Cellnet Group Limited

Annual report

for the year ended 31 March 1999

Registered no: 2604354

Cellnet Group Limited

Directors and advisers

Directors

Sir Michael Bett CBE	Chairman
Mr P Erskine	Managing Director
Mr A Green	
Mr J Pack	
Mr C C Shirtcliffe	
Mr R Warner	
Mr R S W H Wiggs	
Mr D A Wilson	

Secretary and registered office

Mr N J Eldred

260 Bath Road
Slough
SL1 4DX

Registered auditors

PricewaterhouseCoopers
1 Embankment Place
London
WC2N 6NN

Cellnet Group Limited

Directors' report
for the year ended 31 March 1999

The directors submit their annual report and the audited financial statements of the company, Cellnet Group Limited, and of the Cellnet group of companies, which includes its subsidiary undertakings, ("the group") for the year ended 31 March 1999.

The company, as the holding company for the group, is jointly owned by British Telecommunications plc ("BT") and Securicor Technology Investments Limited.

Profits and dividends

Profit before taxation for the group was £118,513,000 (1998: £193,050,000). The charge for taxation was £37,710,000 (1998: £59,471,000) which left profit after taxation for the year of £80,803,000 (1998: £133,579,000).

The directors of Cellnet Group Limited do not recommend the payment of a dividend in respect of the year ended 31 March 1999 (1998: nil).

Review of activities

The company is a holding company to oversee the activities of its subsidiaries which provide services in the cellular telephone market, trading as "Cellnet" until 30 April 1999 and thereafter as "BT Cellnet". Further details of these subsidiaries' activities are set out in the list of subsidiary and associated undertakings in the financial statements.

Telecom Securicor Cellular Radio Limited ("TSCR"), one of the company's subsidiaries, operates and provides a cellular communications network under a licence granted by the Department of Trade and Industry on 22 March 1994 under the Telecommunications Act 1984. This licence replaced one originally granted in 1985. TSCR continues to develop and expand its cellular communications business.

The group purchased Martin Dawes Telecommunications Holdings Limited on 8 March 1999 for a total cost of £131,191,000. Martin Dawes Telecommunication Holdings Limited, holds an 80.24% equity interest in Martin Dawes Telecommunications Limited which is a leading service provider group in the U.K. Refer to note 28 for further details.

During the year, Call Connections Limited, one of the group entities, ceased trading. TSCR will continue to provide the services that Call Connections Limited had previously provided.

BT announced on 27 July 1999 that it had agreed to acquire Securicor's 40 per cent shareholding in BT Cellnet for £3.15 billion. The transaction is conditional upon, among other things, approval by Securicor's shareholders and regulatory approvals. The acquisition is likely to be completed in Autumn 1999

The company will continue in its role as a holding company.

Year 2000

The Year 2000 problem arises from the inability of many computer-based systems to handle correctly the century date change and other significant dates such as 29 February 2000. BT Cellnet has recognised this issue for some time and has established a program to tackle the problem. The program is responsible to an executive board sponsor who chairs a steering group consisting of board members and senior managers from across the business.

Working to guidelines defined by the British Standards Institute, the group set out to test all systems which affect the group's capability to deliver mobile phone services by the end of 1998. The group believes that it has substantially achieved this aim and plans to offer customers normal levels of service during the transition into the year 2000 and beyond.

BT Cellnet has played a full and active part in the Telecom Operators' Forum, with a member on the steering group who has taken a lead role in developing the peer assessment process being carried out on all licensed operators with the support of Oftel. BT Cellnet was assessed by this forum on 11 February 1999 with a resultant 'Blue' status being awarded, which is defined as 'assessment has not identified any risk of material disruption to the business'.

The program is now in its final phase where the focus is on the continuity of the business, due diligence and maintaining compliance.

The business continuity program has already had two exercises, one including the full executive board, to monitor the progress of its plans, which will continue to be developed throughout the year. The review of BT Cellnet's dependencies and associated risks is being carried out on such entities as utilities and key suppliers that provide support.

The group spend from inception to 31 March 1999 has been approximately £10 million and a spend of £2 million is forecast for year ending 31 March 2000.

MMC referral

In February 1998, the company was referred to the Monopolies and Mergers Commission (MMC) as part of an investigation into call charges to mobile phones from BT's fixed network. The MMC reported on the outcome of their inquiry in December 1998. The Director General of Telecommunications subsequently implemented a licence modification based upon the MMC's recommendations for BT Cellnet and Vodafone, setting a maximum average interconnection charge per minute for the year 1999/2000. The company believes that the impact of these price changes is not likely to be significant to the company's financial position.

Cellnet Group Limited

Directors

A list of current directors is set out on page 2. Other than those mentioned below, no new directors were appointed during the year and there were no resignations.

Mr P Erskine was appointed Managing Director on 1 April 1998.

Mr N Norton was appointed as alternate director for Mr J Pack on 3 March 1999, Mr N Griffiths was appointed as alternate director for Mr R Wiggs on 7 May 1999 and Mr C Paull was appointed as alternate director for Mr A Green on 15 June 1999.

