# BT Limited

## Strategic Report, Directors' Report and Financial Statements for the year ended 31 March 2016

**Registered Number: 2216369**

## Strategic report for the year ended 31 March 2016

The directors present their strategic report for BT Limited for the year ended 31 March 2016.

### Review of business

Turnover increased by 17%, from £243,510,000 in 2015 to £283,812,000 in 2016, primarily due to an increase in sales to British Telecommunications plc and its subsidiary companies. Gross profit margin grew by 10% to £35,266,000, due to a change in the internal and external cost mix.

Fixed assets increased during the year by 26% to £18,889,000 (2015:£14,956,000), mainly due to additions in the Belgium and Czech Republic branches. There were no significant changes in current assets £544,550,000 (2015:£539,682,000) and creditors £239,470,000 (2015: £238,843,000). Net assets, excluding the pension deficit, increased by 3% to £323,969,000 (2015: £315,795,000) in 2016. The pension deficit decreased by 42% from £2,380,000 in 2015 to £1,392,000 in 2016, mainly due to changes in assumption for future salary increases.

### Principal Risks and uncertainties

The principal risks to which BT Group plc (the ultimate controlling entity of the Company) is exposed are also the principal matters which would create risk and uncertainty for the Company. These are managed by the directors of BT Group plc at the group level rather than at an individual business unit level. They are discussed on pages 47-56 of the group's 2016 annual report which does not form part of this report.

### Key performance indicators ("KPIs")

The directors of BT Group plc manage the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company.

By order of the Board,

L. Blackwell

Authorised Signatory
for and on behalf of Newgate Street Secretaries Limited
**Company Secretary**
29 November 2016

## Directors' report for the year ended 31 March 2016

The directors present their annual report on the affairs of BT Limited (the "Company"), together with the audited financial statements and auditors' report, for the year ended 31 March 2016. The registered number of the Company is 2216369.

### Principal activities and future developments

The Company's principal activity is being part of a global communications network and the provision of services to British Telecommunications plc and its subsidiary companies, and the sale of the BT group's products and services in overseas markets through overseas branches and representative offices. The directors do not anticipate any change in the foreseeable future.

The Company is incorporated in the UK, but it has branches overseas. Its main branches are in Belgium, Hungary, the Czech Republic, South Africa and Taiwan. There is limited activity in the Chinese branch. The Company also owns 70% of BT Communications Services South Africa (Proprietary) Limited.

### First-time adoption of FRS 101

For all periods up to and including the year ended 31 March 2015, the Company prepared its separate financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). The Company's annual financial statements for the year ended 31 March 2016 are the first that the Company has prepared in accordance with FRS 101 "Reduced Disclosure Framework" which involves the application of International Financial Reporting Standards (IFRS) with a reduced level of disclosure. The standard is effective for periods beginning on or after 1 January 2015.

The Company meets the definition of a qualifying subsidiary under FRS 100. Accordingly, in the year ended 31 March 2016 the Company has undergone transition from reporting under previous UK GAAP to FRS 101 'Reduced Disclosure Framework'. As required by FRS 101, these financial statements include comparative FRS101 financial information for the year ended 31 March 2015. FRS 101 incorporates, with limited amendments, International Financial Reporting Standards (IFRS).

### Employees

The Company is committed to involving employees in the business through a policy of communication and consultation. Arrangements have been established for the regular provision of information to all employees through briefings, staff conferences and well-established formal consultation procedures.

The Company is committed to providing equal opportunities, which include promoting training and career development for all employees. Full and fair consideration for all vacancies and opportunities will be given to men and women, people with disabilities and those from ethnic minorities, regardless of marital status, age, religion or sexual orientation. If members of staff become disabled the group continues employment wherever possible and arranges retraining. The policy is supported by a Code of Practice on harassment which recognises that all employees have the right to be treated with dignity and respect.

## Directors' report for the year ended 31 March 2016 (continued)

More details of these policies are set out in the BT Group plc Annual Report for the year ended 31 March 2016.

### Financial risk management

**Price risk**

The Company is not exposed to commodity price risk as a result of its operations.

**Credit risk**

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the board.

**Liquidity risk**

The company actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions.

