

Registered number: 2603349

Albacom Holdings

**Directors Report and Financial Statements
for the year ended
31 March 2012**

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Albacom Holdings

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Directors and advisers

Directors

M P Genikis
G Parry
P N Allenby

Company Secretary

Newgate Street Secretaries Limited

Registered Office

81 Newgate Street
London
EC1A 7AJ

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

Directors' report for the year ended 31 March 2012

The directors submit their report and the audited financial statements of Albacom Holdings (the "Company") for the year ended 31 March 2012. The registered number of the Company is 2603349.

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

Principal activities and future developments

The Company acts as a holding company for Italian companies providing telecommunications and related services in Italy. The directors do not anticipate any change in the Company's principal activity as a holding company in the foreseeable future.

Principal risks and uncertainties

The directors of BT Group plc (the ultimate controlling entity of the Company) manage the group's risks at a group level, rather than at an individual business unit level. For this reason, the Company's directors believe that a discussion of the group's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of BT Group plc, which include those of the company, are discussed on pages 32 to 37 in the 2012 BT Group plc annual report, which does not form part of this report.

Key performance indicators ("KPIs")

The directors of BT Group plc manage the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company.

Results and dividends

The loss on ordinary activities before taxation was £18,203,315 (2011: £4,496,741). The tax on loss on ordinary activities was £4,732,862 (2011: £1,259,087) which left a loss after taxation for the year of £13,470,453 (2011: £3,237,654).

The directors do not recommend the payment of a dividend in respect of the year ended 31 March 2012 (2011: £nil).

Directors

A list of the current directors is set out on page 1. All directors held office throughout the year and up to the date of signing this report.

Directors' report for the year ended 31 March 2012 (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

By order of the Board,



Authorised Signatory
for and on behalf of Newgate Street Secretaries Limited
Company Secretary
14th December 2012

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 these financial statements, the directors are required to

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

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

Independent auditors' report to the members of Albacom Holdings

We have audited the financial statements of Albacom Holdings for the year ended 31 March 2012, which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

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 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). 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.

Scope of the audit of the financial statements

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. In addition, we read all the financial and non – financial information in the directors' report and financial statements for the year ended 31 March 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its loss 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

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Independent auditors' report to the members of Albacom Holdings (continued)

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Martin Cowie

Martin Cowie (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Edinburgh

14th December 2012

Profit and loss account for the year ended 31 March 2012

| | Note | 2012 £ | 2011 £ |
|--|------|----------------------------|---------------------------|
| Administrative expense | | <u>12,780,591</u> | <u>6,098</u> |
| Operating loss | 1 | (12,780,591) | (6,098) |
| Net interest payable | 2 | <u>(5,422,724)</u> | <u>(4,490,643)</u> |
| Loss on ordinary activities before taxation | | (18,203,315) | (4,496,741) |
| Tax on loss on ordinary activities | 5 | <u>4,732,862</u> | <u>1,259,087</u> |
| Loss for the financial year | 10 | <u><u>(13,470,453)</u></u> | <u><u>(3,237,654)</u></u> |

All results derive from continuing activities

There were no material differences between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis

Statement of total recognised gains and losses for the year ended 31 March 2012

| | Note | 2012 £'000 | 2011 £'000 |
|---|------|----------------------------|---------------------------|
| Loss for the financial year | | (13,470,453) | (3,237,654) |
| Unrealised loss on foreign currency investments | | (16,715,722) | - |
| Unrealised gain on currency option | | 16,715,722 | - |
| Total gains and losses recognised relating to the year | | <u><u>(13,470,453)</u></u> | <u><u>(3,237,654)</u></u> |

