

Plusnet plc

Plusnet plc
Annual Report and Financial Statements
for the year ended
31 March 2019

Registered number: 03279013



Plusnet plc

Directors and Advisors

Directors

Mr A Baker
Mrs P Smith
Mr M Allera
Mr S Harris

Company Secretary

Newgate Street Secretaries Limited
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London
EC1A 7AJ

Registered Office

The Balance
2 Pinfold Street
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United Kingdom
S1 2GU

Independent Auditors

KPMG LLP
Chartered Accountants and Statutory Auditors
15 Canada Square
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Plusnet plc

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Plusnet plc

Strategic report

The directors present their annual report for Plusnet plc (the “Company”), together with the financial statements and auditor’s report, for the year ended 31 March 2019.

Review of business

The UK broadband market continues to be extremely competitive, with competitors offering discounted triple-play TV, broadband and phone bundles in order to gain market share. Fibre optic broadband has seen an increase in demand during the year and has become an important component of product propositions, with ISPs leveraging higher speeds and increased connection stability to up-sell value added TV services over IP. There has also been a continuation in the trend of competitors offering mobile services, creating a quad-play bundle proposition.

Plusnet has continued to invest significantly in marketing expenditure to increase its brand awareness. Coupled with competitive pricing through discounts, this has been successful in increasing the number of broadband and mobile phone customers during the year.

The Company has issued the following key performance indicators to assess its performance:

	<i>As Reported</i>	<i>Under IAS 18¹</i>	
	2019	2019	2018
	£m	£m	£m
Turnover	410	412	370
Gross profit	186	204	174
EBITDA	74	75	60
Customer volume growth %	10%		22%
Number of employees	1,678		1,477

Turnover has increased 11% as a result of a 10% increase in the customer base and selective pricing changes. Excluding the impact of adopting IFRS 15 accounting in 2019, gross margin percentage has increased by 2 p.p. reflecting a higher proportion of Plusnet Mobile customers in the base. Growth in EBITDA reflects a higher customer base, in particular the strong growth of Plusnet Mobile, as well as tight cost control in back-office areas.

Net assets have increased by 34% to £143m (2018: £107m)

Plusnet remains committed to giving its customers a fair deal by offering a great price and brilliant customer experience. Our ambition is to deliver great deals, which driven by insight and segmentation, are tailored to our customers’ needs.

During the year Plusnet has continued to focus on the low-cost dual-play broadband and phone market as well as growing market share in the value SIM-only mobile sector. Plusnet has continued to primarily sell “Unlimited Fibre” broadband to new business and residential customers.

From its roots as a broadband solus provider, the Company has successfully grown its dual-play base and now a significant majority of its customer base take a dual-play product. Fibre optic broadband has also grown strongly during the year, and 53% of the Company’s broadband customers now have a fibre product.

Growing the fibre and mobile customer base is core to the Company’s strategy and will enable Plusnet to offer quad-play bundles including TV and Mobile. Following the launch of Plusnet Mobile in 2016 the Company continues to develop this proposition and use its broader product portfolio to enhance the customer offering.

¹ The company has adopted IFRS 15 ‘Revenue from contracts with customers’ in these financial statements on a modified retrospective basis. Therefore, the comparative information has not been restated and continues to be reported under IAS 18. KPIs for 2019 have also been included as under IAS 18 for comparative purposes year on year.

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Strategic report (continued)

The Company continues to use its self-developed “Workplace” trading platform to provide business automation, enabling products to be provided quickly, at competitive prices, whilst ensuring a high quality of service and low cost operating model.

Plusnet continues to be recognised for providing great value combined with excellent customer service. During the past 12 months the Company has won multiple awards including the ‘Best SIMO Network’ and the ‘Best Provider Customer Service’ for the 6th year in succession from ‘uSwitch’. Other awards include ‘Best Broadband Provider’, ‘Best Customer Care’, ‘Most Reliable Broadband Provider’, ‘Most Recommended Provider’ and ‘Most Trustworthy Provider’ at the ‘Broadband Genie Home Broadband Awards’ and a coveted ‘Which?’ recommendation for TV & Broadband bundles.

