BT Limited

Annual Report and Financial Statements for the year ended 31 March 2018

Registered Number: 2216369

Strategic report

The directors present their strategic report for BT Limited for the year ended 31 March 2018.

Review of business

Turnover increased marginally to £392,516,000 in 2018, primarily due to growth in Belgium, with gross profit improved by 11%. Profit before taxation reduced by £6,706,000 to £13,878,000 due to a reduction in dividend income from the Company's principal subsidiary, BT Communications Services South Africa (Proprietary) Limited and an increase in operating costs in GC HQ branch on internal trading.

There was a decrease in fixed assets of 11% to £14,276,000 (2017: £16,076,000) due to depreciation in the Belgian branch. During the year debtors decreased by 6% to £468,525,000 (2017: £500,589,000) mainly due to lower intercompany loans. During the year creditors decreased by 21% to £147,735,000 (2017: £187,977,000) mainly due to reducing intercompany loans. Net assets, excluding the pension deficit, increased by 2% to £339,557,000 (2017: £332,724,000) in 2018. The pension deficit decreased to £2,433,000 (2017: £2,987,000).

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 56-70 of the group's 2018 financial statements 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,

Authorised Signatory
for and on behalf of Newgate Street Secretaries Limited
Company Secretary
12 November 2018

Directors' Report

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 2018. The registered number of the Company is 2216369.

Principal activities and future developments

The Company's principal activity is the provision of telecommunications services and the provision of services to British Telecommunications plc ("BT") 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 and has overseas branches overseas in Belgium, Hungary, the Czech Republic, South Africa and Taiwan. The South African branch is dormant. The Company also has a 70% interest in BT Communications Services South Africa (Proprietary) Limited.

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.

Further details are set out in the BT Group plc Annual Report for the year ended March 2018, which does not form part of this report.

Directors' Report (continued)

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 has sufficient resources to meet its requirements for at least the next year, and therefore believe that preparing the financial statements on the going concern basis is appropriate.

Results

The profit before taxation was £13,878,000 (2017: £20,584,000). The tax charge was £4,009,000 (2017: tax charge of £4,198,000) which left a profit for the financial year of £9,869,000 (2017: £16,386,000).

Directors' Report (continued)

Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 March 2018 (2017: £nil).

Directors

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

Christina Ryan
Nicola Brenchley
Brian More O'Ferrall (appointed on 28 September 2017, resignation on 2 October 2017)

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the directors are required to:

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

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.

Directors' Report (continued)

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 will stand down as the company's auditors and on the recommendation of the Audit & Risk Committee, the Board proposes that KPMG LLP be appointed as the company's new auditors in the absence of an Annual General Meeting.

The directors' report on pages 2 to 5 were approved by the Board of directors on October 2018 and were signed on its behalf by Louise Blackwell.

By order of the Board

Authorised Signatory
for and on behalf of Newgate Street Secretaries Limited
Company Secretary
12 November 2018

Independent auditors' report to the members of BT Limited

Report on the audit of the financial statements

Opinion

In our opinion, BT Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2018; the profit and loss account; the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either

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

intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Sharron Moran

Sharron Moran (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
12 November 2018

Profit and loss account for the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Turnover	3	392,516	388,592
Cost of sales		(348,155)	(348,524)
Gross profit		**44,361**	**40,068**
Operating costs		(31,932)	(25,424)
Operating profit	4	12,429	14,644
Income from shares in group undertakings	5	98	3,634
Interest receivable and similar income	6	3,809	4,976
Interest payable and similar expenses	7	(2,458)	(2,670)
Profit before taxation		13,878	20,584
Tax on profit	10	(4,009)	(4,198)
Profit for the financial year		9,869	16,386

All results derive from continuing operations.

Statement of comprehensive income for the year ended 31 March 2018

	2018 £'000	2017 £'000
Profit for the financial year	9,869	16,386
Items that may not be reclassified to profit and loss		
Actuarial gain / (loss) on pension scheme	771	(583)
Movement on deferred tax relating to pension deficit	(193)	(78)
	10,447	**15,725**
Items that may be reclassified to profit and loss		
Currency translation differences on foreign currency net investments	(3,287)	(8,703)
Total comprehensive income for the financial year	7,160	7,022

BT Limited

Balance sheet as at 31 March 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	11	8,861	10,708
Investments	12	5,415	5,368
		14,276	16,076
Current assets			
Stocks	13	35	136
Debtors	14	468,525	500,589
Cash at bank and in hand	16	4,456	3,900
		473,016	504,625
Creditors: amounts falling due within one year	17	(147,735)	(187,977)
Net current assets		325,281	316,648
Net assets excluding pension deficit		339,557	332,724
Pension deficit	19	(2,433)	(2,987)
Net assets including pension deficit		**337,124**	**329,737**
Capital and Reserves			
Called up share capital	18	453,719	453,719
Share premium account		55,350	55,350
Accumulated losses		(171,945)	(179,332)
Total shareholders' funds		**337,124**	**329,737**

The financial statements on pages 9 to 27 were approved by and authorised for issue by the Board of directors on 12 November 2018 and were signed on its behalf by Nicola Brenchley.

