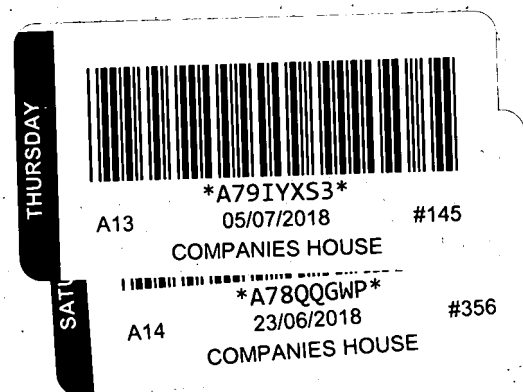


Openreach Limited

Annual Report and Financial Statements for the period 24 March 2017 (date of incorporation) to 31 March 2018

Registered number: 10690039



Openreach Limited

Directors report for the period ended 31 March 2018

The directors present their annual report on the affairs of Openreach Limited (the "Company"), together with the financial statements and auditors' report, for the period ended 31 March 2018. The Company is a private company, limited by shares, incorporated and domiciled in England, United Kingdom ("UK"). The registered number of the Company is 10690039.

The directors' report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006 relating to small companies.

Principal activities and future developments

The Company was incorporated on 24 March 2017 as a subsidiary of British Telecommunications plc ("BT plc") which owns 100% of its share capital. The incorporation follows the long-term regulatory agreement reached between BT plc and Ofcom under the Digital Communications Review ("DCR").

The principal activity of the Company is to set the strategy (within BT plc's then current overall strategic framework) and to oversee and manage the performance of the Openreach Customer Facing Unit ("CFU") (a division of BT plc) on behalf of BT plc within a framework agreed between the Company and BT plc. The Company shall not own any assets or trading (past, current or future) that compromise the Openreach CFU nor benefit from the rewards nor bear the risks of those assets and trading. Such ownership of assets and trading and such risks and rewards shall be retained by BT plc.

On 15 December 2017, the members of the existing Openreach CFU board were appointed directors of the Company (the "Openreach Board") and authority was delegated by BT plc to the Company (acting through the Openreach Board) to commence the principal activity outlined above. On 1 January 2018, the Openreach CEO and the senior manager direct reports to the Openreach CEO (each an "Openreach Executive Member") became employees of the Company.

When all of the preconditions have been met as agreed in the DCR, the Company will manage and operate the Openreach CFU on behalf of BT plc, including acting as agent for the account of BT plc to manage all trading of the Openreach CFU. This includes the transfer of all employees within the Openreach CFU to the Company.

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 57-70 of the BT Group plc's 2018 Annual Report which does not form part of this report. The Openreach Board Audit Risk and Compliance Committee reviews the risks faced by Openreach Limited and has a reporting line to the BT Group plc Audit and Risk Committee to highlight such matters, as well as to the Openreach Board.

Openreach Limited

Directors report for the period ended 31 March 2018 (Continued)

Financial risk management

The Company has not included any financial risk management policies due to the simplicity of its operations.

Key performance indicators (“KPIs”)

Due to the simple operating nature of the Company the reporting of key performance indicators is not necessary or appropriate for an understanding of the performance or position of the business of the Company.

Results

The result before and after taxation for the period was nil.

Dividends

The directors have not declared a dividend in respect of the period ended 31 March 2018.

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support provided by BT plc. BT plc has committed to fund the costs of the services provided by the Company in accordance with the Transitional Agreement contract executed on 15 December 2017 between the Company and BT plc. Please refer to the accounting policies (page 12) for further details.

Directors

The directors of the Company who were in office during the period and up to the date of signing the financial statements were as follows:

R Mctighe (appointed 15 December 2017)
E Astle (appointed 15 December 2017)
B Barber (appointed 15 December 2017)
E Benison (appointed 15 December 2017)
M Davies (appointed 15 December 2017)
S Lowth (appointed 15 December 2017)
C Selley (appointed 15 December 2017)
H Brierley (resigned on 15 December 2017)
C Ryan (resigned on 15 December 2017)

Openreach Limited

Directors report for the period ended 31 March 2018 (Continued)

Directors' indemnities

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

Openreach Limited

Directors report for the period ended 31 March 2018 (Continued)

Statement of Directors' Responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for the period since incorporation to 31 March 2018. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Openreach Limited

Directors report for the period ended 31 March 2018 (Continued)

Independent auditors

PricewaterhouseCoopers LLP will stand down as the Company's auditors at the conclusion of the audit for the period ended 31 March 2018. KPMG will be appointed as the external auditor, subject to approval by the BT Group plc shareholders at the 2018 Annual General Meeting.