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Balance sheet as at 31 March 2012

| | Note | 2012 £ | 2011 £ |
|---|------|----------------------|----------------------|
| Fixed assets | | | |
| Investments | 6 | <u>325,314,531</u> | <u>342,030,253</u> |
| Current assets | | | |
| Debtors | 7 | 4,732,862 | 1,259,087 |
| Cash at bank and in hand | | <u>999</u> | <u>1,324</u> |
| | | 4,733,861 | 1,260,411 |
| Creditors: amounts falling due within one year | 8 | <u>(143,834,797)</u> | <u>(143,606,616)</u> |
| Net current liabilities | | <u>(139,100,936)</u> | <u>(142,346,205)</u> |
| Net assets | | <u>186,213,595</u> | <u>199,684,048</u> |
| Capital and reserves | | | |
| Called up share capital | 9 | 316,793,239 | 316,793,239 |
| Share premium account | 10 | 39,924,176 | 39,924,176 |
| Capital contribution reserve | 10 | 454,512 | 454,512 |
| Profit and loss account | 10 | <u>(170,958,332)</u> | <u>(157,487,879)</u> |
| Total shareholders' funds | 11 | <u>186,213,595</u> | <u>199,684,048</u> |

These financial statements on pages 7 to 14 were approved by the Board of directors on 14th December 2012 and were signed on its behalf by


Glyn Parry
Director

Accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been consistently applied, are set out below.

The financial statements present information about the Company as an individual undertaking, and not about its group. The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare and deliver group accounts as the accounts of Albacom Holdings are consolidated in the financial statements of BT Group plc, the ultimate parent entity.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Actual results could differ from those estimates. Estimates are used principally when accounting for investment impairment, provisions for liabilities and charges and taxes.

Investments

With effect from 1 April 2011 the Company has prospectively adopted a policy of hedging its overseas investments. At each balance sheet date its hedged investments are retranslated and the corresponding gain or loss is recorded in foreign exchange reserves in accordance with SSAP 20.

Investments are carried at cost less provision for impairment. Investments are tested for impairment when an event that might affect asset values has occurred. An impairment loss is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future cash flows from the investment.

Foreign currencies

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date. Exchange gains or losses are dealt with through the profit and loss account.

Accounting policies (continued)**Taxation**

The charge for taxation is based on the profit for the year and takes into account deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis

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

Cash flow statement

The Company is a wholly-owned subsidiary of BT Group plc. The cash flows of the Company are included in the consolidated cash flow statement of BT Group plc, whose annual report is publicly available. Consequently the Company is exempt under the terms of FRS 1 (Revised 1996) "Cash Flow Statements" from publishing a cash flow statement

Notes to the financial statements

1 Operating loss

Operating loss is stated after (charging) / crediting

| | 2012 | 2011 |
|---|---------------------|----------|
| | £ | £ |
| Auditors' remuneration for audit services | (4,800) | (4 700) |
| Foreign exchange gain | 1,816,230 | 48 |
| Amortisation of Option Premium | <u>(14,591,621)</u> | <u>-</u> |

2 Net interest payable

| | 2012 | 2011 |
|--|--------------------|--------------------|
| | £ | £ |
| Interest payable on loan from group undertakings | <u>(5,422,724)</u> | <u>(4,490,643)</u> |

3 Directors' emoluments

The directors are employed and remunerated by British Telecommunications plc or other group companies in respect of their services to the BT group as a whole. No emoluments were paid to the directors in respect of their services to the Company in the year ended 31 March 2012 (2011: £nil)

4 Employee information

The average monthly number of persons employed by the Company during the year was nil (2011: nil)

5 Tax on loss on ordinary activities

| | 2012 | 2011 |
|--|--------------------|--------------------|
| | £ | £ |
| Current tax. | | |
| UK Corporation tax credit at 26% (2011: 28%) | <u>(4 732 862)</u> | <u>(1,259,087)</u> |

Notes to the financial statements (continued)

5 Tax on loss on ordinary activities (continued)

The tax assessed for the year is equal to (2011 equal to) the standard rate of corporation tax in the UK as shown below

| | 2012 £ | 2011 £ |
|--|---------------------|--------------------|
| Loss on ordinary activities before taxation | <u>(18,203,315)</u> | <u>(4,496,741)</u> |
| Loss on ordinary activities multiplied by standard rate of corporation tax at 26% (2011 28%) | <u>(4,732,862)</u> | <u>(1,259,087)</u> |
| Current tax credit | <u>(4,732,862)</u> | <u>(1,259,087)</u> |