N Brenchley

Nicola Brenchley
Director

Statement of changes in equity for the year ended 31 March 2018

	Called up Share capital	Share premium account	Accumulated losses	Total Shareholders' funds
	£'000	£'000	£'000	£'000
Balance as at 1 April 2016	453,719	55,350	(186,492)	322,577
Profit for the financial year	-	-	16,386	16,386
Actuarial movement on pension scheme	-	-	(583)	(583)
Deferred tax movement chargeable to reserves	-	-	(78)	(78)
Share based payments	-	-	138	138
Currency translation differences on foreign currency net investments	-	-	(8,703)	(8,703)
Balance as at 31 March 2017	**453,719**	**55,350**	**(179,332)**	**329,737**
Profit for the financial year	-	-	9,869	9,869
Actuarial movement on pension scheme	-	-	771	771
Share based payments	-	-	227	227
Deferred tax movement chargeable to reserves	-	-	(193)	(193)
Currency translation differences on foreign currency net investments	-	-	(3,287)	(3,287)
Balance as at 31 March 2018	**453,719**	**55,350**	**(171,945)**	**337,124**

Notes to the financial statements for the year ended 31 March 2018

1. General information

The Company's principal activity is being part of a global communications network and the provision of services to BT Group 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.

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.

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.
- Paragraphs 30 and 31 of IAS 8 accounting policies, changes in accounting estimates and errors.

Notes to the financial statements for the year ended 31 March 2018 (continued)

2. Basis of preparation and accounting policies (continued)

Exemptions (continued)

- 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.

New and amended accounting standards effective during the year

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

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.

Going concern

The directors have satisfied themselves that the Company has sufficient resources to meet its requirements for at least the next year, and therefore believe that preparing the financial statements on the going concern basis is appropriate.

Turnover

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

Notes to the financial statements for the year ended 31 March 2018 (continued)

2. Basis of preparation and accounting policies (continued)

Accounting policies (continued)

Turnover (continued)

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

Notes to the financial statements for the year ended 31 March 2018 (continued)

2. Basis of preparation and accounting policies (continued)

Accounting policies (continued)

Foreign currencies (continucd)

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 9 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 for the year ended 31 March 2018 (continued)

2. Basis of preparation and accounting policies (continued)

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.

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.

Notes to the financial statements for the year ended 31 March 2018 (continued)

2. Basis of preparation and accounting policies (continued)

Accounting policies (continued)

Trade debtors (continued)

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 19 includes the current service cost incurred by the Company during the year.

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 4.5%. 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 comprehensive income.

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 for the year ended 31 March 2018 (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.

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:

	2018	2017
	£'000	£'000
UK	270,089	265,732
Continental Europe	115,556	115,379
Rest of World	6,871	7,481
	392,516	388,592

Geographical analysis of operating profit:

	2018	2017
	£'000	£'000
UK	1,263	2,334
Continental Europe	10,761	10,182
Rest of world	405	2,128
	12,429	14,644

Geographical analysis of net assets / liabilities:

	2018	2017
	£'000	£'000
UK	388,150	385,229
Continental Europe	(39,376)	(45,510)
Rest of world	(11,650)	(9,982)
	337,124	329,737

Notes to the financial statements for the year ended 31 March 2018 (continued)

4 Operating profit

Operating profit is stated after charging:

	2018 £'000	2017 £'000
Employee costs (note 9)	31,704	34,633
Auditors' remuneration – fee payable for the statutory audit of the company	31	30
Rental costs relating to operating leases	2,120	1,385
Inventory cost	12,734	12,129
Depreciation of tangible fixed assets	4,220	6,218
Net foreign exchange loss	777	1,259

5 Income from shares in group undertakings

	2018 £'000	2017 £'000
Income from shares in group undertakings	98	3,634

Income from shares in group undertakings comprises dividends received from the company's subsidiary BT Communication Services South Africa (Proprietary) Limited.

