**Fibernet UK Limited**

Directors' report and financial statements
for the year ended 31 August 2002

Registered number: 2940263

## Directors' report

For the year ended 31 August 2002

The directors present their report and financial statements for the year ended 31 August 2002.

**Principal activity and review of the business**

Fibernet is a communications solutions company dedicated to the design, supply, installation, management and support of bespoke high speed digital networks.

On 1 September 2001 the company took over the business of the design, installation and support of optical fibre local area network communication systems from Fibernet Limited, a fellow subsidiary of Fibernet Group plc. On the same date all employees of Fibernet Limited were transferred to the company, and assets including stock and tangible fixed assets previously held by Fibernet Limited were transferred to the company at fair value.

During the year the Fibernet group discontinued significant parts of its overseas operations. Accordingly assets held by the company in order to connect with the group's overseas networks have been impaired in full, and included within discontinued operations to the extent that these geographical areas are no longer served by the group.

**Financial results and dividends**

The result for the year has been transferred to reserves. The directors do not recommend the payment of a dividend (2001 : £nil).

**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

No directors had any interest in the shares of the company at 31 August 2001 and 2002

The directors' interests in the 10p ordinary shares of the company's ultimate parent company, Fibernet Group plc, at 31 August 2002 are disclosed in the financial statements of that company, with the exception of the following:

| | Number 31 August 2002 | Number 31 August 2001 |
|---|---|---|
| A P Frewer | 21,785 | 21,785 |
| J I L'Heureux | 8,426 | 8,426 |

Since the year end, A P Frewer has acquired 18,191 shares.

**Directors and their interests (continued)**

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

| | | Number of Share Options | | | | |
|---|---|---|---|---|---|---|
| | Option price | At 01.09.01 | Issued | Exercised | At 31.08.02 | Exercisable between |
| A P Frewer | 396.5 | 30,000 | - | - | 30,000 | 08.06.01 – 07.06.05 |
| A P Frewer | 72.5 | 3,636 | - | - | 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 |
| A P Frewer | 105 | - | 5,000 | - | 5,000 | 24.04.05 – 23.04.09 |
| A P Frewer | 274 | - | 1,208 | - | 1,208 | 16.11.06 – 15.05.07 |
| J I L'Heureux | 72.5 | 4,473 | - | - | 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 |
| J I L'Heureux | 87 | - | 2,183 | - | 2,183 | 28.05.05 – 27.11.05 |

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

**Policy in respect of payments to suppliers**

The company's policy is to decide upon the terms of payment with suppliers when agreeing the terms of each transaction to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

Trade creditors of the company at 31 August 2002 were the equivalent of 30 days' purchases (2001: 63 days').

**Disabled employees**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

**Employee consultation**

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings and other forms of communication including email and the company intranet. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The employee share scheme has been running successfully since its inception in 1996. It is open to all UK employees.

**Directors' responsibilities**

United Kingdom 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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 Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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RG22 4BS

23 July 2003

By Order of the Board

N P S Bray
Director

# Independent auditors' report

**To the members of Fibernet UK Limited**

We have audited the financial statements of Fibernet UK Limited for the year ended 31 August 2002 which comprise the Profit and loss account, Balance sheet and the related notes numbered 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 for the above year and consider the implications for our report if we become aware of any apparent misstatements.

**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 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 the company's affairs as at 31 August 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

**Deloitte and Touche**
Chartered Accountants and Registered Auditors
Reading

23 July 2003

## Profit and loss account

For the year ended 31 August 2002

| | Notes | Continuing operations 2002 £'000 | Discontinued operations 2002 £'000 | Total 2002 £'000 | Continuing operations 2001 £'000 |
|---|---|---|---|---|---|
| **Turnover** | 2 | 36,243 | - | 36,243 | 48,508 |
| Cost of sales before exceptional items | | (26,027) | - | (26,027) | (25,755) |
| Exceptional cost of sales: network rates rebate | | 1,126 | - | 1,126 | - |
| Cost of sales | | (24,901) | - | (24,901) | (25,755) |
| **Gross profit** | | 11,342 | - | 11,342 | 22,753 |
| Administrative expenses before exceptional items | | (17,539) | - | (17,539) | (11,812) |
| Exceptional administrative expenses: impairment of tangible fixed assets | | (1,642) | - | (1,642) | - |
| Administrative expenses | | (19,181) | - | (19,181) | (11,812) |
| **Operating (loss)/profit on ordinary activities** | | (7,839) | - | (7,839) | 10,941 |
| Exceptional items: loss on termination of operations | 2 | - | (2,793) | (2,793) | - |
| Interest payable and similar charges | 3 | | | (4,585) | (4,883) |
| **(Loss)/profit on ordinary activities before taxation** | 4 | | | (15,217) | 6,058 |
| **Tax on loss/(profit) on ordinary activities** | 6 | | | 721 | (721) |
| **(Loss)/profit on ordinary activities after taxation** | 15, 16 | | | (14,496) | 5,337 |

There are no recognised gains and losses other than the results for the current year and preceding year. Accordingly no statement of total recognised gains and losses has been presented.

