

Fibernet UK Limited

Directors' report and financial statements
for the year ended 31 August 2001

Registered number: 2940263



Directors' report

For the year ended 31 August 2001

Financial statements

The directors present their report and financial statements for the year ended 31 August 2001.

Principal activity and review of the business

The principal activity of the company is the provision of wide area network digital telecommunication services.

Turnover rose in the year to £48,508,000 (2000: £35,565,000), reflecting not only the increase in the value of the order book during the year, but also the number of live customers.

During the year, the company invested £28,068,000 (2000: £41,439,000) in the network.

Financial results and dividends

The profit for the year has been transferred to reserves. The directors do not recommend the payment of a dividend.

Directors and their interests

The directors who served during the year were as follows:

C S McGregor	(Chairman)
A P Frewer	
J I L'Heureux	
N P S Bray	(Appointed 12 February 2001)
E J Hailey	(Resigned 12 February 2001)

No directors at 31 August 2000 and 2001 had any interest in the shares of the company.

The directors' interests in the shares of the company's ultimate parent company, Fibernet Group plc, at 31 August 2001 are disclosed in the financial statements of that company, with the exception of the following:

	10p Ordinary Shares Number 31 August 2001	10p Ordinary Shares Number 31 August 2000
A P Frewer	21,785	20,000
J I L'Heureux	<u>8,426</u>	<u>6,700</u>

Since the year end, the above directors' shareholdings have not changed.

Directors' report (continued)

Directors and their interests (continued)

In addition to the above shareholdings, the following directors had options to subscribe for shares in Fibernet Group plc as follows:

	Option price	At 01.09.00	Number of Share Options		At 31.08.01	Exercisable between
			Issued	Exercised		
A P Frewer	396.5	30,000	-	-	30,000	08.06.01 – 07.06.05
A P Frewer	72.5	5,421	-	1,785	3,636	12.12.00 – 12.12.02
A P Frewer	1267.5	10,000	-	-	10,000	19.11.02 – 19.11.06
A P Frewer	1622.5	20,000	-	-	20,000	16.06.03 – 16.06.07
A P Frewer	782	-	10,000	-	10,000	04.01.04 – 04.01.08
A P Frewer	462	-	1,461	-	1,461	25.05.06 – 25.11.06
J I L'Heureux	87.5	5,000	-	5,000	-	19.12.00 – 18.12.07
J I L'Heureux	72.5	7,449	-	2,976	4,473	12.12.00 – 12.12.02
J I L'Heureux	396.5	100,000	-	-	100,000	08.06.01 – 07.06.05
J I L'Heureux	1267.5	10,000	-	-	10,000	19.11.02 – 19.11.06
J I L'Heureux	1650	117	-	-	117	30.05.03 – 30.11.03
J I L'Heureux	601	-	322	-	322	22.12.03 – 22.06.04
J I L'Heureux	462	-	419	-	419	25.05.04 – 25.11.04

The share options of the other directors are disclosed in the Fibernet Group plc accounts.

Directors' responsibilities

Company law requires the directors 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 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 accounting standards have been followed, subject to any material departures being disclosed and explained in the accounts; 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 proper accounting records which 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

Directors' report (continued)

Companies Act 1985. 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.

Rosalind House
Jays Close
Viables
Basingstoke
Hampshire
RG22 4BS

By Order of the Board

A handwritten signature in black ink, appearing to read 'N P S Bray', written over a horizontal line.

N P S Bray
Director

31 July 2002

To the Shareholders of Fibernet UK Limited

We have audited the financial statements of Fibernet UK Limited for the year ended 31 August 2001 which comprise the Profit and loss account, Balance sheet and the related notes numbered 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 1985. 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 with the company is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

Basis of audit opinion

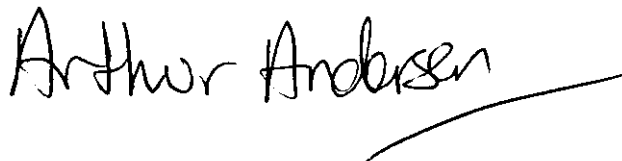
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, 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 at 31 August 2001 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors



Abbots House
Abbey Street
Reading
Berkshire
RG1 3BD

31 July 2002

Profit and loss account

For the year ended 31 August 2001

	Notes	Continuing operations	
		2001 £'000	2000 £'000
Turnover	2	48,508	35,565
Cost of sales		(25,755)	(19,284)
Gross profit		22,753	16,281
Administrative expenses		(11,812)	(8,383)
Operating profit on ordinary activities		10,941	7,898
Interest payable	3	(4,883)	(3,294)
Profit on ordinary activities before taxation	4	6,058	4,604
Tax on profit on ordinary activities	7	(721)	-
Profit on ordinary activities after taxation	16, 17	5,337	4,604

There are no recognised gains and losses other than the results for the year and preceding year.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet
As at 31 August 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Intangible assets	8	96	104
Tangible assets	9	85,177	72,773
		<u>85,273</u>	<u>72,877</u>
Current assets			
Stock	10	47	352
Debtors	11	25,037	19,627
Cash at bank and in hand		222	-
		<u>25,306</u>	<u>19,979</u>
Creditors: amounts falling due within one year	12	(71,146)	(61,689)
Net current liabilities		<u>(45,840)</u>	<u>(41,710)</u>
Total assets less current liabilities		39,433	31,167
Creditors: amounts falling due after more than one year	13	(39,133)	(38,299)
Provisions for liabilities and charges	14	(2,339)	(244)
Net liabilities		<u>(2,039)</u>	<u>(7,376)</u>
Capital and reserves			
Called-up share capital	15	-	-
Profit and loss account	16	(2,039)	(7,376)
Equity shareholder's funds - deficit	17	<u>(2,039)</u>	<u>(7,376)</u>

Signed on behalf of the Board



N P S Bray

Director

31 July 2002

The accompanying notes are an integral part of this balance sheet.

Notes to financial statements (continued)

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and preceding year, is set out below.

a) Basis of accounting

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

b) Going concern basis

The directors consider it appropriate to prepare the accounts on a going concern basis although the company has net liabilities at 31 August 2001. This is because Fibernet Group plc, the parent company, has undertaken to provide such further support as the company may require in order to perform its business objectives and to meet all obligations incurred in the future. The current agreement ends one year after the date on which these accounts are signed.

c) Turnover

Turnover is stated as the amounts receivable (net of sales taxes) for the sale of networking services and products.

Turnover arising from service contracts is recognised evenly over the life of each contract, regardless of the payment profile. Turnover from long term leases is accounted for according to note 1(d) below.

d) Sales of long term leases of telecommunications infrastructure and capacity

- (i) Turnover – Long term leases entered into with customers for telecommunications infrastructure or capacity over dedicated routes which transfer substantially all of the risks and rewards of ownership are included in turnover when the capacity has been accepted by the customer.

Turnover is stated at the present value of future lease payments receivable, excluding the maintenance element of those payments. Typically the lease payments receivable from these customers are paid on or shortly after commissioning.

- (ii) Cost of sales – The costs of constructing or acquiring telecommunications infrastructure or capacity that is sold to customers under long term leases are recognised as cost of sales upon recognition of the revenue. The amount charged to cost of sales is based on the ratio of the capacity sold to the estimated total capacity that will be available for sale over each dedicated route, allowing for capacity upgrades within the technical specification of the current network equipment. These costs include:

- Costs directly attributable to the infrastructure or capacity.
- The present value of future costs, including payments due under long term leases to acquire telecommunications infrastructure or capacity and the present value of future business rates to be assessed on that capacity by local authorities.
- The present value of future costs to upgrade the capacity over each dedicated route to its expected level.

Notes to financial statements (continued)

d) Sales of long term leases of telecommunications infrastructure and capacity (continued)

As these leases form part of the principal activity of the Group, the related assets are transferred from fixed assets to stocks upon contract signature, and charged as cost of sales upon commissioning.

- (iii) Provisions for liabilities and charges – The present value of future business rates directly attributable to the sale of long term leases of telecommunication capacity is included in provision for liabilities and charges

e) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less depreciation. Depreciation is provided on leasehold improvements, plant and equipment, office furniture and computers to write off their cost, less estimated residual value, on a straight line basis over their estimated useful lives. Depreciation is provided on the company's telecommunications network assets to write off their cost, less estimated residual value, on a straight line basis over the shorter of their estimated useful lives or the minimum period of related customer service contracts. The estimated useful lives are as follows:

Leasehold improvements	-	5 years
Telecommunications network	-	5 to 20 years
Plant and equipment	-	5 years
Computers	-	5 years
Office furniture	-	5 years

f) Intangible fixed assets

License costs are stated at cost, less amortisation and any provision for permanent diminution in value. They are written off on a straight line basis over 10 years.

g) Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost is arrived at on a first in, first out basis and includes an appropriate amount of freight and duty for equipment purchased from overseas. Net realisable value is based on estimated selling price less further costs expected to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

h) Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability is unlikely to crystallise.

i) Pension costs

The company has not contracted out of the State pension arrangements. Additional benefits for employees are provided by individual defined contribution schemes with the costs being met in full by the company and charged to the profit and loss account as incurred.