The directors' report on pages 1 to 5 was approved by the Board of directors on 12 June 2018 and were signed on its behalf by



JON FURMSTON

By order of the Board

for and on behalf of Openreach Limited

Company Secretary

12 June 2018

Openreach Limited

Independent auditors' report to the members of Openreach Limited

Report on the audit of the financial statements

Opinion

In our opinion, Openreach Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its result for the period since incorporation on 24 March 2017 (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Openreach Limited

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

Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

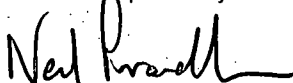
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Neil Proudlove (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

12 June 2018

Openreach Limited

Profit and loss account for the period from 24 March 2017 to 31 March 2018

	Note	2018 £'000
Turnover	4.	2,543
Administrative expenses		(2,543)
Result on ordinary activities before taxation		-
Tax on result on ordinary activities	9.	<u>-</u>
Result for the financial period		<u><u>-</u></u>

All results derive from continuing operations.

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

Openreach Limited

Balance sheet as at 31 March 2018

	Note	2018 £'000
Non current assets		
Deferred tax assets	11.	114
Current assets		
Debtors	10.	2,514
Total assets		<u>2,628</u>
Creditors: amounts falling due within one year	12.	<u>(2,046)</u>
Net current assets		<u>468</u>
Total assets less current liabilities		582
Creditors: amounts falling due after more than one year	13.	(582)
Equity		
Called up share capital	14.	-
Profit and Loss account		<u>-</u>
Total equity		<u><u>-</u></u>

The financial statements were prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

The financial statements on pages 8 to 17 were approved and authorised for issue by the Board of directors on 12 June 2018 and were signed on its behalf by:



M Davies
Director

Openreach Limited

Statement of changes in equity for the period from 24 March 2017 to 31 March 2018

	£'000	£'000	£'000
	Called up share capital	Profit and Loss account	Total Equity
Balance at 24 March 2017	-	-	-
Issue of share capital	-	-	-
Result for the financial period	-	-	-
Balance at 31 March 2018	<u>-</u>	<u>-</u>	<u>-</u>

Openreach Limited

Notes to the financial statements

1. General information

The principal activity of the Company is to set the strategy (within BT plc's then current overall strategic framework) and to oversee and manage the performance of the Openreach Customer Facing Unit ("CFU") (a division of BT plc) on behalf of BT plc within a framework agreed between the Company and BT plc. The Company shall not own any assets or trading (past, current or future) that compromise the Openreach CFU nor benefit from the rewards nor bear the risks of those assets and trading. Such ownership of assets and trading and such risks and rewards shall be retained by BT plc.

The Company is a private company, limited by shares, incorporated and domiciled in the UK. The address of its registered office is 123 Judd Street, London, WC1H 9NP.

2. Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS 101), which involves the application of International Financial Reporting Standards (IFRS) with a reduced level of disclosure.

The financial statements have been prepared under the historic cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The preparation of financial statements in conformity 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.

Exemptions

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

- The requirements of IAS 7 Statement of Cash Flows.
- The requirements of paragraphs 17 of IAS 24 Related Party Disclosures.
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- The requirements of paragraphs 6 and 21 of IFRS 1 'First-time Adoption of International Financial Reporting Standards' to present an opening statement of financial position at the date of transition.
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Openreach Limited

Notes to the financial statements (continued)

2. Basis of preparation (continued)

- 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); and
 - 111 (cash flow statement information); and
 - 134 to 136 (capital management disclosures).

3. Accounting policies

Going concern

BT plc has committed to fund the costs of the services provided by the Company in accordance with the Transitional Agreement contract executed on 15 December 2017 between the Company and BT plc. On the basis of this agreement the directors are satisfied that the Company will continue to be able to meet its commitments as they fall due, they therefore believe that preparing the financial statements on the going concern basis is appropriate.

Turnover

Revenue represents the fair value of the consideration received or receivable for the service of setting the strategy and overseeing and managing the performance of the Openreach CFU. Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the Company and the amount of revenue and associated costs can be measured reliably.

Pensions

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 results represents the contributions payable to the scheme in respect of the accounting period.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Openreach Limited

Notes to the financial statements (continued)

3. Accounting policies (continued)

Financial instruments

Financial liabilities at amortised cost – trade and other payables

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

Loans and other receivables - trade and other receivables

Trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount, and are subsequently carried at amortised cost, using the effective interest method, less provisions made for doubtful receivables. Provisions are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic conditions.

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.

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amount of the group's assets and liabilities and their tax base. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities. Any remaining 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, 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 the 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.

