Registered no: 3649524

ENERGIS HOLDINGS LIMITED

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002

ENERGIS HOLDINGS LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 MARCH 2002

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

Principal activities

The Group's principal activity is the provision of telecommunications and related services to the UK business market.

Review of business and future developments

In August and September 2001, the subsidiary businesses of Energis Integration Services Limited and Energis Mobile Limited, and the customer facing business of Energis *Squared,* were merged with Energis Communications Limited to create a single customer facing entity. The remaining business of Energis *Squared* is now primarily concerned with supporting Internet services.

The Group results reflect the impact of the economic slowdown with modest growth in revenues, which were £708.9 million compared with £691.7 million for the prior period. In December 2001 the Group refinanced and increased its bank facilities to £725 million. As a result of the continuing economic slowdown, the Group acknowledged in March that certain of its bank covenants were in default, entered into renegotiation of its facilities and examined alternatives for its funding. On 16 July 2002 the Group and other assets were sold by Energis plc to Chelys Ltd and its banking facilities were amended. Further details of the Group's current funding position are included in Note 30 to the accounts.

Post balance sheet events

Post balance sheet events are set out in Note 30 to the accounts.

Employees

The Group is committed to employment policies based upon best practice and equal opportunity.

The Group's policy concerning disabled persons is to give them the same consideration as other people, with regard to applications for employment, continuation of employment, training, career development and promotion, having regard to their aptitudes and abilities.

Employees are consulted and informed by means of regular team briefings, where staff are encouraged to put forward their views, meetings concerning strategic direction, newsletters and electronic mail.

All employees are incentivised through a bonus scheme with targets based upon both Group performance and individual objectives.

The training and development of employees is a key business activity which is considered fundamental to the growth and success of the Group. A highly challenging learning environment has been created where continuous improvement is implicit in Energis' working practices.

Results and dividends

The Group's retained loss for the year was £548.8 million (2001: £80.4 million). The directors recommend that no dividend be paid.

ENERGIS HOLDINGS LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 2002

The Directors' and their Interests

The directors of the Company during the period ended 31 March 2002 are listed below:

	Appointed	Resigned
M. Grabiner		31 July 2001
J.C. Hibbert		20 March 2002
D. Wickham		
W.E.J. Trent	27 February 2002	
J. Pluthero	10 September 2002	

None of the directors had a material interest in any contract of significance to which the Group was a party during the period under review.

Statement of directors' responsibilities

The directors are required by UK Company 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 Group as at the end of the financial year and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 March 2002. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial positions of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and for the prevention and detection of fraud and other irregularities.

Auditors

The Company has elected, pursuant to section 386 of the Companies Act 1985, to dispense with the obligation to appoint auditors annually.

By Order of the Board

W.E.J. Trent
Director
12 September 2002

Registered Office
Carmelite
50 Victoria Embankment
London EC4Y 0DE

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ENERGIS HOLDINGS LIMITED

We have audited the financial statements on pages 4 to 31.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and 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 issued by the Auditing Practices Board.

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 United Kingdom 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 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. The other information comprises only the directors' report.

Basis of audit 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 2002 and of the loss and cash flows of the Group 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
12 September 2002

ENERGIS HOLDINGS LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2002

	Notes	Year ended 31 March 2001 (restated) £'000	Year ended 31 March 2002 £'000	£'000	£'000
		Total	Before exceptional items	Exceptional items (Note 4)	Total
Turnover					
Group and share of joint ventures	3	691,710	708,947	-	708,947
Less share of joint ventures' turnover		(8,124)	(14,553)	-	(14,553)
Group turnover		683,586	694,394	-	694,394
Cost of sales					
Interconnect and network operations		(401,553)	(458,195)	-	(458,195)
Network depreciation and amounts written off network assets		(64,488)	(104,744)	(164,460)	(269,204)
Gross profit/(loss)		217,545	131,455	(164,460)	(33,005)
Operating costs					
Selling, general and administrative		(121,510)	(152,907)	(16,151)	(169,058)
Executive and employee share options		(12,222)	(1,680)	-	(1,680)
Other depreciation and amounts written off other assets		(39,647)	(24,494)	(20,914)	(45,408)
Amortisation and amounts written off intangibles		(10,521)	(15,441)	(173,835)	(189,276)
Group operating profit/(loss)		33,645	(63,067)	(375,360)	(438,427)
Share of operating loss of joint ventures		(4,251)	(6,846)	(38,177)	(45,023)
Total operating profit/(loss)		29,394	(69,913)	(413,537)	(483,450)
Amounts written off investments	13	-	(2,732)	(1,900)	(4,632)
Net interest	8	(80,836)	(86,986)	(17,516)	(104,502)
Loss on ordinary activities before taxation		(51,442)	(159,631)	(432,953)	(592,584)
Taxation	9	(28,947)	43,804	-	43,804
Loss for the financial year	20	(80,389)	(115,827)	(432,953)	(548,780)

All results are from continuing activities.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial period for each of the periods stated above, and their historical cost equivalents.

ENERGIS HOLDINGS LIMITED
STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2002

	Notes	Years ended 31 March 2001 (restated) £'000	2002 £'000
Loss for the financial year		(80,389)	(548,780)
Revaluation of fixed asset investments	10	(115,736)	-
Total recognised losses for the year		(196,125)	(548,780)
Prior year adjustment – adoption of FRS19	2,20		(43,606)
Total recognised losses since last annual report			(592,386)

ENERGIS HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2002

	Notes	At 31 March 2001 (restated) £'000	2002 £'000
Fixed assets			
Intangible assets	11	134,078	-
Tangible assets	12	886,754	812,295
Investments			
Joint ventures			
Share of gross assets		54,574	8,087
Share of gross liabilities		(48,857)	(281)
Share of net assets		5,717	7,806
Provision against investment in Joint Venture		-	(7,057)
	13	5,717	749
Other investments	13	38,622	394
		44,339	1,143
Total fixed assets		1,065,171	813,438
Current assets			
Stock		5,230	5,633
Debtors	14	221,684	156,849
Restricted cash	17	-	11,660
Cash at bank and in hand		19,148	8,468
		246,062	182,610
Total assets		1,311,233	996,048
Capital and reserves			
Called up ordinary share capital	19	177,466	177,466
Share premium	20	263,807	263,807
Profit and loss account	20	(409,626)	(958,406)
Equity shareholder's funds/(deficit)		31,647	(517,133)
Liabilities			
Creditors: amounts falling due within one year	15	310,452	1,434,838
Creditors: amounts falling due after more than one year	16	925,528	61,957
Provision for joint venture deficit			
Share of gross liabilities		-	35,902
Share of gross assets		-	(29,300)
	13	-	6,602
Provisions for liabilities and charges	18	43,606	9,784
Total liabilities		1,279,586	1,513,181
Total liabilities, capital and reserves		1,311,233	996,048

These financial statements were approved by the Board of Directors on 12 September 2002.
Signed on behalf of the Board of Directors.

