BTPS

Annual Report and Accounts 2024

www.btps.co.uk

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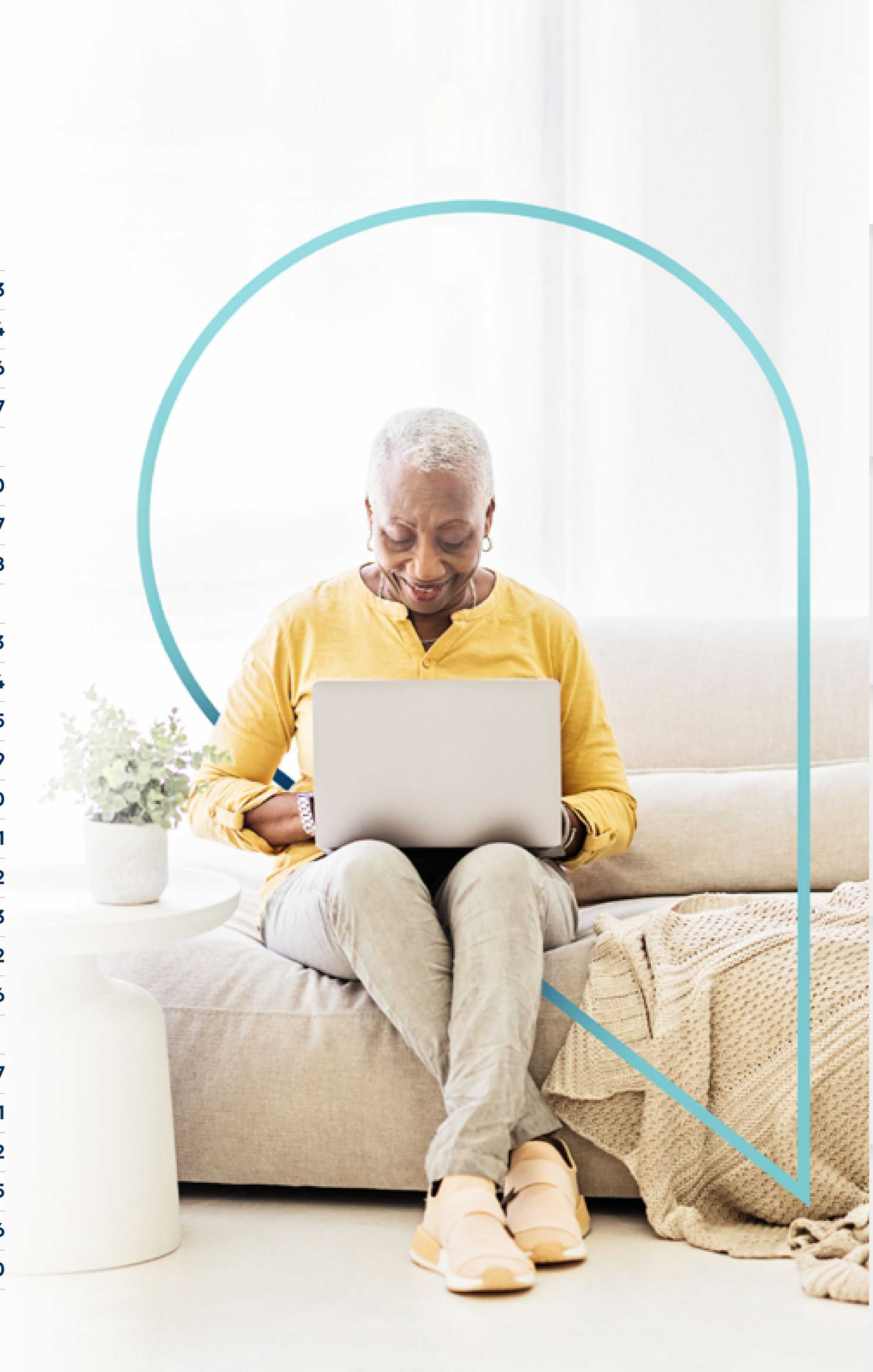


About BTPS

> The BT Pension Scheme (BTPS or the Scheme) is one of the largest company pension schemes in the UK. A defined benefit pension scheme for former employees and dependents of British Telecommunications 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 10**.

The Trustee Board has delegated responsibility for day-to-day management of the Scheme to Brightwell (the trading name of BT Pension Scheme Management Limited, a wholly owned subsidiary of the Scheme). Brightwell is the primary service provider to BTPS, subject to ongoing Trustee Board oversight. Brightwell provides a full services offering to BTPS, including executive support, advice, member services administration and investment management.

More information on Brightwell can be found on **page 8**.

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 17** and the Member Services report can be found on **page 28**.

At a glance

£2.8bn

Total benefits paid were £2.8bn in the year to 30 June 2024.

258,588

As at 30 June 2024, there were **258,588 members.**

£35.7bn

The Scheme's **net assets** were valued at £35.7bn as at 30 June 2024.

90%

The Scheme's **interim funding position** was 90% as at 30 June 2024.

Chair's statement

On behalf of the BTPS Trustee, I am delighted to introduce the Scheme's annual report and financial statements for the year to 30 June 2024, my first as Chair of the BTPS Trustee Board.

During the past year, high levels of macro-economic uncertainty and market volatility continued to challenge us but I'm pleased to say we weathered this volatility well. The robust governance structures we have developed, and the experience and expertise on the Trustee Board overseeing the Scheme, paid off once again in the face of the external environment.

We maintained our focus on the Scheme's core objectives: ensuring the funding plan remains on track; that the Scheme's investment strategy stays resilient; and continually improving the service we provide to members.

> This commitment to excellence was recognised by our peers in the pensions sector with BTPS winning Pension Scheme of the Year at the UK Pensions Awards and Defined Benefit (DB) Scheme of the Year at the Pensions Age Awards.

Funding on track

In Autumn last year, the Trustee Board reached an agreement with BT Group on the outcome of the 2023 Funding Valuation. We achieved this agreement much faster than in previous valuations, which reinforces the strength of the valuation framework put in place in 2020.

The Scheme is a substantial stakeholder for BT Group and we continue to have regular and constructive engagement with senior management. The funding deficit as at 30 June 2023 was £3.7bn, which is in line with the projected position from 30 June 2020, when the deficit was £8.0bn. The most recent interim funding results calculate the deficit to be £3.8bn as at 30 June 2024.

We remain on course to be fully funded by 2030.

Member satisfaction continues to increase

Member feedback continues to play a vital role in the way we evolve our services. I was delighted to see in this year's member survey that overall satisfaction is now at record levels with continued improvement across all measures.

As part of our commitment to continuous innovation, earlier this year we launched our fully online retirement service. In what we believe to be an industry first, members can now retire entirely online, without having to send identity documents in the post.

We were also pleased to complete the required checks to ensure Guaranteed Minimum Pension (GMP) is 'equalised' for men and women within the Scheme. We assessed over 200,000 Scheme members, both past and present, to establish which members were due equalisation adjustments. This resulted in making the necessary adjustments for 60,000 eligible members. BTPS was one of the first defined benefit schemes to complete this work.

A major investor in the UK

It was fantastic to spend time with members face-to-face when we visited one of the Scheme's investments with strong sustainability credentials – the Birmingham Paradise redevelopment project.

The Scheme remains a significant investor in the UK with 65% of its total assets invested in UK gilts, corporate bonds, property, public equities, infrastructure and private equity. As all of the Scheme's liabilities are in pounds, our exposure to UK assets is likely to continue to increase.

The new Labour government has said that it plans to undertake a review of the pensions landscape to consider what further steps are needed to improve pension outcomes and increase investment in UK markets.

The Board has overseen initial discussions with senior representatives from the Labour team and will continue to engage constructively with the new government on its priorities for the sector.

Chair's statement continued

Progress on the Scheme's net zero ambition

As one of the UK's largest private sector pension schemes, we know that how and where we invest matters and this is a responsibility we have always taken very seriously. As a Trustee Board, we continue to believe that managing our investments to create long term sustainable value will optimise investment returns. As a long-term investor, this is critical to enabling us to pay our members' pensions.

To help manage the financial risk posed by climate change, in 2020 the Scheme set a 2035 net zero ambition and we continue to make good progress against our five-year carbon reduction goals. The Scheme's portfolio emissions have reduced in excess of our interim 2025 goal, on the path towards our longer term 2035 ambition. The most important focus for the Scheme is to consider the real world impact and improvements our investments deliver, whilst ensuring expected investment returns are delivered.

Regulatory change

In March 2024, The Pensions Regulator published its new General Code of Practice.

The new code brings together and updates ten existing codes of practice into one set of clear, consistent expectations on scheme governance and administration which serves to remind all pension schemes of the duties and standards expected.

In July 2024, The Pensions Regulator published the final DB Funding Code. As one of the most significant defined benefit schemes in the UK, governance has always, and will continue to be, at the core of what we do as a Trustee Board. I'm pleased to say that we are well positioned to respond positively to both the General Code and DB Funding Code. We will remain focused on this area as the regulatory landscape evolves.

Changes to the Trustee Board

As we reported in last year's report and accounts, I joined the Trustee Board in May 2023 and succeeded Otto Thoresen as Board Chair in November. I want to extend my personal thanks to Otto for his significant contribution to the Scheme during his tenure.

In November 2023, we welcomed Andrew Clare to the Trustee Board. Andrew is Professor of Asset Management at Bayes Business School and has a strong track record in investment-focussed trustee and non-executive director roles.

In May 2024, we said a fond farewell to Beryl Shepherd who had been a BTPS Trustee for 15 years. We thank Beryl for her significant contribution to the Board, and in particular her role in the huge improvements to our member services.

At the end of August 2024, we heard the sad news that BTPS Trustee Andy Kerr had died. Andy was passionate about the trade union movement and had a long and distinguished career at both BT and the Communication Workers' Union. He was a much valued member of the Trustee Board and we will miss his wise counsel, considerable insight and good humour. Our thoughts are with his family and friends.

In closing, I would like to thank my colleagues for their dedication and hard work over the past 12 months. We have achieved a great deal on behalf of the Scheme's members and I look forward to the year ahead.

Jill Mackenzie

Chair of the BTPS Trustee Board

3 October 2024

BTPS purpose and objectives

Purpose

The Scheme's primary objective is to ensure that there are sufficient assets to pay the right benefits at the right time to members and their beneficiaries as they fall due.

Scheme objectives

Achieve full funding by 2030

Provide **top-quartile** member services at **below-median** cost

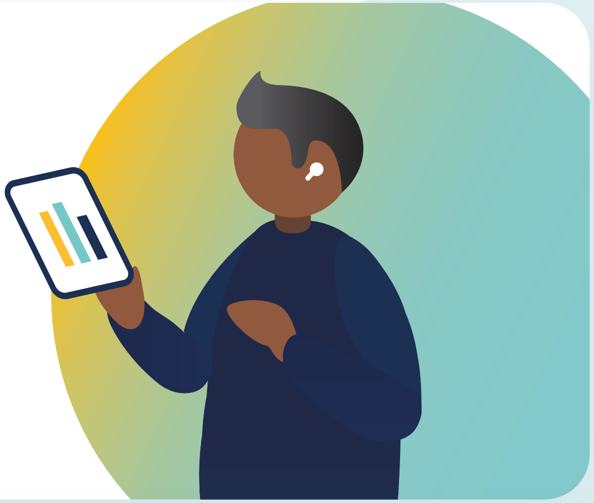
Ensure the Scheme has an **appropriate investment strategy** for its member profile

Sustainable for the long-term

BTPS business model

The Scheme

The BT Pension Scheme (BTPS) is a defined benefit pension scheme for employees, former employees and dependants of BT and some of its associated companies.



The Trustee

The Scheme's Trustee is BT Pension Scheme Trustees Limited, a corporate Trustee with ultimate fiduciary responsibility for the Scheme and its members. The Board is comprised of nine Trustee Board Directors made up of four Employer Nominated Directors (ENDs), four Member Nominated Directors (MNDs) and a Chair appointed by the employer in consultation with the unions.

The Trustee delegates day-to-day responsibility for the management of the Scheme to Brightwell. The Trustee oversees Brightwell in its provision of a high-quality, cost-effective service to BTPS members and the Trustee. These services are deliberately tailored to the Scheme's needs and specific challenges.

BTPS business model continued

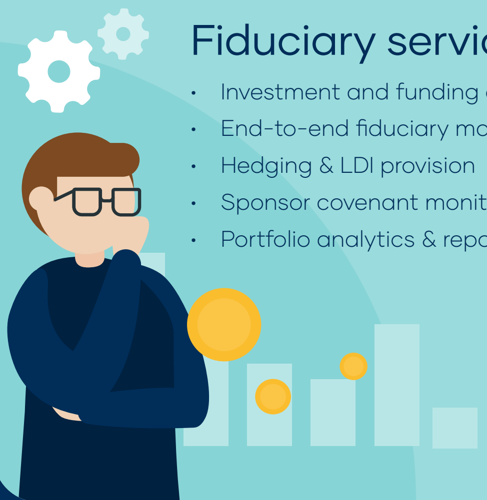
Brightwell's role

Brightwell is the primary service provider to BTPS. Brightwell is headquartered in London, and has operations in Chesterfield where its member services team is based.

Brightwell works closely with BT as the Scheme's sponsor ensuring there is consistency in serving BT's current and former employees.

Brightwell acquired pensions administration technology company Procentia in 2019 to strengthen its member services platform.

Brightwell delivers its services to BTPS across the following integrated business units:



Fiduciary services

- Investment and funding advisory
- End-to-end fiduciary management
- Hedging & LDI provision
- Sponsor covenant monitoring
- Portfolio analytics & reporting

Investment strategy designed to match cashflows in respect of payments and transfers, enhancing the member services operations

Integrated valuation system for live cashflows enables regular recalibration of hedges, supporting fiduciary services delivery to BTPS

Member services

- Benefits payments and administration services
- Administration platform as a service
- Member outbound communications
- Inbound member contact centre
- Case management & technical casework

Procentia

Harnessing best-in-class IntelliPen administration platform

Scheme & Trustee Management Services

Scheme finance & tax
Funding and covenant advice
Scheme governance secretariat

Pensions legal & compliance
IDRP and discretions
Scheme PR and public affairs

Risk management and data security
Technology services
Oversight of member and fiduciary services

BTPS business model continued

Brightwell's role

The Brightwell group is led by a board of directors that are authorised by the FCA. The Board is responsible for reporting and providing assurance to the Trustee that the Scheme 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 as a going concern. The Brightwell Executive Committee oversees the delivery of the Scheme strategy on behalf of the Trustee.

A message from Morten Nilsson, Brightwell CEO

Brightwell is proud to have continued to serve BTPS through the year to 30 June 2024. We have supported the Trustee in progressing its strategic priorities and continued to improve and evolve the service we provide to the Scheme's 258,588 members.

We continue to work closely with the Trustee to refine and implement the funding strategy, increasing the level of cashflow-aware assets as the proportion of retired members increases.

