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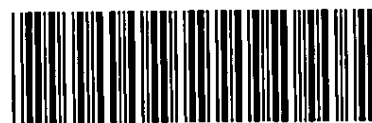
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British Telecommunications Finance Limited

**Annual Report
for the year ended
31 March 2007**

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COMPANIES HOUSE

British Telecommunications Finance Limited

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Directors

Ms HG Brierley
Mr JC Challis

Secretary

Newgate Street Secretaries Limited

Registered Office

26 New Street
St Helier
Jersey
JE4 8PP

Registered Auditors

PricewaterhouseCoopers LLP
Twenty Two Colombe
St Helier
Jersey
JE1 4XA

Report of the directors for the year ended 31 March 2007

The directors submit their annual report and the audited financial statements for the year ended 31 March 2007.

Profits and dividends

The profit before taxation was £38,232,352 (2006 - £36,884,406). The charge for taxation was £15,887,462 (2006 - £15,078,329) which left a profit after taxation for the year of £22,344,890 (2006 - £21,806,077).

The directors have recommended the payment of a final dividend in respect of the year ended 31 March 2007 amounting to £37,069,614 (2006 £35,183,769) of which £22,344,890 (2006 £21,806,077) relates to ordinary shares and £14,724,724 (2006: £13,377,692) is in respect of preference shares

Review of activities and future developments

The Company's principal activity is to act as an investment holding company within the BT Group plc ("BT") group of companies either directly or through wholly owned companies. The directors do not anticipate any change 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 page 27 of the group's 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.

Directors

A list of the current directors is set out on page 1. Mr John Challis was appointed to the board on 29 March 2007 and up to the date of this report. Mr William Stringer also served as a director until he resigned on 29 March 2007. The remaining director held office throughout the financial year under review.

Report of the directors for the year ended 31 March 2007

Statement of directors' responsibilities

A statement by the directors of their responsibilities for preparing the financial statements is included on page 4

Auditors and Disclosure of information to the auditors

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

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting

By order of the Board,



Authorised Signatory
for and on behalf of Newgate Street Secretaries Limited
Company Secretary

21/02/2008

Report of the directors for the year ended 31 March 2007

Statement of directors' responsibilities for preparing the financial statements

Companies (Jersey) Law 1991 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss and total recognised gains or losses of the Company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2007 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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 (Jersey) Law 1991. 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.

The auditors' responsibilities are stated in their report on page 5.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRITISH TELECOMMUNICATIONS FINANCE LIMITED

Report on the financial statements

We have audited the accompanying financial statements of British Telecommunications Finance Limited which comprise the balance sheet as of 31 March 2007 and the profit and loss account, for the year then ended and a summary of significant accounting policies and other explanatory notes

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with United Kingdom Accounting Standards and with the requirements of Jersey law. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 March 2007, and of its financial performance for the year then ended in accordance with United Kingdom Accounting Standards and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law, 1991.

Report on other legal and regulatory requirements

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the report of the directors.

In our opinion the information given in the directors' report is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 110 of the Companies (Jersey) Law, 1991 and for no other purpose. We do not, in giving this opinion, 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.



PricewaterhouseCoopers CI LLP

Chartered Accountants

Jersey, Channel Islands

3 March 2008

Profit and loss account for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Operating costs	1	<u>(9)</u>	<u>(5)</u>
Net interest receivable	2	<u>38,241</u>	<u>36,889</u>
Profit on ordinary activities before taxation		38,232	36,884
Tax on profit on ordinary activities	5	<u>(15,887)</u>	<u>(15,078)</u>
Profit on ordinary activities after taxation		22,345	21,806
Dividends	6	<u>(21,806)</u>	<u>(22,215)</u>
Retained profit/(loss) for the financial year		<u>539</u>	<u>(409)</u>

The profit on ordinary activities before taxation derives entirely from continuing activities

Other than the profit for the financial year, there have been no other recognised gains or losses.

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.

