

Registered Number 3279013

Plusnet plc

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



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COMPANIES HOUSE

Plusnet plc

Directors and Advisors

Directors

Mr A Baker
Mr J Petter
Mr M Davies
Mrs P Smith

Company Secretary

Newgate Street Secretaries Limited
81 Newgate Street
London
EC1A 7AJ

Registered Office

The Balance
2 Pinfold Street
Sheffield
United Kingdom
S1 2GU

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Pauls Place
121 Norfolk Street
Sheffield
S1 2LE

Bankers

Barclays Bank plc
Level 28
1 Churchill Place
London
E14 5HP

Plusnet plc

Strategic report for the year ended 31 March 2016

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

Review of the Business

The UK broadband market continues to be extremely competitive, with many competitors offering heavily 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 driving a significant increase in broadband and phone customers during the year.

The Company uses the following key performance indicators to assess its performance:

	Year ended 31 March 2016	Year ended 31 March 2015
Turnover	£267.0m	£226.8m
Gross Profit	£127.4m	£108.9m
Earnings before interest, tax, depreciation and amortisation (EBITDA)	£58.5m	£43.2m
Customer volume growth %	13%	16%
Number of employees	1,200	1,110

Turnover has increased 18% as a result of a 13% increase in the customer base and selective pricing changes. Despite the competitive market, gross margin percentage has remained consistent and EBITDA has increased as a result of tight controls over the Company’s fixed cost base and specific cost rationalisation initiatives.

Plusnet remains committed to giving its customers a fair deal by offering a great price and brilliant customer experience. Our ambition is to deliver targeted 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. Plusnet has continued to primarily sell “Totally Unlimited” broadband to new business and residential customers.

Plusnet plc

Strategic report for the year ended 31 March 2016 (continued)

From its roots as a broadband solus provider, the Company has successfully grown its dual play base and now the significant majority of its customer base are on dual play products. Fibre optic broadband has also grown strongly during the year, and 27% of the Company's broadband customers now have a fibre product.

Growing the fibre customer base is core to the Company's future strategy and will enable Plusnet to offer triple play bundles including TV and TV content. Following the launch of the first TV product in 2015 the Company will continue to develop this proposition and use this broader product portfolio to enhance its customer offering.

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 is proud to be recognised as an industry leader when it comes to customer service. During the year the Company has won multiple industry awards, including 'USwitch' awards for 'Best Customer Service' and 'Best Broadband Service', and Plusnet were named 'Most Recommended Provider' and 'Best Value Provider' at the Broadband Genie Awards.

During the year the number of employees has increased by 8% 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. As a result our EEI has been broadly stable at 3.83 compared to 3.89 in the year-ended 31 March 2015.

By order of the Board



Mrs P Smith

15 September 2016

Plusnet plc

Directors' report for the year ended 31 March 2016

The directors present their annual report on the affairs of Plusnet plc (the "Company"), together with the financial statements and independent auditors' report for the year ended 31 March 2016.

Principal activities and future developments

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.

During the year, an agreement with Brightview Group Limited and Brightview Internet Services Limited (100% subsidiaries of British Telecommunications plc) was in force such that Plusnet plc would undertake the operation, management, customer service, order fulfilment, billing, marketing and other activities of Brightview Group Limited and Brightview Internet Services Limited. Plusnet plc has invoiced the respective companies for these services, resulting in the turnover with group undertakings as disclosed in note 2 to the financial statements.

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

Principal risks and uncertainties

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

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).

Plusnet plc

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

Financial risk management

Credit risk

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

Employees

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

The Company is committed to providing equal opportunities, which include promoting training and career development for all employees. Full and fair consideration for all vacancies and opportunities will be given to men and women, people with disabilities and those from ethnic minorities, regardless of marital status, age, religion or sexual orientation. If members of staff become disabled the 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 BT Group plc Annual Report for the year ended 31 March 2016.

Results

The profit on ordinary activities before taxation was £54.1m (2015: £37.2m). The tax on profit on ordinary activities was £10.8m (2015: £8.0m) which left a profit after taxation for the year of £43.4m (2015: £29.2m).

