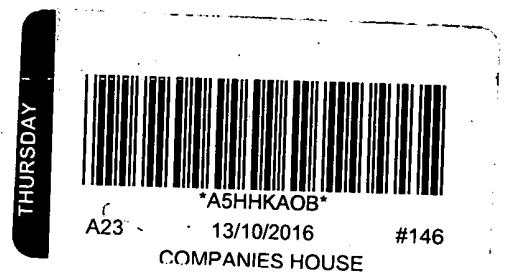


Registered number: 04383521

BT Fleet Limited

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



Strategic report for the year ended 31 March 2016

The directors present their strategic report for BT Fleet Limited (“BT Fleet” or the “Company”) for the year ended 31 March 2016.

Review of business and future developments

BT Fleet again produced a good set of financial results in 2015-16 despite the continuing difficult general economic environment.

BT Fleet’s prime focus remains the provision of services to British Telecommunications plc (“BT plc”). With its expertise in fleet management and vehicle technology BT Fleet continues to drive technological developments, cost reductions and efficiency programmes for the wider group. BT Fleet Limited plays a pivotal role in helping the parent company generate efficiencies and cost savings whilst growing its own business. This strategy has continued during 2015-16 and is expected to continue in the foreseeable future.

The company has continued to focus on growth in its external customer base and operational efficiencies. BT Fleet will continue with this strategy to further improve the overall financial position of the company.

The principal risks to which BT Fleet are exposed are margin erosion due to market competition and technological advancements within the industry. These risks are managed by the directors of BT plc at group level and by the leadership team at a business unit level.

Key performance indicators

They key performance indicators against which the directors manage the Company are workshop productivity, jobs completed to time and sales incremental contract value (ICV). Performance against these KPIs is tracked and discussed regularly.

By order of the Board



Alberto Buffa
for and on behalf of Newgate Street Secretaries Limited
Company Secretary
22nd September 2016

Directors' report for the year ended 31 March 2016

The directors present their annual report on the affairs of BT Fleet Limited for the year ended 31 March 2016.

Principal activities and future developments

The Company's principal activity is the provision of motor vehicle fleet services to fleet operators with the primary customer being BT plc. This activity includes vehicle leasing, fleet management, fleet maintenance services and accident management services. A primary focus of the directors is to steadily reduce revenue dependence on BT plc. Further details of future developments are given in the Strategic Report on page 1.

First-time adoption of FRS 101

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

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

Employees

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

The Company is committed to 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 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.

More details of these policies are set out in the BT plc's Annual Report and Financial Statements for the year ended 31 March 2016.

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

The profit on ordinary activities before taxation was £47.9m (2015: £57.8m). The charge for taxation was £10.8m (2015: £12.4m) which left a retained profit for the financial year of £37.1m (2015: £45.4m).

Dividends

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

Financial instruments

Other than trade receivables and payables that arise directly from its operations and intercompany funding, the company does not hold any financial instruments. The company has not entered into any hedging arrangements or derivative financial instruments. The main purpose of these financial instruments is to finance the Company's operations. Their existence exposes the Company to a number of financial risks.

The main risks arising are interest rate risk and credit risk. The Directors review and agree policies for managing each of these risks that are summarised below. These policies have remained unchanged from previous years.

Credit risk

The Company's principal financial assets are cash and trade debtors. The principal credit risk arises therefore from trade debtors.

In order to manage credit risk the Directors set credit limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed on a risk basis in conjunction with debt ageing and collection history.

Interest rate risk

The Company finances its operations through a mixture of retained profits and intra group funding arrangements. The Company's exposure to interest rate fluctuations is managed by the use of fixed and floating facilities.

Trade debtors and creditors do not attract interest and are therefore subject to fair value interest rate risk.

Company policy throughout the year has been to manage this risk by the day-to-day involvement of management in business decisions designed to minimise the company's borrowings.