During the year the number of employees has increased by 19% as a direct result of the increasing customer base and to ensure that Plusnet’s infrastructure, products and strategy continue to evolve in line with the Company’s growth.

The Company seeks to continuously improve its Employee Engagement Index (‘EEI’) by acting on feedback received from regular staff surveys and by working with Plusnet staff directly on improvements to working life. A rating of 64% was measured during 2019.

Principal risks and uncertainties

The Company’s business is impacted by a number of internal and external factors, including the regulatory environment and competitive marketplace in which it operates. An active risk management process identifies, assesses, mitigates and reports on strategic, financial, operational and compliance risk.

The principal risks and uncertainties for the Company are:

- Competition and Technology;
- Regulation and Political;
- Disruption to telecommunications networks and IT infrastructure ;
- Customer privacy and security of data;
- Financial risks.

Competition and technology

The Company operates in a highly competitive market place within the UK, where there is possible disruption by and consolidation between existing broadband and mobile network operators and other service providers seeking to strengthen their market position. New entrants to markets or competitors with lean models could create pricing pressure. Technological developments also have the ability to create new forms of quickly evolving competition.

Regulation and political

The Company must comply with an extensive range of requirements that govern and regulate the licensing, construction and operation of its telecommunications networks and the provision of services in the UK and EU.

The Company’s ability to operate or compete effectively could be adversely affected by the introduction of new laws, policies or regulations, changes in the interpretation and application of existing laws, policies and regulations.

Political and economic uncertainty, around the result of the UK referendum to leave the European Union (“Brexit”) may have an impact on the economy, regulation, geopolitics and supply chain.

Strategic report (continued)

Disruptions to telecommunications networks and IT infrastructure

The Company is dependent on the secure and stable operation of its telecommunications networks and IT infrastructure. Failures in infrastructure, either through incident, disaster or malicious attack, could lead to the loss of customer or commercially sensitive data, or reduced availability of systems or services which may be critical to our operations. This could also result in reputational damage, as well as a loss of revenue and customer confidence.

Customer privacy and security of data

The Company holds and processes a large amount of private data, including sensitive customer information and payment card details, which enables it to interact efficiently and effectively with its customers, partners and suppliers. There is a threat that a large amount of sensitive data is stolen or lost which can result in regulatory fines, restitution costs, and lost business as well as significant damage to brand and reputation.

Financial risks

Further information on financial risk management is provided within the Directors' report.

Future developments

The directors are not aware, at the date of this report, of any likely major changes in activities in the next year or future developments.

On behalf of the Board



Mrs P Smith

**18
.... September 2019**

Plusnet plc

Directors' report

The registered number of the company is 03279013.

Results

The profit before taxation was £68.3m (2018: £50.1m). The tax on profit was £18.3m (2018: £9.9m) which results in a profit for the financial year of £50.0m (2018: £40.2m).

Dividends

The directors have declared and paid a dividend amounting to £40.0m (2018: £48.0m).

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Mr A Baker
Mrs P Smith
Mr M Allera
Mr S Harris

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2018: £nil).

Financial risk management - Credit risk

The Company's long-term funding is provided by an uncommitted loan facility with its parent company. The Company actively maintains liquidity to ensure that it has sufficient available funds for operations and planned expansions. Credit risk arises from cash and cash equivalents, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. 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.

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 its equal opportunities policies, which includes 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 Company 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.

More details of these policies are set out in the Group's Annual Report and Financial Statements for the year ended 31 March 2019.

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Directors' report (continued)

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of a Directors' and Officers' liability insurance, which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. This indemnity, purchased by BT Group plc and applicable to the directors of Plusnet plc was in force throughout the last financial year and is currently in force. Neither the insurance nor the indemnity provides cover where the person has acted fraudulently or dishonestly.

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.

Principal activities

The Company's principal activity during the year was the provision of telephone and internet access services in the UK.

There have been no significant changes in the Company's principal activities in the year under review.

Going concern

The Company's business activities, the factors likely to affect its future development and position, and the principal risks and uncertainties faced by the Company, are set out in the Strategic report. The Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern.