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

## Balance sheet

As at 31 August 2002

| | Notes | 2002 £'000 | 2001 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 7 | 111 | 96 |
| Tangible assets | 8 | 88,225 | 85,177 |
| | | 88,336 | 85,273 |
| **Current assets** | | | |
| Stock | 9 | 1,701 | 47 |
| Debtors | 10 | 9,409 | 25,037 |
| Cash at bank and in hand | | 10,179 | 222 |
| | | 21,289 | 25,306 |
| **Creditors**: amounts falling due within one year | 11 | (84,454) | (71,146) |
| **Net current liabilities** | | (63,165) | (45,840) |
| **Total assets less current liabilities** | | 25,171 | 39,433 |
| **Creditors:** amounts falling due after more than one year | 12 | (37,839) | (39,133) |
| **Provisions for liabilities and charges** | 13 | (3,867) | (2,339) |
| **Net liabilities** | | (16,535) | (2,039) |
| **Capital and reserves** | | | |
| Called-up share capital | 14 | - | - |
| Profit and loss account | 15 | (16,535) | (2,039) |
| **Equity shareholder's deficit** | 16 | (16,535) | (2,039) |

Signed on behalf of the Board

N P S Bray Director

23 July 2003

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

## 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 United Kingdom accounting standards.

*b) 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(c) below.

*c) 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.

*c) 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

*d) 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 |

*e) Intangible fixed assets*

License costs are stated at cost, less amortisation and any provision for permanent diminution in value. Licence costs are written off on a straight line basis over their useful economic life, which is 10 years.

*f) 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.

*g) 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.

*h) 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.

*i) 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.

*j) Foreign currency*

Transactions during the year have been converted at the rate ruling when each transaction occurred. Any exchange gains 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.

*k) Taxation*

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded 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 from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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 substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### 2 Segmental information

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

During the year the Fibernet group commenced and discontinued its national network operations in France. Accordingly, costs related to the connection of the company's UK network to the group's national network in France are disclosed as discontinued operations.

All net operating assets are held in the UK for continuing operations.

### 3 Interest payable and similar charges

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Interest on finance leases | 3,863 | 4,404 |
| Bank interest and similar charges | 722 | 479 |
| | 4,585 | 4,883 |

### 4 (Loss)/profit on ordinary activities before taxation

The (loss)/profit on ordinary activities is stated after charging:

| | | 2002 £'000 | 2001 £'000 |
|---|---|---|---|
| Operating lease payments | - plant and machinery | 5,952 | 4,503 |
| | - other | 1,586 | 751 |
| Depreciation | - owned assets | 12,061 | 8,412 |
| | - leased assets | 2,522 | 2,505 |
| Amortisation of licenses | | 5 | 17 |

The auditors' remuneration in 2002 and 2001 was borne by the company's parent company, Fibernet Group plc.

## 5 Employees

On 1 September 2001 all UK based employees of the Fibernet group were transferred to the company, with the exception of the Directors of Fibernet Group plc.

During the year the company employed staff on behalf of other companies in the Fibernet group. A total of £779,000 (2001 - £nil) of the following costs have been recharged to other group companies.

*a) Number of employees*

The average number of persons (including directors) employed by the company during the year was:

| | 2002 Number | 2001 Number |
|---|---|---|
| Administration | 35 | - |
| Sales and support | 223 | - |
| | 258 | - |

*b) Employment costs (including directors' remuneration) during the year were as follows:*

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Wages and salaries | 12,404 | - |
| Social security costs | 1,252 | - |
| Pension costs (Note 18) | 490 | - |
| | 14,146 | - |

## 5 Employees (continued)

*c) Remuneration of directors*

Remuneration was paid in respect of directors of the company as follows:

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Emoluments | 546 | 665 |
| Gain on exercise of share options | - | 63 |
| Company contributions to money purchase pension schemes | 23 | 22 |
| | 569 | 750 |

The number of directors who were members of pension schemes was as follows:

| | 2002 Number | 2001 Number |
|---|---|---|
| Money purchase schemes | 4 | 5 |

*d) Highest paid director*

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Emoluments | 201 | 271 |
| Company contributions to money purchase pension scheme | 9 | 9 |
| | 210 | 280 |

