Registered number: 04383521

BT Fleet Limited

Strategic Report, Directors' Report and Financial Statements for the year ended 31 March 2017

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Strategic Report for the year ended 31 March 2017

The directors present their Strategic Report for BT Fleet Limited ("BT Fleet" or the "Company") for the year ended 31 March 2017.

Review of business and future developments

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 plays a pivotal role in helping BT plc generate efficiencies and cost savings whilst growing its own business. This strategy has continued during 2016-17 and is expected to continue in the foreseeable future.

BT Fleet again produced a strong financial performance in 2016-17. The Company has continued to focus on growth in its external customer base and operational efficiencies. A core focus in the year was increasing the volume of work through the BT Fleet garage network and reducing the reliance on third party providers. The enablers to this were increasing the opening hours to 24:5 in key strategic locations, as well as the recruitment of further vehicle technicians including 47 apprentices. Further to this, BT Fleet purchased SEV Automotive and Plant Limited on 3rd February 2017 to further enhance its mobile technician capabilities. BT Fleet will continue with this strategy to further improve the overall financial position of the Company.

Principal risks and uncertainties

The principal risks to which BT Fleet is 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 a group level and by the leadership team at a business unit level.

Key performance indicators

The 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

L. Blackwell

Louise Blackwell
for and on behalf of Newgate Street Secretaries Limited
Company Secretary
25 July 2017

Directors' report for the year ended 31 March 2017

The directors present their Report and the audited financial statements of BT Fleet Limited for the year ended 31 March 2017.

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.

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 2017.

Results

The profit on ordinary activities before taxation was £58.8m (2016: £47.9m). The charge for taxation was £12.1m (2016: £10.8m) which left a retained profit for the financial year of £46.7m (2016: £37.1m).

Dividends

An interim dividend of £50.0m was paid during the year (2016: £nil). The directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2017 (2016: £nil).

Directors' report for the year ended 31 March 2017 (continued)

Financial instruments

Other than trade debtors and creditors 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 are consistent with the prior year.

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.

Company policy throughout the year has been to manage this risk through 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 2017 (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
CP Wides (Appointed 22 July 2016)
NA Hale (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 Annual report and the financial statements in accordance with applicable law and regulation.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards have been followed, comprising FRS101, 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.

Directors' report for the year ended 31 March 2017 (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 was approved by the Board of directors on 25 July 2017 and was signed by its order.

L. Blackwell

Louise Blackwell
for and on behalf of Newgate Street Secretaries Limited
Company Secretary
25 July 2017

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 2017 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 2017;
- 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, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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

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.

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.

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

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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Jas Khela (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
25 July 2017

Statement of comprehensive income for the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Turnover	4	213,475	202,490
Cost of sales		(146,341)	(134,272)
Gross profit		67,134	68,218
Administrative expenses		(23,083)	(31,823)
Other operating income	5	7,120	2,887
Operating profit	5	51,171	39,282
Interest receivable and similar income	6	7,653	8,598
Profit before taxation		58,824	47,880
Tax on profit	9	(12,127)	(10,774)
Profit for the financial year		46,697	37,106
Other comprehensive income		-	-
Total comprehensive income for the year		46,697	37,106

All results derive entirely from continuing activities. The notes on pages 12 to 28 form an integral part of these financial statements.

Balance sheet as at 31 March 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Tangible assets	10	69,476	80,792
Investments	11	641	-
		70,117	80,792
Current assets			
Stocks	12	2,697	970
Debtors (including £39,969,000 (2016: £46,946,000) due after one year)	13	751,106	681,548
Cash at bank and in hand	14	-	37,728
		753,803	720,246
Creditors: amounts falling due within one year	15	(76,556)	(49,995)
Net current assets		677,247	670,251
Total assets less current liabilities		747,364	751,043
Provisions for liabilities	16	(2,415)	(3,090)
Net assets		**744,949**	**747,953**
Equity			
Called up share capital	17	200	200
Share premium account		259,511	259,511
Retained earnings		485,238	488,242
Total equity		**744,949**	**747,953**

The notes on pages 12 to 28 form an integral part of these financial statements.