Dividends

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

Plusnet plc

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

Directors

The directors, who served throughout the year, were as follows:-

Mr A Baker

Mr J Petter

Mr M Davies

Mr R Barzegar (appointed 2 July 2014, resigned 5 February 2016)

Mrs P Smith (appointed 26 April 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 Plusnet plc, was in force throughout the last financial year and is currently in force.

Statement of 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 United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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.

Plusnet plc

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

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

Disclosure of information to the auditors

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

The directors' report on pages 4 to 7 were approved by the Board of directors on 21 July 2016 and were signed on its behalf by



Mrs P Smith

15 September 2016

Plusnet plc

Independent auditors' report to the members of Plusnet plc

Report on the financial statements

Our opinion

In our opinion, Plusnet plc's financial statements (the "financial statements"):

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

What we have audited

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

- the balance sheet as at 31 March 2016;
- the profit and loss account 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 Plusnet plc (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, 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 parent 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.



Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Sheffield
15 September 2016

Plusnet plc

Profit and loss account for the year ended 31 March 2016

	Notes	2016 £'000	2015 £'000
Turnover	2	267,049	226,766
Cost of sales		<u>(139,624)</u>	<u>(117,880)</u>
Gross profit		127,425	108,886
Administrative costs		<u>(75,350)</u>	<u>(72,751)</u>
Operating profit	5	52,075	36,135
Interest receivable and similar income	6	2,077	1,069
Interest payable and similar charges	6	<u>(28)</u>	<u>-</u>
Profit before tax		54,124	37,204
Tax charge	7	<u>(10,772)</u>	<u>(8,032)</u>
Profit for the financial year		<u>43,352</u>	<u>29,172</u>

All results derive from continuing operations.

There has been no other comprehensive income during either 2016 or 2015, and therefore no separate statement of other comprehensive income has been presented.

Plusnet plc

Balance sheet as at 31 March 2016

	Note	31 March 2016 £'000	31 March 2015 £'000
Intangible assets	8	8,081	6,122
Tangible assets	9	16,814	14,817
		24,895	20,939
Current assets			
Stocks	10	1,215	1,778
Debtors- due within one year	11	153,531	143,251
Deferred tax asset	13	1,236	1,199
Cash at bank and in hand		2,263	-
		158,245	146,228
Total assets		183,140	167,167
Creditors: amounts falling due within one year:			
Trade and other payables	12	(66,276)	(93,833)
Net current assets		91,969	52,395
		116,864	81,365
Total assets less current liabilities			
Net assets		116,864	73,334
Equity			
Called up share capital	14	61	61
Share premium account		3,339	3,339
Retained earnings		113,464	69,934
Total equity		116,864	73,334

The financial statements on pages 10 to 25 were approved and authorised for issue by the board of directors and were signed on its behalf by:



Mrs P Smith
Director

13 September 2016

Plusnet plc

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

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 April 2014	61	3,339	40,641	44,041
Total comprehensive income (excluding share based payments)	-	-	29,172	29,172
Share based payments	-	-	121	121
Balance as at 31 March 2015	61	3,339	69,934	73,334
Total comprehensive income (excluding share based payments)	-	-	43,352	43,352
Share based payments	-	-	178	178
Balance as at 31 March 2016	61	3,339	113,464	116,864

Notes to the financial statements for the year ended 31 March 2016

General information

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

The Company is a private company and is incorporated and domiciled in the UK. The address of its registered office is The Balance, 2 Pinfold Street, Sheffield, S1 2GU. The registered number of the Company is 3279013.

1 Statement of 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.

Basis of accounting

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 a going concern basis under the historic cost convention and in accordance with the Companies Act 2006. 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.

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. FRS 101 incorporates, with limited amendments, International Financial Reporting Standards (IFRS). The date of transition to FRS 101 was 1 April 2014.

Exemptions

As permitted by FRS 101, the Company has notified its shareholders and, having received no objections, 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.

Plusnet plc

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

1 Statement of Accounting policies (continued)

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

The Company intends to continue to apply the disclosure exemptions allowable by FRS 101 for the foreseeable future.

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

The accounting policies set out on pages 14 to 16 have been applied in preparing the financial statements for the year ended 31 March 2016 and the comparative information for the year ended 31 March 2015.