The Company is expected to continue to generate positive operating cash flows for the foreseeable future and has a number of financing arrangements in place, together with support from its ultimate parent (BT Group Plc), that it is reliant upon to remain a going concern.

On the basis of the assessment of the Company's financial position, the Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future, and thus continue to adopt the going concern basis of accounting in preparing the Company annual financial statements.

Auditor

KPMG LLP is the auditor of the Company. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG will continue in office.

The directors' report on pages 6 to 7 was approved by the Board of directors on [] and were signed on its behalf by:



Mrs P Smith

18 September 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PLUSNET PLC

Opinion

We have audited the financial statements of Plusnet plc ("the company") for the year ended 31 March 2019 which comprise the Profit and loss account and other comprehensive income, the Balance sheet, the Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of Brexit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the appropriateness of the going concern basis of preparation of the financial statements. This depends on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effective unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PLUSNET PLC (CONTINUED)

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PLUSNET PLC (CONTINUED)

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

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



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

18 September 2019

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 March 2019

	Note	2019 ¹ £'000	2018 £'000
Turnover	2	409,512	369,756
Cost of sales		(223,374)	(195,362)
Gross profit		186,138	174,394
Administrative expenses		(119,928)	(126,024)
Operating profit	3	66,210	48,370
Interest receivable and similar income	4	2,311	1,736
Interest payable and similar expenses	4	(195)	-
Profit before tax		68,326	50,106
Tax on profit	7	(18,310)	(9,929)
Profit for the financial year		50,016	40,177

¹ The income statement for the year ended 31 March 2019 has been prepared in accordance with IFRS 15. Comparative years are presented as reported under IAS 18. Further explanation and a reconciliation of the 2018/19 income statement are disclosed in note 1.

All results derive from continuing operations.

There has been no other comprehensive income during either 2019 or 2018 other than as disclosed in the profit and loss account and therefore no separate statement of total comprehensive income has been presented.

The notes on pages 15 to 32 form an integral part of these financial statements.

Balance Sheet
at 31 March 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Intangible assets	8	32,165	19,440
Tangible assets	9	11,444	13,507
Contract assets ¹	2	310	-
Deferred contract costs ¹	2	701	-
		<u>44,620</u>	<u>32,947</u>
Current assets			
Stocks	10	4,961	1,848
Debtors - due within one year	11	19,496	15,991
Amounts owed by Group undertakings	11	136,666	140,508
Contract assets ¹	2	6,890	-
Deferred contract costs ¹	2	13,632	-
Deferred tax asset	12	944	1,367
		<u>182,589</u>	<u>159,714</u>
Total assets		<u>227,209</u>	<u>192,661</u>
Creditors: amounts falling due within one year:			
Trade and other payables	14	(66,069)	(85,315)
Contract liabilities ¹	2	(17,798)	-
		<u>(83,867)</u>	<u>(85,315)</u>
Net current assets		<u>98,722</u>	<u>74,399</u>
Total assets less current liabilities		<u>143,342</u>	<u>107,346</u>
Net assets		<u>143,342</u>	<u>107,346</u>
Equity			
Called up share capital	18	61	61
Share premium account		3,339	3,339
Retained earnings ¹		<u>139,942</u>	<u>103,946</u>
Total equity		<u>143,342</u>	<u>107,346</u>

¹ The balance sheet for 2018/19 has been prepared in accordance with IFRS 15. Comparative years are presented as reported under IAS 18. Further explanation and a reconciliation of the 2018/19 balance sheet are disclosed in note 1.

The notes on pages 15 to 32 form an integral part of these financial statements.