**Interest rate cash flow risk**

The company has both interest-bearing assets and interest-bearing liabilities. Interest-bearing assets include only government securities and cash balances, all of which earn interest at fixed rates. The company has a policy of maintaining debt at fixed rate to ensure certainty of future interest cash flows. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

### Going concern

The directors have satisfied themselves that the Company will continue to have financial support provided by British Telecommunications plc in order to meet its requirements for at least the next year, and therefore believe that preparing the accounts on the going concern basis is appropriate.

## Directors' report for the year ended 31 March 2016 (continued)

### Results

The profit on ordinary activities before taxation was £13,441,000 (2015: £7,590,000). The tax credit on ordinary activities was £655,000 (2015: charge of £1,652,000) which left a profit for the financial year of £14,096,000 (2015: £5,938,000).

### Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 March 2016 (2015: £nil).

### Directors

The directors, who served throughout the year and up until the date of signing, were as follows:

CB Ryan
A Buffa (appointed on 18 May 2015)
PN Allenby (resigned on 18 May 2015)
N Brenchley (appointed on 3 August 2015)

### Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;

- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of the financial statements; and



- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of information to the auditors**

So far as each of the directors is aware, there is no relevant information that has not been disclosed to the Company's auditors and each of the directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the Company's auditors have been made aware of that information.

**Independent auditors**

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

The directors' report on pages 3 to 5 were approved by the Board of directors on 29 November 2016 and were signed on its behalf by Louise Blackwell.

By order of the Board

L. Blackwell.

Authorised Signatory
for and on behalf of Newgate Street Secretaries Limited
**Company Secretary**
29 November 2016

# Independent auditors' report to the members of BT Limited

## Report on the financial statements

### Our opinion

In our opinion, BT Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 March 2016;
- the Profit and loss account and the Statement of other comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

## Independent auditors' report to the members of BT Limited (continued)

### Adequacy of accounting records and information and explanations received

- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 4-5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

## Independent auditors' report to the members of BT Limited (continued)

### What an audit of financial statements involves

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Julie Watson

Julie Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
29 November 2016

## Profit and loss account for the year ended 31 March 2016

| | Note | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Turnover** | 3 | 283,812 | 243,510 |
| Cost of sales | | (248,546) | (211,483) |
| Gross profit | | 35,266 | 32,027 |
| Operating costs | | (25,139) | (27,263) |
| **Operating profit** | 4 | 10,127 | 4,764 |
| Interest receivable and similar income | 5 | 6,611 | 7,928 |
| Interest payable and similar charges | 6 | (3,297) | (5,102) |
| **Profit before taxation** | | 13,441 | 7,590 |
| Tax on profit on ordinary activities | 9 | 655 | (1,652) |
| **Profit for the financial year** | | 14,096 | 5,938 |

All results derive from continuing operations.

# Statement of other comprehensive income for the year ended 31 March 2016

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Profit for the financial year | 14,096 | 5,938 |
| **Items that may not be reclassified to Profit and loss** | | |
| Actuarial loss on pension scheme | (273) | (729) |
| Movement on deferred tax relating to pension deficit | 18 | 199 |
| | **13,841** | **5,408** |
| **Items that may be reclassified to Profit and loss** | | |
| Currency translation differences on foreign currency net investments | (5,607) | 13,152 |
| **Total Comprehensive income for the financial year** | **8,234** | **18,560** |

## Balance sheet as at 31 March 2016

| | Note | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 10 | 14,632 | 9,952 |
| Investments | 11 | 4,257 | 5,004 |
| | | 18,889 | 14,956 |
| **Current assets** | | | |
| Stocks | 12 | 159 | 281 |
| Debtors | 13 | 541,717 | 537,677 |
| Cash at bank and in hand | 15 | 2,674 | 1,724 |
| | | 544,550 | 539,682 |
| **Creditors: amounts falling due within one year** | 16 | (239,470) | (238,843) |
| **Net current assets** | | 305,080 | 300,839 |
| **Net assets excluding pension deficit** | | 323,969 | 315,795 |
| **Pension deficit** | 18 | (1,392) | (2,380) |
| **Net assets including pension deficit** | | 322,577 | 313,415 |
| **Capital and Reserves** | | | |
| Called up share capital | 17 | 453,719 | 453,719 |
| Share premium | | 55,350 | 55,350 |
| Retained losses | | (186,492) | (195,654) |
| **Total shareholders' funds** | | 322,577 | 313,415 |

The financial statements on pages 9 to 28 were approved by and authorised for issue by the Board of directors on 29 November 2016 and were signed on its behalf by Christina Ryan.