With this in mind, the BTPS longevity hedge was increased during the year, and we will support the Trustee to increase this further in the coming years.

We have also continued to enhance our member services offering to BTPS, investing in both our online and telephone services and introducing a fully online retirements process this year.

The Scheme has been rightly recognised as leading the industry, winning several industry awards in 2024. Through our dedicated team, investments in technology and the market leading solution provided by Procentia, we are well placed to continue to provide BTPS members with a high quality, value-for-money service for the lifetime of the Scheme.

Alongside supporting fiduciary management and member services, Brightwell provides BTPS with a range of executive and advisory services, including funding and covenant support, legal and compliance services, scheme secretariat, and finance and tax services.

Through this full-service offering, the team at Brightwell are committed to the delivery of the BTPS objectives, delivering the promised pensions to members every step of the way to, and throughout, their retirement.

Brightwell

Morten Nilsson
CEO, Brightwell

More information on Brightwell can be found at **www.brightwellpensions.com**

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 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 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. In addition to the five formal Board meetings, there were two ad-hoc meetings on areas of strategic importance, bringing the number of meetings to seven during the reporting year. The Board also held three strategy sessions supported by the Scheme Executive, which provided the Trustee with an opportunity to focus on the Scheme's future activities. The Board has a forward planner in place to cover topics for quarterly meetings. Alongside these formal meetings, the Board holds a number of deep dive sessions throughout the year, to enhance the Trustee Directors' knowledge and skills. All of these activities are in place to ensure that the Board meets its obligations and has adequate time and capability 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.

Board committees

The Board has delegated some powers and responsibilities for certain matters to three Board committees: the Administration and Communications Committee (A&CC), the Audit and Risk Committee (ARC), and the Investment Committee (IC). 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. 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 governance bodies are set out in Appendix Three.

Governance of the Scheme continued

Appointment and removal of Trustee Directors

There is a process in place for the appointment, removal and ongoing appraisal of Trustee Directors. We operate best governance practices which provide transparency, inclusivity and diversity on our Board appointments and related terms of office. Under the Trustee's Articles of Association (the Articles), and the Trust Deed and Rules, there are normally nine Trustee Directors (the Chair, four Employer-Nominated Trustee Directors (ENDs) and four Member-Nominated Trustee Directors (MNDs)). For the last month of the financial year, the number of Trustee Directors was eight, and the appointment process for a new MND was underway at the time of publication.

Appointment of the Chair and Employer-Nominated Trustee Directors (ENDs)

The Chair of the Trustee Board is appointed by BT after consultation with, and agreement of, the recognised trade unions and The National Federation of Occupational Pensioners (NFOP) (collectively, the BT Unions). BT will determine the Chair's period of office. BT also appoints four ENDs. An END can be removed from office by BT.

Member-Nominated Trustee Directors (MNDs)

MNDs are appointed by BT after being selected by the BT Unions. Existing MNDs will be re-nominated at the end of their term of office, unless the MND decides not to stand again, or if one of the BT Unions disagrees. On request by the BT Unions, BT will, unless it considers the request to be unreasonable, remove an MND from office.

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.

Governance of the Scheme continued

Performance and effectiveness

The Board undertook a performance and effectiveness review last year, and is now implementing the recommendations of this review. A further review will be completed when all Trustee Directors are in place. The Board also undertook a comprehensive review of its Matters Reserved, which resulted in a revised set of Board Terms of Reference (ToRs). Additionally, the committee ToRs also underwent a comprehensive review. These activities further strengthened the Scheme's governance by enhancing the decision-making and information flows across the governance forums.

Trustee Knowledge and Understanding

All of the Trustee Directors have the relevant skills and necessary knowledge to carry out their roles effectively. Within six months of their appointment, Trustee Directors are required 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 regulators

TPR is the UK regulator of workplace pension schemes. During the year, the Board has considered a broad range of matters in relation to TPR's oversight including internal controls and managing risks, reporting, record keeping and communicating to members.

The Scheme is committed to ensuring compliance with EU and UK GDPRs respectively, working with the Information Commissioner's Office (ICO) to remain up-to-date. We communicate with the ICO on a regular basis to gain advice and opinion, and to ensure our data governance framework remains compliant and effective.

Trustee Diversity

As a Board we strive to promote diversity in our composition so that we can benefit from a variety of skills, knowledge and life experience. To support this the Board developed an equality, diversity, and inclusion policy this year.

Governance of the Scheme continued

Internal control and risk management

The Trustee Board is responsible for the Scheme's internal controls and risk management. Brightwell supports the Trustee Board in day-to-day risk management activities, including the implementation of policies, procedures, controls and risk mitigation actions. Brightwell provides escalation and assurance on the management of risks to the Trustee Board and its respective committees.

The Trustee has identified the principal risks facing the Scheme which could impact upon their ability to meet the Scheme's strategic objectives and affect the Scheme's reputation.

Listed below are the key risk categories which are monitored and reported to the Trustee Board and its respective committees.

Investment risk

The Scheme faces a number of investment-related risks including credit risk, liquidity risk and market risk, as well as execution and funding risks. To manage these risks, the Trustee oversees the implementation of a structured investment process managed by experienced investment professionals.

Member services execution risk

The Scheme is exposed to the risk of non-compliance with the Scheme rules and requirements, resulting in a failure to provide members with a high standard of service. To manage these risks, Member Services performance is closely monitored with management information provided to the relevant committee and Trustee Board.

Operational risk

The Scheme may be exposed to the risk of loss (direct or indirect) arising from inadequate or failed internal processes, or from personnel and systems, or from external events such as third-party failure, information security, cyber risk, regulatory change, criminal activity, pandemics and natural disasters. Operational risks are mitigated by a control environment which is regularly monitored, and reported to the Audit and Risk Committee and the Trustee Board.

Strategic risk

The Scheme is exposed to a range of strategic risks including covenant, ESG, governance, funding strategy and litigation/reputational risks. These risks are mitigated by a robust control environment which is regularly monitored, and reported to the Trustee Board.

Governance of the Scheme continued

Our Trustee Directors:

Jill Mackenzie (A) appointed May 2023. Jill took over as Board Chair in November 2023 and is a member of the Scheme's Internal Dispute Resolution Stage 2 Panel (IDRP2). Jill brings extensive experience of defined benefit pension schemes as both employer and trustee. She has experience across a number of executive and non-executive roles and is a seasoned trustee board chair. Jill currently sits on the board of the Fidelity Master Trust and chairs the trustee boards of the Bank of Ireland UK Fund and the Welsh Water Pension Scheme. Jill previously served as a board member and senior independent director with NEST (National Employment Savings Trust) for seven years.

Emily Clark (C) appointed April 2020. Emily is a member of the following Scheme governance bodies: Audit and Risk Committee (ARC) and Investment Committee. She is currently Chief Financial Officer of BT's Networks division. Prior to this, Emily was BT's Chief Economist, providing economic thinking and analysis to further key commercial, regulatory and strategy goals, wherever required in the BT Group. Emily has previously been a director at a City of London 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.

Chris Cheetham (C) appointed September 2020. Chris is the Scheme's Investment Committee Chair. He has over 40 years' experience in the investment management industry, almost all of which has been in senior investment roles. Chris is a Non-Executive Director of the Pension Protection Fund, a Director of People's Investment Limited 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 of AXA Sun Life Asset Management. In May 2003 he joined HSBC's asset management business as Global Chief Investment Officer. He also served as the chair of the Mineworkers Pension Scheme and as chair of HSBC Asset Management (UK) until June 2020.

Nigel Cotgrove (B) appointed April 2020. Nigel is the A&CC Chair, and a member of the Discretions Committee. Away from the BTPS he is a member of the Central Arbitration Committee; the Low Pay Commission; and the Prison Service Pay Review Body. Nigel was a National Officer at the Communication Workers' Union (CWU) for over 30 years. In that role he was the lead negotiator for occupational pensions in telecoms, IT and financial services sectors for two decades. Nigel has also served on the Members' Panel at NEST, the Airwave Solutions DC Pension Governance Committee and was a Trustee of the CWU 2000 Pension. He is a member of the CWU and the National Federation of Occupational Pensioners.

Andrew Clare (C) appointed November 2023. Andrew is a member of the following Scheme governance bodies: Investment Committee, Administration & Communications Committee (A&CC), and Discretions Committee. He is a Professor of Asset Management at Bayes Business School (formerly Cass). Andrew has a strong track record in investment-focussed trustee and non-executive director roles. He has published extensively in both academic and practitioner journals on a wide range of economic and financial market issues. His previous roles include: Senior Research Manager (Monetary Analysis) at the Bank of England and Financial Economist for Legal and General Investment Management. Andrew has also served on a number of pension scheme trustee boards, including for Magnox, Marconi, and Amey.

(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.

Governance of the Scheme continued

Andrew Kerr (B) appointed March 2019. At the end of August 2024 we heard the sad news that Andrew Kerr had died. Andrew was a member of the following Scheme governance bodies: ARC and Investment Committee. He held a number of positions at the CWU since 1997, most recently as the Deputy General Secretary (Telecoms and Financial Services). As part this role, he was responsible for leading negotiations with BT on all occupational matters, including pensions. Andrew had 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 was a member of the BT Pension Scheme and the National Federation of Occupational Pensioners (NFOP).

Ben Marshall (B) appointed January 2017. Ben is the IDRP2 Chair and a member of the ARC and A&CC. He has been a trustee of several pension schemes for over thirty years, including the BT Retirement Plan (now the BTRSS and a Group Personal Pension Plan), and the Accenture AHRS DC Scheme. Until his retirement in 2017, Ben 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 (DC) Scheme.

David Viles (C) appointed April 2020. David is the ARC Chair and a member of the IDRP2. He was most recently the Director of Risk, Compliance & Assurance at BT. He 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 subsequently worked at Deloitte and BP plc, holding various senior risk-related roles before joining BT.

During the Financial Year, the following Trustee Directors resigned from the Board:

Beryl Shepherd (B) appointed June 2009, resigned 31 May 2024.

Otto Thoresen (A) appointed February 2019, resigned 29 November 2023.

(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.

Report by the Trustee:

Funding and investment

Funding and investment

Funding

Full actuarial valuation: 30 June 2023

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 2023. 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 91%. The corresponding funding deficit was £3.7bn.

As part of the valuation, the Trustee and BT 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 have paid £10 million directly into the Scheme in each of March and April 2024, and £100 million, followed by a further £590 million, into the Scheme's co-investment vehicle in March and April 2024 respectively. The contributions yet to be paid under this agreement are as follows:

- From 2025 to 2030, BT will pay £10 million a year directly into the Scheme.
- In addition, BT will pay £590 million by 30 April each year from 2025 to 2029 and £490 million by 30 April 2030 either directly to the Scheme or to the Scheme's 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 (subject to certain criteria).

In addition, BT has agreed to pay up to a further £300 million per year to the Scheme if needed to meet any future emerging funding deficit in excess of £1bn up to 30 June 2026, or in excess of £500 million between 1 July 2026 and 30 June 2033. The need for these contributions will be assessed every six months.

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

The 2023 valuation was also calculated on a solvency basis. This measure assumes a low risk, closely matched investment strategy with additional margins for risk included and would be considered in the event the Trustee could not place reliance on the BT covenant. The solvency deficit as at 30 June 2023 was calculated to be £9.2bn.

Funding and investment continued

Interim actuarial valuation: 30 June 2024

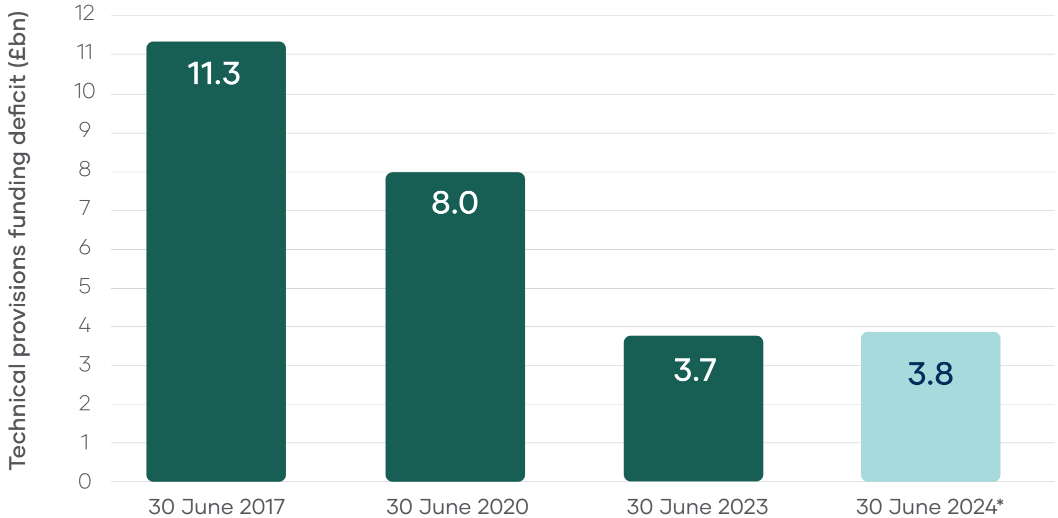
An interim valuation of the Scheme as at 30 June 2024 has also been completed, in which the funding deficit increased over the year from £3.7bn to £3.8bn. The increase to the funding deficit reflects the under-performance of the Scheme's equity and equity-like assets over the period relative to expectations. The Scheme is however still expected to achieve full funding by 30 June 2030 and based on these results, the additional contributions of up to £300 million per year to the Scheme, outlined on the previous page, are currently not required.

The evolution of the funding deficit since the 2017 valuation, calculated on a technical provisions basis, is illustrated in the chart below.

The interim valuation has also been calculated on a solvency basis. The solvency deficit as at 30 June 2024 was calculated to be £9.7bn.

The Scheme's financial position and the level of BT's contributions will formally be reviewed again in full as part of an actuarial valuation with an effective date of no later than 30 June 2026.

Progression of funding position



* Interim valuation

Funding and investment continued

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. To do this, the Scheme aims to match cashflows received from its investments with cashflows it needs to pay benefits to members, whilst also managing funding volatility. 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 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, which generate income to cover future pension payments as the proportion of retired members increases. The funding plan agreed as part of the 2023 valuation, alongside our hedging programme and the continued de-risking of the Scheme's investment strategy towards a cashflow-aware approach, means that the Scheme remains on track to eliminate the funding deficit by 30 June 2030.

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 on an ongoing basis and are reviewed regularly by the Trustee. This is based on sensitivity analysis 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. Longevity risk has also been reduced over the year through a longevity swap agreed in July 2023.

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

Over the year, BTPS has developed and implemented solutions to enhance the management of the Scheme's liquidity, and has continued to monitor the impact of geopolitical risk, including the ongoing conflict between Russia and Ukraine, and the various elections in the UK and abroad. In addition, the Scheme continues to assess the risks and opportunities of climate change and technological disruption as part of its wider risk management framework.

