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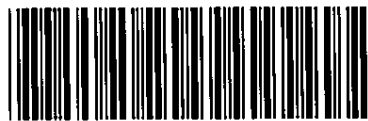
Registered number: 78620

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British Telecommunications Finance Limited

**Annual Report
for the year ended
31 March 2009**

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British Telecommunications Finance Limited

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Directors and advisors

Directors

CB Ryan (Appointed 30 March 2009)

JC Challis

HG Brierley (Resigned 30 March 2009)

Company Secretary

Newgate Street Secretaries Limited

Registered Office

26 New Street

St Helier

Jersey JE4 8PP

Channel Islands

Independent Auditors

PricewaterhouseCoopers CI LLP

Twenty Two Colomberie

St Helier

Jersey JE1 4XA

Channel Islands

Report of the directors for the year ended 31 March 2009

The directors submit their annual report and the audited financial statements of British Telecommunications Finance Limited (the “Company”) for the year ended 31 March 2009. The registered number of the Company is 78620

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.

Results and dividends

The profit before taxation was £53,976,759 (2008: £64,666,787). The charge for taxation was £15,113,493 (2008: £19,400,036) which left a profit after taxation for the year of £38,863,266 (2008: £45,266,751).

The directors do not recommend any dividend in respect of the year ended 31 March 2009 (2008: £nil).

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 29 to 31 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. CB Ryan was appointed to the board on 30 March 2009. HG Brierley also served as a director until she resigned on 30 March 2009. JC Challis held office throughout the financial year and up to the date of signing of this report.

Report of the directors for the year ended 31 March 2009

Statement of directors' responsibilities

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

Auditors

The auditors, PricewaterhouseCoopers CI LLP, have indicated their willingness to continue in office

By order of the Board,



Authorised Signatory
for and on behalf of Newgate Street Secretaries Limited
Company Secretary
5 February 2010

Statement of directors' responsibilities for preparing the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations

Companies (Jersey) Law 1991 requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Principle's (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and 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, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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.

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 2009 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 2009, 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.

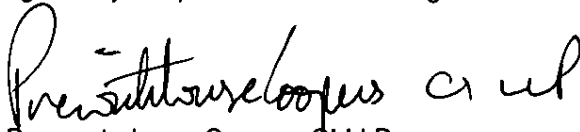
Report on other legal and regulatory requirements

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 director's report.

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

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

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 GI LLP
Chartered Accountants
Jersey, Channel Islands
12 February 2010

Profit and loss account for the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
Operating costs	1	<u>(9)</u>	<u>(9)</u>
Net interest receivable	2	53,986	64,676
		<u>53,977</u>	<u>64,667</u>
Profit on ordinary activities before taxation		53,977	64,667
Tax on profit on ordinary activities	5	<u>(15,113)</u>	<u>(19,400)</u>
Profit on ordinary activities after taxation		<u><u>38,864</u></u>	<u><u>45,267</u></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

Balance sheet as at 31 March 2009

	Notes	2009 £'000	2008 £'000
Current assets			
Debtors	6	<u>1,483,004</u>	<u>1,415,612</u>
Total current assets		1,483,004	1,415,612
Creditors: amounts falling due within one year	8	<u>(324,602)</u>	<u>(296,074)</u>
Current assets less current liabilities		<u>1,158,402</u>	<u>1,119,538</u>
Creditors: amounts falling due after more than one year	9	<u>(750,750)</u>	<u>(750,750)</u>
Net assets		<u><u>407,652</u></u>	<u><u>368,788</u></u>
Capital and reserves			
Called up share capital	10	6,750	6,750
Share premium account	11	292,500	292,500
Profit and loss account	11	<u>108,402</u>	<u>69,538</u>
Total shareholders' funds	12	<u><u>407,652</u></u>	<u><u>368,788</u></u>

The financial statements on pages 7 to 15 were approved by the board of directors on 5 February 2010 and were signed on its behalf by



Chris Ryan
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 applicable accounting standards in the United Kingdom. The principal accounting policies, which have been consistently applied, are set out below.

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 liabilities and charges and taxes.

Financial instruments

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than

- those that the Company intends to sell immediately or in the short term, which are classified as held for trading,
- those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method, with changes in carrying value recognised in the profit and loss account in the line which most appropriately reflects the nature of the item or transaction.

The Company does not adopt FRS 26 and therefore does not have to adhere to FRS 29.