D Wickham – Director

W E J Trent - Director

ENERGIS HOLDINGS LIMITED
COMPANY BALANCE SHEET
AS AT 31 MARCH 2002

	Notes	At 31 March 2001 £'000	2002 £'000
Fixed assets			
Investments	13	303,221	-
Current assets			
Debtors	14	794,166	662,849
Restricted cash	17	-	11,660
Cash at bank and in hand		15,415	6,902
		809,581	681,411
Total assets		1,112,802	681,411
Capital and reserves			
Called up ordinary share capital	19	177,466	177,466
Share premium	20	-	-
Profit and loss account	20	46,384	(688,767)
Equity shareholder's funds/(deficit)		223,850	(511,301)
Liabilities			
Creditors: amounts falling due within one year	15	35,976	1,184,428
Creditors: amounts falling due after more than one year	16	852,976	-
Provisions for liabilities and charges	18	-	8,284
Total liabilities		888,952	1,192,712
Total liabilities, capital and reserves		1,112,802	681,411

These financial statements were approved by the Board of Directors on 12 September 2002.
Signed on behalf of the Board of Directors.

D Wickham – Director

W E J Trent - Director

ENERGIS HOLDINGS LIMITED
RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDER'S FUNDS
AS AT 31 MARCH 2002

	Notes	Years ended 31 March 2001 (restated) £'000	2002 £'000
Loss for the financial year		(80,389)	(548,780)
Revaluation of fixed asset investments	10	(115,736)	-
Net change in shareholder's funds		(196,125)	(548,780)
Opening equity shareholder's funds (originally £75,253,000 before deducting prior year adjustments of £43,606,000)		227,772	31,647
Closing equity shareholder's funds/(deficit)		31,647	(517,133)

ENERGIS HOLDINGS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2002

	Notes	Years ended 31 March 2001 £'000	2002 £'000
Net cash inflow from operating activities	21	75,677	126,820
Returns on investments and servicing of finance			
Interest paid		(9,108)	(29,461)
Finance lease interest paid		(6,052)	(5,541)
Facility fees and bank charges		(2,610)	(15,392)
Interest received		2,046	2,890
		(15,724)	(47,504)
Taxation			
Tax paid		(21)	(109)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(277,427)	(259,248)
Sale of tangible fixed assets		1,197	1,391
Purchase of investments		(7,607)	-
Loans to joint ventures		(33,800)	(1,500)
Repayment of loans by joint ventures		-	3,000
Purchase of shares for QUEST		(883)	(471)
Disposal of shares in QUEST to meet option obligations		943	500
		(317,577)	(256,328)
Acquisitions			
Purchase of subsidiaries	25	(20,060)	(81,093)
Purchase of joint venture investments		(1,600)	-
		(21,660)	(81,093)
Cash outflow before financing		(279,305)	(258,214)
Financing			
Increase in bank facility		80,000	470,000
Increase/(decrease) in funding from parent company		193,422	(194,145)
Finance lease capital payments		(5,506)	(1,496)
		267,916	274,359
(Decrease)/increase in cash in the year	23	(11,389)	16,145

ENERGIS HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2002

1. Basis of preparation and adoption of the going concern basis of accounting

The financial statements present the consolidated results of Energis Holdings Limited ("the Company") and its subsidiary undertakings (together "the Group") for the year ended 31 March 2002. The directors have elected to prepare consolidated accounts. These financial statements are the statutory financial statements of the Company.

At the year end the Company was a wholly owned subsidiary of Energis plc.

In preparing the financial statements, the directors have paid particular consideration to the matters explained below.

Adoption of the going concern basis of accounting

At the year end the Company was financed principally by a bank facility ("the bank facility") totalling £725 million with a syndicate of 16 banks ("the syndicate banks"), loans of £531.7 million ("the parent company loan") from Energis plc and a £55.1 million finance lease with the National Grid Group plc. At 31 March 2002, £640 million of the bank facility had been drawn down. The bank facility, the parent company loan and the National Grid Group plc lease are essential elements of the Group's funding.

Bank facility The bank facility was governed by a number of financial and non-financial covenant measures. Certain of these measures were not met and the Company acknowledged that the facility was in default on 11 March 2002. The banks agreed to continue to make funding available to the Company under the facility, provided a number of conditions were met. At the year end the bank facility was repayable on demand and consequently the bank loans and overdrafts of £653.5 million have been classified in these accounts as amounts due within one year.

On 16 July 2002 the total drawn down amounted to £670 million together with accrued interest and commitment fees of £6.9m million. As described in Note 30 "Post balance sheet events", on this date the Company, Energis plc and the Company's new parent, Chelys Limited entered into a facility amendment and a term loan facilities agreement. This resulted in £150 million of the £676.9 million already advanced converting into equity, the repayment dates on the remaining existing borrowings being extended to between June 2009 and December 2010 and £150 million of new cash financing.

Loan from parent company The parent loan of £531.7 million from Energis plc was repayable on demand although it was subordinated to the bank facility. In addition to the default under the bank facility, Energis plc defaulted under the terms of certain bonds it had issued. Consequently the parent loan has been classified in these accounts as amounts due within one year.

On 15 July 2002 the total parent loan amounted to £539.7 million. On this date the Company with Energis plc carried out an intragroup reorganisation. This is also described in Note 30 "Post balance sheet events". Following this re-organisation the Company and it's subsidiaries owed £527.3 million to Energis plc of which £524.9 million was sold to the Company's new parent Chelys Limited on 16 July 2002. The balance of £2.4m was subsequently settled in cash. The Directors of Chelys Limited have indicated that they will continue to fund the Company so that it meets its liabilities as they fall due.

Finance leases Energis Communications Limited holds network assets under finance lease agreements with National Grid Group plc. The total principal amount outstanding under the finance leases at 31 March 2002 was £55.1 million. The finance lease agreements do not contain cross default provisions to other Group companies. At 31 March 2002, National Grid Group plc had the right to demand immediate repayment of the amounts due to it as a result of the breach of financial covenants included in the finance leases, although no notice of default was issued. Subsequent to the year end, agreement has been reached with National Grid Group plc for modifications to the repayment terms under the leases and for alignment of the financial covenants following renegotiation of the covenants in the bank facility.

After considering the post balance sheet events described above the directors believe that it continues to be appropriate for the financial statements to be prepared on a going concern basis.

Impairment of fixed assets

The decision by Energis plc to cease funding its subsidiaries Energis (Switzerland) AG ("ECS"), Ision Internet AG ("ISION") and Energis Graham Limited ("Energis Graham"), together with the values implied by the expressions of interest in the UK and Dutch businesses reflect the difficult environment in the telecommunications industry. Consequently the directors performed an impairment review of the carrying value of the Group's intangible and tangible fixed assets, in accordance with Financial Reporting Standard 11 – *Impairment of fixed assets and goodwill.* The review has been carried out on the basis that the Group will continue as a going concern and therefore that it is appropriate to value fixed assets on the basis of expected future cash flows to be derived from their use ("value in use"), where this is lower than their depreciated historical cost. In assessing value in use, the directors have considered forecasts of the Group's future trading performance that are based on their current plans. The basis of the impairment charge is described in Note 4 "Exceptional items".