Funding and investment continued

Statement of Investment Principles

A Statement of Investment Principles (SIP) has been agreed by the Trustee following written advice from Brightwell 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 was updated on 4 June 2024. The most recent Statement of Investment Principles 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, which forms part of the Trustee's annual report, in Appendix One.

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Funding and investment continued

Investment review as at 30 June 2024

Market review

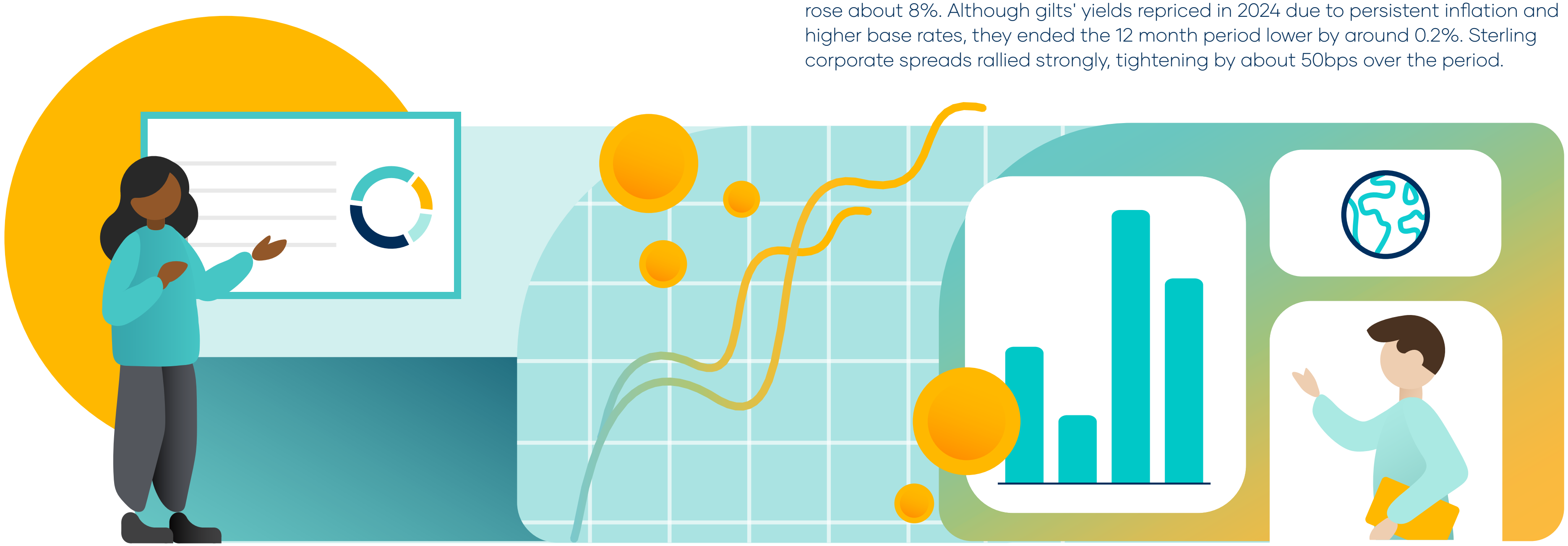
The second half of the financial year was marked by strong performance of listed shares despite persistent inflation concerns. This followed the rally from the previous year, driven by significant gains in the US technology sector. Bond markets fluctuated within a range and recovered from a sell-off earlier in the year to 30 June 2024 supported by central banks guiding markets towards a more benign trajectory for interest rates. However, persistent inflation and economic resilience delayed anticipated interest rate cuts, causing bond market performance to lag during the six months to 30 June 2024.

The US economy grew more slowly than expected in the three months to March 2024 after rapid expansion in the first half of the financial year, driven by more modest consumer spending. The UK emerged from a technical recession in the quarter to March 2024 with 0.7% quarterly growth, its fastest in two years, driven by household consumption. Euro Area growth remained stable.

The inflation narrative shifted from disinflation to persistent inflation, albeit at a lower level. Price pressures subsided from their 2022 peak and in the UK inflation dropped to the Bank of England's 2% target for the first time in three years. The Bank of England increased interest rates from 5% to 5.25% in August 2023, and this rate remained unchanged through to 30 June 2024, before reducing to 5% again following the year end.

Geopolitical concerns flared during the year with conflict in the Middle East adding to the ongoing Ukraine war. Politics took centre stage in 2024 with important elections in the US, UK, India, France, and Taiwan. In the UK, Labour won the general election, ending nearly 14 years of Conservative rule. The new government indicated no major tax hikes and plans to maintain current fiscal rules without cutting public spending as part of its election campaign, but it faces a challenging fiscal backdrop with limited headroom.

For the year ending June 30 2024, the MSCI World Index gained 18%, while UK equities rose about 8%. Although gilts' yields repriced in 2024 due to persistent inflation and higher base rates, they ended the 12 month period lower by around 0.2%. Sterling corporate spreads rallied strongly, tightening by about 50bps over the period.



Funding and investment continued

Scheme investment performance

The Trustee monitors investment performance against the Scheme's strategic investment objectives. Reports are provided regularly 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, alongside changes in the value of the Scheme's liabilities, are provided below:

Year	Return on Scheme investments	Change in solvency liabilities	Change in technical provisions liabilities
2024	1.2%	3.7%	3.3%
2023	(17.0%)	(18.5%)	(15.1%)
2022	(15.7%)	(18.6%)	(13.1%)
2021	(0.2%)	(2.7%)	(1.6%)
2020	9.9%	4.7%	9.4%
2019	9.6%	7.4%	9.5%
3 year annualised	(10.9%)	(11.7%)	(8.6%)
6 year annualised	(2.8%)	(4.6%)	(1.8%)

This table illustrates how over the last six years, the Scheme's liability-matching investments have hedged, or offset, changes in the value of the Scheme's liabilities. These investments are designed to increase (or decrease) in value to offset changes in the Scheme's liabilities. This can be seen through the returns on the investment portfolio, shown in the first column, broadly corresponding to changes in the value of the Scheme's liabilities, shown in the second and third columns. As described above, during 2024 the return on the Scheme investments has not fully offset the increase in the technical provisions liabilities. This reflects the under-performance of the Scheme's equity and equity-like assets over the period relative to expectations.

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, for practicality, are grouped by the Trustee into two purpose-based categories.

1. **Equity and equity-like**

   Formed of higher returning, growth-sensitive assets such as equities and property, this 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.

2. **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.

Also within the cash-flow aware category are liability hedging investments, 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.

Funding and investment continued

Overall, the Trustee assesses investment performance relative to both liabilities (the return required under the triennial valuation) and market-based indices (reference returns). Assessment against the liabilities is the primary focus and most important in determining whether performance is on track to achieve the Scheme's long-term funding requirements. However, in the shorter term, markets can be unpredictable and it's also important to consider the returns of the Scheme's investments in the context of the wider market backdrop through indices that reflect asset class performance.

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. At the year end, the interest rate and inflation hedge ratios (on a technical provisions basis) are approximately 93% and 89% respectively, to mitigate the effect of changes in interest rates and inflation expectations. This means that approximately 93% of any change to the Scheme's technical provisions due to changes in interest rates, and approximately 89% 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. Whilst we expect the interest rate and inflation hedge ratios to increase over time, the Scheme is not fully hedged at the year-end date. This because the Scheme is not yet fully funded, and there is interest rate sensitivity elsewhere in the portfolio.

The Scheme's cashflow 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 68% and is expected to increase over time as the Scheme matures.

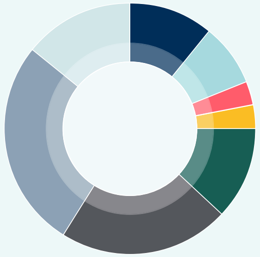
The Scheme has entered into longevity insurance contracts to protect it against costs associated with the increased life expectancy of members. All else being equal, if members do not live for as long as expected, this will reduce the value of both the longevity insurance contracts and the Scheme's liabilities, and this reduction in liabilities will more than offset the investment loss on the longevity insurance contracts. Conversely, if members live for longer than expected, this will increase the value of both the longevity insurance contracts and the Scheme's liabilities, and this increase in liabilities will be only partially offset by the gain on the longevity insurance contracts. In effect, the insurance contracts reduce the range of outcomes in relation to life expectancy.

During the year, the Scheme entered into a new longevity insurance and reinsurance arrangement which covers £5bn of BTPS pensioner liabilities and follows the £16bn of liabilities covered by a similar arrangement entered into by BTPS in 2014. Combined, the contracts cover c.28% of the Scheme's liabilities. The Trustee plans to increase that insurance cover in the next few years.

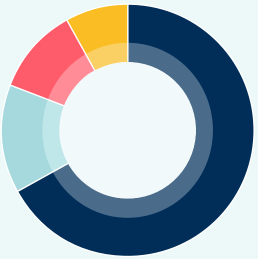
As at 30 June 2024, the investment liability in respect of longevity insurance contracts is £1,010 million (2023: investment liability of £863 million).

Funding and investment continued

The distribution of investments



Equities	11%
Property	8%
Absolute returns	3%
Infrastructure	3%
Non-core credit	12%
Government bonds, cash and other net assets	22%
Corporate bonds	27%
Secure income	14%



UK	65%
United States	15%
Europe	12%
Other	8%

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 and geographical breakdown as at 30 June 2024 is shown in the charts to the left. Pooled investment vehicles, loans, derivatives and cash have been reallocated to the appropriate asset classes to reflect the underlying exposures. Further explanation of these reallocations is given in Understanding the financial statements, on page 34.

Through a diverse set of investments in government and corporate debt, as well as infrastructure, property and private equity, the Scheme is a significant investor in the UK and supports UK growth.

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

1. **Equity and equity-like**

   which includes equities, property, absolute return and infrastructure assets

2. **Cashflow-aware**

   which includes investment grade credit, sub-investment grade credit, and government bonds and cash.

Sustainable investment

As a Trustee Board, we are aware that how and where we invest matters, and this is a responsibility we have always taken very seriously. We firmly believe that investing responsibly supports long-term value, reduces risk and contributes towards better investment outcomes. As a long-term investor, these qualities are critical to enabling us to pay our members' pensions.

The Scheme strives to ensure that financially-material environmental, social and governance (ESG) factors are integrated throughout the investment process, including within the overall investment strategy and asset allocation, the design of the Scheme's investment mandates, and the selection and ongoing monitoring of its asset managers and engagement with the companies in which it invests. Sound corporate governance, and companies that are mindful of their impact on society and the environment in which they operate, have a better chance of sustaining long-term economic success. This commitment is central to how the Scheme thinks about its investments.

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 importance placed on doing the best for our members over the long-term is inextricably linked to sustainable investment and stewardship. It is a key part of how the Scheme fulfils its fiduciary duty.

Funding and investment continued

Further information

The Scheme is undertaking a significant amount of work in relation to sustainable investment. If you would like to learn more about what we have done over the past year please refer to the documents described here.

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 (SIP), during the year. The SIP Implementation Statement is included in Appendix One of the annual report.

Net zero 2035 & TCFD report

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 to improve understanding of the risks and opportunities of climate change. This report provides further details on our governance framework, strategy and risk management approach in relation to climate-related risks, as well as climate change activities. The Scheme's most recent TCFD can be found at **www.btps.co.uk/RegulatoryReporting**

Stewardship Code response

To promote stewardship excellence in the UK, the Financial Reporting Council (FRC) enhanced the UK's Stewardship Code 2020 (the Code) to set high stewardship standards for asset owners and asset managers, and for service providers that support them. The Scheme proudly retained it's signatory status in 2023 and, in our Stewardship code response, you will learn more about the Scheme's engagement and voting. Our Stewardship code response can be found at **www.btps.co.uk/RegulatoryReporting**

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. Derivatives are used 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.

These derivative contracts are collateralised with cash and UK government bonds (gilts). Driven by the higher liquidity requirements after the 2022 gilt crisis, during the year the Scheme introduced another untapped source of collateral in the form of corporate bonds. This has further enhanced the Scheme's resilience in meeting collateral calls.

During the year, the Scheme participated in the Bank of England's (BoE) system-wide exploratory scenario (SWES). The SWES aims to improve the BoE's understanding of the behaviours of banks and non-bank financial institutions during stressed financial market conditions and how those behaviours might interact to amplify shocks in UK financial markets that are core to UK financial stability. Round one of the SWES involved a hypothetical stress scenario that incorporates severe, but plausible, shocks to the market over the course of a 10-day period. The SWES confirmed the Trustee view that the policies, procedures and controls relating to the Scheme's use of derivatives are robust. More information on the SWES can be found at **System-wide exploratory scenario | Bank of England**

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 2024, the total amount of employer-related investments held by the Scheme was £10 million (2023: £10 million), representing 0.03% (2023: 0.03%) of the Scheme's net assets. There were no properties occupied by BT owned by the Scheme at 30 June 2024 and 30 June 2023.

On 25 June 2018, Britel Scotland II LP subscribed for £2bn 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, a Scottish Limited Partnership, they do not amount to employer-related investments for the purposes of the relevant regulations. Since the initial subscription, Britel Scotland II LP has sold £223 million of the bond nominal value, and as at 30 June 2024, the value of the BT bonds held by Britel Scotland II LP was £1,555 million (2023: £1,421 million) representing 4.4% of the Scheme's net assets (2023: 3.8%).

The Scheme has entered into a Scottish-structured asset-backed funding arrangement (ABF) with the Sponsor (BT) which aims to provide additional security over its payment obligations to the Scheme. As at 30 June 2024, following receipt of the fourth £180 million payment of capital and interest, the value of the Scheme's interest in the funding arrangement was £1,031 million (2023: 1,062 million), representing 2.9% (2023: 2.8%) of the Scheme's net assets with a further £1,414 million owed to the Scheme (2023: £1,547 million).

The Scheme is also a limited partner in the co-investment entity with the Sponsor, BT Falcon 2 LP. In the year to 30 June 2024, BT made payments of £690m into that entity. Amounts paid in by BT are included in the fair value of the assets of the Scheme. During the year, the value of the Scheme's interest in the co-owned entity were advanced to the Scheme. As at 30 June 2024, the value of the Scheme's interest in BT Falcon 2 LP was £693m, representing 1.9% of the Scheme's net assets.

None of these arrangements constitute an employer-related investment for the purposes of the relevant regulations. The Trustee has taken reasonable steps to satisfy itself as to the appropriateness of the Scheme's investment exposures to the BT group.

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 the 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 to ensure these 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.

Report by the Trustee:

Member services

Member services

Innovation

We remain committed to ensuring members can communicate with us in whatever way they choose and have continued to improve our offering to members across all channels:

- We have increased the level of training and support that call handlers go through to be able to answer more member queries at first point of contact on the phone.
- We have launched a full self-serve online retirement journey, believed to be an industry first for a defined benefit pension scheme like BTPS. Using the BTPS portal, members can now run retirement quotes to decide on their chosen option, confirm their choice, complete the application, verify their identity digitally and submit their application online. This automatically sets up a settlement case, disinvests any additional voluntary contributions (AVCs) they may have, puts them into payment on their chosen pension start date, and converts them to pensioner status. A much quicker and easier retirement journey for members, which takes place without any administrator involvement or manual intervention.

