide a strong oversight of management if needed.

Why a significant vote? Significant size of the investment holding.

Appendix two: SIP Implementation Statement

Manager:
Wellington Asset Management

Fund type:
Segregated active equity fund

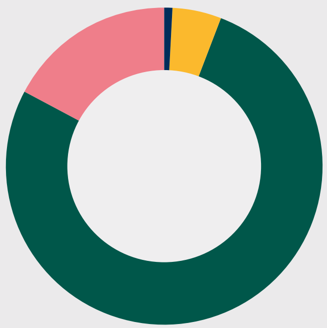
Use of proxy advisor services:
Wellington has policies and procedures designed to ensure that they collect and analyse all relevant information for each meeting, apply our proxy voting guidelines accurately, and execute the votes in a timely manner. These policies and guidelines are written to support the best economic interests of the client, in accordance with regulatory and fiduciary requirements. These policies and procedures are contained in the firm's Global Proxy Policy and Procedures and Global Proxy Voting Guidelines.

Voting activity:

Number of meetings at which the manager was eligible to vote: 105
Number of resolutions on which the manager was eligible to vote: 1534
Number of votes cast: 1257
Percentage of eligible votes cast: 82%
Percentage of votes (management resolutions) with management: 94%
Percentage of votes (management resolutions) against management: 5%
Percentage of votes abstained from: 1%

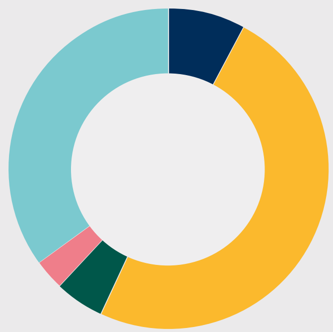
Votes for, against, abstain, withhold

Abstain	1%
Against	5%
For	77%
Withhold	17%



Votes against types of management resolutions

Amended articles	8%
Board structure	49%
Capital structure & dividends	5%
Other	3%
Remuneration	35%



Appendix two: SIP Implementation Statement

Significant votes

Company: Otsuka Corp.

Vote topic: Remuneration

Vote instruction: Against

Issue: We believe that the company should disclose the value of retirement bonuses proposed to be paid to the recipients and provide a sufficient rationale and, where possible, include specific metrics as to why the proposed payment is reasonable. This was not the case with Otsuka Corp.

Why a significant vote? Executive remuneration can have a material impact on future company performance because executive compensation plans establish the incentive structure that plays a role in strategy-setting, decision-making, and risk management.

Appendix two: SIP Implementation Statement

Implementation Statement conclusion

Overall, the Trustee is satisfied that throughout the last Scheme year, the Scheme's investments and stewardship activities, specifically voting and engagement, have been managed in accordance with the SIP at that time.

Appendix three: Trustee Board Committees

Trustee Board Sub-Committee	Members	Responsibilities	Key activities
Audit & Risk Committee	**David Viles - Chair** **Ben Marshall** **Keith Nichols** **Andy Kerr**	• Integrity of the Scheme's annual report and accounts and the discharge of its duties in relation to these • Oversees Scheme governance and the effectiveness of risk management processes, the internal controls framework, and reviewing and challenging the internal audit function* • Recommends to the Trustee Board the appointment, re-appointment and removal of the external auditor, monitoring auditor independence and objectivity, and approval of remuneration and engagement terms of the auditor	• Met 4 times during the year and subsequently one meeting held up to the annual report approval date • Reviewed the following: – Performance of internal and external auditors – Operational due diligence reports on third party investment managers – Regular risk and compliance reports – Internal audit reports – The security of Scheme assets – The Scheme's IT security
Investment Committee	**Keith Nichols - Chair** **Chris Cheetham** **Emily Clark** **Andy Kerr**	• Oversees effectiveness of the Scheme's investment strategy • Oversight of investment performance, including the performance of investment allocations and sub-allocations	• Met 7 times during the year • Reviewed 'deep-dive' reporting into each of the main asset classes including key risk factors, manager allocations and performance
Administration & Communications Committee (A&CC)	**Beryl Shepherd - Chair** **Nigel Cotgrove** **Keith Nichols** **Ben Marshall**	• Oversees administration services provided to the Scheme and its members • Monitors and oversees casework arising from application of Scheme Rules involving discretions • Monitors the development and implementation of an effective communications strategy • Makes sure the Scheme's Trust Deed and Rules are up-to-date, and reflect any changes arising from regulation and legislation	• Met 4 times during the year • Reviewed quarterly reports on Scheme administration • Provided oversight of a number of administration related projects: – Implementation of the pensions portal – Implementation of a new administration platform • Provided oversight of Additional Voluntary Contributions strategy, key member services activities updates, including the impact of relevant regulatory changes and communications with members