## 6 Taxation

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Deferred tax (credit)/charge | (721) | 721 |

There is no current corporation tax charge due to the availability of tax losses. The difference between the total current tax charge and the amount calculated by applying the standard rate of UK corporation tax to the (loss)/profit before tax is as follows:

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| (Loss)/profit on ordinary activities before tax | (15,217) | 6,058 |
| (Loss)/profit on ordinary activities multiplied by the standard rate of UK corporation tax – 30% | (4,565) | 1,817 |
| Effects of | | |
| Increase in potential deferred tax asset not recognised | 3,697 | - |
| Expenses not deductible for tax purposes | 1,326 | 360 |
| Capital allowances in excess of depreciation | (458) | (1,304) |
| Utilisation of brought forward tax losses | - | (873) |
| Current tax charge | - | - |

The adoption of FRS 19 Deferred Tax has had no effect on the financial statements of the preceding year.

## 7 Intangible fixed assets

| | Licences £'000 |
|---|---|
| **Cost** | |
| 1 September 2001 | 164 |
| Additions | 20 |
| 31 August 2002 | 184 |
| **Amortisation** | |
| 1 September 2001 | 68 |
| Charge for the year | 5 |
| 31 August 2002 | 73 |
| **Net book value** | |
| 31 August 2002 | 111 |
| 31 August 2001 | 96 |

**8 Tangible fixed assets**

| | Leasehold improvements £'000 | Telecommunications network £'000 | Plant and equipment £'000 | Office furniture £'000 | Computers £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 1 September 2001 | 164 | 106,829 | 651 | 70 | 279 | 107,993 |
| Transfers from other group companies | 154 | 1,294 | 814 | 189 | 640 | 3,091 |
| Additions | 15 | 16,604 | 220 | 13 | 528 | 17,380 |
| Reclassifications to provisions | - | 1,636 | - | - | - | 1,636 |
| 31 August 2002 | 333 | 126,363 | 1,685 | 272 | 1,447 | 130,100 |
| **Depreciation** | | | | | | |
| 1 September 2001 | 130 | 22,148 | 423 | 52 | 63 | 22,816 |
| Transfers from other group companies | 77 | 29 | 353 | 130 | 166 | 755 |
| Charge for the year | 59 | 13,940 | 305 | 36 | 243 | 14,583 |
| Impairment – continuing operations | - | 1,642 | - | - | - | 1,642 |
| Impairment – discontinued operations | - | 2,079 | - | - | - | 2,079 |
| 31 August 2002 | 266 | 39,838 | 1,081 | 218 | 472 | 41,875 |
| **Net book value** | | | | | | |
| 31 August 2002 | 67 | 86,525 | 604 | 54 | 975 | 88,225 |
| 31 August 2001 | 34 | 84,681 | 228 | 18 | 216 | 85,177 |

Included in tangible fixed assets are hire purchase and leased assets with a net book value of £33,778,000 (2001: £36,300,000).

In accordance with accounting standards the company regularly monitors the carrying value of its fixed assets. A review of all the company's fixed assets was undertaken at 31 August 2002 as a result of the significant reduction in the extent of the group's overseas operations and at a time when many companies in the telecommunications sector continued to show signs of deteriorating performance in difficult market conditions.

**8. Tangible fixed assets (continued)**

The review assessed whether the carrying value of assets was supported by the net present value of future cash flows derived from assets using cash flow projections in respect of the period to 31 August 2017 and using a pre-tax weighted average cost of capital of 14%.

Tangible fixed assets relating to discontinued activities have been impaired in full, as no material disposal proceeds are anticipated and the impairment charge of £2,079,000 has been included within the loss on termination of operations. In addition the assets relating to the company's connection to the group's continuing business in Germany have also been fully impaired resulting in a further charge of £1,642,000.

**9 Stock**

| | 2002<br>£'000 | 2001<br>£'000 |
|---|---|---|
| Finished goods and goods for resale | 1,701 | 47 |

**10 Debtors**

| | 2002<br>£'000 | 2001<br>£'000 |
|---|---|---|
| Trade debtors | 4,993 | 16,802 |
| VAT recoverable | 227 | - |
| Amounts owed by group undertakings | - | 1,226 |
| Prepayments and accrued income | 4,189 | 7,009 |
| | 9,409 | 25,037 |