Communication campaigns

In April 2024, we published annual payslips and P60s online via the Portal, with an email campaign of 107,000 emails sent during March and April to encourage Portal registration and early access. Through this campaign we were also able to provide members with an overview of how changes to their state pension and freezing of tax bands could have impacted their net BTPS pension, minimising the need for members to call us to ask tax-related queries.

This was very successful, with 79% of the existing 77,000 portal registered pensioners engaging with early notification emails. This meant an overall improvement to the experience and a significant reduction in paper letters being sent, supporting our Net Zero ambition.

> The Scheme's Member Services team supports over 250,000 Scheme members, administering over £2.8bn of pension payments in the year to 30 June 2024

Member portal: The last 12 months in numbers

373,000 calculations run

85,000 distinct logins

57% of total member requests submitted via the Portal

60% of newly retired members committed to confirming their retirement choice online

Over 1,250 members committing to retirement through the new online journey following launch in February

Over **131,000** BTPS members now registered for the portal.

Member services continued

Listening to our members

We constantly strive to improve the service we offer to our members by requesting feedback after interactions, reviewing any key themes and taking action when shortcomings are identified. We request feedback after calls, emails or queries raised on the Portal on how easy we were to deal with. This provides us with an 'in the moment' perspective on how we did.

Once we complete a member request, for instance, following a member's retirement, we also request more detailed feedback on how we handled the case. The purpose of this feedback is to get a more considered view from members once they have been through a complete end-to-end process. During the year, we completed 42,000 post-interaction surveys, with a member satisfaction rate of 86%.

Annual member satisfaction survey:

140,000
surveys sent to members

15,000
completed surveys, a significantly higher response rate than the industry average

Sixth
consecutive year-on-year improvement

88.7%
general satisfaction, an increase from last year

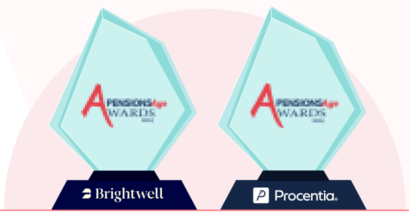
All categories improved, including telephone, email and portal experience, as well as helpfulness and clarity.

We are very grateful to our members for the feedback they provide on our services, which helps to ensure that we continue to evolve and improve.

Pension awards

Brightwell, the administrator of BTPS, won the Pensions Administration prize at the 2024 Pensions Age awards. Brightwell was praised for its overwhelming commitment to the BTPS member experience with the judges saying: "A passion for administration excellence shone through in this entry which demonstrated a refusal to settle for anything but the best for members".

In addition, Procentia, the provider of BTPS's IntelliPen administration platform, was praised for its innovation, with the judges saying that Procentia's entry "demonstrated significant development across a number of areas in the UK and overseas, setting them apart in the pensions technology space."



GMP equalisation

We completed a project to equalise guaranteed minimum pensions (GMPs) between men and women in February 2024. Since 2021, we have assessed over 200,000 Scheme members, both past and present, to establish which members are due equalisation adjustments. This resulted in creating a plan to make the necessary adjustments for 60,000 eligible members. Members in receipt of their pension have now all been contacted and top-up payments made. In addition, all members coming into payment in future will now do so on an equalised basis.

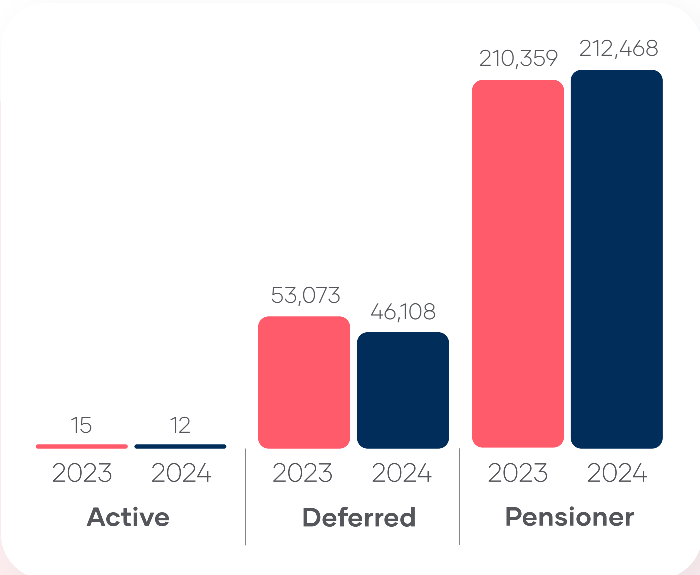
Member services continued

Looking forward: Pensions Dashboards

Over the year, we have continued to engage with the government on the Pensions Dashboards Programme at the most senior levels. Working together with Procentia, we continue to prepare to implement the dashboards through our pension administration platform, Intellipen, and are well placed to connect to the central infrastructure by our connection deadline of May 2025. This is due to the extensive work we have carried out to ensure data accuracy and the significant investments we have made in the administration platform.

Membership

On 31 March 2001, the Scheme was closed to new entrants. In the year to 30 June 2024, the number of active members fell from 15 to 12. The number of pensions being paid rose from 210,359 to 212,468. The number of members with deferred rights fell from 53,073 to 46,108. Membership of the Scheme falls into one of three 'sections': Section A, Section B and Section C. Details of these can be found on: **www.btps.co.uk**



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 2024, the increase for Sections A and B pensions in payment was 6.7% and the increase for Section C pensions was 5.0%. 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 regulation. Discretionary benefits are not included in the calculation of transfer values.

For the Trustee,

Jill Mackenzie

3 October 2024

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. It is 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 net assets of the Scheme are to be presented in the 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 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 2024. 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 2024 can be observed.

Asset class	Value per Statement of net assets £m	PIVs £m	Note	Other £m	Note	Managed allocation £m	Managed allocation %
Equity and equity-like							
Equities	1,433	2,590	1, 4, 5	(176)	4, 5, 7, 8	3,847	11%
Property	1,545	2,314	1	(1,100)	8	2,759	8%
Absolute return	-	980	1	-	8	980	3%
Mature infrastructure	-	724	1	269	8	993	3%
Non core credit	-	3,750	1, 7	568	7, 8	4,318	12%
Cashflow aware							
Bonds	24,095	-	7	(24,095)	7, 8	-	0%
Government bonds, cash and other net assets	-	334	1, 5, 7	7,606	5, 7, 8	7,940	22%
Investment grade credit	-	101	1, 7	9,674	7, 8	9,775	27%
Secure income assets	-	2,906	1, 7	2,175	7, 8	5,081	14%
Other categories							
PIVs	13,699	(13,699)	1	-	8	-	0%
Loans	50	-	3	(50)	8	-	0%
Other net assets	(5,129)	-	2	5,129	8	-	0%
	35,693	**-**		**-**		**35,693**	**100%**

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, along with the physical security holdings, that will determine the Scheme's exposure.

[5] 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).

[6] Equities include allocations to public and private markets.

[7] Bonds have been reclassified between investment grade credit or secure income category within the bonds, cash and secure income asset class.

[8] Investments are classified according to the legal nature of the security or investment instrument within the 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 2024 which comprise the Fund account, the 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 2024, 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 3A 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; and
- 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.

Independent auditor’s report

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; and
- 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 longevity contracts, the valuation of the Scheme’s interest in special purpose vehicles, and the valuation of Level 3 pooled investment vehicles. Based 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 agreed schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

Independent auditor's report

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 all material post-closing entries and unusual manual journals posted to cash;
- Assessing whether the judgments made in making accounting estimates are indicative of a potential 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 Trustee and their delegates (as required by auditing standards), and from inspection of the Scheme's regulatory and legal correspondence, and discussed with the Trustee 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). 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 is not 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 39 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 33, 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 more detailed 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.

Grant Archer

for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants

319 St Vincent Street,
Glasgow, G2 5AS

3 October 2024

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 Schedules of Contributions to the BT Pension Scheme in respect of the Scheme year ended 30 June 2024 which is set out on page 40.

In our opinion, contributions for the Scheme year ended 30 June 2024, as reported in the Summary of Contributions and payable under the Schedules of Contributions have in all material respects been paid from 1 July 2023 to 12 November 2023 at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 12 May 2021 and subsequently, at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 13 November 2023.

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 33, 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.

Grant Archer

for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants

319 St Vincent Street,
Glasgow, G2 5AS

3 October 2024

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 summary opposite 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 Schedules of Contributions for the year ended 30 June 2024.

The Scheme's auditor reports on contributions payable under the Schedules, as shown in the '2024 per Schedules' column to the right, in their statement about contributions.

Approved on behalf of the Trustee Board,

Jill Mackenzie

Chair

3 October 2024

	2024 per Schedules £m	2024 additional £m	2024 total £m
Contributions			
Employers' normal contributions	–	–	–
Employees' normal contributions	–	–	–
Employers' deficit funding contributions	20	–	20
Employers' other contributions	32	–	32
Employees' additional voluntary contributions	–	–	–
Total contributions reported in the Fund account	**52**	**–**	**52**
Payments by the employer to the co-investment vehicle	690	–	690
Total contributions and payments into the co-investment vehicle	**742**	**–**	**742**

Fund account

For the year ended 30 June 2024

	Notes	Year ended 30 June 2024 £m	Year ended 30 June 2023 £m
Contributions and benefits			
Employers' contributions	3	52	940
Employees' contributions	3	0	0
Total contributions		**52**	**940**
Benefits paid or payable	4	(2,836)	(2,647)
Payments to and on account of leavers	5	(20)	(71)
Administration expenses	6	(25)	(33)
Net withdrawals from dealing with members		**(2,829)**	**(1,811)**
Return on investments			
Investment income	8	172	857
Change in market value of investments	9	1,086	(8,543)
Investment management expenses	10	(74)	(68)
Interest payable		(3)	(2)
Taxation	11	7	1
Net returns on investments		**1,188**	**(7,755)**
Net decrease in the Scheme during the year		**(1,641)**	**(9,566)**
Net assets of the Scheme			
At 1 July		37,334	46,900
At 30 June		**35,693**	**37,334**

The notes on pages 43 to 71 form part of these financial statements.

Statement of net assets (available for benefits)

As at 30 June 2024

	Notes	30 June 2024 £m	30 June 2023 £m
Investment assets			
Equities		1,433	1,654
Bonds		24,095	22,176
Property		1,545	1,661
Pooled investment vehicles	12	13,699	16,057
Loans		50	58
Derivatives	13	3,945	4,626
AVC investments	14	99	113
Deposits and short-term investments		747	776
Special purpose vehicles	16	1,724	1,062
Other investment assets	15	227	405
Total investment assets		**47,564**	**48,588**
Investment liabilities			
Derivatives	13	(8,957)	(9,725)
Longevity insurance contract	17	(1,010)	(863)
Other investment liabilities	18	(1,754)	(575)
Total investment liabilities		**(11,721)**	**(11,163)**
Total net investments		**35,843**	**37,425**
Current assets	21	56	111
Current liabilities	22	(206)	(202)
Net assets of the Scheme at 30 June		**35,693**	**37,334**

The financial statements summarise the transactions of the Scheme and the net assets at the disposal of the Trustee. They do 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 43 to 71 form part of these financial statements.

These financial statements were approved by the Trustee Board on 3 October 2024 and signed on their behalf by:

Jill Mackenzie
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 include risks associated with Scheme funding, the employer covenant and Scheme investment performance, alongside legal, regulatory, and, operational risks.

The impact of these risks, including the processes to mitigate and manage these, has been considered by the Trustee for a period of at least 12 months from the date of signing these financial statements. In reaching the going concern conclusion, the Trustee oversees reporting by Brightwell incorporating various severe but plausible individual and combined scenarios, covering the principal risks that could present a going concern risk to the Scheme, and consideration of post year-end events.

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.

Treatment of subsidiary undertakings

In accordance with FRS 102, the Trustees are not required to prepare consolidated financial statements and have chosen not to do so.

Subsidiary undertakings are included at fair value within investment assets, and a summary of the undertakings' net assets is provided as a note to the financial statements.

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.

Foreign exchange gains and losses arising on conversion or translation are dealt with in the 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.

Notes to the financial statements

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 (IPEV) 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 based on the year end, or most recently available, net asset valuations provided by investment managers. Unquoted corporate loans are carried at fair value using the latest available prices in the market.

Notes to the financial statements

UK investment properties are independently valued by Savills plc, chartered surveyors, on the basis of market value in accordance with the latest version of the RICS Valuation – Global Standards (incorporating the International Valuation Standards) and the UK national supplement (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.

Futures 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 (Statement of Recommended Practice), the asset-backed funding arrangement (ABF) described in the Report by the Trustee is classified as a special purpose vehicle. The ABF entitles 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. The ABF is 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

The co-investment vehicle described in the Report by the Trustee is classified as a special purpose vehicle. Payments by the Scheme sponsor into the co-investment vehicle increase the value of the Scheme's investment in this special purpose vehicle, and are treated as a change in market value in the Fund account. A deterministic valuation approach, which takes into account the conditions for receiving distributions from the co-investment vehicle at maturity, is used to value the Scheme's interest in this special purpose vehicle at the year end.

Distributions from the special purpose vehicles are treated as either income or capital receipts in accordance with the agreement between the Scheme and the Scottish Limited Partnership through which the arrangements are 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 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 2024 £m	Year ended 30 June 2023 £m
Employers' normal contributions	0	0
Employers' deficit funding contributions[1]	20	900
Employers' other contributions[2,3] (refer to note 6)	32	40
Employers' contributions	**52**	**940**
Employees' normal contributions	0	0
Employees' additional voluntary contributions	0	0
Employees' purchase of added years	0	0
Employees' contributions	**0**	**0**
Total contributions	**52**	**940**

[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. In addition to the deficit funding contributions, the employer also made payments of £690m to the co-investment vehicle during the year.

[2] Employers' other contributions include reimbursement of the Pension Protection Fund levy (PPF levy) in accordance with the Schedule of Contributions certified on 12 May 2021 and 13 November 2023..

[3] An amount of £28 million is included within employers' other contributions in respect of administrative expenses.

4. Benefits paid or payable

	Year ended 30 June 2024 £m	Year ended 30 June 2023 £m
Pensions[4]	2,427	2,268
Commutations of pensions and lump sum retirement benefits	405	375
Lump sum death benefits	4	3
Taxation where lifetime or annual allowance exceeded[5]	-	1
	2,836	**2,647**

[4] The Scheme has entered into longevity insurance arrangements to protect the Scheme against costs associated with potential increases in life expectancy. These arrangements cover approximately 28% of the Scheme's longevity risk. Pensions benefits include a realised loss of £28 million on the arrangement during the year (2023: Realised loss of £25 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 guaranteed minimum pensions (GMP). As a result, some members will receive higher pensions and will be eligible for back pay of historical pension entitlements. As noted in the Report by the Trustee, all GMPs were equalised in the current year, with amounts paid on equalisation recognised as benefits in the year to 30 June 2024.