The financial statements on pages 9 to 28 were approved and authorised for issue by the Board of directors on 25 July 2017 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 2017

	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
At 1 April 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**
At 1 April 2016	200	259,511	488,242	747,953
Profit and total comprehensive income for the financial year	-	-	46,697	46,697
Dividends paid	-	-	(50,000)	(50,000)
Share based payments	-	-	299	299
At 31 March 2017	**200**	**259,511**	**485,238**	**744,949**

Notes to the financial statements for the year ended 31 March 2017

1 General Information

BT Fleet Limited ("the Company") 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 (continued)

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

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

The financial statements have been prepared on 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. The areas involving a higher degree of complexity, or areas involving assumptions and estimates are disclosed in note 3 to these financial statements.

These financial statements are separate financial statements. The Company is exempt, by virtue of s400 of the Companies Act 2006, from the requirement to prepare and deliver consolidated financial statements because it is included in the group financial statements of BT Plc. The group financial statements of BT plc are available to the public and can be obtained as set out in note 21.

Notes to the financial statements for the year ended 31 March 2017 (continued)

2 Basis of preparation and accounting policies (continued)

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

- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payments (details of the number and weighted-average exercise price of share options, and how the fair value of goods or services received was determined)
- The requirements of IFRS 7 Financial Instruments: Disclosures.
- The requirements of IAS 7 Statement of Cash Flows.
- The requirements of paragraph 17 of IAS 24 Related Party Disclosures (key management compensation)
- 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 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);
  – 16 (statement of compliance with all IFRS);
  – 38A (requirement for minimum of two primary statements including cash flow statements);
  – 38B-D (additional comparative information);
  – 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 effective during the year
There are no new or amended accounting standards or IFRIC interpretations adopted during the year that have a significant impact on the financial statements.

Notes to the financial statements for the year ended 31 March 2017 (continued)

2 Basis of preparation and accounting policies (continued)

New and amended accounting standards that have been issued but are not yet effective
The following standards have been issued and are effective for future accounting periods and are expected to have an impact on the financial statements in future years.

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 'Revenue from Contracts with Customers' will be effective for periods beginning on or after 1 January 2018. Transition to IFRS 15 for the Company will take place on 1 April 2018. IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers and includes extensive disclosure requirements. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative standalone selling price basis.

The Company is planning to adopt IFRS 15 retrospectively and apply the new standard to each prior reporting period presented, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In order to align reporting within the BT group, the Company will additionally restate the 2016/17 year and will record a cumulative transitional adjustment at 1 April 2016 to restate historical financial data.

The financial impact is not yet reasonably estimable and the Company is still in the process of quantifying the implications of the standard.

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 2017 (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.

Going Concern

The company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The company participates in the group's centralised treasury arrangements and so share banking arrangements with its parent and fellow subsidiaries.

On the basis of their assessment of the company's financials positions, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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.

Other operating income

Other operating income represents the net profit from sale and operating leaseback transactions. Where a sale and leaseback transaction is established at fair value, any profit or loss is recognised immediately in the income statement. Where a sale and leaseback transaction is established at above fair value, the excess profit over fair value is deferred and amortised over the term of the lease. Where a sale and leaseback transaction is below fair value, any profit or loss is recognised immediately unless the loss is compensated for by future lease payments at below market price, in which case it is deferred and amortised in proportion to the lease payments over the term of the lease. Whether a transaction is established at fair value is a key management judgement as noted in note 3.

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.

Notes to the financial statements for the year ended 31 March 2017 (continued)

2 Basis of preparation and accounting policies (continued)

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.

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 administrative expenses in the income statement. In the case of any indicators of impairment, management review the net book value of the company's tangible fixed assets to ensure they are held at the higher of cost less accumulated depreciation and recoverable value.

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

Notes to the financial statements for the year ended 31 March 2017 (continued)

2 Basis of preparation and accounting policies (continued)

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

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.

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.

Notes to the financial statements for the year ended 31 March 2017 (continued)

2 Basis of preparation and accounting policies (continued)

Investments
Investments in subsidiaries are accounted for at cost less, where appropriate, allowances for impairment. Where there are any indicators of impairment, management will review the carrying value of the investment to ensure it does not exceed the recoverable amount.

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.

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

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 income statement 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 income statement 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.

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.

Notes to the financial statements for the year ended 31 March 2017 (continued)

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, judgements 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 judgements in these financial statements are as follows:

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 in note 2.

For those lease arrangements which represent a sale and operating leaseback, the Directors evaluate each individual case to determine whether these are undertaken at fair value. Where this is the case, any profit achieved between the acquisition price of the vehicle and the funded price is recognised immediately in the income statement as other operating income (see note 5) in line with IAS 17.