The financial statements on pages 12 to 32 were approved and authorised for issue by the board of directors and were signed on its behalf by:



Mrs P Smith

Director

18 September 2019

Company registered number - 03279013

Statement of Changes in Equity

	Called up share capital	Share premium	Retained earnings	Total Equity
	£'000	£'000	£'000	£'000
Balance at 1 April 2017	61	3,339	111,564	114,964
Profit for the financial year	-	-	40,177	40,177
Total comprehensive income for the year	-	-	40,177	40,177
Dividends	-	-	(48,000)	(48,000)
Share based payments	-	-	205	205
Balance at 31 March 2018 – previously reported	61	3,339	103,946	107,346
Impact of change in accounting policy ¹	-	-	25,710	25,710
Balance at 1 April 2018 – revised	61	3,339	129,656	133,056
Profit for the financial year	-	-	50,016	50,016
Total comprehensive income for the year	-	-	50,016	50,016
Dividends	-	-	(40,000)	(40,000)
Share based payments	-	-	270	270
Balance at 31 March 2019	61	3,339	139,942	143,342

¹ The statement of changes in equity for 2018/19 has been prepared in accordance with IFRS 15 and includes the recognition of the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 April 2018. Comparative years are presented as reported under IAS 18. Further explanation is disclosed in note 1.

Notes to the financial statements

1. Accounting policies

Plusnet plc provides telephone and internet access services in the UK.

The Company is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is The Balance, 2 Pinfold Street, Sheffield, S1 2GU. The registered company number is 03279013.

Basis of preparation

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 on a going concern basis under the historic cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

Exemptions

The company's ultimate parent undertaking, BT Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of BT Group plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from The Secretary, BT Group plc, 81 Newgate Street, London EC1A 7AJ.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Certain disclosures regarding revenue;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.
- IFRS 2 *Share Based Payments* in respect of group settled share based payments
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

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

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

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates which are discussed within this note. It also requires management to exercise judgement in the process of applying the company's accounting policies.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Change in accounting policy

IFRS 15 'Revenue from Contracts with Customers'

The company has adopted IFRS 15 'Revenue from contracts with customers' in these financial statements for the first time. The company applied IFRS 15 on a modified retrospective basis by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 April 2018 of £25.7m. Accordingly, the comparative information has not been restated and continues to be reported under IAS 18. The subsequent tables reconcile the reported primary statements for the year ended 31 March 2019 to those that would have been disclosed had IFRS 15 not been adopted.

Financial impact

The cumulative effect of initially applying IFRS 15 of £25.7m reflects the acceleration of revenues (notably Customer Premise Equipment (CPE)) and deferral of costs (notably third party contract acquisition costs and connection costs associated with Broadband revenues) exceeding the deferral of connection revenues on the adoption date.

The impact is as follows:

- Generally, CPE are either provided for free or for a small upfront charge. Under IFRS 15, additional revenue is now allocated to the CPE at the start of the contract. This is calculated with reference to its relative standalone value within the contract, regardless of the contract pricing. For each contract the revenue recognition profile has changed, with greater day one recognition of revenue for the CPE and a corresponding reduction in ongoing service revenue over the contract period. The difference between the CPE and the amounts charged to the customer are recognised as a contract asset. On adoption of IFRS 15, this change has pulled forward profits in 2018/19 and we have recognised a contract asset for all open contracts at 1 April 2018. Over time the contract asset generated is expected to remain at similar levels as old contracts expire and new ones are signed.
- Previously, sales commissions and other third party acquisition costs resulting directly from securing contracts with customers were expensed when incurred. Under IFRS 15 sales commissions and other third party contract acquisition costs are recognised as an asset, and amortised over the period in which the corresponding benefit is received, resulting in higher profit recognition. Unless the associated contract term is less than 12 months, where the practical expedient in IFRS15.94 is applied and costs of obtaining the contract are recognised as an expense when incurred.
- Previously, fulfilment costs resulting directly from connection set ups were expensed when incurred. Under IFRS 15 direct fulfilment costs are recognised as an asset, and amortised over the period in which the corresponding benefit is received.

Notes to the financial statements (continued)

1. Accounting policies (continued)

- Previously, the company recognised connections revenue upon performance of the connection activity. Under IFRS 15 connections revenue is now deferred and recognised on a straight-line basis over the associated line/circuit contractual period. Consequently revenue and profits are recognised later and on transition has led to the recognition of a contract liability as revenue and profits are deferred to future periods. Over time, this liability is expected to remain at similar levels as old contracts expire and new ones are signed.
- Recognised contract assets will be subject to impairment under IFRS 9 as set out below.