[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 zero cases in respect of lifetime allowances (2023: thirteen cases amounting to £0.563 million), and zero cases in respect of annual allowance (2023: zero cases).

Notes to the financial statements

5. Payments to and on account of leavers

	Year ended 30 June 2024 £m	Year ended 30 June 2023 £m
Individual transfers in	-	-
Group transfers in	-	-
Individual transfers out	20	71
	20	**71**

6. Administration expenses

	Year ended 30 June 2024 £m	Year ended 30 June 2023 £m
Net PPF levy and associated costs (refer to note 3)	4	10
Administration expenses[6]	21	23
	25	**33**

[6] Administration expenses include £11m of expenses to operate both BT Pension Scheme Management Limited and BT Pension Scheme Administration Limited (2023: £13 million), actuary fees, custody fees, legal fees and other professional fees, and Trustee fees and expenses. 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 2024 £k	Year ended 30 June 2023 £k
Fees payable to the Scheme auditor for audit of the Scheme financial statements	444	427
Fees payable to the Scheme auditor for audit of the Scheme subsidiaries and investment entities pursuant to legislation	1,844	1,459
Total audit fees	**2,288**	**1,886**
Audit-related assurance services	15	15
Taxation compliance services	-	-
Other assurance services	-	-
All other services	-	-
Total non-audit fees	**15**	**15**
Fees payable to the Scheme's auditor in respect of associated pension scheme	22	21
	2,325	**1,922**

Notes to the financial statements

8. Investment income

	Year ended 30 June 2024 £m	Year ended 30 June 2023 £m
Dividends from equities	17	85
Income from bonds[7]	576	669
Net rental income from properties[8]	47	48
Income from pooled investment vehicles	186	181
Derivatives	(686)	(179)
Longevity insurance contract	(31)	(29)
Special purpose vehicles	47	52
Interest payable on repurchase agreements	(45)	-
Interest on deposits and short-term investments	61	30
	172	**857**

[7] Includes income of £54m (2023: £53m) on bonds issued by BT. Refer to note 24 'Related party transactions' for further information.

[8] Net rental income from properties is stated after deducting £37 million of property related expenses (2023: £22 million).

9. Reconciliation of investments

	Market value at 30 June 2023, £m	Net investment / (disinvestment), £m	Change in market value, £m	Market value at 30 June 2024, £m
Investment assets/(liabilities)				
Equities	1,654	(500)	279	1,433
Bonds	22,176	1,517	402	24,095
Property	1,661	194	(310)	1,545
Pooled investment vehicles	16,057	(2,986)	628	13,699
Loans	58	(6)	(2)	50
Derivatives[9]	(5,099)	640	(553)	(5,012)
AVC investments	113	(27)	13	99
Special purpose vehicles	1,062	(180)	842	1,724
Longevity insurance contract	(863)	-	(147)	(1,010)
	36,819	**(1,348)**	**1,152**	**36,623**
Deposits and short-term investments	776		(50)	747
Other investment assets/(liabilities)	(170)		(16)	(1,527)
	37,425		**1,086**	**35,843**

[9] Derivatives include both derivative assets and liabilities which are presented separately in the 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	1,481	(1,981)	(500)
Bonds	6,848	(5,331)	1,517
Property	222	(28)	194
Pooled investment vehicles	1,996	(4,982)	(2,986)
Loans	–	(6)	(6)
Derivatives[10]	1,682	(1,042)	640
AVC investments	–	(27)	(27)
Special purpose vehicles	–	(180)	(180)
Longevity insurance contract	–	–	–
	12,229	**(13,577)**	**(1,348)**

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 £4 million and include commissions and taxes (2023: £7 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. These are not separately provided to the Scheme.

Investment assets / (liabilities)	Year ended 30 June 2024			Year ended 30 June 2023		
	Commissions £m	Taxes £m	Total £m	Commissions £m	Taxes £m	Total £m
Equities	1	–	1	2	1	3
Property	1	1	2	1	3	4
Pooled investment vehicles	1	–	1	–	–	–
Total	**3**	**1**	**4**	**3**	**4**	**7**

Notes to the financial statements

10. Investment management expenses

	Year ended 30 June 2024 £m	Year ended 30 June 2023 £m
Investment management expenses[10]	74	68
	74	**68**

[10] Investment management expenses include £37 million of expenses to operate BT Pension Scheme Management Limited (2023: £36 million). Refer to note 24 'Related party transactions' for further information.

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. This 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, therefore does not fall under the specific exemption and will be assessed for tax in the normal way. The tax charge or credit presented in the 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.

Notes to the financial statements

12. Pooled investment vehicles

	30 June 2024 £m	30 June 2023 £m
Equities	1,304	1,122
Bonds	2,025	1,768
Hedge funds	5,821	5,561
Liquidity funds	334	3,261
Mature infrastructure	724	770
Private equity	1,292	1,168
Property	2,199	2,407
	13,699	**16,057**

Included within Property is £649 million (2023: £543million) related to the investment in limited partners who's sole purpose is to hold property investments. These investments are managed on a direct basis by the Scheme's real estate investment manager, and BTPS is the sole limited partner to these partnerships. The main asset in each of these limited partnerships is property. On this basis, the Trustee has made the judgement to present these investments in the limited partnerships as property assets.

The fair value of subsidiary undertakings that are included in the Scheme's net assets as PIVs amounted to £5,016 million (2023: £4,701million). This comprised of £8,547 million of assets and £3,531 million of liabilities (2023: £7,689 million of assets and £2,988 million of liabilities).

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 is set out opposite.

Assets	**30 June 2024 £m**	**30 June 2023 £m**
Futures	2	4
Options	7	5
Swaps	3,900	4,506
Forward foreign exchange	36	111
	3,945	**4,626**

Liabilities	**30 June 2024 £m**	**30 June 2023 £m**
Futures	(12)	(22)
Options	(18)	(54)
Swaps	(8,851)	(9,532)
Forward foreign exchange	(76)	(117)
	(8,957)	**(9,725)**

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 within one year (2023: all contracts settle within one year). As at 30 June 2024, the Scheme held cash collateral of £8 million on futures contracts (2023: the Scheme held cash collateral of £29 million on futures contracts).

Futures	30 June 2024				30 June 2023			
	Exposure				Exposure			
Type of contract	Long £m	Short £m	Asset £m	Liability £m	Long £m	Short £m	Asset £m	Liability £m
Exchange traded								
Equities	-	-	-	-	-	(572)	-	(10)
Fixed interest	235	(434)	2	(3)	231	(422)	4	(3)
	235	**(434)**	**2**	**(3)**	**231**	**(994)**	**4**	**(13)**
Over the counter								
Fixed interest	-	(13)	-	(9)	-	(13)	-	(9)
	-	**(13)**	-	**(9)**	-	**(13)**	-	**(9)**
	235	**(447)**	**2**	**(12)**	**231**	**(1,007)**	**4**	**(22)**

Notional amount of outstanding contracts represents the value of underlying securities covered by the purchased options. All of the contracts settle within two years (2023: all of the contracts settle within thirteen years).

Options	30 June 2024			30 June 2023		
Type of contract	Notional £m	Asset £m	Liability £m	Notional £m	Asset £m	Liability £m
Exchange traded						
Equities	1,782	7	-	1,833	5	-
	1,782	**7**	**-**	**1,833**	**5**	**-**
Over the counter						
Currency options - put	1,875	-	(4)	1,159	-	(3)
Currency options - call	826	-	(1)	1,603	-	(11)
Interest rate swaptions – fixed versus floating	200	-	(13)	500	-	(40)
Credit swaptions – CDS index	-	-	-	35	-	-
	2,901	**-**	**(18)**	**3,297**	**-**	**(54)**
	4,683	**7**	**(18)**	**5,130**	**5**	**(54)**

Notes to the financial statements

Swaps	30 June 2024				
Type of contract	**Expiration**	**Nature of swap**	**Notional £m**	**Asset £m**	**Liability £m**
Equity total return	< 4 years	Index	2,977	2	(19)
Bond total return	< 2 years	Government bond	220	-	(58)
Interest rate	< 50 years	Fixed versus floating	48,953	1,516	(8,209)
Inflation	< 46 years	Fixed versus RPI or CPI	30,962	2,381	(564)
Credit default	< 5 years	CDS index	46	1	(1)
			83,158	**3,900**	**(8,851)**

Swaps	30 June 2023				
Type of contract	**Expiration**	**Nature of swap**	**Notional £m**	**Asset £m**	**Liability £m**
Equity total return	<5 years	Index	2,986	-	(53)
Bond total return	<3 years	Government bonds	1,072	1	(331)
Interest rate	<47 years	Fixed versus floating	39,528	1,590	(8,469)
Inflation	<51 years	Fixed versus RPI or CPI	25,403	2,915	(678)
Credit default	<6 years	CDS index	14	-	(1)
			69,003	**4,506**	**(9,532)**

The Scheme held cash collateral of £35 million, received pledged bond collateral of £97 million, and it pledged bond collateral of £5,130 million on OTC derivative contracts (2023: the Scheme held cash collateral of £0 million, received pledged bond collateral of £55 million, and it pledged bond collateral of £5,071 million on OTC derivative contracts).

Notes to the financial statements

Forward foreign exchange							
Currency		**30 June 2024**			**30 June 2023**		
Bought	**Sold**	**Notional £m**	**Asset £m**	**Liability £m**	**Notional £m**	**Asset £m**	**Liability £m**
GBP	USD	7,673	32	(29)	8,641	101	(6)
GBP	Other	401	3	–	397	4	–
USD	Other	1,327	1	(5)	1,384	–	(8)
Other	Other	2,225	–	(42)	2,701	6	(103)
		11,626	**36**	**(76)**	**13,123**	**111**	**(117)**

All of the contracts settle in less than one year (2023: 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 Legal & General Investment Management Limited and Standard Life Assurance Company. 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 2024 £m	**30 June 2023 £m**
At start of year	113	129
Net withdrawals by members	(27)	(23)
Change in market value of investments	13	7
At end of year	**99**	**113**

15. Other investment assets

	30 June 2024 £m	30 June 2023 £m
Accrued investment income	174	174
Amounts due from brokers	23	167
Margin deposits - initial	4	36
Margin deposits - variation	10	-
Repurchase agreements	-	-
Other[11]	16	28
	227	**405**

[11] 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.

Notes to the financial statements

16. Special purpose vehicles

	30 June 2024 £m	30 June 2023 £m
Asset backed funding arrangement	1,031	1,062
Co-investment vehicle	693	-
	1,724	**1,062**

Asset backed funding arrangement

The asset-backed funding arrangement, described in 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 Trustee 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 2024, following receipt of the fourth £180m payment of capital and interest, the value of the Scheme's limited partnership interest in BT Falcon 1 LP was £1,031 million, representing 2.9% of the Scheme's net assets, whilst the principal amount outstanding of the EE loan note held by BT Falcon 1 LP was £1,414 million.

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

Co-investment vehicle

As described in the Report by the Trustee, the Scheme is a limited partner in the co-investment vehicle, BT Falcon 2 LP. The general partner of BT Falcon 2 LP is BT Corporate Limited, and BT plc is a limited partner in BT Falcon 2 LP. In the year to 30 June 2024, BT made payments of £690m into the co-investment vehicle. Amounts paid by BT into the co-investment vehicle are included in the fair value of the assets of the Scheme. During the year, the co-investment vehicle advanced the funds in the vehicle to Britel Scotland II LP, a Scheme-owned entity, via a loan arrangement.

The loan advanced by BT Falcon 2 LP has been made on an arms-length basis. In considering the fair value of the Scheme's interest in the co-investment vehicle, the Trustee has considered the fair value of the vehicle's net assets, including the loan advanced to Britel Scotland II LP. A deterministic valuation approach, which takes into account the conditions for receiving distributions from the co-investment vehicle at maturity, has been used to value the Scheme's interest in this special purpose vehicle at the year end. The loan payable by Britel Scotland II LP is recognised within Note 18 'Other investment liabilities'. As at 30 June 2024, the value of the Scheme's Limited Partnership Interest in BT Falcon 2 LP was £693m, representing 1.9% of the Scheme's net assets.

As both BT Falcon 2 LP and Britel Scotland II LP are Scottish Limited Partnerships, this arrangement 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 2024 £m	30 June 2023 £m
Longevity insurance contract[13]	1,010	863
	1,010	**863**

[13] Represents unrealised losses on longevity insurance contracts involving the exchange of future payments based on expected longevity with future payments based on actual longevity. The Scheme pledged bond collateral of £1,434 million in respect of longevity insurance contracts at 30 June 2024 (2023: the Scheme pledged bond collateral of £1,311 million).

18. Other investment liabilities

	30 June 2024 £m	30 June 2023 £m
Amounts due to brokers	25	61
Deferred income	14	15
Repurchase arrangements	981	492
Payable to co-investment vehicle	693	-
Margin deposits - initial	6	-
Margin deposits - variation	35	7
	1,754	**575**

Including the value of securities delivered under the contracts, the Scheme pledged bond collateral of £982m in respect of repurchase arrangements (2023: the Scheme pledged bond collateral of £500 million).

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.

30 June 2024	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	1,113	–	320	1,433
Bonds	14,478	8,824	793	24,095
Property	–	–	1,545	1,545
Pooled investment vehicles	–	4,638	9,061	13,699
Loans	–	50	–	50
Derivatives	6	(5,018)	–	(5,012)
AVC investments	–	99	–	99
Longevity insurance contract	–	–	(1,010)	(1,010)
Special purpose vehicles	–	–	1,724	1,724
Deposits and short term investments	747	–	–	747
Other investment assets/(liabilities)	131	(1,674)	16	(1,527)
	16,475	**6,919**	**12,449**	**35,843**

30 June 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	1,359	–	295	1,654
Bonds	12,650	8,782	744	22,176
Property	–	–	1,661	1,661
Pooled investment vehicles	–	7,120	8,937	16,057
Loans	–	58	–	58
Derivatives	(4)	(5,095)	–	(5,099)
AVC investments	–	113	–	113
Longevity insurance contract	–	–	(863)	(863)
Deposits and short term investments	776	–	–	776
Special purpose vehicles	–	–	1,062	1,062
Other investment assets/(liabilities)	294	(492)	28	(170)
	15,075	**10,486**	**11,864**	**37,425**

Notes to the financial statements

The 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 2024 £m	30 June 2023 £m	Valuation technique	Significant assumptions
Bonds	8,824	8,782	Evaluated pricing models, broker quotes	Credit risk, market risk, yield curves
Pooled investment vehicles	4,638	7,120	Fund net asset values	Redemption discount
Loans	50	58	Amortised cost	Discount rate, credit risk
Derivatives	(5,018)	(5,095)	Forward rates, yield curves	Cost of carry, yield curves
AVC investments	99	113	Fund net asset values	Redemption discount
Other investment liabilities /assets	(1,674)	(492)	Amortised cost	Repo rate, credit risk, discount rate
	6,919	**10,486**		

Level 3	30 June 2024 £m	30 June 2023 £m	Valuation technique	Significant assumptions
Equities	320	295	IPEVC guidelines	Discount rate, earnings assumptions
Bonds	793	744	Evaluated pricing models, broker quotes	Credit risk, market risk, yield curves
Property	1,545	1,661	RICS guidelines	Rental yields, occupancy rates
Pooled investment vehicles	9,061	8,937	Fund net asset values	Redemption discount
Longevity insurance contract	(1,010)	(863)	Discounted cashflow	Discount rate, cashflow profile, actuarial assumptions
Special purpose vehicles	1,724	1,062	Discounted cashflow, stochastic analysis	Discount rate, cashflow profile, actuarial assumptions
Other investment assets	16	28	Projected unit method, amortised cost	Inflation rate, salary increases, mortality assumptions
	12,449	**11,864**		

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 that 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 cashflows 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 cashflows 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 and longevity risk as detailed below.