Christina Ryan
Director

# Statement of changes in equity for the year ended 31 March 2016

| | Share capital £'000 | Share premium £'000 | Retained losses £'000 | Total share holders' funds £'000 |
|---|---|---|---|---|
| Balance as at 1 April 2014 | 453,719 | 55,350 | (214,378) | 294,691 |
| Profit for the financial year | - | - | 5,938 | 5,938 |
| Actuarial movement on pension scheme | - | - | (729) | (729) |
| Deferred tax movement chargeable to reserves | - | - | 199 | 199 |
| Share based payments | - | - | 164 | 164 |
| Currency translation differences on foreign currency net investments | - | - | 13,152 | 13,152 |
| **Balance as at 31 March 2015** | **453,719** | **55,350** | **(195,654)** | **313,415** |
| Profit for the financial year | - | - | 14,096 | 14,096 |
| Actuarial movement on pension scheme | - | - | (273) | (273) |
| Share based payments | - | - | 203 | 203 |
| Deferred tax movement chargeable to reserves | - | - | 18 | 18 |
| Currency translation differences on foreign currency net investments | - | - | (5,607) | (5,607) |
| Reserves utilisation –Italy | | | 725 | 725 |
| **Balance as at 31 March 2016** | **453,719** | **55,350** | **(186,492)** | **322,577** |

## Notes to the financial statements

### 1. General information

The Company's principal activity is being part of a global communications network and the provision of services to British Telecommunications plc and its subsidiary companies, and the sale of BT group's products and services in overseas markets through overseas branches and representative offices. The directors do not anticipate any change in the foreseeable future.

The company is a private company, limited by shares and is incorporated and domiciled in the UK. The address of its registered office is 81 Newgate Street, London EC1A 7AJ.

The company is a wholly-owned subsidiary of BT Group Plc and is included in the consolidated financial statements of BT Group Plc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

### 2. Basis of preparation and accounting policies

**Preparation of financial statements**
The financial statements have been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS 101), which involves the application of International Financial Reporting Standards (IFRS) with a reduced level of disclosure. For all periods up to and including the year ended 31 March 2015, the Company prepared its separate financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

The financial statements have been prepared under the historic cost convention and in accordance with the Companies Act, 2006 as it applies to a company using FRS 101. The preparation of financial statements in accordance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. There are no areas involving a higher degree of complexity, or areas where assumption and estimates are significant to the financial statements.

The Company meets the definition of a qualifying subsidiary under FRS 100. Accordingly, in the year ended 31 March 2016 the Company has undergone transition from reporting under previous UK GAAP to FRS 101 'Reduced Disclosure Framework'. As required by FRS 101, these financial statements include comparative FRS 101 financial information for the year ended 31 March 2015.

## Notes to the financial statements (continued)

### 2. Basis of preparation and accounting policies (continued)

**Exemptions**
As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available. The following exemptions have been taken:

- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payments.
- The requirements of IFRS 7 Financial Instruments: Disclosures.
- The requirements of IAS 7 Statement of Cash Flows.
- The requirements of paragraphs 17 of IAS 24 Related Party Disclosures.
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- The requirements of paragraphs 6 and 21 of IFRS 1 'First-time Adoption of International Financial Reporting Standards' to present an opening statement of financial position at the date of transition.
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  (i) paragraph 79(a)(iv) of IAS 1 'Presentation of Financial Statements';
  (ii) paragraph 73(e) of IAS 16 'Property, Plant and Equipment'.
  (iii) paragraph 118(e) of IAS 38 'Intangible Assets'.
- The following paragraphs of IAS 1 'Presentation of Financial Statements':
  – 10(d) (statement of cash flows);
  – 10(f) (third statement of financial position);
  – 16 (statement of compliance with all IFRS);
  – 38A (requirement for minimum of two primary statements including cash flow statements);
  – 38B-D (additional comparative information);
  – 40A-D (third statement of financial position);
  – 111 (cash flow statement information); and
  – 134 to 136 (capital management disclosures).