ENERGIS HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2002

2. Principal accounting policies

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain investments, and are in accordance with applicable accounting standards in the United Kingdom ("UK GAAP") including the Financial Reporting Standards ("FRS"s) implemented during the year; FRS 18: Accounting Policies and FRS 19: Deferred Tax. The principal accounting policies, which have been applied consistently for all periods presented, except for the implementation of FRS 19, are set out below.

Turnover Turnover represents the value of goods and services supplied and is stated net of VAT and trade discounts. Turnover from the carriage of traffic is recognised at the time the traffic is carried over the Group's networks. Rental turnover and turnover from the provision of services is recognised evenly over the period to which the rentals or services are provided to the customer. Turnover from products, solutions and installation and connection services is recognised on accepted delivery to the customer. Contracted income is recognised as turnover in proportion to the value of service provided, where contracts are for periods of less than one year or where contract revenues are in fixed instalments.

Long term contracts Turnover on long term contracts is recognised according to the stage reached in the contract by reference to the value of the work done. A prudent estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty. The amount by which turnover exceeds payments on account is recorded within debtors as amounts recoverable on contracts.

Currency translation Transactions denominated in foreign currencies are translated at the rate prevailing at the time of the transaction. Monetary assets or liabilities denominated in foreign currencies which are held at year end are translated at year-end rates of exchange. Exchange differences on monetary items are taken to the profit and loss account.

Intangible fixed assets and amortisation Goodwill, being the difference between cost and fair value of the Group's share of net assets acquired, is recognised as an asset in the Group's balance sheet and amortised over its useful economic life up to a maximum of 20 years, each acquisition being evaluated separately. Acquired licences are amortised over the period of the underlying legal agreement.

Tangible fixed assets and depreciation Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on tangible fixed assets on a straight line basis from the time they are available for use, at rates estimated to write off their entire costs over their estimated useful lives. Upon retirement or sale, the cost of assets disposed and the related accumulated depreciation are removed from the financial statements and any resulting gain or loss is taken to the profit and loss account. No depreciation is provided on assets in the course of construction.

The principal economic lives used for this purpose are:

	Years
Network plant and machinery	2 to 25
Non-network plant and machinery	3 to 5
Fixtures, fittings and office equipment	5 to 20

The Group's depreciation policies are reviewed on a regular basis against the background of rapidly changing technology and competitive developments. Large items of computer software are capitalised and together with computer hardware are depreciated over five years.
The costs of certain departments which directly relate to the planning, design and construction of the network and its related infrastructure are capitalised. General overheads, such as accommodation and administration costs, are not capitalised. Repairs and maintenance costs are expensed as incurred.

Impairment Regular reviews are conducted on intangible and tangible fixed asset carrying values and impairment tests are performed when changing circumstances or current events indicate that carrying values may not be recoverable.

An impairment is recognised to the extent that the carrying value cannot be recovered either through the sale of the asset or through the discounted future cash flows from operating the asset. Impairment provisions are charged to depreciation or amortisation in the year.

Fixed asset investments Joint ventures are accounted for in the Group's accounts under the gross equity method of accounting. Investments in joint ventures are carried in the consolidated balance sheet at the Group's share of their net assets at date of acquisition and of their post-acquisition retained profits or losses together with any goodwill arising on the acquisition, net of amortisation. Such investments are subject to review and any impairment is charged to the profit and loss account.
Investments in Energis plc shares representing shares held in a Qualifying Employee Share Ownership Trust to satisfy awards under the Sharesave Scheme, are held until awards vest at net realisable value.
Other quoted investments are carried at market valuation, and other non-quoted investments, are carried at cost less provision for permanent diminution in value.

Stock Stock represents finished goods and goods for resale and is stated at the lower of cost and net realisable value.

Leases Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.
Assets held under leases which confer rights and obligations similar to those attaching to owned assets are capitalised as tangible fixed assets and the capital element of the leasing commitments is disclosed 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 the lease payments is charged to the profit and loss account in proportion to the reducing capital element outstanding.
The capitalised values of the assets are depreciated on a straight line basis over the shorter of the periods of the leases or the useful lives of the assets concerned.

Issue costs of borrowings The costs of raising finance such as bank loans are capitalised against the carrying value of the debt. The costs are charged to the profit and loss account on an annual basis over the life of the debt.

Derivatives Interest rate swaps are not recognised on-balance sheet. The net interest paid or received under the swaps is recorded on an accruals basis and included within net interest in the profit and loss account.
When a derivative instrument ceases to be a hedge, either as a result of the underlying asset or liability being extinguished or because a future event is no longer likely to occur, the swap will thereafter be marked to its fair value in the financial statements and any resulting gains and losses are recognised in the profit and loss account.

Deferred taxation The Group adopted Financial Reporting Standard 19 "Deferred Taxation" (FRS 19) during the 2002 financial year. Deferred taxation is provided using a full provision method on certain timing differences between the recognition of gains and losses on an accounting basis and the recognition of those gains and losses on a tax basis. Deferred tax assets are recognised only to the extent that it is regarded as more likely than not that they are to be recovered. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.
Prior to the adoption of FRS19, the Group provided for deferred taxation only to the extent that timing differences were expected to reverse in the foreseeable future.
FRS19 has been adopted by way of a prior year adjustment, with the results for the financial year 2001 being restated. A provision for deferred tax of £14.1 million has been recognised as at 1 April 2000, which increased by £29.5 million in the year to 31 March 2001 to £43.6 million. The increase in the provision has been reflected in the results for the year to 31 March 2001 as taxation.

Pension scheme arrangements The Group participates in defined contribution pension schemes. Pension costs are accounted for by charging to the profit and loss account the contributions payable in respect of the accounting period.

Advertising costs Advertising costs are charged to the profit and loss account as incurred.

3. Segmental analysis

The Group operates in a single business segment for the provision of telecommunications services in a single geographical market, the United Kingdom.