Inflation risk

This is the risk the fair value or future cashflows 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.

Longevity insurance arrangements have been entered into to protect the Scheme against costs associated with potential increases in life expectancy of the Scheme's pensioners. These arrangements cover approximately 28% 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 Brightwell, and through investment management agreements in place with investment managers, and are monitored by the Trustee. Further information on the Trustee's approach to risk management is detailed in this note.

Liquidity risk

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 the projected cash requirements of the Scheme.

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 2024, £m	30 June 2023, £m
Equities	○	◐	●	1,433	1,654
Bonds	●	◐	○	24,095	22,176
Property	○	◐	●	1,545	1,661
Pooled investment vehicles	◐	◐	●	13,699	16,057
Loans	●	◐	○	50	58
Derivatives	●	◐	◐	(5,012)	(5,099)
AVC investments	◐	◐	●	99	113
Longevity insurance contract	●	○	●	(1,010)	(863)
Special purpose vehicles	●	○	●	1,724	1,062
Deposits and short term investments	●	◐	○	747	776
Other investment assets/(liabilities)	◐	◐	◐	(1,527)	(170)
Total investment assets				**35,843**	**37,425**

In the table, the relevant risks affect the asset classes with significant exposure, some exposure or minimal 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 minimal exposure is a risk that, in the judgment of management, has minimal 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.

Notes to the financial statements

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 2024	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Direct exposure				
Bonds	21,724	610	1,761	**24,095**
Pooled investment vehicles	-	-	13,699	**13,699**
Loans	-	-	50	**50**
OTC derivatives	(5,018)	-	-	**(5,018)**
Special purpose vehicles	-	-	1,724	**1,724**
Deposits and short term investments	747	-	-	**747**
Gross exposure	**17,453**	**610**	**17,234**	**35,297**
Credit derivatives (notional amount of contracts)	(46)	-	-	**(46)**
Net exposure	**17,407**	**610**	**17,234**	**32,251**
Indirect exposure				
Bonds	114	201	98	**413**
Pooled investment vehicles	-	-	1,060	**1,060**
Loans	43	162	2,087	**2,292**
OTC derivatives	16	-	-	**16**
Special purpose vehicles	-	-	-	**-**
Deposits and short term investments	3	-	-	**3**
Gross exposure	**176**	**363**	**3,245**	**3,784**
Credit derivatives (notional amount of contracts)	(143)	-	-	(143)
Net exposure	**33**	**363**	**3,245**	**3,641**

Notes to the financial statements

30 June 2023	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Direct exposure				
Bonds	18,694	421	3,061	**22,176**
Pooled investment vehicles	-	-	16,057	**16,057**
Loans	-	-	58	**58**
OTC derivatives	(5,095)	-	-	**(5,095)**
Special purpose vehicles	-	-	1,062	**1,062**
Deposits and short term investments	776	-	-	**776**
Gross exposure	**14,375**	**421**	**20,238**	**35,034**
Credit derivatives (notional amount of contracts)	(14)	-	-	**(14)**
Net exposure	**14,361**	**421**	**20,238**	**35,020**
Indirect exposure				
Bonds	12	224	114	**350**
Pooled investment vehicles	-	-	842	**842**
Loans	8	85	1,796	**1,889**
OTC derivatives	7	-	-	**7**
Special purpose vehicles	-	-	-	**-**
Deposits and short term investments	10	-	-	**10**
Gross exposure	**37**	**309**	**2,752**	**3,098**
Credit derivatives (notional amount of contracts)	(32)	-	-	**(32)**
Net exposure	**5**	**309**	**2,752**	**3,066**

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 2024 £m	30 June 2023 £m
Employers' contributions due	-	-
Employees' contributions due	-	-
Other debtors	56	102
Bank balances	-	9
	56	**111**

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

22. Current liabilities

	30 June 2024 £m	30 June 2023 £m
Accrued benefits	134	118
Other creditors	72	84
	206	**202**

23. Securities lending

No securities were on loan as at 30 June 2024 (30 June 2023: 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. Total compensation payable to members of the Trustee Board during the year was £0.5 million (2023: £0.4 million).

Notes to the financial statements

24. Related party transactions and balances

As an employee of BT, Emily Clark received no fees.

Two Trustee Directors and the spouse of one Trustee Director were members of the Scheme at 30 June 2024 (2023: two Trustee Directors and the spouse of one Trustee Director were members of the Scheme).

Further details on the compensation of members of the Trustee Board is included in the below table:

	Year ended 30 June 2024 £k	Year ended 30 June 2023 £k
Jill Mackenzie (appointed as Chair 30 November 2023)	127	11
Otto Thoresen (stepped down 29 November 2023)	63	150
Chris Cheetham	50	50
Andrew Clare (appointed 30 November 2023)	21	-
Emily Clark	-	-
Nigel Cotgrove	38	32
Andrew Kerr	44	44
Ben Marshall	35	36
Keith Nichols (stepped down 15 May 2023)	-	68
Beryl Shepherd (stepped down 31 May 2024)	32	35
David Viles	50	12
	460	**438**

Employer-related transactions

Hermes GPE FRWL Topco Limited 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.

Notes to the financial statements

24. Related party transactions and balances

Self-investments designated as employer-related investments

As at 30 June 2024 the Scheme held £0 million in BT ordinary shares (2023: £0 million) and £10 million in BT index-linked investments (2023: £10 million). The total amount of employer-related investments represent 0.03% of the net assets of the Scheme (2023: 0.03%). As at 30 June 2024 there were no properties occupied by BT owned by the Scheme (2023: none).

Limited partnership investments not designated as employer-related investments

On 25 June 2018, Britel Scotland II LP subscribed for £2bn 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 2024, the notional amount of these bonds held was £1,777 million (2023: £1,777 million), and these investments were valued at £1,555 million (2023: £1,421 million) and represent 4.4% of the net assets of the Scheme (2023: 3.8%). These bonds are held by Britel Scotland II LP, a Scottish limited partnership, and therefore are not employer-related investments for the purposes of the relevant regulations.

The asset-backed funding arrangement, described 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 this entity is a Scottish limited partnership with separate legal personality, it does not amount to an employer-related investment for the purposes of the relevant regulations.

As at 30 June 2024, following receipt of the fourth £180 million payment of capital and interest, the value of the Scheme's limited partnership interest in BT Falcon 1 LP was £1,031 million, representing 2.9% of the Scheme's net assets, whilst the principal amount outstanding on the EE loan note held by BT Falcon 1 LP was £1,414 million.

The Scheme is a limited partner in the co-investment vehicle, BT Falcon 2 LP. The general partner of BT Falcon 2 LP is BT Corporate Limited, and BT plc is a limited partner in BT Falcon 2 LP. In the year to 30 June 2024, BT made payments of £690m into the co-investment vehicle. Amounts paid by BT into the co-investment vehicle are included in the fair value of the assets of the Scheme. During the year, the co-investment vehicle advanced the funds in the vehicle to Britel Scotland II LP, a Scheme-owned entity, via a loan arrangement.

As at 30 June 2024, the value of the Scheme's Limited Partnership Interest in BT Falcon 2 LP was £693m, representing 1.9% of the Scheme's net assets. A corresponding investment liability of £693m in included in the Statement of net assets , reflecting the loan arrangement between BT Falcon 2 LP and Britel Scotland II LP.

As both BT Falcon 2 LP and Britel Scotland II LP are Scottish Limited Partnerships, this arrangement does not amount to an employer-related investment for the purposes of the relevant regulations.

Notes to the financial statements

24. Related party transactions and balances

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 2024 amounted to £16 million (2023: £28 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.

Other related parties

The Scheme wholly owns BT Pension Scheme Management Limited (BTPSM), and BT Pension Scheme Administration Limited (BTPSA) is a wholly owned subsidiary of BTPSM. A share of the cost of operating BTPSA and BTPSM is included in Administration expenses and Investment management expenses. BTPSM also leases a building owned by the Scheme. The Scheme is the sole investor in a number of pooled investment vehicles that are subsidiaries of BTPS. A summary of the net assets of these subsidiaries is included in note 12 'Pooled investment vehicles'.

Hermes Group Pension Scheme	**30 June 2024 £m**	**30 June 2023 £m**
Scheme assets	159	163
Scheme liabilities	(143)	(135)
	16	**28**

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

25. Commitments and contingent liabilities

	30 June 2024 £m	**30 June 2023 £m**
Property	257	528
Calls on partly paid shares and underwriting commitments	2,491	2,589
	2,748	**3,117**

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 carried out as at 30 June 2023.

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 formal actuarial valuation as at 30 June 2023 is in the table opposite, together with the assumptions used.

BT Pension Scheme	30 June 2023
Assets - £million	37,334
Liabilities (Technical Provisions) - £million	41,035
Deficit - £million	3,701
Funding level	91%
Average nominal discount rate (per annum)	5.3%
Average RPI inflation (per annum)	3.6%
Average CPI inflation (per annum)	3.2%
Life expectancy (age at death)	
Average male pensioner age 65	86.5
Average female pensioner age 65	88.1
Average male pensioner at 65 (age 45 now)	88.1
Average female pensioner at 65 (age 45 now)	89.9

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 formal valuation of the Scheme as a continuing scheme revealed a deficiency of £3.7bn

As part of the formal valuation, the Trustee and BT 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.

Since this agreement, BT have paid £10 million in each of March and April 2024 directly into the Scheme, and £100 million and £590 million, in March and April 2024 respectively, into the Scheme's co-investment vehicle. The contributions yet to be paid under this agreement are as follows:

- From 2025 to 2030, £10 million per year directly into the Scheme, and
- £590 million by 30 April each year from 2025 to 2029 and £490 million by 30 April 2030 either directly to the Scheme or to the Scheme's 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 (subject to certain criteria).

In addition, BT has agreed to pay up to a further £300 million per year to the Scheme if needed to meet any future emerging funding deficit in excess of £1bn up to 30 June 2026, or in excess of £500 million between 1 July 2026 and 30 June 2033. The need for these contributions will be assessed every 6 months.

BT has also agreed that it will pay additional contributions to the Scheme in respect of the small number of members who continue to accrue benefits in the Scheme, and 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 size and nature 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. The solvency funding position as at 30 June 2023 was a deficit of £9.2bn; this assumes a low-risk, closely-matched investment strategy with additional margins for risk included and would be considered in the event the Trustee could not place reliance on the BT covenant. The Scheme's financial position and the level of BT's contributions will formally be reviewed again in full as part of an actuarial valuation due as at no later than 30 June 2026.

Interim valuation as at 30 June 2024

Since the formal valuation of the Scheme as at 30 June 2023, an interim valuation of the Scheme as at 30 June 2024 has also been completed. The interim valuation showed that the funding deficit increased to £3.8bn over the period. The increase has largely been driven by under-performance of the Scheme's equity and equity-like assets relative to expectations. The funding position is slightly behind the projected position from 30 June 2023, however the Scheme is still expected to achieve full funding by 30 June 2030. Furthermore, based on these results, the additional contributions of up to £300 million per year to the Scheme, outlined on page 18 of this Report, are currently not required.

The solvency funding position as at 30 June 2024 has also been calculated and showed a solvency deficit of £9.7bn.

Graham McLean FIA

Towers Watson Limited (a WTW Company)

3 October 2024

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 2023 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 13 November 2023.

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: 13 November 2023
Name: Graham McLean
Qualification: Fellow of the Institute and Faculty of Actuaries
Address: Watson House, London Road, Reigate, Surrey RH2 9PQ
Name of employer: Towers Watson Limited (a WTW company)

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 2023 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 13 November 2023.

Graham McLean

Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited (a WTW company)

13 November 2023
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Appendix one:

SIP Implementation Statement

SIP Implementation Statement

The Trustee's expectations of stewardship, engagement & voting

Each year, the Trustee reviews how, and the extent to which, the Scheme's policies on stewardship have been followed during the Scheme year 1 July 2023 to 30 June 2024. It involves analysing the voting behaviour by, or on behalf of, the Trustee (including a selection of significant votes, determined by the Trustee or in collaboration with the Scheme's investment managers, and cast by the Trustee or on its behalf) during the year, stating any use of the services of a proxy voter. 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 greenhouse gas emissions and establishing an ambition for the Scheme's investment portfolio to achieve Net Zero greenhouse gas emissions by 2035	**Members' views** Considering the views of members to help inform the Trustee's 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. Where relevant, the Trustee delegates the exercise of voting rights and engagement activities to Federated Hermes EOS, and where they can demonstrate sufficient capabilities, also to its investment managers. Currently all voting activity is carried out by investment managers, and both managers and EOS undertake engagement activities on the Scheme's investments. Progress is monitored via regular engagement meetings with investment managers and EOS.	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 Brightwell. Managers are held to account for managing material ESG risks, and the Scheme takes measures to monitor and mitigate these risks.	The Trustee believes that reducing exposure to greenhouse gas 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 an ambition for the Scheme's investment portfolio to achieve Net Zero greenhouse gas emissions by 2035. The Trustee monitors progress against this ambition on an annual basis.	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 Trustee directors. • Providing an annual presentation by the Trustee Board, Brightwell and its advisers, to BT's recognised Trade Unions and NFOP. • Updating members on the Scheme's stewardship, engagement and voting activities via the Scheme's report and accounts, TCFD disclosures, Stewardship Report, and the Scheme's annual PRI transparency and assessment report. • Producing a short member-focused summary report of the key stewardship, climate change and voting information. • 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.

SIP Implementation Statement

SIP Implementation Statement background

The following information 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. The BTPS SIP was approved on 30 September 2020. Following this, a revision was made on 30 September 2021 and a further update was approved on 4 June 2024. The most recent iteration includes minor changes to align current practice and to reflect the results of the recent valuation, as well as investment strategy reviews. 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 sustainable investing (which includes climate change). This Implementation Statement is in respect of the Scheme's SIPs that were in place from 1 July 2023 to 30 June 2024.