The Company intends to continue to take advantage of these exemptions in future years.

Where required, equivalent disclosures have been given in the consolidated financial statements of BT Group plc. Previous UK GAAP differs in certain respects from FRS 101 and comparative information has been re-presented as necessary in accordance with FRS 101. There were no measurement differences on transition from UK GAAP to FRS 101 and therefore no opening reconciliation of Equity is presented.

The accounting policies set out on pages 14 to 15 have been applied in preparing the financial statements for the year ended 31 March 2016, the comparative information for the year ended 31 March 2015 and the preparation of an opening balance sheet at 1 April 2014, the company's date of transition.

## Notes to the financial statements (continued)

### 2. Basis of preparation and accounting policies (continued)

The Company's annual financial statements for the year ended 31 March 2016 are the first that the Company has prepared in accordance with the FRS 101 as issued by the Financial Reporting Council. The transition from UK GAAP to FRS did not have any reconciling items in the financial statements.

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been consistently applied, are set out below.

The financial statements present information about the Company as an individual undertaking, and not about its group. The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare and deliver group financial statements as the financial statements of BT Limited are consolidated in the financial statements of BT Group plc, the ultimate parent entity.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Actual results could differ from those estimates. Estimates are used principally when accounting for investment impairment, provisions for liabilities and charges and taxes.

**Transition to FRS 101**

The accounting policies set out on pages 16 to 20 have been applied in preparing the financial statements for the year ended 31 March 2016, the comparative information for the year ended 31 March 2015.

The transition from UK GAAP to FRS 101 required no adjustments to amounts previously reported in the financial statements and no reconciliation of equity has been presented.

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

The following standards have been issued but are not yet effective. The impact of these on the financial statements are being considered by the Company;
IFRS 9 'Financial instruments'
IFRS 15 'Revenue from Contracts with Customers'
IFRS 16 'Leases'

# Notes to the financial statements (continued)

## 2 Basis of preparation and accounting policies (continued)

## 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 years presented, unless otherwise stated.

### Turnover

Turnover represents the fair value of the consideration received or receivable for services provided, net of discounts and sales taxes.

Turnover arising from separable installation and connection activities is recognised when it is earned, upon activation. Turnover from the rental of analogue and digital lines and private circuits is recognised evenly over the period to which the charges relate. Turnover from calls is recognised at the time the call is made over the group's networks.

Subscription fees, consisting primarily of monthly charges for access to broadband and other internet access or voice services, are recognised as turnover over the associated subscription period. Turnover arising from the interconnection of voice and data traffic between other telecommunications operators is recognised at the time of transit across the group's network. Sales of peripheral and other equipment are recognised when all of the significant risks and rewards of ownership are transferred to the buyer, which is normally the date the equipment is delivered and accepted by the customer.

### Income from fixed asset investments

Income from fixed asset investments represents dividend income from group companies.

### Creditors

Financial liabilities within creditors are initially recognised at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost using the effective interest method.

### Foreign currencies

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date. Exchange gains and losses are dealt with through the profit and loss account.

Exchange differences arising from the re-translation at year end exchange rates of the net investment in foreign branches, less exchange differences on borrowings which finance or

## Notes to the financial statements (continued)

### 2. Basis of preparation and accounting policies (continued)

**Foreign currencies (continued)**

provide a hedge against those undertakings, are taken to reserves and are reported in the statement of other comprehensive income.

On consolidation of overseas branches, the assets and liabilities of each branch are translated into sterling at the exchange rate ruling at the balance sheet date. The results of each branch are translated into sterling at the average exchange rate for the year. Exchange gains and losses are taken to reserves and reported in the statement of other comprehensive income.

**Share based payments**

The ultimate parent, BT Group plc, operates a number of equity settled share-based arrangements, as detailed in note 19 to the BT plc consolidated financial statements, under which the company receives services from employees as consideration for equity instruments (share options and shares) of BT Group plc.