The following tables summarise the quantitative impact of adopting IFRS 15 on the Company's financial statements for the year ending 31 March 2019.

Income Statement - Year ended 31 March 2019

	As reported	Impact of adoption of IFRS 15		
		IFRS 15 reclass	IFRS 15 adjustment	In accordance with IAS 18
	£m	£m	£m	£m
Revenue	409.5	3.4	(0.9)	412.0
Cost of sales	(223.4)	13.3	1.8	(208.3)
Gross margin	186.1	16.7	0.9	203.7
Operating costs	(119.9)	(16.7)	-	(136.6)
Operating profit	66.2	-	0.9	67.1
Profit before tax	68.3	-	0.9	69.2
Tax on profit	(13.4)	-	-	(13.4)
Tax impact of Opening Balance	(4.9)	-	4.9	-
Sheet adjustment				
Profit for the period	50.0	-	5.8	55.8

Balance sheet - At 31 March 2019

	As reported	Impact of adoption of IFRS 15	
		IFRS 15 adjustment	In accordance with IAS 18
	£m	£m	£m
Non-current assets			
Contract assets	0.3	(0.3)	-
Deferred contract costs	0.7	(0.7)	-
Current assets			
Contract assets	6.9	(6.9)	-
Deferred contract costs	13.6	(13.6)	-
Debtors	19.5	2.3	21.8
Current liabilities			
Contract liabilities	(17.8)	17.8	-
Trade and other payables	(66.1)	(18.5)	(84.6)

Notes to the financial statements (continued)

1. Accounting policies (continued)

IFRS9 'Financial Instruments'

IFRS 9 is applicable to financial assets and financial liabilities and covers the classification, measurement, impairment and de-recognition of financial assets and liabilities. The standard does not have a material impact on our results, with the key issues being the provision of expected lifetime losses on IFRS 15 contract assets.

There are no other new or amended standards or interpretations adopted during the year that have a significant impact on the group.

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

IFRS 16 Leases (effective date 1 January 2019). We do not expect this to have a material impact on the financial statements.

Accounting Policies

Revenue

Identification of performance obligations and timing of revenue recognition

On inception of the contract we identify a "performance obligation" for each of the distinct goods or services we have promised to provide to the customer. The consideration specified in the contract with the customer is allocated to each performance obligation identified based on their relative standalone selling prices, and is recognised as revenue as they are satisfied.

Below we summarise revenue recognition policy for each of the major performance obligations we have identified. Also detailed is revenue expected to be recognised in future periods for contracts in place at 31 March 2019 that contain unsatisfied performance obligations.

Fixed access subscriptions

Fixed subscription charges are recognised as revenue on a straight line basis over the period that the services are provided. Upfront charges for non-distinct connection and installation services are deferred as contract liabilities and are recognised as revenue over the same period. Variable charges such as call charges are recognised as and when the related services are delivered. Where installation activities are distinct performance obligations, revenue is recognised at the point in time that the installation is completed.

Mobile subscriptions

Subscription fees, consisting primarily of monthly charges for access to broadband and other internet access or voice and data services, are recognised as the service is provided. One-off services such as calls outside of plan and excess data usage are recognised when the service is used.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Equipment and other services

Revenue from equipment sales is recognised at the point in time that control passes to the customer. Where payment is not received in full at the time of the sale, such as with equipment provided as part of mobile and fixed access subscriptions, contract assets are recognised for the amount due from the customer that will be recovered over the contract period. Revenue to be recognised is calculated by reference to the relative standalone selling price of the equipment. For other services, revenue is recognised over the period that the related performance obligations are satisfied, which could be over time or at a point in time depending on the nature of the service.

Contract Assets and Liabilities

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

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

Contract costs

Connection costs are deferred as contract fulfilment costs because they allow satisfaction of the associated connection performance obligation and are considered recoverable. Sales commissions and other third party contract acquisition costs are capitalised as costs to acquire a contract unless the associated contract term is less than 12 months, in which case they are expensed as incurred. Capitalised costs are amortised over the minimum contract term. A portfolio approach is used.