* The internal audit function, under an outsourcing agreement with BDO UK LLP, conducts a rolling programme of independent control reviews and investigations after agreement with the Audit Committee. It may use external professional firms to provide additional technical support on certain audits.

Appendix three: Trustee Board Committees

Trustee Board Sub-Committee	Members	Responsibilities
Internal Disputes Resolution Procedure (IDRP) Stage 2 Appeals Panel (sub-committee of the A&CC)	**Otto Thoresen – Chair** **Ben Marshall** **David Viles**	• Considers and arrives at determinations in respect of appeals by Scheme members or beneficiaries against a decision under Stage 1 of the IDRP
Discretions Committee (Sub-Committee of the A&CC)	**Beryl Shepherd – Chair** **Keith Nichols** **Nigel Cotgrove**	• Considers and arrives at determinations where the Trustee is required by the Scheme Rules to exercise discretion (e.g. distribution of a lump sum death benefit, payment of a pension to an adult dependant)
Implementation Oversight Committee (Sub-Committee of the Investment Committee)	**Chris Cheetham – Chair** **Keith Nichols** **Emily Clark**	• Used from time-to-time to oversee the implementation of more complex investment activities • Includes members of the Investment Committee with appropriate expertise in implementation issues • Also attended by senior managers from BTPSM

Appendix three: Trustee Board Committees

The table below shows the attendance by Trustee Directors at Trustee Board and Committee meetings (where they are a member) during the year ended 30 June 2021.

Trustee director	Main board	Audit and Risk Committee	Investment Committee	A&CC	IDRP stage 2 appeals panel	Discretions Committee	Implementation Oversight Committee
Number of meetings	**12**	**4**	**7**	**4**	**6**	**5**	**1**
Otto Thoresen	12	–	–	–	6	–	–
Chris Cheetham (appointed 16 September 2020)	10	–	5	–	–	–	–
Emily Clark (appointed 1 April 2020)	11	–	7	–	–	–	1
Nigel Cotgrove (appointed 1 April 2020)	12	–	–	4	–	5	–
The Law Debenture Society (represented by David Felder) (resigned 16 September 2020)	2	–	2	–	–	–	1
Andrew Kerr	12	4	7	–	–	–	–
Ben Marshall	12	4	–	4	6	–	–
Keith Nichols	11	4	7	4	–	5	1
Beryl Shepherd	12	–	–	4	–	5	–
David Viles (appointed 1 April 2020)	12	4	–	–	6	–	–

Appendix four: Management and advisers

Scheme registration number
10085003

Trustee
BT Pension Scheme Trustees Limited

Trustee Directors
Otto Thoresen (Chair)
Emily Clark
Chris Cheetham (appointed 16 September 2020)
Nigel Cotgrove
The Law Debenture Pension Trust Corporation plc
(represented by David Felder, resigned 16 September 2020)
Andrew Kerr
Ben Marshall
Keith Nichols
Beryl Shepherd
David Viles

Scheme Secretary
BTPSM

Actuary
Michael Pardoe FIA, Towers Watson Limited
(a Willis Towers Watson Company)

Auditor
KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Pensions administrator
BT Pension Scheme Administration Limited
Venture House
Venture Way
Chesterfield S41 8NR