Since the year end, there have been no changes in directorships.

Directors' interests in shares

The interests of directors and their families in the ordinary shares of the ultimate holding company, British Telecommunications plc, are shown below:

	31 March 1999		1 April 1998
Mr P Erskine	103,636	(b)	12,734
Mr D A Wilson	4,554	(b)	4,400
Mr R Warner	6,467	(b)	47,217
Mr A Green	11,240	(b)	13,372

(b) Includes 12,618 shares (1998: 12,415), 3,213 shares (1998: 3,163), 5,612 (1998: 88) shares and 10,259 shares (1998: 10,095) held by Ilford Trustees (Jersey) Limited as bare nominee for Mr Erskine, Mr Wilson, Mr Warner and Mr Green respectively under the BT Executive Share Plan (formerly the BT Long Term Remuneration Plan) ("the Plan").

BT Executive Share Plan

Under the plan, participants have been provisionally awarded ordinary shares of British Telecommunications plc as follows:

	Total number of award shares			
	1 April 1998	Awarded	Dividends Reinvested	31 March 1999
Mr P Erskine	133,334	32,082	3,437	168,853
Mr D A Wilson	43,317	9,955	1,101	54,373
Mr R Warner	48,663	14,105	1,296	64,064
Mr A Green	119,621	24,338	2,990	146,949

Full entitlement to these shares at the end of five year periods is dependent upon BT meeting pre-determined corporate performance measures and continued employment of the participants by the BT Group.

Mr Wilson, Mr Erskine and Mr Green had a non-beneficial interest in 5,629,621 shares held in trust for allocation to participating employees under the Plan.

Details of share options held at 1 April 1998, granted to, or exercised under the British Telecommunications plc Executive Option Schemes and Employee Sharesave scheme during the year, and the balance held at 31 March 1999 are as follows:

	Executive Option Scheme			
	1 April	Granted	Exercised	31 March 1999
Mr P Erskine	88,420	-	(88,420)	-
Mr D A Wilson	51,050	-	-	51,050
Mr A Green	28,180	-	-	28,180
Mr R Warner	32,730	-	-	32,730

BT Executive Share Plan (continued)

	Employee Sharesave Scheme			
	1 April 1998	Granted	Exercised	31 March 1999
Mr D A Wilson	5,058	-	-	5,058
Mr P Erskine	1,292	-	-	1,292

BT Deferred Bonus Plan

The BT Deferred Bonus Plan (DBP) was introduced in 1998. The awards, in the form of BT shares, are equivalent in value to one-half of the director's gross annual bonus and the shares are held in trust. Full entitlement to these shares at the end of three year periods is dependent upon the continued employment of the participants by the BT group.

	Deferred Bonus Plan		
	Awarded	Dividends Reinvested	31 March 1999
Mr P Erskine	5144	106	5250
Mr D A Wilson	2489	51	2540
Mr A Green	4203	87	4290
Mr R Warner	2765	57	2822

Transactions with directors

None of the directors had a material interest in any contract of significance to which the company was a party or made a transaction, arrangement or agreement within the provisions of Schedule 6 to the Companies Act 1985, during the year ended 31 March 1999.

Research and development

The group has incurred research and development expenditure of £2,762,000 (1998: £1,432,000) in order to improve the competitive position of TSCR's network services.

Policy on the payment of suppliers

The group's policy is to use its purchasing power fairly and to pay promptly and as agreed. The group has a variety of payment terms with its suppliers. The terms for payments for purchases under major contracts are settled when agreeing the other terms negotiated with the individual suppliers. It is the group's policy to make payments for other purchases within thirty working days of the invoice date, provided that the relevant invoice is presented to the company in a timely fashion and is complete. The group's payment terms are printed on standard purchase order forms or, where appropriate, specified in individual contracts agreed with suppliers. It is the group's policy to abide by the terms of payment.

Employees

The group remains committed to providing equal opportunities for all its people and follows the BT Cellnet Equal Opportunities policy.

Employee communications continued to play an important role in keeping the group's staff fully informed about the challenges and opportunities facing the group. The group conducts an annual employee attitude survey using independent assessors.

Disabled employees

The group gives full consideration to application for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

Auditors

A resolution to reappoint PricewaterhouseCoopers as auditors of the company will be proposed at the Annual General Meeting.

By order of the Board

Mr N J Eldred
Secretary
13th September 1999

Statement of directors' responsibilities

The directors are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss and total recognised gains or losses of the group for that period.

The directors consider that, in preparing the financial statements for the year ended 31 March 1999 on pages 11 to 37, the group has used appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The accounting policies have been applied consistently except for the treatment of intangible fixed assets as described in note 1 to the financial statements. The directors also consider that all accounting standards which they consider to be applicable have been followed and confirm that the financial statements have been prepared on the going concern basis.

The directors are responsible for ensuring that the group keeps accounting records which disclose with reasonable accuracy the financial position of the group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors are also responsible for taking such steps that are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The auditors' responsibilities are stated in their report on page 10.