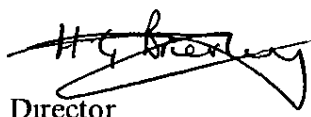
British Telecommunications Finance Limited

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Balance sheet as at 31 March 2007

	Notes	2007 £'000	2006 £'000
Current assets			
Debtors	7	1,335,686	1,272,481
Cash at bank and in hand	8	-	682
Total current assets		<u>1,335,686</u>	<u>1,273,163</u>
Creditors: amounts falling due within one year	9	<u>(261,415)</u>	<u>(199,431)</u>
Current assets less current liabilities		<u>1,074,271</u>	<u>1,073,732</u>
Creditors: amounts falling due after more than one year	10	(750,750)	(750,750)
Net assets		<u>323,521</u>	<u>322,982</u>
Capital and reserves			
Called up share capital	11	6,750	6,750
Share premium account	12	292,500	292,500
Profit and loss account	12	<u>24,271</u>	<u>23,732</u>
Total equity shareholders' funds	13	<u>323,521</u>	<u>322,982</u>

The financial statements on pages 6 to 13 were approved by the board of directors on 21/02/2008 and were signed on its behalf by



Director

Accounting policies

These financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

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 provisions for doubtful debts, provisions for liabilities and charges and taxes.

A summary of the more important accounting policies, which have been applied consistently, is set out below.

I Interest receivable and payable

Interest receivable and payable arises on loans to group undertakings and bank deposits and is accounted for on an accruals basis.

II 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. Consequently the Company is exempt under the terms of Financial Reporting Standard Number 1 (Revised 1996) from publishing a cash flow statement.

III Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation. Full provision is made for deferred taxation in respect of all timing differences that have arisen but not reversed by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. The Company has not pursued the policy of discounting deferred tax balances.

Notes to the financial statements**1 Operating profit**

Operating profit is stated after charging

	2007 £'000	2006 £'000
Secretarial fees	3	1
Auditors' remuneration for audit services	6	4
	<u>9</u>	<u>5</u>

2 Net interest receivable

	2007 £'000	2006 £'000
Interest payable – Preference share dividends	(14,725)	(13,378)
Interest payable	(9,559)	(6,090)
Interest receivable	<u>62,525</u>	<u>56,357</u>
Net interest receivable	<u>38,241</u>	<u>36,889</u>

See note 7 and note 9 for terms of the loans with group undertakings.

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 2007 (2006: £nil).

4 Employee information

The average monthly number of persons employed by the Company during the year was nil (2006: nil).

5 Tax on profit on ordinary activities**Jersey taxation**

The Company has been granted tax-exempt status by the Comptroller of Tax in Jersey and consequently, it incurs an annual fee of £600 (2006: £600).

UK taxation

The company is centrally and effectively managed and controlled within the UK and is therefore UK tax resident.

Notes to the financial statements**5 Tax on profit on ordinary activities (continued)**

The Company is liable to UK corporation tax at 30% on its taxable profits. The tax charge for the current year is £15,887,123 (2006: £15,078,329) which reconciles to the theoretical tax charges as follows:

	2007 £'000	2006 £'000
Profit on ordinary activities multiplied by standard rate of corporation tax at 30%	11,470	11,065
Tax on preference share dividend payable	4,417	4,013
	<hr/>	<hr/>
Tax on profit on ordinary activities	<u>15,887</u>	<u>15,078</u>

6 Dividends

	2007 £'000	2006 £'000
Equity – Ordinary shares		
Proposed final dividend £3.23 per share (2006: £3.29 per share)	<u>21,806</u>	<u>22,215</u>

7 Debtors

	2007 £'000	2006 £'000
Amounts owed by group undertakings	1,335,686	1,272,481
Total debtors	<u>1,335,686</u>	<u>1,272,481</u>

Amounts owed by group undertakings includes a loan of £1,318,881,132 to British Telecommunications plc which is based on the 3 month sterling LIBOR rate on the applicable rate setting dates (being 15 February, 15 May, 15 August and 15 November) minus 10 basis points. The loan which is unsecured and payable on demand was issued as part of a borrowing programme with the overall facility being £1,500 million. The loan was repayable within twelve months.