Equity settled share-based payments are measured at fair value at the date of grant excluding the effect of non market-based vesting conditions but including any market-based performance criteria and the impact of non-vesting conditions (for example the requirement for employees to save). The fair value determined at the grant date is recognised as an expense on a straight line basis over the vesting period, based on the company's estimate of the options or shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured using either the Binomial options pricing model or Monte Carlo simulations, whichever is most appropriate to the share-based payment arrangement.

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

Awards that lapse or are forfeited result in a credit to the profit and loss account (reversing the previously recognised charges) in the year in which they lapse or are forfeited.

**Tangible fixed assets and depreciation**

Tangible fixed assets are stated at historical cost, net of any accumulated depreciation, and any impairment charges. On disposal of tangible fixed assets, the difference between the sale proceeds and the net book value at the date of disposal is recorded in operating costs in the profit and loss account.

## Notes to the financial statements (continued)

### 2. Basis of preparation and accounting policies (continued)

**Tangible fixed assets and depreciation (continued)**

Depreciation is provided on tangible fixed assets on a straight line basis from the time the asset is available for use, to write off the asset's cost over the estimated useful life taking into account any expected residual value. Freehold land is not depreciated.

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

| | |
|---|---|
| Leasehold improvements | 3-5 years |
| Network assets | 3-10 years |

**Leased assets**

Leasing agreements that transfer to the Company substantially all the benefits and risks of ownership are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the related rental obligations is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. The equipment is depreciated over the shorter of the lease term and the estimated useful life of the asset.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

**Investments**

Investments are carried at cost less provision for impairment. Investments are tested for impairment when an event that might affect asset values has occurred. An impairment loss is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future cash flows from the investment.

**Stocks**

Stocks comprise items of equipment held for sale or rental and consumable items. They are stated at the lower of cost and estimated net realisable value, after provisions for obsolescence.

# Notes to the financial statements (continued)

## 2. Basis of preparation and accounting policies (continued)

### Trade debtors

Trade debtors are stated in the balance sheet at estimated net realisable value. Net realisable value is the invoiced amount less provision for doubtful receivables.

Provisions are made specifically where there is objective evidence of a dispute or an inability to pay. An additional provision may be made based on an analysis of balances by age, previous losses experienced and general economic conditions.

### Pension schemes

The Company operates a number of defined contribution pension schemes and five defined benefit schemes in Belgium for former executives of Interbrew, all employees from Syntegra, and employees who joined from Infonet Belgium, Infonet and Radianz Belgium.

The assets of the schemes are held separately from those of the Company in independently administered funds. The defined benefit schemes are closed to new joiners. The pension cost disclosed in note 18 includes the contributions payable by the Company to the funds.

The Company's obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service to date. That benefit is discounted to determine its present value using a rate of 4%. The calculation of the obligation is performed by a qualified actuary using the projected unit credit method. The net obligation or asset recognised in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets. The pension cost is allocated between an operating charge and net finance expense. The operating charge reflects the increase in the defined benefit obligation resulting from the pension benefit earned by active employees in the period. The finance expense reflects the unwinding of the discount applied to the liabilities of the plan, offset by the expected return on the assets of the plan, based on conditions prevailing at the start of the year. Actuarial gains and losses are recognised in full in the period in which they occur in the statement of recognised gains and losses.

### Current and deferred income tax

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised using the liability method, in respect of temporary differences between the carrying amount of the company's assets and liabilities and their tax base. A deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

# Notes to the financial statements (continued)

## 2 Basis of preparation and accounting policies (continued)

### Current and deferred income tax (continued)

Deferred tax is determined using tax rates that are expected to apply in periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax balances are not discounted.

### Critical accounting estimates and key judgements

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

## 3 Segmental analysis

There is only one class of business which is the supply of support and maintenance services for telecommunications networks.