6 Fixed asset investments

| | Subsidiary Undertaking £ |
|--|--------------------------------|
| Cost | |
| At 1 April 2011 and 31 March 2012 | 500,185,946 |
| Provisions | |
| At 1 April 2011 | (158,155,693) |
| Retranslation of foreign currency investment | <u>(16,715,722)</u> |
| At 31 March 2012 | <u>(174,871,415)</u> |
| Net book value at 31 March 2012 | <u><u>325,314,531</u></u> |
| Net book value at 31 March 2011 | <u><u>342,030,253</u></u> |

Brief details of the principal operating subsidiary are as follows

| Name | Activity | Percentage of allotted capital owned | Country of incorporation and operations |
|---------------|--------------------------------|---|---|
| BT Italia SpA | Telecommunications services | 67.5% | Italy |

A further 31% of BT Italia SpA is owned by fellow BT Group subsidiaries. In the opinion of the directors, the carrying value of the investment is supported by its underlying net assets

Notes to the financial statements (continued)

7 Debtors

| | 2012 £ | 2011 £ |
|---|------------------|------------------|
| Amounts falling due within one year: | | |
| Amounts due from group for losses surrendered | <u>4,732,862</u> | <u>1,259,087</u> |

8 Creditors: amounts falling due within one year

| | 2012 £ | 2011 £ |
|-----------------------------------|--------------------|--------------------|
| Amounts due to group undertakings | 143,829,997 | 143,600,976 |
| Accruals | <u>4,800</u> | <u>5,640</u> |
| | <u>143,834,797</u> | <u>143,606,616</u> |

Amounts owed to group undertakings includes an interest bearing loan facility of £140,745,756 (2011 £140,039,113) from British Telecommunications plc. The loan is repayable within 12 months and attracts interest at LIBOR plus 145 basis points

9 Called up share capital

| | 2012 £ | 2011 £ |
|--|--------------------|--------------------|
| Allotted, called up and fully paid 107,387,539 (2011 107,387,539) "A" ordinary shares of £2.95 (2011 £2.95) each | <u>316,793,239</u> | <u>316,793,239</u> |

10 Reserves

| | Share premium account £ | Capital contribution reserve £ | Foreign Exchange reserve £ | Profit and loss account £ |
|---|----------------------------------|---|-------------------------------------|---------------------------------|
| Balance at 1 April 2011 | 39,924,176 | 454,512 | - | (157,487,879) |
| Retained loss for the financial year | | | | (13,470,453) |
| Unrealised loss on foreign currency investments | - | - | (16,715,722) | - |
| Unrealised gain on currency option | - | - | 16,715,722 | - |
| Balance at 31 March 2012 | <u>39,924,176</u> | <u>454,512</u> | <u>-</u> | <u>(170,598,332)</u> |

Notes to the financial statements (continued)

11 Reconciliation of movements in shareholders' funds

| | 2012 £ | 2011 £ |
|--------------------------------------|--------------------|--------------------|
| Loss for the financial year | (13,470,453) | (3,237,654) |
| Net reduction to shareholders' funds | (13,470,453) | (3,237,654) |
| Opening shareholders' funds | 199,684,048 | 202,921,702 |
| Closing shareholders' funds | <u>186,213,595</u> | <u>199,684,048</u> |

12 Contingent liabilities

As at 31 March 2012 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

13 Controlling entities

The Company is a wholly owned subsidiary of British Telecommunications plc, which is the immediate controlling entity. The ultimate controlling entity as at 31 March 2012 was 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 and Wales. Consequently the Company is exempt under the terms of FRS 8 "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 2012. 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 and Wales. Copies of the financial statements of British Telecommunications plc are available from The Secretary, British Telecommunications plc, 81 Newgate Street, London EC1A 7AJ.