Turnover comprised the following services:

	2001 £'000	2002 £'000
Basic services	176,795	188,677
Advanced services	231,165	210,357
Internet and related services	283,750	309,913
	691,710	708,947

4. Exceptional items

		2001 £'000	2002 £'000
Cost of sales:			
- Impairment of network and other operating assets	(i)	-	164,460
Selling, general and administrative:			
- Provision against debt from other Energis plc entities	(ii)	-	6,839
- Costs arising from the restructuring of the Group	(iii)	-	7,812
- Provision for onerous vacant property leases	(iv)	-	1,500
		-	16,151
Other depreciation and amounts written off intangibles:			
- Impairment of non-network and other assets	(i)	-	20,914
Amortisation of intangibles:			
- Impairment of goodwill in subsidiary undertakings	(i)	-	170,424
- Impairment of licences	(vi)	-	3,411
		-	173,835
Share of operating loss of joint ventures:			
- Impairment of goodwill and investment in joint ventures	(vii)	-	38,177
Amounts written off investments:			
- Impairment of an investment	(v)	-	1,900
Net interest:			
- Accelerated recognition of finance costs on bank debt	(viii)	-	17,516

i) As explained in Note 1, a review has been performed of the carrying value of the Group's intangible and tangible fixed assets in accordance with Financial Reporting Standard 11. Provisions for impairment have been recorded where the carrying amount of the assets concerned exceeded their recoverable amount, being the higher of net realisable value and value in use. In determining value in use, a risk-adjusted pre-tax discount rate of 14.9% has been applied to forecasts of the future cash flows to be derived from assets employed in the Group's ongoing business.

As a result of the review, the remaining carrying value of goodwill on all Group acquisitions, being £170.4 million, has been fully impaired (see Note 11) and impairment charges of £164.5 million and £20.9 million have been taken against network tangible fixed assets and other tangible fixed assets respectively (see Note 12).

ii) As a result of the current funding situation of Energis plc and its subsidiaries, joint ventures and associates, as described in Note 1, full provision has been made against debts due from these entities to the extent that collection may not be possible.

iii) During the year, the cost structure of the Group was streamlined in the light of the current economic climate, which resulted in redundancy and other restructuring costs of £3.8 million. Furthermore, the Group has incurred professional fees of £4.0 million in relation to the negotiations with its bankers for the current restructuring of the funding facilities.

iv) As a result of the restructuring of the Group, certain properties have become surplus to requirements and provision has been made to the extent that future property costs are expected to exceed associated future benefits.

v) The value of the Group's investment in Omiris has deteriorated as a result of the current funding situation of Energis plc and its subsidiaries, joint ventures and associates, as described in Note 1. Consequently the investment has been written down to its recoverable value being £0.3 million (see Note 30).

vi) The Group has reviewed the carrying value of its license from Emblaze Systems for streaming technology and, having considered expected demand for the associated products, has fully provided for the remaining net book value.

vii) An impairment review was undertaken by nevada tele.com Limited (nevada) in relation to the carrying value of Stentor, which was acquired by nevada in 2000. This resulted in an impairment charge of £44.7 million, of which the Group's share was £22.3 million. In the light of this and the current funding position of nevada, which is subject to renegotiation, the Group has also impaired its own goodwill relating to nevada, resulting in a further charge of £0.2 million. Furthermore, the Group has reviewed its position with regard to Metroholdings Limited ("MHL"). MHL was a joint venture with a company owned by France Telecom. In December 2001 France Telecom indicated it would exercise a put option to sell its 50% share of MHL back to the Group at a value being 50% of MHL's net assets. From 1 January 2002 France Telecom stopped using MHL's networks and the Group acquired the remaining 50% of MHL in May 2002 (see Note 30). In light of the current economic climate and over capacity in the telecoms industry the fair value of MHL's fixed assets, principally metropolitan networks, is considered to be nil. As a result, the Group has impaired its carrying value in MHL, being £0.3 million for goodwill and £7.0 million for share of net assets, and has provided for the excess of amounts payable to France Telecom under the put option over the fair value of net assets, being £8.3 million (see Note 18).

viii) In accordance with FRS 4 "Capital instruments", the Group had deferred the finance costs related to arranging the Group's bank debt and was amortising the finance costs over the term of the debt. As a result of the default on 11 March 2002 (see Note 1) the bank debt is now due on demand and the remaining deferred finance costs of £17.5 million have been written off.

5. Analysis of certain costs

	2001 £'000	2002 £'000
Depreciation of tangible fixed assets (excluding impairments):		
– Owned assets	99,118	124,733
– Under finance leases	4,318	4,505
Amortisation of goodwill (excluding impairments):		
– Subsidiaries	8,476	13,397
– Joint ventures	854	1,250
Operating lease rentals:		
– Plant and machinery	1,920	2,224
– Network rentals	75,785	76,565
– Other	5,102	8,830
Bad debt expenses:		
– Energis plc entities	-	6,839
– Other	3,374	24,653
Auditors' remuneration:		
– Audit services	205	538
– Non-audit services	235	1,208

The directors believe that the nature of the Group's business is such that the analysis of operating costs required by the Companies Act 1985 is not appropriate. As required by the Act, the directors have therefore adapted the prescribed format so that operating costs are disclosed in a manner appropriate to the Group's principal activity. Operating costs as required by the Act would include network depreciation, selling, general and administrative costs, other depreciation and amortisation as presented in the Group's profit and loss account.

6. Employee information

The average monthly number of persons employed by the Group was as follows:

	2001	2002
By category:		
Sales and marketing	437	557
Operations	1,077	1,392
Administration	560	488
	2,074	2,437

	£'000	£'000
Staff costs for the above persons:		
Wages and salaries	91,487	103,146
Social security costs	9,915	10,729
Other pension costs	4,422	5,952
	105,824	119,827
Less: amounts capitalised (note 2)	(28,400)	(29,350)
Charged to the profit and loss account	77,424	90,477

7. Directors' emoluments

The directors of the Company are also directors of Energis plc, the ultimate parent company. The directors service contracts are with Energis plc.

In the year ended 31 March 2002 directors' emoluments of £471,110 (2001: £1,205,107) were paid to the directors of the Company by Energis Communications Limited, a subsidiary of the Company. These emoluments were in respect of the directors' services to the Energis plc group as a whole, and the directors received no emoluments for their services as directors of the Company. It is not considered appropriate to allocate the emoluments received by directors to individual subsidiaries.

8. Net interest

	2001 £'000	2002 £'000
Interest payable:		
Bank loans and overdrafts	(9,079)	(31,520)
To parent company on intergroup loan	(62,323)	(46,025)
To related party on finance leases	(6,035)	(7,505)
Other finance leases	(59)	(173)
Group share of joint ventures interest payable	-	(1,498)
Exceptional finance costs (note 4)	-	(17,516)
Other finance costs	(3,883)	(3,046)
	(81,379)	(107,283)
Interest receivable	530	2,762
Group share of joint ventures interest receivable	13	19
	543	2,781
Net interest payable	(80,836)	(104,502)

9. Taxation

The components of the tax charge/(credit) are as follows:

	2001 (restated) £'000	2002 £'000
Corporation tax:		
UK taxation	-	-
Overseas taxation	-	122
Share of receipt for joint venture consortium relief	(624)	(341)
	(624)	(219)
Deferred tax:		
Current year	30,845	(43,592)
Prior year	(1,333)	(14)
Group's share of joint venture's deferred taxation	59	21
	29,571	(43,585)
Total taxation of loss on ordinary activities	28,947	(43,804)

A reconciliation between the UK tax charge/(credit) at the statutory rate of 30% (2001: 30%) and the actual tax charge/(credit) is as follows:

	2001 (restated) £'000	2002 £'000
Corporation tax credit at 30% (2001: 30%) on loss on ordinary activities before taxation	(15,433)	(177,775)
Permanent differences:		
Other	2,158	21,402
Amortisation of goodwill	3,156	56,783
Prior year movement on deferred tax liability	(1,333)	(14)
Movement on deferred taxation not recognised	-	54,055
Share of joint venture movement on deferred tax not recognised	1,689	2,128
Share of receipt for joint venture consortium relief	(624)	(341)
Group relief surrendered	39,334	(42)
Tax charge/(credit) per accounts	28,947	(43,804)

There are tax losses of approximately £267 million available at 31 March 2002 (2001 : £37 million). These losses can be carried forward and used to offset future taxable income.