The purpose is to:

- Set out the extent to which, in the opinion of the Trustee, 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, and
- Describe the voting behaviour by, or on behalf of, the Trustee over the year (including the 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: **btps.co.uk/RegulatoryReporting**

Implementation Statement conclusion

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

Please see the Scheme's stewardship report for more detail on the Scheme's stewardship activities over the year which can be found at: **btps.co.uk/SustainableInvestment**

SIP Implementation Statement

How are the Scheme's investments 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 Group (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. 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 Brightwell, regularly reviews its investment beliefs against the investment outcomes being delivered by the Scheme. In early 2020, the Trustee agreed a new investment belief on managing the Scheme's investments to create long-term sustainable value. Building on this, in October 2020, the Trustee formalised via the Statement of Investment Principles, an ambition to reach Net Zero greenhouse gas emissions by 2035. The Trustee believes it has an active role to play in using our influence as an asset owner to encourage sustainable long-term investing through our managers' stewardship activities.

In general, the Trustee prefers engagement over exclusion or divestment as a way of improving long-term behaviour, aligning our stewardship activities with the UK Stewardship Code principles and driving real world change.

Our asset manager oversight and engagement activities are set out on page 82. The key focus areas we monitor across our managers include:

- Whether our managers have formal processes in place for identifying, prioritising, and tracking engagements and statistics in relation to engagements for change
- Collaborations with other entities and participation in stewardship initiatives, and
- Engagement case studies that demonstrate the outcomes of the engagements and their effectiveness (we have highlighted some examples on page 90).

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.

SIP Implementation Statement

What does it mean to vote?

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 or appointing an auditor.

Shareholders can file resolutions to allow other shareholders to vote on matters that are not raised by management. As very few investors now attend AGMs in person, votes are cast as 'proxy votes' via phone, online or email. Often, the items to be voted on could impact a company's long-term performance, making proxy voting an important way for active investors to influence corporate behaviour on sustainability issues.

BTPS believes that making full use of its voting rights is part of its fiduciary duty and requires Federated Hermes EOS and its 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 Federated Hermes EOS are given a measure of discretion and flexibility, and can follow their own voting policy on most voting activities to support their wider engagement with the company, and to align with their overall financial rationale for investment in the company.

The Scheme monitors the investment managers' and Federated Hermes EOS's voting activities and requests they highlight key voting decisions on a quarterly basis, alongside a thorough review of all their votes cast on an annual basis.

The investment managers and Federated 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.

While the Scheme is invested in a diverse range of asset classes, the next few pages focus on the equity investments which have voting rights attached. The Scheme's equity holdings, as at 30 June 2024, are held in both segregated and pooled investment funds, and are managed on an active basis. The Scheme's equity holdings are invested with three investment managers, who undertake voting and engagement. We note that last year the Scheme was invested with five equity managers. The decrease was driven by a considerable reduction in the Scheme's equity allocation after the gilt crisis to provide liquidity for the Scheme's LDI portfolio. Voting on the remaining equity mandates is undertaken by the individual managers. In addition, there are also mandates in other asset classes, where Federated Hermes EOS conducts additional engagement activities on behalf of the Scheme.

Significant votes

We pay particularly close attention to votes that we deem to be significant, as determined by the Trustee in collaboration with its investment managers. When determining which votes are considered significant, we assess several criteria including those outlined by the Pensions and Lifetime Savings Association (PLSA) in its vote-reporting template.

We categorise significant votes as:

- a vote which can have a potential impact on financial outcomes
- 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
- votes with a potential impact on stewardship outcomes
- votes on 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 or a downgrading of voting rights
- votes in relation to companies that represent a significant size of holding in the mandate
- votes which are high profile or controversial
- votes where there is a significant level of opposition from investors to the company resolution
- votes where there is a significant level of support for an investor resolution
- votes where there is a high level of reputational risk, and
- votes where there is a high level of political or regulatory interest, a high level of industry debate, or any vote in non-listed equity asset classes e.g. in private equity, infrastructure or other asset classes.

SIP Implementation Statement

Asset manager oversight and engagement

The Scheme believe that all financially material considerations, including sustainability factors, must be integrated throughout the investment process. Outside of the government bond and liability-driven investment strategy, which is managed by Brightwell, BTPS outsources investment management to externally appointed asset managers.

Asset managers are selected to align with the Scheme's beliefs, policies and objectives. This is a fundamental part of the appointment process of a new manager and the ongoing oversight of the Scheme's managers' activities.

Before appointing an asset manager on behalf of BTPS, Brightwell seeks to understand their philosophy and approach, to determine if they are suitable for the Scheme. This includes an assessment of the alignment between the Scheme's beliefs and goals, the investment time horizon, approach to sustainable investment and engagement with underlying companies. Assessment of the Scheme's asset managers' stewardship capabilities forms part of a wider focus on their approach to integrating sustainability considerations. Over the past few years, the Scheme has developed and improved its sustainability approach.

The initial manager selection process focuses on three key factors:

1. How sustainability is integrated into their investment strategy and approach
2. If their sustainability approach is consistent with their overall investment strategy, and
3. How this work is evidenced in the manager's investment papers and reporting.

These questions are asked to understand how an asset manager is taking sustainability into account in their investment process, and how they will be active stewards of the Scheme's capital through voting and engagement. Once appointed, we expect asset managers to consider both the risks and opportunities that arise from sustainability factors in the selection, retention and realisation of investments.

The Scheme's managers are expected to:

- Undertake ESG integration and actively engage with investments
- Undertake proxy voting and, where appropriate, exercise advocacy related to stewardship
- Provide ongoing reporting regarding their sustainable investment integration process and activities
- Reflect the sustainability information they have considered in their investment process and if investment decisions have been changed as a result
- Apply best international practice stewardship approaches or adapt to accepted local market conventions and regional best practice

The Scheme's managers are regularly challenged on underlying holdings and portfolio level attributes.

SIP Implementation Statement

> We believe that all financially material considerations, including sustainability factors, must be integrated throughout the investment process.

SIP Implementation Statement

How is stewardship integrated into BTPS investment processes?

Sustainable investment and stewardship considerations have been integrated into multiple investment processes. For example, ahead of appointing a new fund manager, sustainability questions are asked as part of the formal due diligence questionnaire process. The responses are reviewed in tandem by the Brightwell Investment team to understand their quality and, if required, meetings are held with the manager to better understand their approach.

High stewardship standards are expected from the Scheme's managers and alignment with the UK Stewardship Code, or international equivalent, is encouraged.

Over the past year, regular manager meetings have been conducted, supporting better oversight of their stewardship activities and requested responses to our annual Net Zero & Stewardship questionnaire, which covers manager governance, diversity and inclusion, engagement, climate and voting topics to gather appropriate information from our managers and understand their different sustainability approaches.

It is important to collate more in-depth sustainability information from the Scheme's managers, but also to ensure that we communicate the Scheme's expectations clearly.

The sustainability best practice manager expectations documents set out current best practice principles in relation to sustainable investment.

Evidence and quality is sought across the following areas, demonstrating ongoing commitment and development:

- Public commitments & initiatives
- Training & expertise
- Policies
- Application to funds managed, including our mandates

Indicators of good practice across each of the areas is provided as a guide rather than an exhaustive list.

Feedback is provided to managers with a separate score card of where they currently are relative to best practice sustainability expectations.

Through all of this, stronger, more collaborative relationships with the Scheme's managers can be developed, enabling greater potential to positively influence stewardship practices.

The support of the Scheme's investment managers is critical in helping deliver the Scheme's sustainability goals, including its Net Zero 2035 ambition, and funding objectives. Documenting and sharing manager expectations on sustainability will help ensure that the managers the Scheme partners with are supporting BTPS in becoming an industry-leading asset owner, achieving it's ambitious sustainable investment goals, driving real world change, and helping the Scheme respond to the ever increasing regulatory and reporting obligations.

SIP Implementation Statement

Manager voting information

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: 701

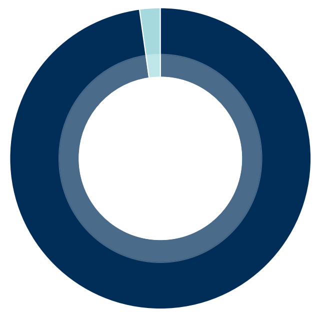
Percentage of eligible votes cast: 100%

In what % of meetings, for which you did vote, did you vote at least once against management? 2%

* In accordance with ISS's Sustainability Policy, 12 abstain votes and 4 withhold votes were cast for this mandate. These votes can be classified as either for or against management. For the 'resolutions voted' chart to the right, we have not double counted these resolutions.

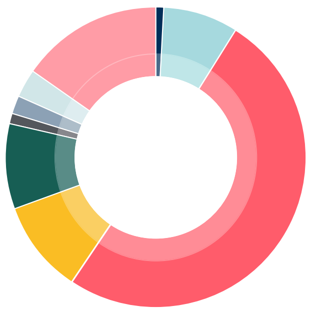
Resolutions voted

With management	98%
Against management	2%
Abstained	0%



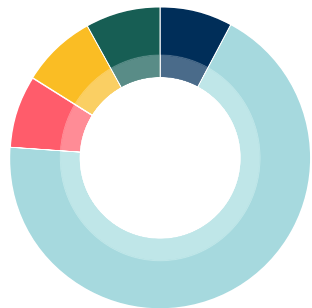
What we've voted on

Amend articles	1%
Audit & accounts	8%
Board structure	50%
Capital structure & dividends	10%
Remuneration	9%
Shareholder resolution environment	1%
Shareholder resolution governance	2%
Shareholder resolution social & ethical	3%
Other	16%



Votes against management resolutions

Amend articles	8%
Board structure	69%
Remuneration	8%
Shareholder resolution governance	8%
Shareholder resolution social & ethical	7%



SIP Implementation Statement

Manager:
GQG Investment Management

Fund type:
Segregated active equity fund

Significant vote

Company: Petroleo Brasileiro SA

Date of vote: 30 November 2023

Vote topic: Amend articles and consolidate bylaws

Voting instruction: Against

Rationale: A vote AGAINST this request was warranted because a) the company has bundled unrelated bylaw amendments under a single agenda item, thus preventing shareholders from voting on each proposed change individually; b) there are material governance concerns regarding the proposed changes to the eligibility rules for administrators as well as the creation of a new statutory reserve; and c) independent board members elected by minority shareholders raised concerns regarding the proposed changes.

Approximate size of holding as at the date of the vote (as % of portfolio): 2.5%

Why a significant vote?: Size of holding, vote against management, potential impact on stewardship outcome.

Outcome of vote: Pass. GQG will continue to monitor and engage on this issue.

Significant vote

Company: Petroleo Brasileiro SA

Date of vote: 25 April 2024

Vote topic: Approve remuneration

Voting instruction: Against

Rationale: A vote AGAINST this proposal is warranted, as the company's remuneration disclosure lacks transparency, especially regarding severance payments and the acceleration of deferred variable remuneration in the context of frequent changes in statutory executives since 2019.

Approximate size of holding as at the date of the vote (as % of portfolio): 2.5%

Why a significant vote?: Against management.

Outcome of vote: Pass. GQG will continue to monitor and engage on this issue.

SIP Implementation Statement

Manager voting information

Manager:
TCI Fund Management

Fund type:
Pooled active equity fund

No proxy advisory service used

Voting activity:

Number of meetings at which the manager was eligible to vote: 16

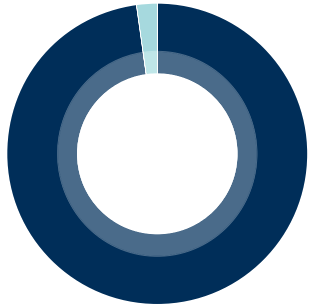
Number of resolutions on which the manager was eligible to vote: 267

Percentage of eligible votes cast: 100%

In what % of meetings, for which you did vote, did you vote at least once against management? 6.3%

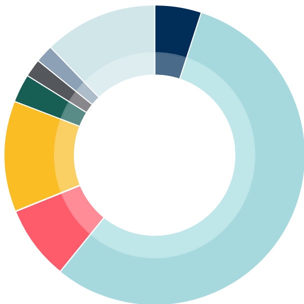
Resolutions voted

With management	99%
Against management	1%
Abstained	0%



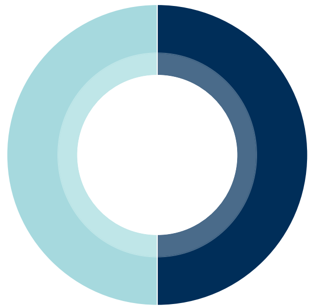
What we've voted on

Audit & accounts	5%
Board structure	56%
Capital structure	8%
Remuneration	12%
Social	3%
Environmental	2%
Environmental and social blended	2%
Other	12%



Votes against management resolutions

Social	50%
Other	50%



SIP Implementation Statement

Significant vote

Company: General Electric Company

Date of vote: 7 May 2024

Vote topic: Report on risks arising from voluntary carbon reduction commitments

Voting instruction: Against

Rationale: A vote AGAINST this proposal is warranted, as the proposal was driven by a climate change sceptical organisation that does not support efforts to reduce carbon emissions and the proposal was an attempt to get General Electric to drop its commitment to achieve Net Zero by 2050.

Approximate size of holding as at the date of the vote (as % of portfolio): 13.3%

Why a significant vote?: Position size.

Outcome of vote: The resolution failed, with only 1.05% voting FOR, 85.5% voting AGAINST and the balance abstaining/not voting.

Significant vote

Company: Pacific Kansas Limited

Date of vote: 24 April 2024

Vote topic: Management climate related proposal

Voting instruction: For

Rationale: Canadian Pacific Kansas City has a detailed Climate Actions Plan supported by Science Based Target Initiative. TCI reviewed the plan and are supportive.

Approximate size of holding as at the date of the vote (as % of portfolio): 8.0%

Why a significant vote?: Position size

Outcome of vote: The resolution passed, with 89.3% of the vote.

Significant vote

Company: Canadian National Railway Company

Date of vote: 26 April 2024

Vote topic: Management climate related proposal

Voting instruction: For

Rationale: Canadian National Railway Company has a detailed Climate Actions Plan supported by Science Based Target Initiative. TCI reviewed the Plan and are supportive.

Approximate size of holding as at the date of the vote (as % of portfolio): 8.19%

Why a significant vote?: Position size.

Outcome of vote: The resolution passed, with 97.51% of the vote.

SIP Implementation Statement

Manager voting information

Manager:
Caledonia Investments

Fund type: Pooled active equity fund

Use of proxy advisor services: Caledonia uses Broadridge to organise their proxy votes, but vote independently of their recommendations. Caledonia is continuing to improve on tracking its voting activities, including reporting on significant votes.