**11 Creditors: amounts falling due within one year**

| | 2002<br>£'000 | 2001<br>£'000 |
|---|---|---|
| Obligations under finance lease and hire purchase contracts | 1,716 | 1,404 |
| Trade creditors | 3,317 | 8,669 |
| Amounts owed to group undertakings | 62,089 | 43,542 |
| Other taxes and social security costs | 354 | 1,048 |
| Accruals and deferred income | 16,978 | 16,483 |
| | 84,454 | 71,146 |

**12 Creditors: amounts falling due after more than one year**

| | 2002<br>£'000 | 2001<br>£'000 |
|---|---|---|
| Obligations under finance lease and hire purchase contracts | | |
| - repayable between two and five years | 9,807 | 8,659 |
| - repayable in more than five years | 25,010 | 26,607 |
| Accruals and deferred income | 3,022 | 3,867 |
| | 37,839 | 39,133 |

Finance leases are secured on the assets to which they relate.

The company leases a certain amount of its core network capacity from the UK business of Global Crossing. The US parent company of Global Crossing filed for chapter 11 bankruptcy on 28 January 2002 and on 9 August 2002 announced that it had agreed a conditional capital restructuring which involved Hutchison Telecommunications Limited and Singapore Technologies Telemedia Pte Ltd taking a majority stake in the company and injecting an additional amount of finance into the Global Crossing group. Subject to satisfying various contractual closing conditions, including regulatory approvals and confirmation of its plan of reorganisation by the bankruptcy court, Global Crossing expects to emerge from chapter 11 in the coming months.

The Directors have prepared a contingency plan should all or an element of the capacity from Global Crossing become unavailable.

**13 Provisions for liabilities and charges**

| | 2002 £'000 Deferred taxation | 2002 £'000 Future WAN product sales costs | 2002 £'000 Onerous lease provision | 2002 £'000 Total | 2001 £'000 Total |
|---|---|---|---|---|---|
| Beginning of year | 721 | 1,618 | - | 2,339 | 244 |
| (Credit)/charge to profit and loss account | (721) | - | 620 | (101) | 2,108 |
| Utilised in year | - | (69) | - | (69) | (14) |
| Adjustment arising from discounting | - | 62 | - | 62 | 1 |
| Reclassification from fixed assets | - | 1,636 | - | 1,636 | - |
| End of year | - | 3,247 | 620 | 3,867 | 2,339 |

The provision for future WAN product sales costs represents the present value of future costs relating to WAN product sales, as detailed in accounting policy d(ii). Within this provision costs relating to future capacity upgrades and point of presence operating costs have been reclassified from fixed assets as the Directors believe this is a more appropriate presentation. This provision will be settled over the next 23 years.

The onerous lease provision relates to surplus office space. The provision will be utilised over 3 years.

*Deferred tax:*

| | Provided | | Unprovided | |
|---|---|---|---|---|
| | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| Liability arising from accelerated capital allowances | (1,878) | (3,992) | - | - |
| Other timing differences | - | - | 127 | - |
| Tax losses available | 1,878 | 3,271 | 2,227 | - |
| | - | (721) | 2,354 | - |

No deferred tax asset has been recognised due to the uncertainty of the company generating sufficient taxable profits in future. The asset will be recoverable should sufficient profits be generated.

**14 Called up share capital**

| | Authorised 2002 Number | Called up, allotted and fully paid 2002 | Authorised 2001 Number | Called up, allotted and fully paid 2001 |
|---|---|---|---|---|
| £1 Ordinary shares | 1,000,000 | 2 | 1,000,000 | 2 |

### 15 Reserves

| | Profit and loss account £'000 |
|---|---|
| Deficit at 1 September 2001 | (2,039) |
| Loss for the year | (14,496) |
| Balance at 31 August 2002 | (16,535) |

### 16 Reconciliation of movements in shareholder's deficit

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Beginning of year | (2,039) | (7,376) |
| (Loss)/profit for the year | (14,496) | 5,337 |
| End of year | (16,535) | (2,039) |

### 17 Financial commitments

*a) Operating leases*

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

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | Land and Buildings £'000 | Other £'000 | Land and buildings £'000 | Other £'000 |
| Leases expiring: | | | | |
| Within one year | 11 | 2,570 | 274 | 590 |
| Between two and five years | 157 | 1,080 | 83 | 1,792 |
| In more than five years | 586 | 1,600 | 402 | 1,570 |
| | 754 | 5,250 | 759 | 3,952 |

*b) Capital commitments*

The company had contracted capital commitments at 31 August 2002 of £1,819,000 (2001: £1,056,000).

*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 (2001: £nil).

### 18 Pension commitments

The company operates individual defined contribution personal pension schemes administered through insurance companies for employees. Contributions for the year amounted to £490,000 (2001: £nil).

**19 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.