Share based payments

The ultimate parent undertaking, BT Group plc, operates a number of equity settled share based arrangements, as detailed in note 3 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. The Company receives a charge from BT Group plc for share based payments for those employees who participate in the BT Group plc equity settled share based arrangements. This expense is recharged to BT plc in line with the terms of the Transitional Agreement signed between the parties on 15 December 2017.

Openreach Limited

Notes to the financial statements (continued)

3. Accounting policies (continued)

Administrative expenses

Administrative expenses represents expenses incurred in the normal course of business and management fees paid to related parties incurred in the normal course of business. All administrative expenses are recognised when incurred.

4. Turnover

All revenue derives from services provided to BT plc within the United Kingdom. The net assets of the Company at the end of the period were all located in the United Kingdom.

The result before tax of the Company during the period was attributable to activities wholly carried out in the United Kingdom.

5. Operating result

Operating result is stated after charging:

	2018
	£'000
Staff costs (see note 8)	2,343
Other administrative expenses	200
	<u>2,543</u>

6. Directors' emoluments

The following emoluments were paid to the directors in respect of their services to the Company in the period ended 31 March 2018 with the exception of S Lowth who is employed and remunerated by BT plc or other group companies in respect of his services to the BT group as a whole. No emoluments were paid to S Lowth in respect of his services to the Company for the period ended 31 March 2018.

	2018
	£'000
Aggregate emoluments	518
Company contributions in respect of money purchase pension schemes	2
	<u>520</u>

Openreach Limited

Notes to the financial statements (continued)

6. Directors' emoluments (continued)

Included above are the following amounts paid to the highest paid director:

	2018 £'000
Aggregate emoluments	249
	<u>249</u>

7. Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company's financial statements is £18,000.

8. Employee information

On 1 January 2018 all employees in the Company were transferred from Openreach CFU. The average number of employees in the Company during the period ended 31 March 2018 was 4. The number of employees in the Company as at 31 March 2018 was 15.

Employment costs of all employees included above amounted to:

	2018 £'000
Wages and salaries	1,466
Other long-term benefits	509
Social security costs	291
Other pension costs (see note 17)	49
Share based payments	28
	<u>2,343</u>

9. Taxation

a) Tax charged/(credited) in the income statement

	2018 £'000
Current tax:	
UK corporation tax current period	114
Total current income tax	<u>114</u>
Deferred tax:	
Origination and reversal of timing differences	(114)
Total deferred tax	<u>(114)</u>
Tax expense/(credit) in the income statement	<u>-</u>

Openreach Limited

Notes to the financial statements (continued)

9. Taxation (continued)

b) Change in corporation tax rate

The rate of UK corporation tax will change from 19% to 17% on 1 April 2020. These rate changes will be applied to the future results of the Company. The Company has a deferred tax asset of £114,008 which has been fully recognised in the financial statements and relates to timing differences on tax deductibility of employee long-term benefits.

10. Debtors

	2018 £'000
Debtors due within one year	
Amounts owed by group undertakings	1,932
Debtors due after one year	
Amounts owed by group undertakings	582
	<u>2,514</u>

11. Deferred taxation

	2018 £'000
Provisions for employee benefits	114
Deferred tax asset	<u>114</u>
	2018 £'000
Opening deferred tax asset	-
Deferred tax credited in the profit and loss account	114
Closing deferred tax asset	<u>114</u>

12. Creditors - amounts falling due within one year

	2018 £'000
Trade and other payables	18
Amounts owed to group undertakings	1,184
Other taxation and social security	214
Other creditors	131
Accruals	499
	<u>2,046</u>

Openreach Limited

Notes to the financial statements (continued)

13. Creditors - amounts falling due after more than one year

	2018
	£'000
Accruals falling due after more than one year	<u>582</u>

14. Share capital

	2018
	£'000
Allotted, called up and fully paid: 1 ordinary shares of £1 each	<u>-</u>

On 24 March 2017 the Company issued 1 ordinary share at £1 to BT plc.

15. Contingent liabilities

There were no contingent liabilities or guarantees at 31 March 2018.

16. Controlling entity

The Company is a wholly owned subsidiary of BT 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 and fellow group subsidiaries provided such subsidiaries are wholly owned members of the group during the year ended 31 March 2018. Copies of the financial statements of BT Group plc may be obtained from The Secretary, BT Group plc, 81 Newgate Street, London EC1A 7AJ.

The parent undertaking of the smallest group of companies into which the results of the Company are consolidated is 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.

17. Pension obligations

The Company is a member of a defined contribution group personal pension scheme operated by BT plc. The pension cost charge for the period represents contributions payable by the Company to fund the scheme and amounted to £49,244. The amount of outstanding contributions at the period end amounted to £17,736.