Taxation

The charge for taxation is based on the profit for the period 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.

Accounting Policies (Continued)**Taxation (continued)**

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.

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 Financial Reporting Standard Number 1 (Revised 1996) from publishing a cash flow statement.

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.

Dividend distribution

Final dividends are recognised as a liability in the period in which the dividends are declared. Interim dividends are recognised when they are paid.

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.

Notes to the financial statements

1 Operating profit

Operating profit is stated after charging

	2009 £'000	2008 £'000
Secretarial fees	2	2
Auditors' remuneration for audit services	7	7
	<u>9</u>	<u>9</u>

2 Net interest receivable

	2009 £'000	2008 £'000
Interest payable	(14,296)	(15,250)
Interest receivable	<u>68,282</u>	<u>79,926</u>
Net interest receivable	<u>53,986</u>	<u>64,676</u>

See note 6 and note 8 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 2009 (2008: £nil).

4 Employee information

The average monthly number of persons employed by the Company during the year was nil (2008: nil).

5 Tax on profit on ordinary activities

Jersey taxation

With effect from the 2009 year of assessment Jersey abolished the exempt company regime for existing companies. Profits arising in the company for the 2009 year of assessment and future periods will be subject to tax at the rate of 0%. In the prior year the Company was exempt from taxation under the provisions of Article 123A of the Income Tax (Jersey) Law 1961 as amended.

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 28% (2008 30%) on its taxable profits. The tax charge for the current year is £15,113,493 (2008 £19,400,036) which reconciles to the theoretical tax charges as follows:

	2009 £'000	2008 £'000
Profit on ordinary activities multiplied by standard rate of corporation tax at 28% (2008 30%)	15,113	19,400
	<hr/>	<hr/>
Tax on profit on ordinary activities	<u>15,113</u>	<u>19,400</u>

With effect from 1 January 2009, Jersey abolished the exempt company regime for existing companies. At the same time, the standard rate of income tax for companies moves from 20% to 0%. Therefore, some entities previously exempt from tax under the provision will now be taxed at 0%.

6 Debtors

	2009 £'000	2008 £'000
Amounts owed by group undertakings	1,483,004	1,415,612
	<hr/>	<hr/>
Total debtors	<u>1,483,004</u>	<u>1,415,612</u>

Amounts owed by group undertakings includes a loan of £ 1,435,377,216 (2008 £nil) plus accrued interest to British Telecommunications plc and a loan of £nil (2008 £1,354,543,443) plus accrued interest to Tudor Minstrel which are 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 loans which are unsecured and payable on demand were issued as part of a borrowing programme with the overall facility being £1,500 million. The loans were repayable within 12 months.

7 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

8 Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Preference dividend payable	14,724	14,724
Loan payable	294,758	255,504
Accrued interest on loan payable	-	6,440
Corporation taxes	15,113	19,400
Other creditors	7	6
Total creditors falling due within one year	324,602	296,074

The interest charged on the loan of £294,757,926 (2008 £255,504,064) 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 12 months.

9 Creditors: amounts falling due after more than one year

	2009 £'000	2008 £'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

Preference share capital

	2009 £'000	2008 £'000
Authorised:		
750,000 (2008 750,000) preference shares of £1 each	750	750
	<u>750</u>	<u>750</u>
Allotted, called up and fully paid:		
750,000 (2008 750,000) preference shares of £1 each	750	750
	<u>750</u>	<u>750</u>

Notes to the financial statements

9 Creditors: amounts falling due after more than one year (continued)**Preference share capital (continued)**

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.

10 Called up share capital

	2009 £'000	2008 £'000
Authorised:		
6,750,000 (2008 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 (2008 6,750,000) ordinary shares of £1 each	<u>6,750</u>	<u>6,750</u>

11 Reserves

	Share premium account £'000	Profit and loss account £'000
Balance at 1 April 2008	292,500	69,538
Retained profit for the financial year	-	38,864
Balance at 31 March 2009	<u>292,500</u>	<u>108,402</u>

12 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
Profit for the financial year	38,864	45,267
Net addition to shareholders' funds	<u>38,864</u>	<u>45,267</u>
Opening shareholders' funds	368,788	323,521
Closing shareholders' funds	<u>407,652</u>	<u>368,788</u>

Notes to the financial statements**13 Contingent liabilities**

As at 31 March 2009 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 7.

14 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 2009 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 2009. 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.

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