8 Cash at bank and in hand

The Company and certain fellow subsidiaries have jointly and severally guaranteed amounts owing to the Company's bankers by the intermediate holding company, British Telecommunications plc. The liability of the Company is limited to the amounts standing to the credit of the Company's accounts with the bank.

Notes to the financial statements

9 Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Preference dividend payable	14,724	13,378
Loan payable	226,542	169,219
Accrued interest on loan payable	4,257	1,748
Corporation taxes	15,887	15,078
Other creditors	5	8
Total creditors falling due within one year	261,415	199,431

The interest charged on the loan of £226,541,762 (2006: £169,218,963) to British Telecommunications plc is based on the 3 month sterling LIBOR rate on the applicable rate setting dates (being 15 February, 15 May, 15 August and 15 November) plus 50 basis points. The loan which is unsecured and payable on demand was issued as part of a borrowing programme with the overall facility being £500 million. The loan was repayable within twelve months.

10 Creditors: amounts falling due after more than one year

	2007 £'000	2006 £'000
Preference share capital	750	750
Preference share premium	750,000	750,000
Total creditors falling due after more than one year	750,750	750,750

Notes to the financial statements

10 Creditors: amounts falling due after more than one year (continued)

Preference share capital

	2007 £'000	2006 £'000
Authorised:		
750,000 preference shares of £1 each	750	750
	<u>750</u>	<u>750</u>
Allotted, called up and fully paid:		
750,000 preference shares of £1 each	750	750
	<u>750</u>	<u>750</u>

The preference shares are redeemable at par at the option of the issuer. Every preference share carries one voting right provided always that on a poll of votes the aggregate votes of the holders of preference shares present in person shall equal 10% of the total votes of holders of all the shares in issue in the share capital of the Company.

In the event of winding up, preference shares rank higher than ordinary shares and are entitled to receive the nominal value and premium paid up plus any unpaid dividends prior to the winding up and any surplus assets available following distribution of the nominal value and premium paid up to ordinary shareholders rateably distributed between the preference shareholders and ordinary shareholders on the basis of the aggregate amounts of nominal value and premium paid up by both classes of shareholders prior to the winding up

11 Called up share capital

	2007 £'000	2006 £'000
Authorised:		
6,750,000 (2006 – 6,750,000) ordinary shares of £1 each	<u>6,750</u>	<u>6,750</u>
Issued, called up and fully paid:		
6,750,000 (2006 – 6,750,000) ordinary shares of £1 each	<u>6,750</u>	<u>6,750</u>

Notes to the financial statements

12 Reserves

	Share premium account £'000	Profit and loss account £'000	Total £'000
Balance at 1 April 2006	292,500	23,732	316,232
Retained profit for the financial year	-	539	539
Balance at 31 March 2007	<u>292,500</u>	<u>24,271</u>	<u>316,771</u>

13 Reconciliation of movements in equity shareholders' funds

	2007 £'000	2006 £'000
Profit for the financial year	22,345	21,806
Dividends	<u>(21,806)</u>	<u>(22,215)</u>
	539	(409)
FRS 25 adjustment	-	<u>(750,750)</u>
Net increase / (decrease) in shareholders' funds	<u>539</u>	<u>(751,159)</u>
Opening equity shareholders' funds as previously reported	322,982	1,051,926
Prior year adjustment – FRS 21	<u>-</u>	<u>22,215</u>
Opening equity shareholders' funds as restated	322,982	1,074,141
Closing equity shareholders' funds	<u><u>323,521</u></u>	<u><u>322,982</u></u>

14 Contingent liabilities

As at 31 March 2007 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. Details of guarantees provided by the Company are shown in note 8.

Notes to the financial statements**15 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 2007 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 & Wales. Consequently the Company is exempt under the terms of Financial Reporting Standard Number 8 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 2007. Copies of the financial statements of BT Group plc may be obtained from The Assistant 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.