Report of the auditors to the members of Cellnet Group Limited

We have audited the financial statements on pages 11 to 37 and the accounting policies set out on pages 16 to 18.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including as described on page 9 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 1999 and of the group profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
13 September 1999

Consolidated profit and loss account for the year ended 31 March 1999

	Note	**Total 1999 £'000**	Total 1998 £'000
Turnover	2	**1,430,589**	1,171,716
Cost of sales		**(641,522)**	(478,554)
Gross profit		**789,067**	693,162
Selling and administrative expenses		**(629,829)**	(459,234)
Operating profit	3	**159,238**	233,928
Share of operating profits of associated undertakings		**6,425**	2,589
Operating profit including profits of associated undertakings		**165,663**	236,517
Interest receivable and similar income	4	**587**	1,247
Interest payable and similar charges	5	**(47,737)**	(44,714)
Profit on ordinary activities before taxation		**118,513**	193,050
Taxation	8	**(37,710)**	(59,471)
Profit on ordinary activities after taxation	20	**80,803**	133,579

Turnover and operating profit derive entirely from continuing activities, except for the results of Martin Dawes Telecommunications Limited which was acquired during the year. Refer to page 35 for details.

The notes on pages 16 to 37 form part of these financial statements.

Auditors' report page 10.

The loss for the company for the financial year is disclosed in note 9 to the financial statements.

Statement of total recognised gains and losses for the year ended 31 March 1999

	1999	1998
	£'000	£'000
Profit on ordinary activities after taxation	**80,803**	133,579
Total recognised gains and losses relating to the year	**80,803**	133,579
Restatement for change in accounting policy (note 21)	**-**	(5,651)
Total gains and losses recognised since last annual report	**80,803**	127,928

The notes on pages 16 to 37 form part of these financial statements.

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Cellnet Group Limited

Balance sheets at 31 March 1999

	Note	Group		Company	
		1999	1998	**1999**	1998
		£'000	£'000	**£'000**	£'000
Fixed assets					
Goodwill	10	**154,432**	-	-	-
Tangible assets	11	**1,314,744**	1,057,093	-	-
Investments in associated undertakings	12	**11,455**	7,948	-	-
Investments in subsidiary undertakings	12	-	-	**119,785**	119,785
Total fixed assets		**1,480,631**	1,065,041	**119,785**	119,785
Current assets					
Stocks	13	**12,330**	5,390	-	-
Debtors: amounts falling due after one year	14	**500**	1,657	-	-
Debtors: amounts falling due within one year	15	**365,160**	171,163	**4,817**	2,476
Cash at bank and in hand		**34,926**	26,051	-	14
Total current assets		**412,916**	204,261	**4,817**	2,490
Creditors: Amounts falling due within one year	16	**(1,106,857)**	(527,469)	**(120,339)**	(112,525)
Net current liabilities		**(693,941)**	(323,208)	**(115,522)**	(110,035)
Total assets less current liabilities		**786,690**	741,833	**4,263**	9,750
Creditors: Amounts falling due after more than one year	17	**248,318**	314,999	-	-
Provisions for liabilities and charges	18	**110,270**	74,073	-	-
Capital and reserves					
Called up share capital	19	**10,000**	10,000	**10,000**	10,000
Profit and loss account	20	**423,564**	342,761	**(5,737)**	(250)
Total equity shareholders' funds	21	**433,564**	352,761	**4,263**	9,750
Minority interests		(5,462)	-	-	-
Capital employed		**786,690**	741,833	**4,263**	9,750

Cellnet Group Limited

The notes on pages 16 to 37 form part of these financial statements.

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The financial statements were approved by the board of directors on 13th September 1999
and were signed on its behalf by:

Sir Michael Bett CBE)
} Directors
Mr RSWH Wiggs)

Consolidated cash flow statement for the year ended 31 March 1999

	Note	1999	1999	1998	1998
		£'000	**£'000**	£'000	£'000
Net cash inflow from operating activities	24		**411,432**		460,576
Dividends received from associated undertakings			**400**		-
Returns on investments and servicing of finance					
Interest received		**436**		1,142	
Interest paid		**(29,356)**		(13,328)	
Interest element of finance lease rental payments		**(20,716)**		(28,081)	
Net cash outflow for returns on investments and servicing of finance			**(49,636)**		(40,267)
Taxation			**(33,936)**		(33,394)
Capital expenditure					
Purchase of tangible fixed assets	11	**(420,843)**		(290,960)	
Disposals of tangible fixed assets		**1,191**		569	
Net cash outflow on capital expenditure			**(419,652)**		(290,391)
Acquisitions and disposals					
Purchase of subsidiary undertakings	28	**(131,191)**		(135,191)	
Additions to associates		**(8,071)**		(26,217)	
Net cash outflow on acquisitions and disposals			**(139,262)**		(161,408)
Cash outflow before financing			**(230,654)**		(64,884)
Financing					
Capital element of finance lease rental payments			**(63,726)**		(65,397)
Increase in borrowings			**298,852**		128,400
Increase/(decrease) in net cash	25		**4,472**		**(1,881)**

The notes on pages 16 to 37 form part of these financial statements.