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

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

DM Bowen (Resigned 21 July 2016)

HJS Brace

B McPhee (Resigned 16 February 2016)

DJ Webb (Resigned 5 October 2015)

JW Dovey (Resigned 11 May 2015)

NA Hale (Appointed 22 July 2016)

CP Wides (Appointed 22 July 2016)

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 BT Fleet Limited, 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.

Statement of the Directors' Responsibilities

The directors are responsible for preparing 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 the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Directors' report for the year ended 31 March 2016 (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 have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as 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 22nd September 2016 and were signed on its behalf

By order of the Board



Alberto Buffa
for and on behalf of Newgate Street Secretaries Limited
Company Secretary
22nd of September 2016

Registered Office

81 Newgate Street
London
EC1A 7AJ
United Kingdom

Independent auditors' report to the members of BT Fleet Limited**Report on the financial statements****Our opinion**

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

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

What we have audited

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

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

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception**Adequacy of accounting records and information and explanations received**

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

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

We have no exceptions to report arising from this responsibility

Directors' remuneration

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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

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

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

What an audit of financial statements involves

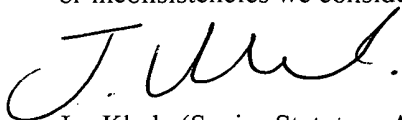
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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

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

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

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

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



Jas Khela (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
22 September 2016

Statement of comprehensive income for the year ended 31 March 2016

| | Notes | 2016 £'000 | 2015 £'000 |
|--|-------|----------------------|----------------------|
| Turnover | 4 | 202,490 | 218,497 |
| Cost of Sales | | (134,272) | (145,402) |
| Gross Profit | | <u>68,218</u> | <u>73,095</u> |
| Administrative Expenses | | (28,936) | (24,520) |
| Operating profit | 5 | <u>39,282</u> | <u>48,575</u> |
| Interest receivable and similar income | 6 | 8,598 | 9,206 |
| Profit on ordinary activities before taxation | | <u>47,880</u> | <u>57,781</u> |
| Tax on profit on ordinary activities | 9 | (10,774) | (12,401) |
| Profit for the financial year | | <u>37,106</u> | <u>45,380</u> |
| Other comprehensive income | | - | - |
| Total comprehensive income for the financial year | | <u><u>37,106</u></u> | <u><u>45,380</u></u> |

All results derive entirely from continuing activities.

Balance sheet as at 31 March 2016

| | Notes | 2016 £'000 | 2015 £'000 |
|--|-------|-----------------------|-----------------------|
| Fixed assets | | | |
| Tangible assets | 10 | <u>80,792</u> | <u>93,760</u> |
| Current assets | | | |
| Stocks | 11 | 970 | 1,211 |
| Debtors (including £46,946 (2015: £45,818) due after one year) | 12 | 681,548 | 717,480 |
| Cash at bank and in hand | 13 | <u>37,728</u> | <u>3,737</u> |
| Total assets | | 801,038 | 816,188 |
| Creditors: amounts falling due within one year | 14 | <u>(49,995)</u> | <u>(102,379)</u> |
| Net current assets | | <u>670,251</u> | <u>620,049</u> |
| Total assets less current liabilities | | <u>751,043</u> | <u>713,809</u> |
| Provisions for liabilities | 15 | (3,090) | (3,255) |
| Net assets | | <u><u>747,953</u></u> | <u><u>710,554</u></u> |
| Equity | | | |
| Called up share capital | 16 | 200 | 200 |
| Share premium account | | 259,511 | 259,511 |
| Retained earnings | | <u>488,242</u> | <u>450,843</u> |
| Total Equity | | <u><u>747,953</u></u> | <u><u>710,554</u></u> |

The financial statements on pages 8 to 25 were approved and authorised for issue by the Board of directors on 22nd September 2016 and were signed on its behalf by