Costs related to delivering services under long-term contractual arrangements are expensed as incurred except for an element of costs incurred in the initial contract set-up, transition or transformation phase. These costs are recorded as assets and amortised on a straight line basis over the remaining contract term, unless the pattern of service delivery indicates a more appropriate profile. These costs are directly attributable to specific contracts, relate to future activity, will generate future economic benefits and are regularly assessed for recoverability.

Impairment

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost (notably trade receivables) and contract assets.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Intangible assets

Intangible assets are valued at cost less accumulated amortisation. Acquired customer lists are amortised over the expected customer life, which has been assessed as 5 years, taking into account expected levels of customer attrition.

Internal software development costs and network development costs include capitalised employee costs directly attributable to either bringing computer equipment into working condition for its intended use within the business or developing and enhancing business operating systems. They are amortised over 3 to 5 years.

Tangible assets

Tangible assets are stated at historical cost, net of any accumulated depreciation, and any impairment charges. On disposal of tangible 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.

Depreciation is provided on tangible 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.

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

Computer equipment	2 to 5 years
Fixtures and fittings	2 to 5 years

Leases

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

Pension schemes

The Company contributes to a defined contribution group personal pension scheme on behalf of its employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Stocks

Stock is valued at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle.

Monetary assets and liabilities

Foreign currency transactions are translated into sterling at the rate ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate ruling at the balance sheet date. Any differences are taken to the profit and loss account.

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.

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.

Share based payments

The ultimate parent undertaking, BT Group plc, operates a number of equity settled share-based arrangements, as detailed in Note 22 to the BT Group 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. These equity-settled arrangements are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The determined fair value is recognised as an expense on a straight line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. The credit side of the entry is recorded in equity. Note 17 provides details of the Company's ultimate parent and from where its consolidated financial statements can be obtained.

Notes to the financial statements (continued)

1. Accounting policies (continued)

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.

Useful lives for tangible and intangible assets

The annual depreciation and amortisation charge is sensitive to the estimated service lives allocated to each type of asset. Asset lives are assessed annually and changed when necessary to reflect current thinking on the remaining lives in light of any business changes and the physical condition of the assets concerned. The carrying values of software and tangible assets are disclosed in notes 8 and 9. The useful lives applied to the principal categories of assets are disclosed on page 20.

Revenue recognition

Standalone selling price

Revenue is recognised based on the relative standalone selling price of each performance obligation. Determining the standalone selling price often requires judgement and may be derived from regulated prices, list prices, a cost-plus derived price, or the price of similar products when sold on a stand-alone basis by the Company or a competitor.

Notes to the financial statements (continued)

2. Revenue

The Company's turnover and operating profit relate entirely to its principal activity and arise in the United Kingdom. An analysis of revenue by type is as follows:

	2019 £'000	2018 £'000
External turnover	409,512	369,756

(i) Contract assets and liabilities

The following table shows contract assets and liabilities recognised at 1 April 2018 and 31 March 2019:

	2019 £'000	2018 £'000
Contract assets – opening balance	7,633	-
Contract assets – closing balance	7,200	-
Contract liabilities – opening balance	(23,944)	-
Contract liabilities – closing balance	(17,798)	-

£23.9m recognised as a contract liability at 1 April 2018 was recognised as revenue during the period. Impairment losses of £nil were recognized in the year. Revenue of £nil was recognised in relation to performance obligations that were satisfied (or partially satisfied) in previous periods. Revenue of £153.7m is expected to be recognised in the future related to unsatisfied (or partially unsatisfied) performance obligations.

The Company has initially applied IFRS 15 using the cumulative effect method, therefore the comparative information is not restated.

(ii) Performance obligations

Significant payment terms

The fixed element of consumer fixed access and mobile subscription arrangements is typically payable in advance, with any variable or one-off charges billed in arrears. Payment terms are generally on presentation of the bill. For commercial arrangements, invoices are issued according to contractual terms and are usually payable on presentation, however, different terms may be negotiated. Payments received in advance are recorded as contract liabilities, amounts billed in arrears are recorded as contract assets.

The company does not have material obligations in respect of returns, refunds or warranties.