Geographical analysis of turnover by location of customer:

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| UK | 177,413 | 129,979 |
| Continental Europe | 100,442 | 107,800 |
| Rest of world | 5,957 | 5,731 |
| | 283,812 | 243,510 |

Geographical analysis of operating profit:

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| UK | 1,101 | (2,737) |
| Continental Europe | 8,530 | 7,359 |
| Rest of world | 496 | 142 |
| | 10,127 | 4,764 |

# Notes to the financial statements (continued)

## 3 Segmental analysis (continued)

Geographical analysis of net assets:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| UK | 383,267 | 411,108 |
| Continental Europe | (52,351) | (87,547) |
| Rest of world | (8,339) | (10,146) |
| | 322,577 | 313,415 |

## 4 Operating profit

Operating profit is stated after charging:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Employee costs (note 8) | 30,048 | 29,897 |
| Auditors' remuneration – fee payable for the statutory audit of the company | 53 | 65 |
| Rental costs relating to operating leases | 1,128 | 1,355 |
| Depreciation of tangible fixed assets | 4,256 | 4,192 |
| Net foreign exchange loss | 351 | 789 |

## 5 Interest receivable and similar income

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Interest receivable from group undertakings | 6,527 | 7,789 |
| Other interest receivable | 84 | 139 |
| Total interest receivable and similar income | 6,611 | 7,928 |

## 6 Interest payable and similar charges

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Interest payable to group undertakings | 3,245 | 4,718 |
| Other interest payable | 52 | 384 |
| Total interest payable and similar charges | 3,297 | 5,102 |

## 7 Directors' emoluments

The directors are employed and remunerated by British Telecommunications plc or other group companies in respect of their services to the BT group as a whole. No emoluments were paid to the directors in respect of their services to the Company in the year ended 31 March 2016 (2015: £nil).

# Notes to the financial statements (continued)

## 8 Employee information

The average monthly number of persons employed by the Company during the year was as follows:

| | 2016 Number | 2015 Number |
|---|---|---|
| Selling and marketing | 94 | 89 |
| Administration | 23 | 20 |
| Operation | 195 | 195 |
| Other | 42 | 38 |
| | 354 | 342 |

Employment costs of all employees included above:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Wages and salaries | 22,305 | 21,833 |
| Social security costs | 5,940 | 6,471 |
| Pension costs (note 18) | 1,600 | 1,429 |
| Share based payments | 203 | 164 |
| | 30,048 | 29,897 |

## 9 Tax on profit on ordinary activities

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax charge at 20% (2015: 21%) | 2,345 | 1,522 |
| Non UK tax charge | 46 | 403 |
| Total current tax charge | 2,391 | 1,925 |
| **Deferred tax:** | | |
| Effect of changes in tax rates | (2,344) | - |
| Origination and reversal of timing differences | (467) | (151) |
| Movement in foreign exchange rates | - | 4 |
| Adjustments in respect of prior years | (235) | (126) |
| **Total deferred tax (note 14)** | (3,046) | (273) |
| Tax (credit)/charge on profit on ordinary activities | (655) | 1,652 |

# Notes to the financial statements (continued)

## 9 Tax on profit on ordinary activities (continued)

### Reconciliation of the total tax charge

The tax expense in the income statement for the year is different than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are reconciled below.

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Profit on ordinary activities before taxation** | 13,441 | 7,590 |
| Profit on ordinary activities multiplied by standard rate of corporation tax at 20% (2015: 21%) | 2,688 | 1,594 |
| Effects of: | | |
| Adjustments in respect of prior years | (235) | (126) |
| Income not taxable | (9) | - |
| Losses | (3,048) | - |
| Tax rate changes | (2,344) | (31) |
| Amounts not recognised | 2,080 | - |
| Expenses not deductible for tax purposes | 167 | 215 |
| Effects of overseas tax rates | 46 | - |
| Total tax (credit)/charge | (655) | 1,652 |

The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate which decreased from 21% to 20% from 1 April 2015.

### Factors affecting current and future tax charges

The rate of UK corporation tax will change from 20% to 19% on 1 April 2017 and to 18% on 1 April 2020. As deferred tax assets and liabilities are measured at the rates that are expected to apply in the periods of the reversal, deferred tax balances at 31 March 2016 have been calculated at the rate at which the relevant balance is expected to be recovered or settled.