Turnover

Turnover, which excludes value-added tax and other sales taxes, comprises the value of services provided. Service subscription turnover is recognised over the period to which it relates. Call turnover is recognised on an accruals basis.

Turnover from related group undertakings is recognised on provision of the associated services at the point the services are delivered.

Plusnet plc

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

1 Statement of Accounting policies (continued)

Deferred income

Deferred income represents that portion of subscription fees paid by customers but relating to services to be provided after the balance sheet date.

Accrued income

Accrued income represents customer charges incurred in the period that will not be billed until after the balance sheet date.

Intangible assets

Intangible assets are valued at cost less cumulative 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 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	5 to 10 years
Fixtures and fittings	5 to 16 years

Leases

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

Plusnet plc

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

1 Statement of Accounting policies (continued)

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.

Stocks

Stock is valued at the lower of cost and net realisable value.

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 19 to the BT plc consolidated financial statements, under which the Company receives services from employees as consideration for equity instruments (share options and shares) of BT Group plc. Note 17 provides details of the Company's ultimate parent and from where its consolidated financial statements can be obtained.

Plusnet plc

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

1 Statement of 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 if the revision

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 7 and 8. The useful lives applied to the principal categories of assets are disclosed on page 15.

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 past profits which 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 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.

Plusnet plc

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

2 Turnover and segment information

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

	2016 £'000	2015 £'000
External turnover	259,939	219,634
Turnover with group undertakings	<u>7,110</u>	<u>7,132</u>
	<u>267,049</u>	<u>226,766</u>

The net assets of the Company at the end of each year were all located in the United Kingdom.

The profit before tax of the Company during each year was attributable to activities wholly carried out in the United Kingdom.

3 Employee information

	2016 £'000	2015 £'000
Wages and salaries	30,452	27,715
Social security costs	2,501	2,274
Other pension costs	453	375
Share based payments	<u>178</u>	<u>121</u>
	<u>33,584</u>	<u>30,485</u>

The average monthly number of persons (including executive directors) employed by the Company during the year was:

	2016 Number	2015 Number
Senior executives	6	6
Professional roles	318	267
Administration	<u>859</u>	<u>770</u>
	<u>1,183</u>	<u>1,043</u>

Plusnet plc

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

4 Directors' emoluments

	2016 £'000	2015 £'000
Aggregate emoluments	306	231
Contributions under defined contribution pension scheme	12	11
	<u>318</u>	<u>242</u>

The emoluments paid to the highest paid director were £225,000 (2015: £180,000). These emoluments were recharged to the Company from British Telecommunications plc.

Mr J Petter and Mr M Davies 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.

5 Operating profit

Operating profit is stated after charging:

	2016 £'000	2015 £'000
Depreciation of tangible fixed assets		
– owned assets	4,264	6,144
Amortisation of intangible asset	2,191	785
Loss on sale of fixed asset	-	40
Operating leases – e-mail storage	1,301	898
Audit fees payable to the auditor for the statutory audit of the Company's financial statements	63	61

Fees paid to PricewaterhouseCoopers LLP for non-audit services in the UK were £nil (2015: £nil).

6 Net interest receivable/(payable) and similar charges

	2016 £'000	2015 £'000
Net interest receivable from/payable to group companies	<u>2,049</u>	<u>1,069</u>

Plusnet plc

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

7 Tax on profit on ordinary activities

	2016 £'000	2015 £'000
Current tax:		
UK corporation tax at 20% (2015: 20%)	10,809	8,230
Total current tax	10,809	8,230
Deferred tax:		
Origination and reversal of temporary differences	208	(219)
Adjustment in respect of prior years	(245)	11
Effect of reduction in statutory tax rate on opening asset	-	10
Total deferred tax credit (note 13)	(37)	(198)
Tax on profit on ordinary activities	10,772	8,032
	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	54,124	37,204
Profit on ordinary activities multiplied by standard rate of corporation tax at 20% (2015: 21%)	10,825	7,813
Effects of:		
Expenses not deductible	852	26
Income not taxable	(817)	-
Tax rate changes	-	10
Effects of group relief/other reliefs	-	7
Non qualifying assets	157	165
Adjustments in respect of prior years	(245)	11
Total tax charge	10,772	8,032

Factors affecting current and future tax charges

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

Plusnet plc

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

7 Tax on profit on ordinary activities (continued)

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.