10. Revaluation of fixed asset investments

In the prior year, fixed asset investments in Wanadoo and Emblaze Systems, which were held at market value in accordance with the Group's accounting policy, were revalued to their open market value prior to their transfer to a fellow subsidiary of the Energis Plc group. This resulted in a revaluation loss of £115.7 million that reversed previous revaluation gains on the same investments.

11. Intangible assets

Group	Goodwill £'000	Licenses £'000	Total £'000
Cost			
At 1 April 2001	146,857	7,500	154,357
Acquisitions (see Note 25)	55,198	-	55,198
At 31 March 2002	202,055	7,500	209,555
Amortisation			
At 1 April 2001	18,234	2,045	20,279
Charge for the year	13,397	2,044	15,441
Impairment (see Note 4)	170,424	3,411	173,835
At 31 March 2002	202,055	7,500	209,555
Net book value			
At 31 March 2001	128,623	5,455	134,078
At 31 March 2002	-	-	-

12. Tangible assets

Group	Network plant and machinery £'000	Non network plant and machinery £'000	Fixtures, fittings and office equipment £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1 April 2001	899,158	150,865	29,988	180,769	1,260,780
Additions	46,223	2,393	189	192,519	241,324
Acquisitions (see note 25)	461	-	-	-	461
Transfers	203,536	17,723	23,144	(244,403)	-
Disposals	(1,748)	(9)	(17)	-	(1,774)
At 31 March 2002	1,147,630	170,972	53,304	128,885	1,500,791
Depreciation					
At 1 April 2001	265,553	100,138	8,335	-	374,026
Charge for the year (see note 5)	104,744	18,945	5,549	-	129,238
Impairments (see note 4)	164,460	12,850	8,064	-	185,374
Disposals	(132)	(9)	(1)	-	(142)
At 31 March 2002	534,625	131,924	21,947	-	688,496
Net book value					
At 31 March 2001	633,605	50,727	21,653	180,769	886,754
At 31 March 2002	613,005	39,048	31,357	128,885	812,295

Net book value of assets held under finance leases included in the above:

Group	2001 £'000	2002 £'000
Network plant and machinery		
– cost	75,190	75,190
– depreciation	(24,749)	(28,860)
	50,441	46,330
Non-network plant and machinery		
– cost	1,922	3,842
– depreciation	(1,683)	(1,824)
	239	2,018

13. Investments and provision for joint venture deficits

Group	Joint ventures £'000	Loans to joint ventures £'000	Other investments £'000	Total £'000
Book value				
At 1 April 2001	5,717	35,800	2,822	44,339
Additions/advances	-	1,500	2,704	4,204
Transfers between categories	26,800	(26,800)	-	-
Share of retained loss[1]	(29,577)	-	-	(29,577)
Goodwill amortisation	(1,250)	-	-	(1,250)
Impairments (see Note 4)	(7,543)	-	(1,900)	(9,443)
Write down to market value	-	-	(2,732)	(2,732)
Disposals/repayments	-	(3,000)	(500)	(3,500)
Transfer to parent	-	(7,500)	-	(7,500)
At 31 March 2002	(5,853)	-	394	(5,459)
Analysed as:				
Investments	749	-	394	1,143
Provision for joint venture deficits	(6,602)	-	-	(6,602)
	(5,853)	-	394	(5,459)

[1] Includes share of impairment loss of £22.35 million (see note 4).

The net book value of joint ventures can be analysed as follows:

Group	2001 £'000	2002 £'000
Share of net assets	(18,457)	7,806
Share of net liabilities	-	(6,602)
Goodwill	24,174	-
Provision against share of net assets	-	(7,057)
Net book value	5,717	(5,853)

Company	Joint ventures £'000	Loans to joint ventures £'000	Investments in subsidiaries £'000	Total £'000
Book value				
At 1 April 2001	12,404	35,800	255,017	303,221
Additions/advances	-	1,500	53,448	54,948
Transfers between categories	26,800	(26,800)	-	-
Disposals/repayments	-	(3,000)	-	(3,000)
Impairments	(39,204)	-	(308,465)	(347,669)
Transfer to parent	-	(7,500)	-	(7,500)
At 31 March 2002	-	-	-	-

On 23 May 2001 the Group capitalised £26.8 million of its loan to Nevada tele.com Limited ("nevada"), converting it to equity shares. The capitalisation was matched by the joint venture partner, leaving the Group's holding unchanged at 50%. On 31 May 2001, the remaining loan to nevada of £7.5 million was transferred to the Group's parent undertaking Energis plc.

Other investments include a 13.6% holding in Omiris, which was acquired on 6 February 2002 through the capitalisation of £2.23 million of trade debt. At the year end, the investment was written down to its realisable value, being £0.3 million (see Note 4). Additionally the Group holds 3,773,848 (2001: 5,901,859) 10 pence ordinary shares in Energis plc acquired by Energis Quest Trustee Limited, a Qualifying Employee Share Ownership Trust ("QUEST") that are held for the purpose of satisfying certain obligations under the Sharesave scheme. During the year 671,025 shares were purchased from Energis plc at a market value of £0.47 million. The disposal of £0.5 million relates to 2,799,036 ordinary shares transferred to employees of the Group who exercised options under the Sharesave scheme during the year. The carrying value of £0.06 million represents the market value of the shares at 31 March 2002.

The full list of subsidiary undertakings and joint ventures included in the Group accounts are listed below.

Subsidiary undertakings	**Country of incorporation**	**Principal activity**	**% holdings** [1]
Energis Communications Limited	England	Provision of telecommunications services	100%
Energis Integration Services Limited	England	Network design and consultancy	100%
Energis Squared Limited	England	Internet services support	100%
Energis Mobile Limited	England	Provision of mobile telecommunications services	100%
Energis Carrier Services (UK) Limited	England	Provision of telecommunications services	100%
Energis Quest Trustee Limited	England	Sharesave trust	100%
T3 Limited	England	Provision of telecommunications services	100%
Joint ventures			
MetroHoldings Limited	England	Construction of telecommunications networks	50%
nevada tele.com Limited	Northern Ireland	Provision of telecommunication services	50%

(1) All holdings are in ordinary shares.