Notes to the financial statements (continued)

2. Revenue (continued)

(iii) Contract costs

We capitalise certain costs associated with the acquisition and fulfilment of contracts with customers and amortise them over the period that we transfer the associated services. The following table shows the movements on deferred costs:

	Deferred connection costs	Deferred contract acquisition costs - commissions	Deferred contract acquisition costs - dealer incentives	Total
	£'000	£'000	£'000	£'000
At 1 April 2018	13,012	603	2,525	16,142
Additions	17,911	1,411	4,683	24,005
Released	(21,025)	(1,100)	(3,687)	(25,814)
At 31 March 2019	9,898	914	3,521	14,333

3. Expenses and auditor's remuneration

Included in profit/loss are the following:

	2019	2018
	£'000	£'000
Depreciation of tangible assets	1,783	6,177
Amortisation of intangible assets	6,451	4,931
Audit fees payable to the auditors for the statutory audit of the Company's financial statements	68	60

Fees paid to KPMG LLP for non-audit services in the UK were £nil (2018: £nil).

Notes to the financial statements (continued)

4. Interest receivable and payable

	2019 £'000	2018 £'000
Interest receivable from group undertakings	2,311	1,736
Interest payable to group undertakings	(195)	-

5. Directors' remuneration

	2019 £'000	2018 £'000
Directors' remuneration	284	296
Contributions under defined contribution pension scheme	9	16
	<u>293</u>	<u>312</u>

The emoluments paid to the highest paid director were £293,000 (2018: £312,000). These emoluments were recharged to the Company from British Telecommunications plc.

Mr M Allera, Mr S Harris and Mrs P Smith are employed and remunerated by British Telecommunications plc in respect of their services to the BT group as a whole and they received no emoluments for their services as directors of Plusnet plc. Mr A Baker is remunerated by British Telecommunications plc and from his date of appointment the company was recharged his salary and associated costs.

Notes to the financial statements (continued)

6. Employee information

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

	2019 Number	2018 Number
Senior executives	5	5
Professional roles	372	346
Administration/operations	<u>1,301</u>	<u>1,127</u>
	<u>1,678</u>	<u>1,477</u>

Employment costs of all employees included above amounted to:

	2019 £'000	2018 £'000
Wages and salaries	47,142	40,541
Social security costs	3,514	2,975
Other pension costs	1,078	569
Share based payments	<u>270</u>	<u>205</u>
	<u>52,004</u>	<u>44,290</u>

7. Taxation

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax current year	17,887	10,312
Deferred tax:		
Origination and reversal of timing differences	423	(383)
	<u>18,310</u>	<u>9,929</u>
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 19% (2018: 19%). The differences are reconciled below.

Notes to the financial statements (continued)

7. Taxation

	2019	2018
	£'000	£'000
Profit for the year	50,016	40,177
Total tax expense	18,310	9,929
Profit excluding taxation	68,326	50,106
Tax calculated at UK standard rate of corporation tax of 19% (2018: 19%)	12,982	9,520
Effects of:		
Expenses not deductible for tax purposes	128	44
Non qualifying asset	148	148
Re-measurement of deferred tax balances	(27)	63
Accounting policy change – Tax impact of Opening Balance Sheet adjustment	4,885	-
Tax over/(under) provided in previous years	194	154
	<u>18,310</u>	<u>9,929</u>

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 2019 have been calculated at the rate at which they are expected to be recovered or settled.

Notes to the financial statements (continued)

8. Intangible assets

	External software £'000	Internal software £'000	Customer base £'000	Software in course of construction £'000	Total £'000
Cost					
As at 1 April 2018	6,650	16,020	4,620	11,445	38,735
Additions	1,176	5,357	-	7,673	14,206
Transfers	87	(4,258)	-	8,392	4,221
Adjustment	-	(2,113)	890	-	(1,223)
Write off of nil NBV assets	(3,093)	(566)	-	-	(3,659)
As at 31 March 2019	4,820	14,440	5,510	27,510	52,280
Accumulated amortisation					
As at 1 April 2018	(6,283)	(8,799)	(3,920)	(293)	(19,295)
Charge in the year	(1,556)	(2,739)	(780)	(1,375)	(6,450)
Adjustment	1,399	-	280	293	1,972
Write off of nil NBV assets	3,093	565	-	-	3,658
As at 31 March 2019	(3,347)	(10,973)	(4,420)	(1,375)	(20,115)
Net book value as at 31 March 2019	1,473	3,467	1,090	26,135	32,165
Net book value as at 31 March 2018	367	7,221	700	11,152	19,440