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Notes to the financial statements for the year ended 31 March 1999

1 Principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently except where stated, is set out below.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 March 1999. Intra-group sales and profits are eliminated fully on consolidation.

Where a subsidiary is acquired by the issue of share capital the investment is shown in the accounts of the holding company at the fair value of the shares issued less any provision for permanent diminution in value.

The group's share of net profit or loss of subsidiaries, joint ventures and associated undertakings are included in the consolidated profit and loss account, and the group's share of their net assets is included in the consolidated balance sheet. Where the financial statements of subsidiaries, joint ventures and associated undertakings do not conform with the group's accounting policies, appropriate adjustments are made on consolidation in order to present the group financial statements on a consistent basis.

Turnover and cost of sales

Turnover, which excludes value added tax, comprises the value of services provided. Payments to other network operators for handling outgoing calls are included within cost of sales.

Research and development

All expenditure on research and development is written off as incurred.

Tangible fixed assets

Tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition, less accumulated depreciation.

Depreciation is provided for on a straight line basis over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are:

Tangible fixed assets (continued)

	%
Cellular network equipment	10
Plant and machinery	20-40
Fixtures, fittings, tools and equipment	10-25
Personal computers	50

Leasehold improvements are depreciated on a straight line basis over the remaining period of the lease at the time the improvements are made.

Intangible fixed assets

During the year the group adopted the new UK accounting standard on intangibles, Financial Reporting Standard Number 10 ("FRS10"). Intangible assets are now capitalised and amortised systematically over their expected useful life. Impairment reviews are performed annually to ensure that the intangible asset is not carried above the recoverable amount. In the prior year the group's policy was to write off the cost of intangible assets purchased in the year of acquisition. As allowed by the standard, comparative figures have not been restated.

Goodwill

During the year the group changed its accounting policy relating to goodwill arising on the purchase of subsidiary and associated undertakings, which represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired. The directors have changed this policy in order to adopt the new UK accounting standard on goodwill and intangibles FRS10. Goodwill is now capitalised and amortised systematically over its expected useful life. In the prior year the group's policy was to write off the goodwill to reserves in the year of acquisition. As allowed by the standard, comparative figures have not been restated.

Leased assets

Leasing agreements which transfer to the group substantially all the benefits and risks of ownership are treated as if the asset had been purchased outright. Equipment leased under finance leases principally represents the exchanges and base stations which form the analogue cellular radio system. The assets are included in fixed assets and the capital element of the related rental obligations is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element of rental obligations is charged against profit in proportion to the reducing capital element outstanding.

The equipment is depreciated over the shorter of the lease term and the estimated useful life of the asset.

Leased assets (continued)

Rentals in respect of operating leases, under which substantially all the benefits and risks of ownership remain with the lessor, are charged to the profit and loss account as incurred.

Stocks

Stocks are stated at the lower of cost or net realisable value.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for taxation deferred by timing differences only to the extent that the timing differences are expected to reverse in the foreseeable future.

Pension costs

The majority of people working in the group are employees of British Telecommunications plc ("BT") and are members of BT's pension scheme. Staff of Martin Dawes Telecommunications Limited are members of the Martin Dawes Retirement Benefit Scheme. Both companies operate defined benefit pension schemes for their employees which are independent of their finances. The cost of providing pensions is charged against profits over employees' working lives with the schemes using the projected unit method. Variations from this regular cost are allocated over the average remaining service lives of current employees.

Actuarial valuations of the schemes are carried out, as determined by the trustees, at intervals of not more than three years. The most recent valuation of the BT pension scheme was carried out at 31 December 1996 and the most recent valuation of the Martin Dawes Retirement Benefit Scheme was carried out at 1 April 1997. The rates of contribution payable and the pension cost are determined on the advice of the actuaries having regard to the results of the valuations. In the intervening years, the actuaries determine the continuing appropriateness of the contribution rates.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

2 Turnover

The directors consider that the group has only one business segment, namely that of providing a cellular communications network and related services. The group's operations are based in the United Kingdom.

3 Operating profit

Operating profit is stated after charging and (crediting):

	1999	1998
	£'000	£'000
Auditors' remuneration: Audit services	187	154
Non audit services	966	36
Research and development	2,762	1,432
Hire of plant and equipment	521	311
Operating lease rentals in respect of land and buildings	24,479	24,743
Operating lease rentals in respect of motor vehicles and plant and equipment	3,895	2,832
Depreciation of owned tangible fixed assets	121,006	84,242
Depreciation of tangible fixed assets held under finance leases	64,613	58,973
Loss/(profit) on disposal of tangible fixed assets	1,433	(55)
Exceptional item: release of provision costs in relation to aborted billing and customer care project	-	(12,738)

Auditors' remuneration for audit services for Cellnet Group Limited (the holding company) was £20,000 (1998 : £8,000).

Depreciation has been accelerated based on a revised useful economic life of the analogue network.