14. Debtors

	Group		Company	
	2001	2002	2001	2002
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	151,165	101,607	-	-
Provision against doubtful accounts	(7,623)	(21,137)	-	-
Net trade debtors	143,542	80,470	-	-
Other debtors	3,327	1,929	216	662
Prepayments and accrued income	49,901	49,984	14	100
Amounts owed by related parties:				
- Trade debtors	11,171	17,507	-	-
- Amounts owed by fellow subsidiary undertakings	12,204	5,147	-	-
- Amounts owed by subsidiary undertakings	-	-	793,936	662,087
- Amounts owed by JVs	1,539	1,812	-	-
	221,684	156,849	794,166	662,849

15. Creditors: amounts falling due within one year

	Group 2001 £'000	Group 2002 £'000	Company 2001 £'000	Company 2002 £'000
Bank loans and overdrafts (see Note 17)	26,649	653,499	1,271	645,481
Obligations under finance leases	686	885	-	-
Trade creditors	115,943	82,461	-	-
Social security and other taxes	6,132	5,779	-	-
Other creditors	35,151	3,212	34,505	-
Accruals	83,709	95,112	200	309
Deferred income	28,860	32,015	-	-
Amounts owed to related parties:				
- Trade creditors	1,971	8,657	-	-
- Obligations under finance leases	4,865	5,435	-	-
- Amounts owed to parent company (see Note 17)	-	531,725	-	531,725
- Amounts owed to fellow subsidiary undertakings	3,178	9,300	-	6,913
- Amounts owed to JVs	-	1,251	-	-
- Deferred income	3,308	5,507	-	-
	310,452	1,434,838	35,976	1,184,428

16. Creditors: amounts falling due after more than one year

	Group 2001 £'000	Group 2002 £'000	Company 2001 £'000	Company 2002 £'000
Bank loans	165,597	-	165,597	-
Obligations under finance leases	1,015	394	-	-
Amounts owed to parent company	687,379	-	687,379	-
Amounts owed to fellow subsidiaries (see Note 17)	-	2,034	-	-
Other creditors	2,225	-	-	-
Deferred income	541	-	-	-
Amounts owed to related parties:				
- Obligations under finance leases	50,642	49,659	-	-
- Deferred income	18,129	9,870	-	-
	925,528	61,957	852,976	-

17. Bank and other borrowings

Bank loans

As at 31 March 2002, Bank loans included £640.0 million under a Facility Agreement dated 18 November 1997, as amended, with a consortium of banks. The banks had agreed to provide the Group with a secured revolving credit facility of £725 million, converting on 31 December 2003 into a £525 million four year term loan and a £200 million four year revolving credit facility. A £25 million guarantee issuance facility was available under the revolving credit facility. Security was provided by a fixed and floating charge over the assets of the Group. The availability of funds under the Facility Agreement was subject to the satisfaction of certain covenants and repayment was by instalments to the termination date of 30 June 2008. At 31 March 2002, £640 million gross (2001: £170 million) was drawn against this facility. The facilities bore interest at the rate of LIBOR plus a margin of 2.0% as defined in the Facility Agreement. Interest rate swaps with a weighted average fixed rate of

5.8558% have been used to hedge the interest rate exposure (see also note 26).

The bank facility was governed by a number of financial and non-financial covenant measures. Certain of these measures have not been met and the Company acknowledged that the facility was in default on 11 March 2002. The banks agreed to continue to make funding available to the Company under the facility, provided a number of conditions were met. Use of additional funding was subject to approval by the banks' advisors and at the year end, there was a balance of restricted cash amounting to £11.7 million.

On 16 July 2002, the bank facilities were renegotiated in association with the sale of the Group to Chelys Ltd - see Note 30 "Post balance sheet events".

Amounts owed to parent company
The Company has loan agreements with its parent for a total principal sum of £900 million at interest rates consistent with the rate available under the Company's facility agreement with third party creditors. The interest rate of this facility at 31 March 2002 was 6.5% (2001: 9.5%). The loans are repayable on demand but are subordinated to the borrowings under the Facility Agreement. At 31 March 2002, these loans totalled £531.7 million. The parent was Energis plc at 31 March 2002 but on 16 July 2002 the loans were assigned to Chelys Ltd for £1 each (see Note 1).

Amounts owed to fellow subsidiaries
Following the acquisition of the trade and assets of the commercial business of Ision Internet Plc during the year (see Note 25), Energis Communications Limited has a loan balance of £2.0m due to Ision Internet Plc. Interest is accrued at a rate of 7.5% per annum. Both the loan and the accrued interest are repayable in full on 31 December 2004.

The maturity of gross bank borrowings are as follows:

	Group		Company	
	2001	2002	2001	2002
	£'000	£'000	£'000	£'000
Within one year	26,649	651,484	1,271	643,466
Between one and two years	15,300	-	15,300	-
Between two and three years	34,000	-	34,000	-
Between three and four years	54,825	-	54,825	-
Between four and five years	65,875	-	65,875	-
Over five years	-	-	-	-
	196,649	651,484	171,271	643,466
Unamortised/accrued finance costs	(4,403)	2,015	(4,403)	2,015
	192,246	653,499	166,868	645,481

ENERGIS HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2002

The maturity of finance lease liabilities is as follows:

		Group		Company
	2001	2002	2001	2002
	£'000	£'000	£'000	£'000
Within one year	5,551	6,320	-	-
Between one and two years	5,205	6,230	-	-
Between two and five years	17,163	21,939	-	-
Over five years	29,289	21,884	-	-
	57,208	56,373	-	-

18. Provisions for liabilities and charges

Group	Vacant property provision (see Note 4)	Provision for MHL investment commitment (see Note 4)	Deferred taxation (restated)	Total
	£'000	£'000	£'000	£'000
At 1 April 2001 – as restated	-	-	43,606	43,606
Provided during the year	1,500	8,284	-	9,784
Transfer to profit and loss account	-	-	(43,606)	(43,606)
At 31 March 2002	1,500	8,284	-	9,784

Company	Provision for MHL investment commitment (see note 4)	Total
	£'000	£'000
At 1 April 2001	-	-
Provided during the year	8,284	8,284
At 31 March 2002	8,284	8,284

Deferred tax

	As at 31 March	
	2001 (restated)	2002
	£'000	£'000
Accelerated capital allowances	55,695	34,629
Tax losses carried forward	(11,431)	(30,870)
Short-term timing differences	(658)	(3,759)
Deferred tax provision	43,606	-

19. Share capital

	Authorised Number	Allotted and fully paid	Nominal value £'000
Company and Group			
Ordinary 10 pence shares			
At 31 March 2001 and 31 March 2002	180,000,000	177,466,226	177,466

20. Reserves

	Share premium £'000	Profit and loss account £'000	Total £'000
Group			
At 1 April 2001 – as previously stated	263,807	(366,020)	(102,213)
Prior year adjustment	-	(43,606)	(43,606)
At 1 April 2001 – as restated	263,807	(409,626)	(145,819)
Retained loss for financial year	-	(548,780)	(548,780)
At 31 March 2002	263,807	(958,406)	(694,599)

	Profit and loss account £'000	Total £'000
Company		
At 1 April 2001	46,384	46,384
Retained loss for financial year	(735,151)	(735,151)
At 31 March 2002	(688,767)	(688,767)

As permitted by section 230 of the Companies Act 1985, the parent Company's profit and loss account has not been included in these financial statements. Its loss after tax for the financial year amounted to £735.0 million (2001: £22.3 million).