HJS Brace

Director

BT Fleet Limited

Registered number 04383521

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

| | Called up share capital £'000 | Share premium account £'000 | Retained earnings £'000 | Total equity £'000 |
|---|--|--|--|-------------------------------|
| At 1 April 2014 | 200 | 259,511 | 405,199 | 664,910 |
| Profit and total comprehensive income for the financial year | - | - | 45,380 | 45,380 |
| Share based payments | - | - | 264 | 264 |
| At 31 March 2015 | 200 | 259,511 | 450,843 | 710,554 |
| Profit and total comprehensive income for the financial year | - | - | 37,106 | 37,106 |
| Share based payments | - | - | 293 | 293 |
| At 31 March 2016 | 200 | 259,511 | 488,242 | 747,953 |

Notes to the financial statements for the year ended 31 March 2016**1. General information**

BT Fleet Limited provides motor vehicle fleet services to fleet operators with the primary customer being BT plc. This activity includes vehicle leasing, fleet management, fleet maintenance services and accident management services.

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

2. Basis of preparation and accounting policies**Preparation of the financial statements**

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

The financial statements have been prepared on the going concern basis, under the historic cost convention and in accordance with the Companies Act, 2006 as applicable to companies using Financial Reporting Standard 101 (Reduced Disclosure Framework). The preparation of financial statements in accordance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. There are no areas involving a higher degree of complexity, or areas where assumption and estimates are significant to the financial statements.

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

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.

Notes to the financial statements for the year ended 31 March 2016 (continued)

2. Basis of preparation and accounting policies (continued)

Exemptions (continued)

- The requirements of paragraphs 6 and 21 of IFRS 1 'First-time Adoption of International Financial Reporting Standards' to present an opening statement of financial position at the date of transition.
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1 'Presentation of Financial Statements';
 - (ii) paragraph 73(e) of IAS 16 'Property, Plant and Equipment'.
- The following paragraphs of IAS 1 'Presentation of Financial Statements':
 - 10(d) (statement of cash flows);
 - 10(f) (third statement of financial position);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A-D (third statement of financial position);
 - 111 (cash flow statement information); and
 - 134 to 136 (capital management disclosures).

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

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

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

The following standards have been issued and are effective for accounting periods ending on or after 1 April 2016 and are expected to have an impact on the financial statements.

IFRS 16 'Leases'

IFRS 16 was published in January 2016 and will be effective for the company from 1 April 2019, replacing IAS 17 'Leases' subject to EU endorsement. The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset is of low value.

The company is in the process of quantifying the impact of the new standard. This will have a material impact on the company's results and balance sheet, as a significant number of arrangements that are currently accounted for as operating leases will come onto the company's balance sheet.

There are no other standards or interpretations issued but not yet effective which we expect to have a material impact on the company.

Notes to the financial statements for the year ended 31 March 2016 (continued)

2. Basis of preparation and accounting policies (continued)

Accounting Policies

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

Revenue

Revenue, which excludes value-added tax and other sales taxes, comprises the value of services provided.

- Income from operating leases is recognised on a straight line basis over the period of the lease.
- Income from finance leases is recognised and credited to the profit and loss account in such a manner as to produce a constant rate of return (or a reasonable approximation to it) over the period of the contract.
- Income from fleet management services is recognised over the period of the contract based on the level of work performed.

Accrued Income

Income is accrued on a monthly basis to reflect the value of income earned but not invoiced in each period owing to the incidence of the monthly billing process.

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.

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 sharesave 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.

Notes to the financial statements for the year ended 31 March 2016 (continued)

2. Basis of preparation and accounting policies (continued)

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.

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 significant tangible assets are:

| | |
|---|---------|
| Motor vehicle assets held for operating leases; | Years |
| Light commercial vehicles | 1 to 7 |
| Specialist commercial vehicles | 5 to 14 |
| Cars | 1 to 4 |
| Plant and machinery | 1 to 5 |

Lease Accounting

The Company procures vehicles and equipment for onward lease to customers. Such items are purchased either through outright purchase or externally funded lease arrangements. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to use the asset.