Notes to financial statements (continued)

j) Deferred income

Amounts receivable under maintenance and service contracts are credited to deferred income and released to the profit and loss account on a straight line basis over the duration of the contracts.

k) Leases and hire purchase contracts

Assets obtained under hire purchase contracts and leases which result in the transfer of substantially all the risk and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments and are depreciated over the shorter of the lease term and their useful lives.

Obligations under such agreements are included in creditors, net of finance charges allocated to future periods. The finance element of the rental payments is charged to the profit and loss account over the period of each hire purchase contract or lease so as to produce a constant periodic rate of charge on the outstanding balance of the net obligation in each period.

Rentals paid under other leases (operating leases) are charged against income on a straight-line basis over each lease term.

l) Foreign currency

Transactions during the year have been converted at the rate ruling when each transaction occurred. Any exchange gain or losses arising from a change in exchange rates subsequent to the date of a transaction are included within the profit and loss account. Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date or, if matched by forward exchange contracts, the contracted rates.

Notes to financial statements (continued)

2 Segmental information

All of the company's turnover and profit on ordinary activities before taxation arose in the United Kingdom from its sole principal activity.

3 Interest payable

	2001 £'000	2000 £'000
Interest on finance leases	4,404	3,042
Bank interest and similar charges	479	252
	<u>4,883</u>	<u>3,294</u>

4 Profit on ordinary activities before taxation

The profit on ordinary activities is stated after charging:

		2001 £'000	2000 £'000
Operating lease payments	- plant and equipment	4,503	3,553
	- land and buildings	751	665
Depreciation	- owned assets	8,412	5,446
	- leased assets	2,505	1,864
Amortisation of Licenses		<u>17</u>	<u>13</u>

The auditors' remuneration in 2001 and 2000 was borne by the company's parent company, Fibernet Group plc.

Notes to financial statements (continued)

5 Employees

During the year the company had no employees. The employees of the Fibernet group were employed by other group companies and subsequently recharged within the group. A total of £10,336,000 (2000: £6,485,000) of these costs has been recharged to Fibernet UK Limited by other group companies.

6 Directors

No director received any emoluments during the year (2000: Nil).

7 Taxation

	2001 £'000	2000 £'000
Deferred tax charge	721	-

There is no current corporation tax charge due to the availability of tax losses.

8 Intangible fixed assets

	Licences £'000
Cost	
1 September 2000	155
Additions	9
31 August 2001	164
Amortisation	
1 September 2000	51
Charge for the year	17
31 August 2001	68
Net book value	
31 August 2001	96
31 August 2000	104

Notes to financial statements (continued)

9 Tangible fixed assets

	Leasehold improvements £'000	Telecomm- unications network £'000	Plant and equipment £'000	Office furniture £'000	Computers £'000	Total £'000
Cost						
1 September 2000	159	83,847	517	68	81	84,672
Additions	5	28,068	134	2	198	28,407
Transfer to current assets	-	(5,086)	-	-	-	(5,086)
31 August 2001	<u>164</u>	<u>106,829</u>	<u>651</u>	<u>70</u>	<u>279</u>	<u>107,993</u>
Depreciation						
1 September 2000	96	11,513	207	38	45	11,899
Charge for the year	34	10,635	216	14	18	10,917
31 August 2001	<u>130</u>	<u>22,148</u>	<u>423</u>	<u>52</u>	<u>63</u>	<u>22,816</u>
Net book value						
31 August 2001	<u>34</u>	<u>84,681</u>	<u>228</u>	<u>18</u>	<u>216</u>	<u>85,177</u>
31 August 2000	<u>63</u>	<u>72,334</u>	<u>310</u>	<u>30</u>	<u>36</u>	<u>72,773</u>

Included in tangible fixed assets are hire purchase and leased assets with a net book value of £36,300,000 (2000: £36,362,583).