21. Net cash inflow from operating activities

	2001 £'000	2002 £'000
Group		
Group operating profit/(loss)	33,645	(438,427)
Depreciation	104,135	314,612
Amortisation	10,521	189,276
(Profit)/loss on disposal of fixed assets	(61)	254
Net investment in working capital		
Decrease/(increase) in stock	615	(384)
(Increase)/decrease in debtors	(101,581)	63,383
Increase/(decrease) in creditors	28,403	(1,894)
Net cash inflow from operating activities	75,677	126,820

22. Reconciliation of net cash flow to movement in net debt

	2001 £'000	2002 £'000
Group		
(Decrease)/increase in cash in the year	(11,389)	16,145
Cash inflow from increase in debt	(232,741)	(274,359)
Non cash movements	(2,374)	(45,570)
Movement in net debt in the period	(246,504)	(303,784)
Net debt at 1 April	(671,181)	(917,685)
Net debt at 31 March	(917,685)	(1,221,469)

23. Analysis of net debt

	31 March 2001 £'000	Cashflow £'000	Non-cash movement £'000	31 March 2002 £'000
Group				
Cash	19,148	(10,680)	-	8,468
Restricted cash	-	11,660	-	11,660
Overdraft	(26,649)	15,165	-	(11,484)
	(7,501)	16,145	-	8,644
Bank loans and facility agreement	(165,597)	(470,000)	(6,418)	(642,015)
Amounts owed to parent undertaking	(687,379)	194,145	(38,491)	(531,725)
Finance leases	(57,208)	1,496	(661)	(56,373)
	(910,184)	(274,359)	(45,570)	(1,230,113)
Net debt	(917,685)	(258,214)	(45,570)	(1,221,469)

Non-cash movements in 2002 principally reflect the recognition and amortisation of finance costs on long term bank borrowings, interest accrued (£46.3m) and the transfer of the nevada loan (£7.5m – see Note 13) to the amounts owed to parent undertaking, and additional finance lease agreements entered into during the year.

Other major non cash transactions

During the year, loans made to Nevada in 2001 amounting to £26.8 million were converted into equity in Nevada and trade debtor balances with Omiris amounting to £2.23 million were converted into equity (see Note 13).

24. Cash flow relating to exceptional items

Operating cash flows under continuing operations include an outflow of £7.2 million relating to the Group's reorganisation which are fully described in note 4.

25. Acquisitions

During the year, the Group made a further payment of £13.0 million (previously accrued) as deferred consideration to the former shareholders of Energis Squared (formerly Planet Online) Limited due pursuant to the sale and purchase agreement dated 28 August 1998. In addition, the Group agreed a £75 million full and final settlement of deferred consideration due pursuant to the sale and purchase agreement. It was paid in 1,949,062 Wanadoo shares and £68.1 million cash, of which £21.5 million had been accrued in prior years.

On 1 January 2002 the Group acquired the trade and assets of the commercial business of Ision Internet Plc (a fellow subsidiary of Energis Plc). The consideration was £2.0m in the form of a loan payable on 31 December 2004. A balance sheet at acquisition is shown below. No fair value adjustments were made and the acquisition resulted in £1.75m of goodwill.

	£'000
Fixed assets	461
Current assets	561
Current liabilities	(771)
Net assets	251

26. Contingencies

(a) Completeness of liabilities

On 4 April 2002 the Company's parent, Energis plc announced that it would not provide further funding for its 100% subsidiary ECS, which filed for bankruptcy on 16 April 2002. A bankruptcy order was subsequently made on 29 April 2002. Similarly on 10 May Energis plc also announced that its 98.3% subsidiary ISION had informed it that it intended to commence insolvency proceedings. An administrator was appointed to ISION on 10 May 2002. On 16 July 2002 Joint Administrators were appointed to Energis plc and certain of the Energis UK operations including the Company, (the "Sale Group") were sold to Chelys Limited as described in Note 30 "Post balance sheet events".

At the date of these financial statements the appointed liquidators to Energis plc, ECS and ISION are at an early stage of their appointment and have not yet finalised their evaluation of the claims they may be able to make for recoveries to satisfy the creditors of the respective companies.

As described in Note 30 "Post balance sheet events" Energis plc has entered into an agreement to sell certain UK subsidiaries including the Company. In preparation for the sale of the UK business the Company and Energis plc have considered whether the Sale Group can be cleanly separated from the overall Energis plc group with a degree of certainty concerning the Sale Group's liabilities. The directors have identified certain risk areas and performed a review of these risk areas to identify any liabilities which should be recorded in the financial statements of Energis Holdings Limited, and where appropriate have recorded probable liabilities in these financial statements. The Directors have not received any claims from the liquidators of ECS, ISION and Energis plc. The Directors do not believe that, on the basis of the information available at the current date, there is a risk of material claims arising. However, there still remains the risk that liquidators or other parties pursue claims against the Company, which if successful, could result in a material but as yet unidentified liability.

(b) Other

The Company has interest rate swaps with a principal value of £475 million at the 31 March 2002, which are used to hedge the variable interest rate payable on the bank facility by swapping it to fixed rate interest. The swaps have various expiry dates up to September 2006. At 31 March 2002 the swaps had a negative fair value, based on market value, of £1.9 million.

At 31 March 2002 there were bank account cross guarantees between the Group, the Group's parent company (Energis plc) and a fellow subsidiary (Energis Local Access Limited) to support pooling arrangements for cash management purposes. Neither Energis plc nor Energis Local Access Limited had overdraft facilities under the cross guarantees. On 16 July 2002, with the sale of the Group to Chelys Ltd (see Note 30), Energis plc left the cross guarentee and pooling arrangements.

Neither the Company nor the Group is subject to any material litigation

27. Commitments

(a) Capital expenditure

	Group		Company	
	2001	2002	2001	2002
	£'000	£'000	£'000	£'000
Capital expenditure contracted but not provided for	65,813	18,673	-	-

(b) Leasing commitments

The Group had annual commitments under operating leases as follows:

	Group		Company	
	2001	2002	2001	2002
	£'000	£'000	£'000	£'000
Expiring within one year	6,377	7,770	-	-
Expiring between two and five years (inclusive)	55,762	64,227	-	-
Expiring in more than five years	16,121	8,405	-	-
	78,260	80,402	-	-
Being in respect of:			-	-
Land and buildings	5,632	5,193	-	-
Other	72,628	75,209	-	-
	78,260	80,402	-	-

28. Pensions

The Group operates a number of defined contribution pension schemes throughout its businesses, and has no defined benefit schemes. The pension cost, which represents contributions payable by the Group, is disclosed in Note 6.