4 Interest receivable and similar income

	1999	1998
	£'000	£'000
Bank interest	579	1,247
Share of interest receivable by associated undertakings	8	-
	587	1,247

5 Interest payable and similar charges

	1999	1998
	£'000	£'000
Interest on finance lease obligations	20,714	28,052
Holding company and fellow subsidiaries	25,378	15,097
Due to associated undertakings	54	58
Other interest payable	1,591	1,507
	47,737	44,714

6 Directors' emoluments

	1999	1998
	£	£
Emoluments	262,000	234,398

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

	1999	1998
	£	£
Emoluments	247,000	219,398

During the year ended 31 March 1999 the highest paid director exercised 88,420 share options in BT. (1998: nil).

At 31 March 1999, the highest paid director had accrued benefits under the BT Pension Scheme of a pension of £107,300 per annum (1998 £21,940 per annum).

Information on the number of directors who exercised share options during the year is set out in the Directors' Report. In addition, information on the number of directors in respect of whose qualifying services, shares were received or are receivable, under long term incentive schemes, is set out in the Directors' Report.

At 31 March 1999, one director was accruing retirement benefits under a defined benefit scheme in respect of their services to the company.

7 Employee information

The average number of employees employed by, or on secondment to, the company and its subsidiaries during the year was 1,809 (1998: 1,367). The majority are employed by BT and the employment costs of these seconded persons have been charged directly to the Group. The aggregate remuneration was as follows:

	1999	1998
	£'000	£'000
Wages and salaries	53,827	44,091
Social security costs	4,562	3,712
Pension costs	4,563	2,955
	62,952	50,758

The average monthly number of employees during the year was made up as follows:

	1999	1998
	No.	No.
Technology	955	806
Customer operations	387	345
Administration	467	216
	1,809	1,367

8 Taxation on profit on ordinary activities

	1999	1998
	£'000	£'000
Tax on profit on ordinary activities:		
United Kingdom corporation tax at 31%		
Current	(944)	30,537
Deferred	36,275	28,071
Under/(over) provision in respect of prior years:		
Current	(391)	1,101
Deferred	(78)	(1,019)
Associated undertakings	2,848	781
	37,710	59,471

9 Loss for the financial year

As permitted by Section 230 of the Companies Act 1985, the company's profit and loss account is not presented in these financial statements. Of the profit for the financial year, a loss on ordinary activities after taxation of £5,487,000 (1998: loss £19,609,000) is dealt with in the financial statements of the company.

10 Goodwill

Group

	£'000
Cost	
At 1 April 1998	-
Acquisitions of subsidiary undertaking (see note 28)	154,432
Net book value at 31 March 1999	**154,432**

11 Tangible fixed assets

Group	(a) Land and buildings	(b) Plant and Machinery	Total
	£'000	£'000	£'000
Cost			
At 1 April 1998	24,011	1,819,809	1,843,820
Additions	3,747	417,096	420,843
Subsidiary undertakings acquired	3,170	33,767	36,937
Disposals	-	(13,320)	(13,320)
At 31 March 1999	30,928	2,257,352	2,288,280
Depreciation			
At 1 April 1998	6,178	780,549	786,727
Charge for the year	2,366	183,253	185,619
Subsidiary undertakings acquired	596	11,290	11,886
Disposals	-	(10,696)	(10,696)
At 31 March 1999	9,140	964,396	973,536
Net book value at 31 March 1999	**21,788**	**1,292,956**	**1,314,744**
Net book value at 31 March 1998	17,833	1,039,260	1,057,093

Fixtures and fittings at a net book value of £6,233,000 have been reclassified as plant and machinery in the comparative figures.

(a) The net book value of land and buildings comprises short term leasehold improvements.

(b) Part of the group's cellular radio network is developed by Cellular Radio Limited, also a subsidiary of BT, and then leased to the group under finance leases (notes 16 and 17). Details of items leased under finance leases included within plant and machinery were as follows:

	1999	1998
	£'000	£'000
Depreciation charge for the year	**64,613**	58,973
Net book value at 31 March	**100,525**	167,150

12 Fixed asset investments

Group

Investment in associated undertakings	**Shares**	**Share of retained profit**	**Total**
	£'000	**£'000**	**£'000**
Cost			
Balances at 1 April 1998	70,090	1,906	71,996
Deferred consideration accrued during the year	321	-	321
Share of retained profits for year	-	3,186	3,186
Balances at 31 March 1999	70,411	5,092	75,503
Goodwill written off at 1 April 1998	(64,048)	-	(64,048)
Net book value at 31 March 1999	**6,363**	**5,092**	**11,455**
Net book value at 31 March 1998	6,042	1,906	7,948

Details of the principal associated companies at 31 March 1999, all of which are incorporated in the United Kingdom and included in the consolidated accounts, are set out on page 37.

Company

Investments in subsidiary undertakings	**£'000**
Cost at 1 April 1998	134,200
Provision made in 1998	(14,415)
Net book value at 31 March 1998 and 1999	**119,785**

Details of the principal subsidiary companies at 31 March 1999, all of which are incorporated in the United Kingdom and included in the consolidated accounts, are set out on page 37.