The lease agreements with third party funders suggest that the Company may be acting as a disclosed agent of the lease providers (as lessors to BT plc). However, in the opinion of the Directors, the substance of the transaction is that the Company is acting in a Principal capacity as it has exposure to the significant risks and rewards associated with the services provided to BT plc. Accordingly, in line with the requirements of IAS 18, the Company has recognised the gross value of transactions, to reflect the substance of the risk/reward profile to the Company.

The key estimates made in these financial statements are as follows:

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 in note 2.

Notes to the financial statements for the year ended 31 March 2017 (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.

	2017 £'000	2016 £'000
Income from operating leases	137,824	130,767
Income from finance leases	6,210	6,686
Income from fleet management services	69,441	65,037
	213,475	202,490

Notes to the financial statements for the year ended 31 March 2017 (continued)

5 Operating profit

Operating profit is stated after charging / (crediting)

	2017 £'000	2016 £'000
Stocks recognised as an expense in the year	64,714	62,777
Provision for impairment of stock (included in 'cost of sales')	31	-
Staff costs (see note 8)	35,060	30,872
Rentals payable under operating leases:-		
- plant and machinery	432	425
- other	39,985	33,186
Depreciation of tangible fixed assets (see note 10)	14,638	19,426
Loss on disposal of tangible fixed assets	178	108
Other operating income	(7,120)	(2,887)
Auditors' remuneration; for statutory audit of the Company's financial statements **	43	62

Other operating income represents the net profit from sale and operating leaseback transactions.

**No other remuneration for non-audit services was paid to the auditors (2016 £ nil).

6 Interest receivable and similar income

	2017 £'000	2016 £'000
Interest receivable and similar income	7,653	8,598

7 Directors' emoluments

Directors' emoluments for services attributable to BT Fleet:

	2017 £'000	2016 £'000
Aggregate emoluments	178	486
Pension	13	44

The emoluments of the highest paid director included above were £160,609 (2016: £244,829).

The emoluments of CP Wides and NA Hale were paid by the parent company. Their services to this Company were of a non-executive nature and their emoluments are deemed to be wholly attributable to services to the parent company. Accordingly, the above details include no emoluments in respect of these directors.

Notes to the financial statements for the year ended 31 March 2017 (continued)

8 Employee information

The average monthly number of employees during the year was:

	2017 Number	2016 Number
Service and maintenance	623	512
Fleet management and administration	204	217
	827	729

Employment costs of all employees included above:

	2017 £'000	2016 £'000
Wages and salaries	28,733	24,929
Social security costs	2,815	2,536
Other pension costs (see note 18)	3,503	3,114
Share based payments	299	293
	35,350	30,872

Staff costs of £290,000 were capitalised during the year.

9 Tax on profit

	2017 £'000	2016 £'000
Current tax:		
United Kingdom corporation tax on profit of the year at 20% (2016: 20%)	12,802	10,939
Deferred tax		
Origination and reversal of timing differences (note 16)	(897)	(808)
Adjustment in respect of prior years	222	643
Effect of reduction in statutory tax rate on opening liability	-	-
Total deferred taxation	(675)	(165)
Tax charge on profit on ordinary activities	12,127	10,774

Notes to the financial statements for the year ended 31 March 2017 (continued)

9 Tax on profit (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% (2016: 20%). The differences are reconciled below.

Profit on ordinary activities before taxation	58,824	47,880
Profit on ordinary activities multiplied by standard rate of corporation tax at 20% (2016: 20%)	11,765	9,576
Adjustment in respect of prior years	222	643
Expenses not deductible for tax purposes	566	555
Tax rate changes	(426)	-
Total tax charge for the year	12,127	10,774

Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

10 Tangible assets

	Plant and Machinery £'000	Assets held for Operating Lease £'000	Total £'000
Cost			
At 1 April 2016	17,983	168,465	186,448
Additions	5,348	7,035	12,383
Disposals	-	(37,521)	(37,521)
At 31 March 2017	23,331	137,979	161,310
Accumulated depreciation			
At 1 April 2016	(7,956)	(97,700)	(105,656)
Charge for the financial year	(4,173)	(10,465)	(14,638)
Disposals	-	28,460	28,460
At 31 March 2017	(12,129)	(79,705)	(91,834)
Net book amount as at 31 March 2017	11,202	58,274	69,476
Net book amount as at 31 March 2016	10,027	70,765	80,792

Notes to the financial statements for the year ended 31 March 2017 (continued)

11 Investments

	Subsidiary undertaking £'000
Cost	
At 1 April 2016	-
Additions	641
At 31 March 2017	641
Net book amount as at 31 March 2017	641

On 3rd February 2017 the Company acquired 100% of the issued share capital of SEV Automotive and Plant Limited, a mobile vehicle maintenance and servicing business, for cash consideration of £541,422 and deferred consideration with a value of £100,000. SEV Automotive and Plant Limited is incorporated in the United Kingdom. The address of its registered office is Future Technology Centre, Barmston Court, Nissan Way, Sunderland, Tyne and Wear, SR5 3NY.