Where an item is purchased it is accounted for as a fixed asset. Where an item is procured via an externally funded arrangement that conveys the right to use an asset, it is accounted for as a lease.

BT Fleet as a lessee

Leases in which substantially all the risks and rewards of ownership are retained by the Company are classified as finance leases. All other arrangements are classified as operating leases.

Finance leases

Leases of tangible assets where the company holds substantially all the risks and rewards of ownership are classified as finance leases. Finance lease assets are capitalised at the commencement of the lease term at the lower of the present value of the minimum lease payments or the fair value of the leased asset. The obligations relating to finance leases, net of finance charges in respect of future periods, are recognised as liabilities. Leases are subsequently measured at amortised cost using the effective interest method.

Notes to the financial statements for the year ended 31 March 2016 (continued)

2. Basis of preparation and accounting policies (continued)

Lease Accounting (continued)

Operating leases

Assets leased under operating lease arrangements are not recognised on the balance sheet. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

BT Fleet as a lessor

Vehicles and equipment leases to customers in which a significant portion of the risks and rewards of ownership are retained by the Company are classified as operating leases.

Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

Vehicles and equipment leases to customers in which substantially all the risks and rewards of ownership are passed on the customer are classified as finance leases. Finance lease transactions are recognised as receivables at an amount equal to the company's net investment in the finance lease which is represented by the minimum future lease rentals less gross earnings allocated to future periods. Finance lease income is recognised over the primary period of the lease so as to produce a constant rate of return on the company's net investments.

Stocks

Stocks mainly comprise items of motor parts and consumable items. They are stated at the lower of cost, including appropriate overheads, and estimated net realisable value, after provisions for obsolescence.

Pension schemes and other post-retirement benefits

The company participates in pension schemes operated by BT plc for its employees and those of certain subsidiaries. The main scheme, the BT Pension Scheme (BTPS) provides benefits based upon final pensionable pay. The assets of BTPS are held in a separate trustee administered fund. Pension costs are charged to the profit and loss account so as to spread the cost over the service lives of all employees in the scheme. Actuarial surpluses or deficits are accounted for by BT plc.

The contributions are determined by a qualified and independent actuary on the basis of valuations undertaken at intervals of not more than three years. Further details regarding the BTPS are available in the financial statements of BT plc. The company also operates a defined contribution pension scheme and the profit and loss account is charged with the contributions payable.

Current tax

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

Notes to the financial statements for the year ended 31 March 2016 (continued)

2. Basis of preparation and accounting policies (continued)

Deferred tax

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.

3. Critical accounting estimates and key judgements

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

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

The key judgement in these financial statements relates to lease classifications.

The Directors are required, in determining lease classifications, to assess if substantially all of the risks and rewards of ownership of the asset rest with the Company or the counterparty. Lease arrangements often contain clauses, some of which appear to give certain risks/rewards to the Company and others to the counterparty.

In such cases, the Directors evaluate each individual clause and make their assessment based on the totality of the lease arrangements and apply judgement as to how much credence to give to each individual clause.

Once a lease classification is determined, then it is accounted for in accordance with the accounting policies set out on pages 14 and 15.

Useful lives for tangible 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 tangible assets are disclosed in note 10. The useful lives applied to the principal categories of assets are disclosed on page 14.

Notes to the financial statements for the year ended 31 March 2016 (continued)

3. Critical accounting estimates and key judgements (continued)

Current and deferred income tax

The actual tax the Company pays on profits is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, the Company use estimates in determining the liability for the tax to be paid on our past profits is recognised in the financial statements. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements and may result in the recognition of an additional tax expense or tax credit in the financial statements.

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised, taking into account the expected timing and level of future taxable income.