6 Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable from group undertakings	3,797	4,968
Other interest receivable	12	8
	3,809	4,976

7 Interest payable and similar expenses

	2018 £'000	2017 £'000
Interest payable to group undertakings	2,420	2,543
Other interest payable	38	127
	2,458	2,670

8 Directors' emoluments

The directors are employed and remunerated by BT 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 2018 (2017: £nil).

Notes to the financial statements for the year ended 31 March 2018 (continued)

9 Employee information

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

	2018 Number	2017 Number
Selling and marketing	95	105
Administration	20	20
Operation	160	190
Other	38	40
	313	355

Employment costs of all employees included above:

	2018 £'000	2017 £'000
Wages and salaries	24,267	26,984
Social security costs	5,497	5,866
Pension costs (note 19)	1,713	1,645
Share based payments	227	138
	31,704	34,633

10 Tax on profit

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax charge at 19% (2017: 20%)	760	1,026
Adjustment in respect of prior years	29	273
Non UK tax charge	786	496
Total current tax charge	1,575	1,795
Deferred tax:		
Origination and reversal of timing differences	2,907	1,304
Deferred tax over/(under) provided in previous years	(231)	1,144
Effect of changes in tax rates	(242)	(45)
Total deferred tax	2,434	2,403
Total tax charge	4,009	4,198

Notes to the financial statements for the year ended 31 March 2018 (continued)

10 Tax on profit (continued)

Reconciliation of the total tax charge

The tax expense in the profit and loss account for the year is different (2017: different) from the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are reconciled below.

	2018 £'000	2017 £'000
Profit before taxation	13,878	20,584
Profit multiplied by standard rate of corporation tax at 19% (2017: 20%)	2,637	4,117
Effects of:		
Expenses not deductible for tax purposes	360	130
Non-taxable income	(158)	(727)
Effects of overseas tax rates	1,291	(2,174)
Tax losses not recognised	324	-
Changes in tax laws and rates	(242)	1,480
Utilisation of previously unrecognised tax losses	-	1,144
Current tax (over)/under provided in previous years	28	228
Deferred tax (over)/under provided in previous years	(231)	-
Total tax charge	4,009	4,198

Factors affecting current and future tax charges

The rate of UK corporation tax will change from the prevailing 19% rate to 17% with effect from 1 April 2020. As deferred tax assets and liabilities are measured at the rates that are expected to apply in the periods of reversal, deferred tax balances as at 31 March 2018 have been calculated at the rate at which they are expected to be recovered or settled.

Notes to the financial statements for the year ended 31 March 2018 (continued)

11 Tangible assets

	Leasehold improvements £'000	Network assets £'000	Total £'000
Cost			
At 1 April 2017	7,170	101,164	108,334
Additions	37	2,011	2,048
Intragroup transfers	-	(37)	(37)
Disposals	-	(6,701)	(6,701)
Exchange differences	174	2,427	2,601
At 31 March 2018	7,381	98,864	106,245
Accumulated depreciation			
At 1 April 2017	(5,527)	(92,099)	(97,626)
Charged in the year	(137)	(4,083)	(4,220)
Intragroup transfers	-	(2)	(2)
Disposals	-	6,701	6,701
Exchange differences	(131)	(2,106)	(2,237)
At 31 March 2018	(5,795)	(91,589)	(97,384)
Net book value as at 31 March 2018	1,586	7,275	8,861
Net book value as at 31 March 2017	1,643	9,065	10,708

12 Investments

	Subsidiary undertakings £'000
Cost	
At 1 April 2017	5,368
Exchange differences	47
At 31 March 2018	5,415
Net book value at 31 March 2018	**5,415**
Net book value at 31 March 2017	5,368

In the opinion of the directors, the carrying value of the investments is supported by their underlying net assets. A list of the company's subsidiaries can be found in note 23.

13 Stocks

	2018 £'000	2017 £'000
Raw materials and consumables	35	136

Notes to the financial statements for the year ended 31 March 2018 (continued)

13 Stocks (continued)

Inventories recognised as an expense during the year ended 31 March 2018 amounted to £12,734,000 (2017: £12,129,000) these were included in 'Operating costs' in the profit and loss account.

14 Debtors

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade debtors	20,105	36,759
Amounts owed by group undertakings	431,287	442,344
Other debtors	-	11,683
Corporation tax -Non UK	1,635	-
Taxation and social security	7,624	152
Deferred tax asset (note 15)	1,266	3,568
Prepayments and accrued income	6,608	6,083
Total debtors falling due within one year	468,525	500,589

Amounts owed by group undertakings include interest-bearing loans of £431,287,000 (2017: £442,344,000) to fellow group companies. This includes a £395,728,000 (2017: £400,476,000) loan with BT plc which bears interest at GBP LIBOR plus 30 (2017: GBP LIBOR plus 30) basis points which is repayable on demand.