12 Stocks

	2017 £'000	2016 £'000
Raw materials and consumables	2,923	1,170
Stock provision	(226)	(200)
	2,697	970

Notes to the financial statements for the year ended 31 March 2017 (continued)

13 Debtors

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Trade debtors	14,136	9,322
Amounts owed by group undertakings	673,166	603,184
Other debtors	868	261
Net investment in finance leases	7,410	6,733
Prepayments and accrued income	15,557	15,102
Total debtors falling due within one year	711,137	634,602
Net investment in finance leases comprises :		
Total amounts receivable	12,858	12,905
Less :- interest allocated to future periods	(5,448)	(6,172)
	7,410	6,733
Amounts falling due after more than one year		
Net investment in finance leases	39,969	46,946
Net investment in finance leases comprises :		
Total amounts receivable	52,939	65,357
Less :- interest allocated to future periods	(12,970)	(18,411)
	39,969	46,946
Total debtors	**751,106**	**681,548**

Rentals receivable during the year under the finance leases amounted to £13.0m (2016: £12.9m).

The cost of assets acquired during the year for onwards finance leasing was £0.5m (2016: £11.1m).

Included in amounts owed by group undertakings is an interest bearing loan to BT plc of £642.8m (2016: £577.3m). Interest is calculated at 12 month LIBOR plus 42.5 basis points, changing to 30 basis points on 1 August 2016 (2016: 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.

Notes to the financial statements for the year ended 31 March 2017 (continued)

14 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.

15 Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	16,335	6,066
Bank overdraft (note 14)	156	-
Amounts owed to group undertakings	2,060	53
Corporation taxes	12,801	10,939
Other taxation and social security	5,526	3,452
Accruals and deferred income	39,678	29,485
	76,556	49,995

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

16 Provisions for liabilities

	Deferred taxation £'000
Balance at 1 April 2016	3,090
Adjustment in respect of prior years	222
(Credited) to the income statement during the year	(897)
Balance at 31 March 2017	2,415

The deferred taxation creditor results from the tax effect of timing differences as follows. There are no unrecognised deferred tax assets.

	2017 Provision £'000	2016 Provision £'000
Accelerated capital allowances	2,506	3,168
Pension provisions and other timing differences	(91)	(78)
Total provision for deferred taxation	2,415	3,090

Notes to the financial statements for the year ended 31 March 2017 (continued)

17 Called up share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid:		
200,001 (2016: 200,001) ordinary shares of £1 each	200	200

18 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 2017 the BTPS had a deficit of £8,559m (2016: £5,998m).

The pension charge for the year was £3.5m (2016: £3.1m). 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 £0.3m (2016: £0.2m). The amount was settled during April 2017.

19 Capital and operating lease

At 31 March 2017, contracts placed for capital expenditure not provided for in the financial statements amounted to £2.9m (2016: £0.2m).

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 Land and Buildings £'000	2017 Other £'000	2017 Total £'000	2016 Land and Buildings £'000	2016 Other £'000	2016 Total £'000
Within one year	8,634	38,642	47,276	8,634	22,325	30,959
Between one and five years	34,536	113,444	147,980	34,536	54,644	89,180
After five years	8,634	30,382	39,016	17,268	8,597	25,865
	51,804	182,468	234,272	60,438	85,566	146,004

Notes to the financial statements for the year ended 31 March 2017 (continued)

20 Contingent liabilities

Other than as disclosed in note 14, at 31 March 2017 there were no contingent liabilities or guarantees other than those arising in the ordinary course of the Company's business and on these no material losses are anticipated.

21 Controlling entities

The Company is a wholly-owned subsidiary of BT plc which is the immediate parent undertaking. The ultimate controlling entity is BT Group plc.

The ultimate parent undertaking and 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 by BT Group plc during the year ended 31 March 2017. 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.