Providing for doubtful debts

The Company provides services to business customers on credit terms. We know that certain debts due to us will not be paid through the default of a small number of our customers. Judgements are required in assessing the recoverability of overdue trade receivables and whether a provision for doubtful debts may be required. Estimates, based on our historical experience, are used in determining the level of debts that we believe will not be collected. These estimates include such factors as the current state of the economy and particular industry issues.

Pension obligations

The accounting cost of the BTPS involves judgements about uncertain events including such factors as the life expectancy of members, the salary progression of current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. Estimates are used for all of these factors in determining the pension costs and liabilities incorporated in the financial statements. The assumptions reflect historical experience and judgement regarding future expectations.

4 Turnover

All turnover derives from services provided within the United Kingdom.

| | 2016 £'000 | 2015 £'000 |
|---------------------------------------|----------------|----------------|
| Income from operating leases | 130,767 | 142,426 |
| Income from finance leases | 6,686 | 6,921 |
| Income from fleet management services | 65,037 | 69,150 |
| | <u>202,490</u> | <u>218,497</u> |

Notes to the financial statements for the year ended 31 March 2016 (continued)

5 Operating profit

Operating profit is stated after charging / (crediting)

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Stocks recognised as an expense in the year | 62,777 | 62,672 |
| Impairment of stock (included in 'cost of sales') | - | - |
| Staff costs (see note 8) | 30,872 | 29,662 |
| Rental payable under operating leases:- | | |
| - plant and machinery | 425 | 617 |
| - other | 33,186 | 40,391 |
| Depreciation of tangible fixed assets (see note 10) | 19,426 | 12,434 |
| Loss/(gain) on disposal of tangible fixed assets | 108 | (123) |
| Auditors' remuneration; for statutory audit of the company's financial statements ** | 62 | 42 |

**No other remuneration for non-audit services is paid to the auditors (2015 £ nil).

6 Interest receivable and similar income

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Interest receivable and similar income | 8,598 | 9,206 |

7 Directors' emoluments

Directors' emoluments for services attributable to BT Fleet:-

| | 2016 £'000 | 2015 £'000 |
|----------------------|---------------|---------------|
| Aggregate emoluments | 486 | 924 |

The emoluments of the highest paid director included above were £244,829 (2015: £505,779).

All the directors accrue pension benefits under a defined benefit scheme under the BT plc Pensions Scheme. As at 31 March 2016, the highest paid director had accrued benefits of an annual pension of £44,144 per annum (2015: £41,387 per annum) under this scheme relating to qualifying services with BT Fleet.

The emoluments of Mr. J.W. Dovey were paid by the parent company. His services to this company were of a non-executive nature and his emoluments are deemed to be wholly attributable to his services to the parent company. Accordingly, the above details include no emoluments in respect of this director.

Notes to the financial statements for the year ended 31 March 2016 (continued)

8 Employee information

The average monthly number of employees during the year was:

| | 2016 Number | 2015 Number |
|-------------------------------------|----------------|----------------|
| Service and maintenance | 512 | 482 |
| Fleet management and administration | 217 | 218 |
| | <u>729</u> | <u>700</u> |

Employment costs of all employees included above:

| | 2016 £'000 | 2015 £'000 |
|-----------------------------------|---------------|---------------|
| Wages and salaries | 24,929 | 23,990 |
| Social security costs | 2,536 | 2,535 |
| Other pension costs (see note 17) | 3,114 | 2,873 |
| Share based payments | 293 | 264 |
| | <u>30,872</u> | <u>29,662</u> |

9 Tax on profit on ordinary activities

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Current tax: | | |
| United Kingdom corporation tax on profit of the year at 20% (2015: 21%) | 10,939 | 12,982 |
| Deferred tax | | |
| Origination and reversal of timing differences (note 15) | (808) | (504) |
| Adjustment in respect of previous years | 643 | (77) |
| Effect of reduction in statutory tax rate on opening liability | - | - |
| Total deferred taxation | <u>(165)</u> | <u>(581)</u> |
| Tax charge on profit on ordinary activities | <u>10,774</u> | <u>12,401</u> |