13 Stocks

	Group		Company	
	1999	1998	**1999**	1998
	£'000	£'000	**£'000**	£'000
Goods for resale	**12,330**	5,390	-	-

14 Debtors: amounts falling due after one year

	Group		Company	
	1999	1998	**1999**	1998
	£'000	£'000	**£'000**	£'000
Loans receivable from associated undertakings	**-**	1,157	**-**	-
Other loans receivable	**500**	500	**-**	-
	500	1,657	**-**	-

15 Debtors: amounts falling due within one year

	Group		Company	
	1999	1998	**1999**	1998
	£'000	£'000	**£'000**	£'000
Trade debtors	**128,869**	112,446	**-**	-
Other debtors	**5,213**	1,012	**-**	-
Accrued income and prepayments	**44,127**	10,336	**-**	-
VAT receivable	**15,199**	8,212	**-**	-
Corporation tax receivable	**1,255**	-	**-**	-
Group tax relief recoverable	**-**	-	**4,817**	2,476
Due by holding company and fellow subsidiaries	**136,406**	31,251	**-**	-
Due by associated undertakings	**26,459**	2,610	**-**	-
Loans receivable from associated undertakings	**7,632**	5,296	**-**	-
	365,160	171,163	**4,817**	2,476

16 Creditors: amounts falling due within one year

	Group		Company	
	1999	1998	**1999**	1998
	£'000	£'000	**£'000**	£'000
Trade creditors	**140,781**	41,760	-	-
Loans	**103,357**	850	-	-
Obligations under finance lease	**2,673**	-	-	-
Due to fellow subsidiary undertaking under finance leases	**62,008**	66,215	-	-
Due to holding company and fellow subsidiaries	**485,378**	224,509	**120,339**	112,525
Accruals and deferred consideration	**302,351**	161,644	-	-
Corporation tax payable	-	31,168	-	-
Other taxation and social security	**10,309**	1,323	-	-
Total creditors falling due within one year	**1,106,857**	527,469	**120,339**	112,525

Accruals and deferred consideration includes £13,795,000 (1998: £14,229,000) deferred consideration for the purchase of associated undertakings.

Included in loans, is loan stock of £89,654,000 issued for the purchase of Martin Dawes Telecommunications Limited. Loan stock A £69,654,000 is to be repaid at par on 30 June 2006 together with accrued interest (at 0.5% above the base lending rate of Barclays Bank plc) up to and including that date. Stockholders are entitled to require the group to redeem, in full or in part, the loan stock on or after 29 September 1999. Loan stock B £20,000,000 is to be repaid at par on 30 June 2006 together with accrued interest (at 1.5% above the base lending rate of Barclays Bank plc until 17 September 1999 and thereafter at 0.5% above the base lending rate of Barclays Bank plc) up to and including 30 June 2006. Stockholders are entitled to require the group to redeem, in full or in part, the loan stock on or after 29 September 1999.

17 Creditors: amounts falling due after more than one year

	Group 1999	1998
	£'000	£'000
Obligations under finance lease	**2,841**	-
Due to holding company and fellow subsidiaries	**150,000**	150,000
Obligations to fellow subsidiary undertaking under finance leases	**81,682**	141,201
Deferred consideration for purchase of associated undertakings	**13,795**	23,798
	248,318	314,999

The maturity of the deferred consideration and amounts owed to the holding company is as follows:

	1999	1998
	£'000	£'000
Amounts falling due:		
Between one and two years	**10,771**	2,000
Between two and five years	**153,024**	171,798
	163,795	173,798

Payments are due under finance leases in respect of fixed assets leased at 31 March 1999 as follows:

	1999	1998
	£'000	£'000
In one year or less	**76,940**	84,470
Between one and two years	**46,779**	74,012
Between two and five years	**55,000**	84,605
In five years or more	**1,534**	15,567
	180,253	258,654
Less: amount representing future interest payments	**(31,049)**	(51,238)
Principal amounts outstanding	**149,204**	207,416
Less: principal amount payable within one year included in obligations under finance leases (note 16)	**(64,681)**	(66,215)
Amount payable after more than one year	**84,523**	141,201

18 Provisions for liabilities and charges

Deferred taxation

Analysis of provision made and the total potential liability:

	Group			
	1999		1998	
	Provision made	Total Potential Liability	Provision made	Total Potential Liability
	£'000	£'000	£'000	£'000
Tax effects of timing differences due to excess of tax allowances over depreciation	127,612	127,612	91,985	91,985
Other	(17,342)	(17,342)	(17,912)	(17,912)
	110,270	110,270	74,073	74,073

Other timing differences arose principally on leased assets.

All deferred tax assets have been recognised in the above figures at 31 March 1999. At 31 March 1998 £834,000 was not recognised.