Bankers
The Northern Trust Company
Royal Bank of Scotland

Primary service provider to BTPS (including investment management)
BT Pension Scheme Management Limited (BTPSM)

Primary external investment managers
GQG Partners LLC
Hermes Fund Managers Limited (Hermes)
Insight Investment Management Limited
M&G Investment Management Limited
Magellan Asset Management Limited
Pacific Investment Management Company LLC
Wellington Management International Limited

Custodians appointed by the Trustee
The Northern Trust Company
JP Morgan Chase

Principal sponsoring employer
British Telecommunications plc (BT)
81 Newgate Street
London EC1A 7AJ

If you require further information regarding this report, please contact:

Scheme Secretary
BT Pension Scheme Management Limited
One America Square
17 Crosswall
London EC3N 2LB

Appendix five: Glossary of terms

Absolute return
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.

Actively managed
Investments that are selected by investment managers with the aim of outperforming a particular benchmark index.

Additional Voluntary Contribution (AVC)
A contribution paid by a member of an occupational pension scheme to secure additional benefits.

Asset mix
The proportions in which the Scheme's assets are distributed between different classes of investment.

Corporate governance
The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies.

Credit default swap
A credit default swap is a contract which transfers the credit risk of an issuer from one party to another party.

Covenant
A measure of the ability of the employer to meet its obligations to the Scheme.

Crown Guarantee
A special protection in the form of a guarantee which provides that, in the unlikely event of a winding up of BT plc, ongoing contribution obligations of BT plc to the Scheme would be met by the Government. The Crown Guarantee does not cover the benefits of individual members but rather enhances the security of member benefits in the Scheme overall.

Deferred beneficiaries
All those who have a right to be paid benefits by the Scheme at a future date, but are not currently active members of the Scheme (mainly former employees).

Derivative
A financial contract whose price is derived from the movement in an underlying asset, e.g. a single security or basket of securities, interest rates, inflation levels, exchange rates or index movements. Examples of derivative instruments are futures, forwards, options and swaps.

Equities
Shares directly held in companies.

Fixed interest securities
Investments on which a fixed rate of interest is received.

Futures and options contracts
A futures contract is a firm agreement to buy or sell a security or a quantity of securities at a future date; an option confers the right, but no obligation, to complete a similar transaction at a predetermined price.

Gilt
Sterling bond issued by the UK Government.

Index-linked securities
Securities on which the rate of interest and the capital value are linked to the rate of inflation.

Long-term assets
Investments other than those in which funds are held on a temporary basis, e.g. interest-earning deposits and short-dated government securities.

Longevity transaction
A contract which exchanges payments based on expected longevity with payments based on actual longevity of members.

Market value
The best estimate of the price for which assets could be sold at a given date.

Passively managed
Where investments are held in the same proportions as a selected index (e.g. the FTSE All-Share Index) rather than managers being allowed to choose their own investments.

Pension Protection Fund (PPF)
A fund established by the UK Government to pay compensation to members of eligible defined benefit pension schemes, where there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the scheme to cover PPF levels of compensation.

Appendix five: Glossary of terms

The Pensions Regulator (TPR)
The Pensions Regulator was established under the Pensions Act 2004 with effect from 6 April 2005. Its main statutory objectives are to:
- protect the benefits of members of work-based pension arrangements
- keep calls on the Pension Protection Fund to a minimum, and
- facilitate good pension administration.

Pensions SORP
The Pensions Statement of Recommended Practice applies to the accounts of occupational pension schemes. It is issued by the Pensions Research Accountants Group (PRAG).

Pooled Investment Vehicles (PIVs)
Investment vehicles such as managed funds, limited partnerships and unit trusts that combine capital of many investors to allocate according to a particular investment strategy.

Real rate of return
The difference between the level of return actually earned by investments, including increases in value, and the return necessary in order to keep pace with inflation as measured by the change in the Retail Prices Index (RPI) and the Consumer Prices Index (CPI).