Notes to the financial statements for the year ended 31 March 2016 (continued)

9 Tax on profit on ordinary activities (continued)

Reconciliation of the total tax charge

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

| | | |
|---|--------|--------|
| Profit on ordinary activities before taxation | 47,880 | 57,781 |
| Profit on ordinary activities multiplied by standard rate of corporation tax at 20% (2015: 21%) | 9,576 | 12,134 |
| Adjustment in respect of prior years | 643 | (77) |
| Expenses not deductible for tax purposes | 555 | 319 |
| Tax rate changes | - | 25 |
| Total tax charge for the year | 10,774 | 12,401 |

Factors that may affect future tax charges

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

The UK Finance Bill 2016 includes a reduction of the UK corporation tax rate to 17% on 1 April 2020. This will replace the 18% UK corporation tax rate that is currently legislated to take effect. This will have an effect on future tax charges of the company. Relevant deferred tax balances will be re-measured to 17% once the UK Finance Bill 2016 is substantively enacted.

Notes to the financial statements for the year ended 31 March 2016 (continued)

10 Tangible assets

| | Plant and Machinery £'000 | Assets held for Operating Lease £'000 | Total £'000 |
|--|---------------------------------|--|------------------|
| Cost | | | |
| At 1 April 2015 | 14,014 | 170,732 | 184,746 |
| Additions | 3,969 | 6,515 | 10,484 |
| Disposals | - | (8,782) | (8,782) |
| At 31 March 2016 | 17,983 | 168,465 | 186,448 |
| Accumulated depreciation | | | |
| At 1 April 2015 | (5,909) | (85,077) | (90,986) |
| Charge for the financial year | (2,047) | (17,378) | (19,425) |
| Disposals | - | 4,755 | 4,755 |
| At 31 March 2016 | (7,956) | (97,700) | (105,656) |
| Net book amount as at 31 March 2016 | 10,027 | 70,765 | 80,792 |
| Net book amount as at 31 March 2015 | 8,105 | 85,655 | 93,760 |

11 Stocks

| | 2016 £'000 | 2015 £'000 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 1,070 | 1,411 |
| Stock provision | (200) | (200) |
| | 970 | 1,211 |

Notes to the financial statements for the year ended 31 March 2016 (continued)

12 Debtors

| | 2016 £'000 | 2015 £'000 |
|---|----------------|----------------|
| Amounts falling due within one year: | | |
| Trade debtors | 9,322 | 7,898 |
| Amounts owed by group undertakings | 603,184 | 642,980 |
| Other debtors | 261 | 49 |
| Net investment in finance leases | 6,733 | 5,761 |
| Prepayments and accrued income | 15,102 | 14,974 |
| Total debtors falling due within one year | 634,602 | 671,662 |
| Net investment in finance leases comprises : | | |
| Total amounts receivable | 12,905 | 13,048 |
| Less :- interest allocated to future periods | (6,172) | (7,287) |
| | 6,733 | 5,761 |
| Amounts falling due after more than one year | | |
| Net investment in finance leases | 46,946 | 45,818 |
| Net investment in finance leases comprises : | | |
| Total amounts receivable | 65,357 | 64,820 |
| Less :- interest allocated to future periods | (18,411) | (19,002) |
| | 46,946 | 45,818 |
| Total debtors | 681,548 | 717,480 |

Rentals receivable during the year under the finance leases amounted to £12.9m (2015: £7.9m).

The cost of assets acquired during the year for onwards finance leasing was £11.1m (2015: £34.0m).

Included in amounts owed by group undertakings is an interest bearing loan to BT plc of £577.3m (2015: £615.3m). Interest is calculated at 3 month LIBOR less 10 basis points. Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

13 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 accounts with the bank. In the opinion of the directors no liabilities are expected to crystallise.