The movement on the provision for deferred taxation is as follows:

	Group	Company
	£'000	£'000
At 1 April 1998	74,073	-
Profit and loss account	36,197	-
At 31 March 1999	110,270	-

19 Share capital

	1999	1998
	£'000	£'000
Authorised:		
10,000,000 ordinary shares of £1 each	10,000	10,000
Allotted, called-up and fully paid: 10,000,000 ordinary shares of £1 each	10,000	10,000

20 Profit and loss

Group	1999 £'000	1998 £'000
At 1 April as previously reported	**342,761**	393,014
Restatement for change in accounting policy (see note 21)	-	(5,651)
As restated	**342,761**	387,363
Goodwill written off (see note 21)	-	(178,181)
Profit for the financial year	**80,803**	133,579
At 31 March	**423,564**	342,761

21 Reconciliation of movements in shareholders' funds

	Group		Company	
	1999	1998	**1999**	1998
	£'000	£'000	**£'000**	£'000
Profit/(loss) for the financial year	**80,803**	133,579	**(5,487)**	(19,609)
Goodwill written off (a)	-	(178,181)	-	-
Movements during the year	**80,803**	(44,602)	**(5,487)**	(19,609)
Opening shareholders' funds as previously stated	**352,761**	403,014	**9,750**	29,359
Restatement for change in accounting policy (a)	-	(5,651)	-	-
Closing shareholders' funds	**433,564**	352,761	**4,263**	9,750

(a) Following the introduction of FRS 10, the accounting policy for subscriber bases was changed in the current year; refer to note 1. The old policy was to write off the cost of these bases on acquisition. The balance of £5,651,000 for subscriber bases as at 31 March 1997 was hence written off against reserves during that year. Aggregate goodwill in respect of acquisitions completed prior to 1 April 1998 had been written off against retained earnings to 31 March 1998. This goodwill will be charged in the profit and loss account on the subsequent disposal of the business to which it relates.

22 Financial commitments

	Group	
	1999	1998
	£'000	£'000
Contracts placed for capital expenditure not provided for in the accounts	100,929	77,000

Pensions

BT levies a charge on the group in respect of the employers' pension contributions. The pension charge for the year so levied was £4,563,000 (1998: £2,955,000). Pension costs totalling £691,694 (1998: £440,000) were payable at the year end to BT. Refer to BT financial statements for further information on BT's main pension scheme.

Lease commitments

On 31 March 1999 the group had annual commitments under operating leases as follows:

	1999	1998
	£'000	£'000
Land and buildings		
Expiring within one year	**961**	940
Expiring between two to five years inclusive	**7,779**	4,812
Expiring thereafter	**21,297**	22,081
Motor vehicles and plant and equipment		
Expiring within one year	**3,683**	640
Expiring between two to five years inclusive	**2,934**	1,921
	36,654	30,394

23 Contingent liabilities

There were no contingent liabilities or guarantees other than those arising in the ordinary course of the group's business and, on these, no material losses are anticipated.

24 Reconciliation of operating profit to net cash inflow from operating activities

	1999	1998
	£'000	£'000
Operating activities		
Operating profit	159,238	233,928
Depreciation of tangible fixed assets	185,619	143,215
Loss/(Profit) on disposal of tangible fixed assets	1,433	(55)
Exceptional item relating to aborted billing and customer care project	-	(12,738)
(Increase)/decrease in stock	(1,794)	222
Decrease in debtors due in more than one year	1,157	843
(Increase)/decrease in debtors due in less than one year	(102,670)	14,042
Increase in creditors due in less than one year	139,040	66,089
Increase in creditors due in more than one year	29,409	15,030
Net cash inflow from operating activities	411,432	460,576

25 Reconciliation of cash flow to movement on net debt

	1999	1998
	£'000	£'000
Increase/(decrease) in cash in the year	4,472	(1,881)
(Increase) in borrowings less repayments of lease finance	(145,472)	(63,003)
Change in net debt resulting from cash flows	(141,000)	(64,884)
New finance leases	-	(764)
Other non-cash movements	(89,654)	-
Movement in net debt in the year	(230,654)	(65,648)
Net debt at 1 April	(481,765)	(416,117)
Net debt at 31 March	(712,419)	(481,765)

25 Reconciliation of cash flow to movement on net debt

Analysis of net debt

	At 1 April 1998	Cash flows	Non-cash changes	At 31 March 1999
	£'000	£'000		**£'000**
Amounts owing to holding company	(300,400)	(209,198)	-	(509,598)
Loan stock	-	-	(89,654)	(89,654)
	(300,400)	(209,198)	(89,654)	(599,252)
Finance leases	(207,416)	63,726	-	(143,690)
Cash at bank and in hand	26,051	4,472	-	30,523
Net debt	**(481,765)**	**(141,000)**	**(89,654)**	**(712,419)**

26 Controlling entity

The company is a 60% subsidiary of BT which is also the ultimate holding company. BT is a company incorporated in the United Kingdom. BT announced on 27 July 1999 that it had agreed to acquire Securicor plc's 40 per cent shareholding in the group for £3.15 billion. The transaction is conditional upon, among other things, approval by Securicor plc's shareholders and regulatory approvals. The acquisition is likely to be completed in Autumn 1999

Copies of the ultimate holding company's accounts may be obtained from The Secretary, British Telecommunications plc, 81 Newgate Street, London, EC1A 7AJ.

27 Related party transactions

Cellnet Group Limited is owned 60% by BT and 40% by Securicor Technology Investments Limited, a wholly-owned subsidiary of Securicor plc.