The UK Finance Bill 2016 includes a reduction of the UK corporation tax rate to 17% on 1 April 2020 which will replace the 18% UK corporation tax rate that is currently legislated to take effect. Furthermore, relevant deferred tax balances will be re-measured to 17%. The UK Finance Bill 2016 was substantively enacted on 6 September 2016 subsequent to the balance sheet date. This will have an effect on future tax charges of the Company.

# Notes to the financial statements (continued)

## 10 Tangible assets

| | Leasehold improvements £'000 | Network assets £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2015 | 6,054 | 76,954 | 83,008 |
| Additions | - | 8,947 | 8,947 |
| Disposals | - | (1,182) | (1,182) |
| Exchange differences | 561 | 7,415 | 7,976 |
| **At 31 March 2016** | 6,615 | 92,134 | 98,749 |
| **Accumulated depreciation** | | | |
| At 1 April 2015 | (4,462) | (68,594) | (73,056) |
| Charged in the year | (110) | (4,146) | (4,256) |
| Exchange differences | (422) | (6,383) | (6,805) |
| **At 31 March 2016** | (4,994) | (79,123) | (84,117) |
| **Net book value as at 31 March 2016** | 1,621 | 13,011 | 14,632 |
| Net book value as at 31 March 2015 | 1,592 | 8,360 | 9,952 |

## 11 Investments

| | Subsidiary undertakings £'000 |
|---|---|
| **Cost** | |
| At 1 April 2015 | 5,004 |
| Exchange differences | (747) |
| **At 31 March 2016** | 4,257 |
| **Net book value at 31 March 2016** | 4,257 |
| Net book value at 31 March 2015 | 5,004 |

In the opinion of the directors, the carrying value of the investments is supported by their underlying net assets.

## 12 Stocks

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Raw materials and consumables | 159 | 281 |

# Notes to the financial statements (continued)

## 13 Debtors

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade debtors | 16,529 | 19,442 |
| Amounts owed by group undertakings | 499,669 | 494,991 |
| Other debtors | 15,700 | 15,548 |
| Taxation and social security | 226 | 253 |
| Deferred tax asset (note 14) | 5,333 | 2,237 |
| Prepayments and accrued income | 4,260 | 5,206 |
| **Total debtors falling due within one year** | 541,717 | 537,677 |

Amounts owed by group undertakings include interest-bearing loans of £499,669,000 (2015: £494,991,000) to fellow group companies. This includes a £441,770,000 loan with British Telecommunications plc which bears interest at GBP LIBOR plus 42.5 basis points which is repayable on demand.

## 14 Deferred tax asset

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Balance at 1 April | 2,237 | 1,993 |
| Current year movement | 726 | 122 |
| Prior year adjustment | 176 | 126 |
| Movement in foreign exchange rates | - | (4) |
| Effect of reduction in statutory tax rate on opening asset | 2,194 | - |
| **Balance at 31 March** | 5,333 | 2,237 |

The deferred tax asset was mainly the result of the tax effect of timing differences as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Excess capital allowances | - | 2,144 |
| Losses | 5,179 | - |
| Other timing differences | 154 | 93 |
| Deferred tax excluding that relating to the pension liability | 5,333 | 2,237 |
| Pension asset (note 18) | 716 | 751 |
| **Total deferred tax asset** | 6,049 | 2,988 |

Deferred tax relating to the defined benefit pension scheme is recognised net of the pension deficit and is therefore not recognised as a separate deferred tax asset.

# Notes to the financial statements (continued)

## 15 Cash at bank and in hand

The Company, certain fellow subsidiaries and parent companies participate in a cash pooling arrangement and have jointly and severally guaranteed amounts owing to the Company's bankers by any participating company. The liability of the Company is limited to the amounts standing to the credit of the Company's financial statements with the bank.

## 16 Creditors: amounts falling due within one year

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Trade creditors | 23,263 | 25,413 |
| Bank loans and overdrafts | - | 277 |
| Amounts owed to group undertakings | 202,885 | 200,566 |
| Corporation tax payable | 2,345 | 1,522 |
| Other creditors | 951 | 971 |
| Taxation and social security | 1,793 | 1,559 |
| Accruals and deferred income | 8,233 | 8,535 |
| **Total creditors falling due within one year** | 239,470 | 238,843 |

Amounts owed to group undertakings include interest bearing sterling loans of £141,168,000 (2015: £200,566,000). The loans are payable on demand and attract interest at an available Bloomberg rate appropriate to the currency the loan is denominated in plus 102.5 basis points.