Notes to the financial statements for the year ended 31 March 2016 (continued)

14 Creditors: amounts falling due within one year

| | 2016 £'000 | 2015 £'000 |
|------------------------------------|---------------|----------------|
| Trade creditors | 6,066 | 8,964 |
| Amounts owed to group undertakings | 53 | 21,334 |
| Corporation taxes | 10,939 | - |
| Other taxation and social security | 3,452 | 13,392 |
| Accruals and deferred income | 29,485 | 58,689 |
| | <u>49,995</u> | <u>102,379</u> |

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

15 Provisions for liabilities

| | Deferred taxation £'000 |
|---|-------------------------------|
| Balance at 1 April 2015 | 3,255 |
| Released to the profit and loss account in the year | (165) |
| Balance at 31 March 2016 | <u>3,090</u> |

The deferred taxation creditor was mainly the result of the tax effect of timing differences as follows. There are no unrecognised deferred tax assets.

| | 2016 Provision £'000 | 2015 Provision £'000 |
|---|----------------------------|----------------------------|
| Accelerated capital allowances | 3,255 | 3,315 |
| Pension provisions and other timing differences | (165) | (60) |
| Total provision for deferred taxation | <u>3,090</u> | <u>3,255</u> |

16 Called up share capital

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Allotted, called up and fully paid: | | |
| 200,001 (2015: 200,001) ordinary shares of £1 each | <u>200</u> | <u>200</u> |

Notes to the financial statements for the year ended 31 March 2016 (continued)

17 Pension obligations

The BT Pension Scheme (“BTPS”) is operated by BT plc in whose financial statements the results of the latest actuarial valuation, for the purpose of determining the group’s future pension costs, have been summarised.

The latest triennial funding valuation was performed as at 30 June 2014 and completed in January 2015. The next funding valuation will have an effective date of no later than 30 June 2017.

The company is unable to identify its share of the underlying assets and liabilities of the BTPS and all contributions made into the scheme have been accounted for as if the BTPS were a defined contribution scheme. As at March 2016 the BTPS had a deficit of £5,998m (2015 £7,329m).

The pension charge for the year was £3.1m (2015: £2.9m). At the year end, the amount due to be paid by the company to BT plc in connection with pension contributions for the year was £0.2m (2015: £0.2m). The amount was settled by April 2016.

18 Capital and operating lease

At 31 March 2016, contracts placed for capital expenditure not provided for in the financial statements amounted to £0.2m (2015: £4.9m).

Operating leases payments payable within one year of the balance sheet date would be in respect of leases expiring:

| | 2016 | 2016 | 2016 | 2015 | 2015 | 2015 |
|----------------------------|---------------|---------------|----------------|---------------|---------------|----------------|
| | Land and | Other | Total | Land and | Other | Total |
| | Buildings | | | Buildings | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Within one year | 8,634 | 22,325 | 30,959 | 8,452 | 28,376 | 36,828 |
| Between one and five years | 34,536 | 54,644 | 89,180 | 33,808 | 53,144 | 86,952 |
| After five years | 17,268 | 8,597 | 25,865 | 16,904 | 5,030 | 21,934 |
| | <u>60,438</u> | <u>85,566</u> | <u>146,004</u> | <u>59,164</u> | <u>86,550</u> | <u>145,714</u> |

**Notes to the financial statements for the year ended 31 March 2016
(continued)****19 Contingent liabilities**

Other than as disclosed in note 13, at 31 March 2016 there were no contingent liabilities or guarantees other than those arising in the ordinary course of the company's business and on these no material losses are anticipated.

20 Controlling Entities

The company is a wholly-owned subsidiary of BT plc which is the immediate controlling entity. The controlling entity is BT Group plc.

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

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

21 Transition to FRS 101

The accounting policies set out on pages 11 to 16 have been applied in preparing the financial statements for the year ended 31 March 2016, the comparative information for the year ended 31 March 2015.

The transition from UK GAAP to FRS 101 required no adjustments to amounts previously reported in the financial statements.