There is no significant difference between the charge for the periods and the amounts actually paid.

29. Related party transactions

Energis Communications and The National Grid have entered into certain contractual arrangements for the leasing, installation and maintenance of the Energis Network in the UK.

The National Grid has entered into a finance lease with Energis Communications pursuant to which it has financed the construction of, and leases to Energis Communications, the Energis Network in return for certain rental payments. An infrastructure services licence exists which confers on Energis Communications the right to keep in place and use the Energis Network for the purpose of operating a telecommunications network in accordance with its PTO licence and international licence. Energis Communications pays an annual licence fee per kilometre of cable installed and in commercial use. Energis Communications also has a maintenance agreement for the provision of maintenance and emergency cover services and a framework installation agreement to record the terms on which The National Grid will implement extensions, renewals and replacements to the existing Energis Network. In addition, under a requisite consent payment agreement, Energis Communications reimburses The National Grid for all costs properly incurred by them to procure and maintain all consents, wayleaves and permits which may be necessary to install, operate and maintain the Energis Network. Amounts payable under the infrastructure services licence, maintenance agreement and requisite consent payment agreement were £3.6 million, £1.0 million and £0.1 million respectively for the year ended 31 March 2001. For the year ended 31 March 2002 such revenues earnt were £3.6 million, £1.3 million and £0.1 million respectively.

Under the Teleprotection Agreement, Energis Communications provides a communications system for The National Grid's transmission operations which is used to transmit information to The National Grid concerning its electricity transmission network, allowing it to monitor, measure and respond to faults. As part of this agreement, the Group has progressively installed its own digital circuits to replace leased analogue circuits. Revenues earned from the Teleprotection Agreement in the year ended 31 March 2001 were £24.3 million, and £33.8 million for the year ended 31 March 2002. The National Grid is also a customer of the Group for basic telephony and advanced data services. The Teleprotection Agreement and contracts to provide basic telephony and advanced services were negotiated on an arm's-length basis and operate under normal commercial terms.

The National Grid, as the former parent, has provided certain guarantees in relation to certain commercial arrangements of Energis Communications, comprising guarantees in respect of lease obligations and a guarantee of the obligations of Energis Communications under a major customer contract. Energis Communications has entered into a deed of counter indemnity with The National Grid pursuant to which it has given The National Grid an indemnity in respect of any payments they are required to make under the terms of guarantees.
The following is a summary of transactions and balances with The National Grid:

	2001 £'000	2002 £'000
Amounts included in turnover:		
Teleprotection agreement	24,303	33,760
Other telecoms services	4,418	3,388
	28,721	37,148
Amounts payable included in interconnect and network expenses	6,509	5,660
Interest payable on finance lease (see note 8)	6,035	5,613
Balance sheet		
Fixed asset purchases[(1)]	300	-

Note 1: Excludes finance lease additions.

The following is a summary of transactions with joint ventures of the Group. These transactions were all at normal commercial rates and are either included in turnover or costs.

	2001 £'000	2002 £'000
Amounts included in turnover:		
MetroHoldings Limited		
Network build	3,642	1,845
Nevada tele.com Limited		
Hardware	1,349	18
Other telecoms services	335	285
Amounts included in costs:		
MetroHoldings Limited		
Administrative costs	1,854	1,438

The following is a summary of transactions with associates and fellow subsidiaries of the Energis plc group. These transactions were all at normal commercial rates and are either included in turnover or costs.

	2001 £'000	2002 £'000
Amounts included in turnover:		
Energis Polska	3,677	2,987
Eurocall Limited	8,692	17,232
Energis Graham Limited	608	1,468
Energis NV	-	791
Ision Internet AG	-	77
Energis (Switzerland) AG	9,257	10,950
Amounts included in costs:		
Energis Graham Limited	-	344
Ision Internet AG	-	606
Energis (Switzerland) AG	9,361	16,300

30. Post balance sheet events

On 18 April the Company acquired Energis Management Limited from its parent Energis plc for the sum of £1. Energis Management Limited provides management and administrative services to the Energis group.

On 1 May 2002 the Company acquired from France Telecom their 50% stake in Metroholdings Limited (MHL), in lieu of a put option held by France Telecom. The Company now owns 100% of MHL. The consideration for the 50% stake is £8.95 million cash, payable in £1 million instalments starting on 1 May and then monthly from 28 May to 28 November with a final payment of £0.95 million on 28 December 2002. The Company had fully provided against the payment of this £8.95 million at 31 March 2002 as described in Note 4.

On 27 May 2002 the Company sold its subsidiary Energis Carrier Services Limited to Energis Holdco Limited for the sum of £1.

On 31 May 2002, Energis Carrier Services Limited was put into administration.

On 12 July 2002 the Company sold its subsidiary Energis Quest Trustee Limited to Energis Holdco Ltd for the sum of £1.

On 15 July the Company's subsidiary Energis Communications Limited sold its 13.6% stake in Omiris to Energis plc in consideration of Energis plc discharging £333,000 of debt owed by the Company to Energis plc, and the Company discharging £333,000 of debt owed by Energis Communications Limited to the Company.

On 15 July 2002 the Company was party to an intra-group reorganisation whereby, certain debts of the Company due to the Energis group were rationalised into a single debt to Energis plc and certain debts receivable by the Group from those companies in the Energis group which are insolvent were transferred to a subsidiary Energis Holdco II Limited of Energis plc.

On 16 July 2002 the Company was party to a Sale and Purchase agreement whereby Energis plc sold the Group and other assets to Chelys Limited. The other assets included the intra-group debt owed by the Company and its subsidiaries to Energis plc. Chelys is a private company owned by a consortium of financial institutions ("the Consortium"). The Consortium also put in place a facility amendment and term loan facilities agreement following which the Chelys group received £150 million new financing and all the bank debt was converted into loans that are not repayable for 7 – 8 years.

The new facilities comprise

	£ million	Rate	Maturing
Energis Communications Limited	150	Libor + 225bp	2009
The Company	526.9	Libor + 225bp to 325bp	2009/2010
	676.9		

The Company transferred £150 million of its original bank debt to its new parent Chelys, and this debt was then released in return for share capital in Chelys. The banks have advanced £150 million of new money to Energis Communications Limited.

On 21 August 2002, the Company entered into a loan agreement to provide £1 million of funding to nevada tele.com Limited.

31. Ultimate holding company

From 16 July 2002 the parent company and ultimate holding company is Chelys Ltd whose Company Secretary can be contacted at:

Chelys Ltd
185 Park Street
London
SE1 9DY