Notes to the financial statements (continued)

9. Tangible assets

	Computer equipment £'000	Fixtures and Fittings £'000	Asset in course of construction £'000	Total £'000
Cost				
As at 1 April 2018	35,043	921	-	35,964
Additions	1,089	-	1,104	2,193
Transfers	(3,778)	161	(604)	(4,221)
Adjustment	-	296	6	302
Write off of nil NBV assets	(3,593)	-	-	(3,593)
As at 31 March 2019	28,761	1,378	506	30,645
Accumulated depreciation				
As at 1 April 2018	(21,536)	(921)	-	(22,457)
Charge in the year	(1,559)	(191)	(33)	(1,783)
Adjustment	1,472	(26)	-	1,446
Write off of nil NBV assets	3,593	-	-	3,593
As at 31 March 2019	(18,030)	(1,138)	(33)	(19,201)
Net book value as at 31 March 2019	10,731	240	473	11,444
Net book value as at 31 March 2018	13,507	-	-	13,507

10. Stocks

	2019 £'000	2018 £'000
Finished goods and goods for resale	4,961	1,848
	4,961	1,848

The amount of inventory recognised as an expense during 2019 was £13.3m (2018 £14.1m).

Notes to the financial statements (continued)

11. Debtors

	2019	2018
	£'000	£'000
Debtors due within one year		
Trade debtors	14,726	11,604
Amounts owed by group undertakings	136,666	140,508
Other debtors	9	177
Accrued income	-	2,519
Prepayments	4,761	1,691
	<u>156,162</u>	<u>156,499</u>

Amounts owed by group undertakings include a loan to British Telecommunications plc of £178,977,579 (2018: £182,102,161) which is interest bearing (closing twelve month GBP LIBOR plus 42.5 basis points applicable deposit margin), unsecured and repayable on demand. The remaining balance is unsecured, interest free and repayable on demand.

12. Deferred tax assets

	2019	2018
	£'000	£'000
Deferred tax asset comprises:		
Difference between accumulated depreciation and capital allowance	911	1,350
Other temporary differences	33	17
	<u>944</u>	<u>1,367</u>
Deferred tax asset	<u>944</u>	<u>1,367</u>

	2019	2018
	£'000	£'000
Opening deferred tax asset	1,367	984
Deferred tax credited / (charged) in the profit and loss account	(423)	383
	<u>944</u>	<u>1,367</u>
Closing deferred tax asset	<u>944</u>	<u>1,367</u>

13. Cash and cash equivalents

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 accounts with the bank. All cash and cash equivalents balances are reconciling items due to timing differences.

Notes to the financial statements (continued)

14. Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Trade and other payables	9,481	7,497
Other taxation and social security	19,239	16,324
Other creditors	403	2,342
Corporation taxes	17,886	9,594
Accruals	17,839	22,628
Deferred income	-	26,639
Cash and cash equivalents	1,221	291
	<u>66,069</u>	<u>85,315</u>

15. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2019	2018
	£'000	£'000
Within one year	-	143
Between one and five years	-	58
	<u>-</u>	<u>201</u>

16. Pension obligations

The company operates a defined contribution group personal pension scheme. The pension cost charge for the year represents contributions payable by the Company to fund the scheme and amounted to £1,077,662 (2018: £568,688). The amount of outstanding contributions at the year-end amounted to £195,354 (2018: £99,263).

Notes to the financial statements (continued)

17. Controlling entity

The Company is a wholly owned subsidiary of British Telecommunications plc, 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. 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.

18. Called up share capital

	Number of Shares	£'000
Allotted, called up and fully paid ordinary shares of 0.2p each as at 31 March 2018 and at 31 March 2019	<u>30,343,438</u>	<u>61</u>