Realised gains
The net profit on investments sold during the year, calculated by comparing the selling price with the price at which they were purchased, or with the value at which they were transferred to the Scheme at its inception.

Sale and repurchase agreements
A transaction, carried out under an agreement, in which one party sells securities to another and, at the same time and as part of the same transaction, commits to repurchase equivalent securities on a specified future date at a specified price.

A reverse repo is a transaction, carried out under an agreement, in which one party purchases securities from another and, at the same time and as part of the same transaction, commits to resell equivalent securities on a specified future date at a specified price.

Schedule of Contributions
The Schedule of Contributions should set out the rates and due dates of contributions to a pension scheme from the participating employer and the members (including contributions due under a recovery plan and contributions to cover expenses). Normally, Trustees will need to agree the Schedule of Contributions with the Scheme's principal employer.

The Schedule of Contributions must be certified by the Scheme Actuary and revised periodically by the Trustees. The Schedule of Contributions must be submitted to The Pensions Regulator for approval within ten working days after it being prepared or revised.

The Scheme
The BT Pension Scheme.

Transfer value
The capital sum available to purchase benefits from the new employer's scheme, or from an insurance company, when an employee changes employment and decides to transfer the pension benefits which he has earned with his previous employer.

Trustee Directors
Directors of BT Pension Scheme Trustees Limited, the corporate Trustee of the BT Pension Scheme (the Trustee). A Director of the Trustee is also a member of the Trustee Board.

UK GAAP
This refers to Generally Accepted Accounting Practice applied in the United Kingdom.

Unlisted investments
Stocks and shares not traded on a recognised stock exchange.

Unrealised gains
The net increase during the year in the market value of investments held at year end.

Contact details

The Trustee of the BT Pension Scheme

The Scheme Secretary
BT Pension Scheme
One America Square
17 Crosswall
London, EC3N 2LB

Website: **www.btps.co.uk**

Member Support Team

The BT Pension Scheme Member Support team can be contacted between 8:30am and 5pm Monday to Friday (excluding Bank Holidays), on **0800 731 1919**.

If resident overseas, the contact number is **+44 (0) 203 023 3420**.

Alternatively, please email

member@btps.co.uk
Pensions Portal
www.btps.co.uk

The address for correspondence is:
BT Pension Scheme Sunderland SR43 4AD

MoneyHelper

In June 2021, the Money and Pensions Service brought its three consumer services together under the new name, MoneyHelper. So, the Money Advice Service, The Pensions Advisory Service and Pension Wise now all come under MoneyHelper.

MoneyHelper is here to make money and pension choices clearer. It provides impartial help, backed by government and free to use. MoneyHelper can be contacted through **moneyhelper.org.uk** or on the following phone number:

Pensions Helpline: **0800 011 3797**

Pensions Ombudsman

If you have a complaint or dispute concerning your workplace or personal pension arrangement you should contact the Pensions Ombudsman at:

10 South Colonnade
Canary Wharf
London, E14 4PU
Contact number: **0800 917 4487**

The Pensions Regulator

Pension schemes are regulated by The Pensions Regulator, which has power to impose civil penalties and to bring criminal prosecutions for serious breaches of the requirements of the legislation. The Pensions Regulator can be contacted at the following address:

The Pensions Regulator
Napier House, Trafalgar Place,
Brighton, East Sussex,
BN1 4DW

Pension Tracing Service

Information about the Scheme (including a contact address) has been provided to the Pension Tracing Service as required by law. Because the Pension Tracing Service holds the same information for other pension schemes, it offers a service which enables members to trace benefits from previous employers' schemes. The Pension Tracing Service can be contacted at the following address:

Pension Tracing Service
Mail Handling Site A
Wolverhampton, WV98 1LU
Website: **www.gov.uk/find-pension-contact-details**

This Report and Accounts is available on the Scheme's website: **btps.co.uk**

We also send a short document in hard copy summarising the key developments and performance of the Scheme during the year to each member.

BTPS

www.btps.co.uk