15 Deferred tax asset

	2018 £'000	2017 £'000
Balance at 1 April	3,568	6,049
Adjustment in respect of prior years	231	45
Reclassification of deferred tax	232	-
Deferred tax credit to profit and loss account for the year	(2,665)	(2,448)
Foreign exchange	93	-
Deferred tax credit in equity for the year	(193)	(78)
Balance at 31 March	1,266	3,568

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

	2018 £'000	2017 £'000
Losses	-	2,664
Decelerated capital allowances	100	-
Other timing differences	558	396
Deferred tax excluding that relating to the pension liability	658	3,060
Pension asset	608	508
Total deferred tax asset	1,266	3,568

Notes to the financial statements for the year ended 31 March 2018 (continued)

16 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.

17 Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	15,554	29,225
Amounts owed to group undertakings	109,280	142,273
Corporation tax payable-UK	760	1,026
Corporation tax payable-Non UK	65	330
Other creditors	1,250	1,114
Taxation and social security	826	1,843
Accruals and deferred income	20,000	12,166
Total creditors falling due within one year	147,735	187,977

Amounts owed to group undertakings include interest bearing sterling loans of £109,280,000 (2017: £142,273,000). The loans are payable on demand and attract interest at an available Bloomberg rate appropriate to the currency the loan is denominated in plus 90 (2017: 90) basis points.

18 Called up share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid:		
343,719,437 (2017: 343,719,437) ordinary shares of £1 (2017: £1) each	343,719	343,719
Allotted, called up and partly paid:		
500,000,000 (2017: 500,000,000) ordinary shares of £1 (2017: £1) each partly paid at 22p (2017: 22p) per share	110,000	110,000
	453,719	453,719

19 Pension deficit

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 £1,713,000 (2017: £1,645,000) which increased due to higher salary costs and changes in inflation. 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 2018 the scheme had a defined benefit obligation of £5,510,000 (2017: £5,159,000), assets of £3,077,000 (2017: £2,172,000) and net deficit of £2,433,000 (2017: £2,987,000).

Notes to the financial statements for the year ended 31 March 2018 (continued)

19 Pension deficit (continued)

The current service cost is £336,000 (2017: £302,000), interest cost £80,000 (2017: £80,000) and expected return on plan assets £102,000 (2017: £76,000).

20 Contingent liabilities

Other than as disclosed in note 16, at 31 March 2018 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.

21 Financial commitments

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

	2018 Land and Buildings £'000	2018 Other £'000	2017 Land and buildings £'000	2017 Other £'000
Within one year	1,037	1,694	984	2,600
Between one and five years	509	1,323	3,014	3,869
After five years	-	-	248	70
	1,546	3,017	4,246	6,539

22 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 and fellow group subsidiaries provided wholly owned members of the group during the year ended 31 March 2018. 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 BT plc, a company incorporated in England & Wales. Copies of the financial statements of BT plc are available from The Secretary, BT plc, 81 Newgate Street, London EC1A 7AJ.

Notes to the financial statements for the year ended 31 March 2018 (continued)

23 Related Undertakings

Company Name	Company Activity	Group Interest in allotted capital	Number and Class of Shares	Address
BT Communications Services South Africa (Proprietary) Limited	Communications related services, systems integration and products provider	70%	70,000 Ordinary Shares	BT Building, Woodmead North Office Park, 54 Maxwell drive, Woodmead, South Africa
BT Limited, Belgium branch	Communications related services, systems integration and products provider	100%	Branch office	Telecomlaan 9, 1831 Diegem, Belgium
BT Limited, South Africa branch	Dormant	100%	Branch office	First Floor, Culross Court North, 16 Culross Road, Bryanston 2021, 2021, South Africa
BT Limited, Magyaavorszagi Fiokelepe	Communications related services, systems integration and products provider	100%	Branch office	Budafoki U. 91-93, Budapest, 1117, Hungary
BT Limited, Taiwan Branch	Communications related services, systems integration and products provider	100%	Branch office	Shin Kong Manhattan Building, 14F, No. 8, Sec. 5, Xinyi Road, Taipei , 11049, Taiwan
BT Limited, Beijing Office	Communications related services, systems integration and products provider	100%	Branch office	No. 3 Dong San Huan Bei Lu, Chao Yang District, Beijing, 100027 , China
BT Limited, organizacni slozka	Communications related services, systems integration and products provider	100%	Branch office	V Celnici 1031/4, 110 00 Prague 1, Czech Republic