## 17 Called up share capital

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Allotted, called up and fully paid:** | | |
| 343,719,437 (2015: 343,719,437) ordinary shares of £1 (2015: £1) each | 343,719 | 343,719 |
| **Allotted, called up and partly paid:** | | |
| 500,000,000 (2015: 500,000,000) ordinary shares of £1 (2015: £1) each | | |
| Partly paid at 22p (2015: 22p) per share | 110,000 | 110,000 |
| | 453,719 | 453,719 |

## 18 Pensions

Payments made by the Company to the defined contribution schemes are charged to the profit and loss account in the year in which they accrue. The pension charge for the year was £1,600,000 (2015: £1,429,000) which increased due to higher salary costs and changes in inflation. Contributions totalling £nil (2015: £nil) were payable at the year end. There is a legacy defined benefit pension arrangement in the Belgium branch applicable to 35 employees transferred into the Company several years ago who retained existing pension rights. The scheme is closed to new joiners. At 31 March 2016 the scheme had a defined benefit obligation of £3,935,000, assets of £1,827,000 and net deficit of £2,108,000. The

## Notes to the financial statements (continued)

### 18 Pensions (contuned)

Company has recognised a deferred tax asset of £716,000 (2015: £751,000) which leaves a net liability of £1,392,000 (2015: £2,380,000). The current service cost is £250,000 (2015: £229,000), interest cost £70,000 (2015: £130,000) and expected return on plan assets £69,000 (2015: £55,000).

### 19 Contingent liabilities

Other than as disclosed in note 15, at 31 March 2016 there were no contingent liabilities or guarantees other than those arising in the ordinary course of the Company's business and on these no material losses are anticipated.

### 20 Financial commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 2016 Land and Buildings £'000 | 2016 Other £'000 | 2015 Land and buildings £'000 | 2015 Other £'000 |
|---|---|---|---|---|
| Within one year | - | 139 | - | 900 |
| Between one and five years | 561 | 2,301 | 512 | 1,478 |
| | 561 | 2,440 | 512 | 2,378 |

### 21 Controlling entity

The Company is a wholly-owned subsidiary of BT Holdings Limited, which is the immediate controlling entity. The ultimate controlling entity is BT Group plc.

The parent undertaking of the largest group of companies into which the results of the Company are consolidated is BT Group plc, a company incorporated in England & Wales. Consequently the Company is exempt under the terms of IAS 24 "Related Party Disclosures" from disclosing details of transactions and balances with BT Group plc, fellow group subsidiaries and associated undertakings, and those deemed under BT Group control during the year ended 31 March 2016. Copies of the financial statements of BT Group plc may be obtained from The Secretary, BT Group plc, 81 Newgate Street, London EC1A 7AJ.

The parent undertaking of the smallest group of companies into which the results of the Company are consolidated is British Telecommunications plc, a company incorporated in England & Wales. Copies of the financial statements of British Telecommunications plc are available from The Secretary, British Telecommunications plc, 81 Newgate Street, London EC1A 7AJ.

## 22 Related Undertakings

| Company Name | Company Activity | Group Interest in allotted capital | Number and Class of Shares | Country |
|---|---|---|---|---|
| BT Communications Services South Africa (Proprietary) Limited | Communications related services, systems integration and products provider | 70% | 70,000 Ordinary Shares | South Africa |
| BT Limited, Belgium branch | Communications related services, systems integration and products provider | 100% | Branch office | Belgium |
| BT Limited, South Africa branch | Communications related services, systems integration and products provider | 100% | Branch office | South Africa |
| BT Limited, Hungarian Branch Office | Communications related services, systems integration and products provider | 100% | Branch office | Hungary |
| BT Limited, Taiwan Branch | Communications related services, systems integration and products provider | 100% | Branch office | Taiwan |
| BT Limited, Beijing Office | Communications related services, systems integration and products provider | 100% | Branch office | China |
| BT Limited, organizacni slozka | Communications related services, systems integration and products provider | 100% | Branch office | Czech Republic |