10 Stock

	2001 £'000	2000 £'000
Finished goods and goods for resale	47	49
Telecommunications networks held for resale	-	303
	<u>47</u>	<u>352</u>

Notes to financial statements (continued)

11 Debtors

	2001 £'000	2000 £'000
Trade debtors	16,802	11,555
VAT recoverable	-	33
Amounts owed by group undertakings	1,226	-
Prepayments and accrued income	7,009	8,039
	<u>25,037</u>	<u>19,627</u>

12 Creditors

Amounts falling due within one year:

	2001 £'000	2000 £'000
Bank loans and overdrafts	-	354
Obligations under finance lease and hire purchase contracts	1,404	1,850
Trade creditors	8,669	8,166
Amounts owed to group undertakings	43,542	34,553
Other taxes and social security costs	1,045	609
Accruals and deferred income	16,483	15,949
Other creditors	3	208
	<u>71,146</u>	<u>61,689</u>

The bank loans and overdrafts are secured by a fixed and floating charge over the company's assets.

13 Creditors

Amounts falling due after more than one year:

	2001 £'000	2000 £'000
Obligations under finance lease and hire purchase contracts		
- repayable between two and five years	8,659	7,450
- repayable in more than five years	26,607	27,951
Accruals and deferred income	3,867	2,898
	<u>39,133</u>	<u>38,299</u>

Notes to financial statements (continued)

14 Provisions for liabilities and charges

	2001 £'000	2001 £'000	2001 £'000	2000 £'000
	Deferred taxation	Future rates charges	Total	Total
Start of year	-	244	244	-
Provided in the year	721	1,387	2,108	244
Utilised in year	-	(14)	(14)	-
Adjustment arising from discounting	-	1	1	-
End of year	<u>721</u>	<u>1,618</u>	<u>2,339</u>	<u>244</u>

The future rates provision represents an obligation to pay future business rates in relation to assets disposed of by the company in respect of wide area network product sales.

Deferred tax:

	Provided		Potential	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Liability arising from accelerated capital allowances	(3,992)	(3,015)	<u>(3,992)</u>	<u>(3,015)</u>
Tax losses available	<u>3,271</u>	<u>3,015</u>		
	<u>(721)</u>	<u>-</u>		

15 Share capital

	Authorised 2001 Number	Allotted called up and fully paid 2001	Authorised 2000 Number	Allotted called up and fully paid 2000
£1 Ordinary shares	<u>1,000,000</u>	<u>2</u>	<u>1,000,000</u>	<u>2</u>

16 Reserves

	Profit and loss account £'000
Deficit at 1 September 2000	(7,376)
Profit for the year	<u>5,337</u>
Balance at 31 August 2001	<u>(2,039)</u>

Notes to financial statements (continued)

17 Reconciliation of movements in shareholder's funds

	2001 £'000	2000 £'000
Beginning of year	(7,376)	(11,980)
Profit for the year	5,337	4,604
End of year	<u>(2,039)</u>	<u>(7,376)</u>

18 Financial commitments

a) Operating leases

The minimum lease payments due under non-cancellable operating leases, due in the next financial year, are as follows:

	2001		2000	
	Land and buildings £'000	Plant and equipment £'000	Land and buildings £'000	Plant and equipment £'000
Leases expiring:				
Within one year	274	590	254	763
Between two and five years	83	1,792	51	1,266
In more than five years	402	1,570	387	1,683
	<u>759</u>	<u>3,952</u>	<u>692</u>	<u>3,712</u>

b) Capital commitments

The company had made contracted capital commitments at 31 August 2001 of £1,056,000 (2000: £2,167,000)

c) Bank commitments

The company has entered into fixed and floating charges over all of its assets to secure the group's bank facilities, of which £nil was drawn down at the year end (2000: £nil).

19 Pension commitments

The company operates individual defined contribution personal pension schemes administered through insurance companies for employees.

Notes to financial statements (continued)

20 Ultimate parent company

The company's ultimate parent company is Fibernet Group plc, a company incorporated in Great Britain and registered in England and Wales. Fibernet Group plc is the parent undertaking of the only group of which Fibernet UK Limited is a member and for which group financial statements are drawn up. Copies of the group financial statements are available from the company secretary.

The company has taken advantage of the exemption in FRS 8 'Related Party Disclosures' not to disclose transactions with other wholly owned members of the group headed by Fibernet Group plc.