At 31 March 1999, Cellnet Group Limited had interests in a number of subsidiary and associated undertakings, as set out on page 37.

Details of transactions and balances with related parties which require disclosure under Financial Reporting Standard Number 8 in the year ended 31 March 1999 are set out below:

Related party	Turnover	Purchases	Debtors	Creditors	Loans from	Lease Creditor	Lease interest
	£m	£m	£m	£m	£m	£m	£m
BT	443.6	380.7	111.8	222.4	509.6		
Securicor plc			0.5				
Cellular Radio Limited						143.7	20.7
DX Communications Limited	0.5	13.2					
Cellular Operations Limited	38.2	38	17.6				
Mobile Phone Stores Limited	0.2	10.8					
The Link Stores Limited	5	50					

27 Related party transactions (continued)

Details of transactions and balances with related parties which require disclosure under Financial Reporting Standard Number 8 in the year ended 31 March 1998 are set out below:

Related party	Turnover	Purchases	Debtors	Creditors	Loans from	Lease Creditor	Lease interest
	£m	£m	£m	£m	£m	£m	£m
BT	402.3	238.9	19	101.4	300.4		
Securicor plc	55.5	27.5					
Cellular Radio Limited						207.4	28.1
DX Communications Limited		23.3	2.9				
Cellular Operations Limited	29.3	9.7	2				
Mobile Phone Stores Limited		6.8		1.3			
The Link Stores Limited		33	4.1	4.1			

28 Acquired activities

Martin Dawes Telecommunications Group

The group purchased Martin Dawes Telecommunications Holdings Limited on 8 March 1999 for a total cost of £131,191,000. Martin Dawes Telecommunication Holdings Limited, holds an 80.24% equity interest in Martin Dawes Telecommunications Limited which is a leading service provider group in the U.K. The purchase has been accounted for as an acquisition.

Total consideration comprised the following:

	£'000
Cash	**40,996**
Loan stock	**89,654**
Professional fees	**541**
	131,191

Two subsidiaries of Vodafone Group plc have a put option on their combined 19.76% holding in Martin Dawes Telecommunications Limited which expires on 8 September 1999.

Fair value of assets and liabilities at the date of acquisition consisted of:

	Book Value	Acccounting policy adjustment	Provisional fair value
	£'000	£'000	£'000
Tangible fixed assets	25,051	-	**25,051**
Stock	5,146	-	**5,146**
Debtors	91,327	-	**91,327**
Cash	4,403	-	**4,403**
Intangible assets	9,087	(9,087)	-
Creditors	(154,870)	240	**(154,630)**
Total net liabilities	(19,856)	(8,847)	**(28,703)**
Minority interest			**5,462**
Net liabilities assumed			**(23,241)**
Goodwill (see note 10)			**154,432**
Total consideration			**131,191**

28 Acquired activities (continued)

The above figures reflect a preliminary allocation of the purchase consideration to the net assets and liabilities of Martin Dawes Telecommunications Holdings Limited. The preliminary allocation will be reviewed based on additional information up to 31 March 2000. The directors do not believe that any net adjustments resulting from such a review would have a material adverse effect on the company.

On 6 September 1999, two subsidiaries of Vodafone Group plc exercised their put options on their combined 19.76% holding in Martin Dawes Telecommunications Limited. The price is to be determined in accordance with the subscriber numbers for Martin Dawes Telecommunications Limited and completion of these arrangements will take place by early October 1999.

In its last financial year to 31 December 1998, Martin Dawes Telecommunications Limited and its subsidiary companies made a profit after tax and minority interests of £1,534,000. For the period since that date to the date of acquisition, Martin Dawes Telecommunications Limited's management accounts show:

	£'000
Turnover	66,070
Operating profit	1,219
Share of profits of associated undertakings	82
Profit before tax	1,222
Taxation	-
Minority interests	242
Profit after tax and minority interests	980
Total recognised gains	980

Subsidiary and associated undertakings

Details of principal subsidiary and associated undertakings at 31 March 1999 were as follows:

Subsidiary undertakings

Name	Activity	Interest in Allotted capital
Telecom Securicor Cellular Radio Limited (a)	Operation and provision of a cellular communications network	100% ordinary
Martin Dawes Telecommunications Holdings Limited (a)	Holding company	100% ordinary
Martin Dawes Telecommunications Limited (a)	Cellular service provider	80.24% ordinary
Martin Dawes Systems Ireland Limited (a)	Telecommunications systems development	100% ordinary

(a) Held through intermediate holding company

Associated undertakings

Name of undertaking	Nominal value of ordinary shares	Number of ordinary shares held	Proportion of nominal value of ordinary shares held/ share of undertaking	Accounting year end
DX Communications Limited	£1	8,320	26%	31 March
Cellular Operations Limited	£1	60,000	40%	31 March
Mobile Phone Stores Limited	£1	4,000	40%	30 April
The Link Stores Limited	50p	40	40%	2 May

The principal country of operation of the above undertakings is the United Kingdom.
All of the associated companies are retailers of mobile telephones.

On 3 September 1999, the group purchased the remaining 74% shareholding in DX Communications Limited