Voting activity:

Number of meetings at which the manager was eligible to vote: 16

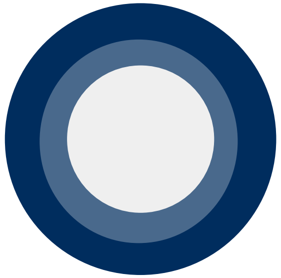
Number of resolutions on which the manager was eligible to vote: 219

Percentage of eligible votes cast: 85%[1]

In what % of meetings, for which you did vote, did you vote at least once against management? 0%

Resolutions voted

With management	100%
Against management	0%
Abstained	0%



Significant vote

Company: Flutter Entertainment Plc

Date of vote: 1 May 2024

Vote topic: Approval of move of primary listing to the New York Stock Exchange.

Voting instruction: For

Rationale: A greater proportion of Flutter's future profits are expected to be generated in the US, and given FanDuel's number one position in this market, Flutter believes that a primary listing in the US is the natural home for the Group and its investors. Caledonia voted for, as they see it as being in the best long-term interests of the company.

Approximate size of holding as at the date of the vote (as % of portfolio): 25.0%

Why a significant vote?: Due to the large holding of the stock in the fund and the material impact on future company performance by unlocking the value of FanDuel being Flutter's US subsidiary.

Outcome of vote: Pass with 98.2% approval. On 31 May 2024, Flutter moved its primary listing to the New York Stock Exchange.

[1] We have engaged with Caledonia on their percentage of votes cast, highlighting our expectation that they vote all eligible votes on behalf of the Scheme as they have done in previous years. Caledonia have taken this feedback on board and have assured us that they do view voting as a tool to effect change at the companies in which they invest.

SIP Implementation Statement

Environmental – Encouraging consideration of climate change risks Private equity manager engagement via Federated Hermes

Issue: Federated Hermes engaged with a European private equity manager, with a goal of improving their climate change risk practices.

Action: Federated Hermes engaged twice in 2024 with the manager. In January 2024, the importance of measuring of measuring the greenhouse gas (GHG) emissions of portfolio companies was highlighted. In June, Federated Hermes also expressed their desire for the manager to assess climate change risks and discussed various industry approaches to creating a decarbonisation roadmap.

Outcome: The manager scaled up its programme to measure GHG emissions across the portfolio. In general, the points discussed were taken on board by the manager and they will consider implementing changes in their investment processes. As a result, the company is preparing a climate change policy, which Federated Hermes will review and provide feedback on.

Social – Encouraging diversity and inclusion practices Corporate engagement via M&G

Issue: M&G engaged with a UK REIT to improve diversity and inclusion practices throughout the organisation.

Action: M&G met with the CEO, COO and company secretary. The engagement focused on increasing board gender diversity, and setting and disclosing diversity targets throughout the workforce.

Outcome: The company is small and this makes setting targets difficult as they are not frequently employing new people. While they are not currently planning to expand their board, they expressed that when they do, diversity is something they will consider. The firm also produced a gender pay gap report and enhanced parental leave entitlement. M&G were pleased with the progress and continue to monitor the situation.

Governance – Encouraging adherence to UNGC principles Corporate engagement via Wellington

Issue: Wellington engaged with a Latin American energy company regarding remedying their prior ESG controversies.

Action: Wellington engaged with the issuer to understand how they are progressing towards achieving adherence to UNGC principles, specifically with respect to controversies under review. The company implemented changes within their infrastructure to reduce fuel thefts, a source of prior controversy. Wellington learned that safety is a near term priority for improvement for the issuer.

Outcome: The company has taken on support from a consultant to improve their ESG profile, and will be engaging with investors on a more regular basis to report progress and seek feedback. The company is expected to release a broader sustainability plan towards the end of the year, and Wellington will continue to engage on topics of safety, climate planning and governance.

For more information on engagements carried out on the Scheme's behalf, please see the Scheme's latest Stewardship report: **BTPS Portal - Sustainable investment**

Appendix two: Changes to Scheme membership

Changes to membership

	30 June 2024	30 June 2023	30 June 2022
Membership			
Active members:	12	15	16
Deferred members:	46,108	53,073	60,107
Current pensioners of whom:	212,468	210,359	208,855
Retired employees	176,490	174,489	173,167
Widows / widowers	34,118	33,988	33,784
Children/dependents	1,860	1,882	1,904
	Year ended 30 June 2024	**Year ended 30 June 2023**	**Year ended 30 June 2022**
Changes to membership			
Normal age retirements from active status	0	0	0
Late retirements from active status	0	1	0
Ill health early retirements	29	29	23
Early retirement	3,533	3,400	3,187
Deferred benefits set up	1	0	1
Normal age retirements from deferred status	2,539	2,599	2,465
Benefits transferred out and trivially commuted	78	192	485
Optants out	0	0	0
Death in service	0	0	0
Death in retirement	6,534	7,094	6,703
Death in deferment	58	96	79
Late retirement	115	102	72
Child leavers	49	34	44
New records set up			
Section B rejoiners	0	0	0
Widows, spouse, widowers, and dependents	1,969	2,032	1,919
Children	35	23	26
Benefits transferred in	0	0	0

Appendix three: Trustee Board Committees

Trustee Board Sub-Committee	Members	Responsibilities	Key activities
Audit & Risk Committee	**David Viles – Chair** **Ben Marshall** **Emily Clark** **Andy Kerr**	• Integrity of the Scheme's annual report and accounts, and the discharge of its duties in relation to these • Oversees 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 3 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 – Performance of Scheme suppliers – External audit fee proposals – Scheme accounts review – BTPS policy reviews – 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	**Chris Cheetham – Chair** **Andrew Clare (appointed 30 November 2023)** **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 4 times during the year • Reviewed 'deep-dive' reporting into each of the main asset classes including key risk factors, manager allocations and performance • Provided oversight of the responsible investment strategy and Statement of Investment Principles
Administration & Communications Committee (A&CC)	**Beryl Shepherd (stepped down 31 May 2024)** **Nigel Cotgrove – Chair** **Andrew Clare (appointed 30 November 2023)** **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 5 times during the year • Reviewed quarterly reports on Scheme administration • Provided oversight of the pensions portal • Provided oversight of the pension administration platform • Provided oversight of Additional Voluntary Contributions strategy and key member services activities, including the impact of relevant regulatory changes and communications with members • Reviewed activity in relation to GMP Equalisation

* BTPSM (trading as Brightwell) has appointed BDO UK LLP (BDO), under an outsourcing agreement, to perform internal audit for Brightwell. BDO conducts a rolling programme of independent control reviews and investigations, and may use external professional firms to provide additional technical support on certain audits. The Trustee directs BDO, and other suitably competent firms, to conduct other internal audits of the management of the Scheme's risks, as appropriate.

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 (stepped down 29 November 2023)** **Ben Marshall - Chair** **Jill Mackenzie** **David Viles**	• Met 12 times during the year • 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 (stepped down 31 May 2024)** **Nigel Cotgrove - Chair** **Andrew Clare (appointed 30 November 2023)**	• Met 3 times during the year • 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)

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 2024.

Trustee Director	Main Board*	Audit and Risk Committee	Investment Committee	A&CC	IDRP stage 2 appeals panel	Discretions Committee
Number of meetings	**7***	**3**	**4**	**5**	**12**	**3**
Otto Thoresen (stepped down 29 November 2023)	5	-	-	-	5	-
Jill Mackenzie	6	-	-	-	8**	-
Chris Cheetham	7	-	4	-	-	-
Emily Clark	7	2	3	-	-	-
Nigel Cotgrove	7	-	-	5	-	3
Andrew Kerr	5	3	3	-	-	-
Ben Marshall	7	3	-	5	12	-
Andrew Clare (appointed 30 November 2023)	6	-	2	3	-	2
Beryl Shepherd (stepped down 31 May 2024)	6	-	-	5	-	3
David Viles	7	3	-	-	11	-

*In addition to formal Board meetings there were 2 ad-hoc meetings on areas of strategic importance.
The Board also had regular informal meetings to discuss strategic initiatives.

** Became a member on 18 December 2023.

Appendix four: Management and advisers

Scheme registration number

10085003

Trustee

BT Pension Scheme Trustees Limited

Trustee Directors

Otto Thoresen (Stepped down 29 November 2023)

Jill Mackenzie (Chair)

Andrew Clare (appointed 30 November 2023)

Emily Clark

Chris Cheetham

Nigel Cotgrove

Andrew Kerr

Ben Marshall

Beryl Shepherd (stepped down 31 May 2024)

David Viles

Scheme Secretary

BT Pension Scheme Management Limited (BTPSM, trading as Brightwell)

Actuary

Graham McLean 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 (BTPSA, trading as Brightwell)

Venture House

Venture Way

Chesterfield S41 8NR

Bankers

The Northern Trust Company

Royal Bank of Scotland

Primary Service Provider to BTPS (including sole fiduciary manager)

BT Pension Scheme Management Limited (BTPSM, trading as Brightwell)

Primary External Investment Managers

GQG Partners LLC

Hermes Fund Managers Limited (Hermes)

Insight Investment Management Limited

M&G Investment Management Limited

Wellington Management International Limited

Custodians appointed by the Trustee

The Northern Trust Company

JP Morgan Chase

Principal Sponsoring Employer

British Telecommunications plc (BT)

1 Braham Street

London E1 8EE

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.

Additional Voluntary Contribution (AVC)

A contribution paid by a member of an occupational pension scheme to secure additional benefits.

Asset classes

Groupings of investments such as equities (stocks), fixed income (bonds), cash and cash equivalents, real estate, commodities, futures and other financial derivatives.

Bond (or corporate credit)

A type of debt security issued by a company and sold to investors. The company gets capital and in return the investor is paid a pre-established fixed or variable interest rate.

Climate change

The long-term global shift in weather patterns due to man-made greenhouse gas emissions.

Corporate governance

The system of rules, practices and processes by which a company is directed and controlled.

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 strength

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

Custodian

A custodian or custodian bank is a financial institution that holds customers' securities for safekeeping to prevent them from being stolen or lost. The custodian may hold stocks or other assets in electronic or physical form.

Crown Guarantee

A special protection in the form of a guarantee which provides that, in the unlikely event of a winding up of BT, most ongoing contribution obligations of BT 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).

Defined benefit (DB) pension scheme

A defined benefit (DB) pension scheme is a type of workplace pension providing a guaranteed annual income on retirement based on a member's salary.

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.

Engagement

The practice of shareholders entering into dialogue with management of companies to change or influence the way in which that company is run.

Equities

Shares directly held in companies.

Equity

A method of raising capital by selling shares of the company to public, institutional investors, or financial institutions. The people who buy shares are referred to as shareholders of the company because they have received ownership interest in the company.

Environmental, social and governance factors (ESG)

Using ESG or sustainability information to identify companies with good practices and superior business models. Environmental factors consider how a company performs as a steward of nature e.g. climate change, energy emissions and waste management. Social factors examine how a company manages its relationships with employees, suppliers, customers and the community. Governance deals with how a company is governed, and can assess executive pay, shareholder rights and audit.

ESG integration

Integrating ESG factors into investment analysis to determine if an investment's risks are outweighed by potential investment returns. This can provide investors with a deeper insight into the quality of a company's management, culture, risk profile and other characteristics, before they invest and make more informed and better investment decisions.

Appendix five: Glossary of terms

Exposure

The level of risk to a particular asset, asset type, sector, market or government.

Fiduciary duty

The duties (or equivalent obligations) that exist to ensure that those who manage other people's money act in the interests of beneficiaries, rather than serving their own interests.

Financial Conduct Authority (FCA)

The conduct regulator for nearly 60,000 financial services firms and financial markets in the UK, and the prudential supervisor for 49,000 firms, setting specific standards for 19,000 firms. It seeks to promote the safety and soundness of the firms it regulates.

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.

Government bond

Debt-based investment, where money is loaned to a government in return for an agreed rate of interest. Governments use them to raise funds that can be spent on new projects or infrastructure, and investors can use them to get a set return paid at regular intervals.

Greenhouse gas emissions (GHG)

The main GHGs in the earth's atmosphere are carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O) and ozone (O3). These gases absorb and re-emit heat, thereby keeping the planet's atmosphere warmer than it otherwise would be. Human activities, such as the burning of fossil fuels, are increasing the levels of GHGs in the atmosphere, causing global warming and climate change. The gases are categorised into three scopes: Scope 1 covers direct emissions from the reporting company's owned or controlled sources; Scope 2 covers indirect emissions from purchased electricity, steam energy, heating and cooling; and Scope 3 includes all other indirect emissions that occur in the company's value chain.

Index-linked securities

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

Infrastructure

Investments in 'real assets,' which contain physical assets such as bridges, roads, highways, sewage systems or energy.

Investment Management Agreement (IMA)

A formal document that governs the arrangement between a company/individual (investment manager) providing investment management services and the investor (client).

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.

Net Zero

Achieving net zero greenhouse gas emissions (absolute scope 1-3) in the investment value chain and investing in transition solutions to reduce or remove them from the atmosphere.

Paris Agreement

The Paris Agreement was reached at COP21 in 2015. Its aim is to ensure global warming in the 21st century remains well below 2°C above the average level recorded for the period 1850 to 1900 and to support efforts to limit global warming to 1.5°C.

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.

Pension dashboards

Pensions dashboards is a government initiative which will enable individuals to access all their pensions information online in one place. Using data provided by pension schemes and providers, the dashboards will provide information about an individual's various pension savings, including their State Pension.

Appendix five: Glossary of terms

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.

Private equity

Investments in companies that are not publicly traded.

Purchase Power Agreement (PPA)

A long-term electricity supply agreement between two parties, usually between a power producer and a customer (an electricity consumer or trader).

Real estate

Investments in office buildings, industrial parks, apartments, or retail complexes.

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.

Responsible investment

Incorporating corporate environmental, social and governance (ESG) factors into investment decision-making to help investors identify future risks and opportunities.

Securities lending

Loaning shares of stock, commodities, derivative contracts or other securities to other investors or firms.

Share

A unit of ownership in a company or financial asset.

Stewardship

"The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy and the society." (UK Stewardship Code, 2020).

Sustainable investments

Aiming to generate long-term financial returns while contributing positively to society and the planet.

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 of it being prepared or revised.

Appendix five: Glossary of terms

Task Force on Climate-related Financial Disclosures (TCFD)

Will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders.

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
- facilitate good pension administration
- in relation to DB pension scheme funding, to minimise any adverse impact on the sustainable growth of an employer.

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).

UK GAAP

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

UK Stewardship Code

A code first published by the Financial Reporting Council in 2010 to enhance the quality of engagement between asset managers and companies in the UK. Its principal aim is to make asset managers more active and engaged in corporate governance matters in the interests of their beneficiaries.

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

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

Alternatively, please email **member@btps.co.uk**

Or send a message through the Pensions Portal at **www.btps.co.uk**

The address for correspondence is:

BTPS, 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, is backed by government and is 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 the 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 on **0800 731 0193** or by submitting a tracing request on **gov.uk/find-pension-contact-details**

Report and Accounts

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

We send each member a short document in hard copy or by email summarising the key developments of the Scheme during the year. Members also receive the Summary Funding Statement each year.

BTPS

www.btps.co.uk