8 Intangible assets

Acquired customer lists have been migrated to Plusnet during the current and prior period from related group undertakings. The remaining customers who were not migrated as at the year end, will be migrated post year end.

	Customer base £'000	Internal software development costs £'000	Network development costs £'000	Total £'000
Cost				
At 1 April 2015	3,923	6,610	2,084	12,617
Additions	697	3,198	255	4,150
At 31 March 2016	4,620	9,808	2,339	16,767
Accumulated amortisation				
At 1 April 2015	1,570	3,302	1,623	6,495
Charged in the year	785	1,121	285	2,191
At 31 March 2016	2,355	4,423	1,908	8,686
Net book value as at 31 March 2016	2,265	5,385	431	8,081
Net book value as at 31 March 2015	2,353	3,308	461	6,122

Plusnet plc

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

9 Tangible assets

	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost or valuation			
At 1 April 2015	23,946	1,053	24,999
Additions	6,261	-	6,261
Disposals	-	-	-
At 31 March 2016	30,207	1,053	31,260
Accumulated depreciation			
At 1 April 2015	9,379	803	10,182
Charged in the year	4,124	140	4,264
Disposals	-	-	-
At 31 March 2016	13,503	943	14,446
Net book value			
At 31 March 2016	16,704	110	16,814
At 31 March 2015	14,567	250	14,817

10 Stocks

	2016 £'000	2015 £'000
Finished goods and goods for resale	1,215	1,778

11 Debtors

	2016 £'000	2015 £'000
Trade debtors	7,750	6,027
Amounts owed by group undertakings	138,723	131,984
Prepayments and accrued income	7,058	5,240
	153,531	143,251

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

Plusnet plc

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

12 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	3,064	4,829
Other taxation and social security	13,133	10,396
Other creditors	1,073	319
Corporation taxes	10,809	8,230
Accruals	18,105	26,085
Deferred income	20,092	16,549
Cash overdraft – owed to group undertakings	-	27,425
	<u>66,276</u>	<u>93,833</u>

No fee is charged to Plusnet for using overdraft facilities as part of group treasury arrangements.

13 Deferred taxation

	2016 £'000	2015 £'000
Deferred tax asset comprises:		
Difference between accumulated depreciation and capital allowances	1,093	1,135
Other temporary differences	<u>143</u>	<u>64</u>
Deferred tax asset	<u>1,236</u>	<u>1,199</u>

	2016 £'000	2015 £'000
Opening deferred tax asset	1,199	1,135
Deferred tax credited in the profit and loss account (note 7)	(208)	64
Prior year adjustment	<u>245</u>	<u>-</u>
Closing deferred tax asset	<u>1,236</u>	<u>1,199</u>

14 Called up share capital

	Number of Shares	£'000
Allotted, called up and fully paid ordinary shares of 0.2p each As at 1 April 2015 and at 31 March 2016	<u>30,343,438</u>	<u>61</u>

Plusnet plc

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

15 Financial commitments

At 31 March 2016, future minimum operating lease payments are payable:

	E-mail storage	
	2016 £'000	2015 £'000
Within 1 year	670	478
After 1 year and within 5 years	631	420
	<u>1,301</u>	<u>898</u>

The Company has no contractual commitments to purchase tangible assets at the year-end (2015: £nil).

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 £453,485 (2015: £374,594). The amount of outstanding contributions at the year-end amounted to £75,432 (2015: £63,871).

Plusnet plc

Notes to the financial statements for the year ended 31 March 2016 (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. 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 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. First-time adoption of FRS 101

Under previous UK GAAP, software and network development costs directly attributable to bringing a computer system or other computer operated machinery into working condition were treated as part of the cost of the related hardware, not a separate intangible asset. Under FRS 101 these costs are classified as an intangible asset. The impact of this is that tangible assets with net book value of £2,532,000 at 1 April 2014 have been reclassified to intangible assets. At 31 March 2015, tangible assets with net book value of £3,769,000 have been reclassified to intangible assets.

A reconciliation of the profit for the financial year ended 31 March 2015 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 101 is not required as there are no other changes in the reported amounts.