



Annual Report 2003

ACN European Services Limited
Registered number: 03650246





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Company information

Legal name	ACN European Services Limited
Founded	9-10-1998
Registered country	United Kingdom
Type of business	Telecommunications
Legal form	Limited
Jurisdiction	United Kingdom
Registration-number	03650246
VAT-number	GB 726 3625 33
Parent company	ACN International Inc
Ownership	100%
Registered address	ACN European Services Limited. Royex House, Aldermanbury Square London, EC2V 7HR United Kingdom
Board of directors	C. Barker (US) C. Schumacher (Dutch) R. Stevanovski (US) J. Swenson (US)
Auditors	Deloitte & Touche LLP London United Kingdom
Solicitors	Squire, Sanders & Dempsey Royex House, Aldermanbury Square London, EC2V 7HR United Kingdom
Bankers	Natwest (NAT) ABN-AMRO Bank (AAB) Giro-bank (GBK)



Report of directors

The directors present their report and the audited financial statements for the year ended 31 December 2003.

Principal activity, business review and future developments

ACN European Services Limited operates in the telecommunications industry. From 1 January 2002 the company has been acting as an agent for ACN Europe B.V., which is its undisclosed principal. ACN Europe B.V. reimburses ACN European Services Limited for all local expenses incurred.

Since 1 January 2002 ACN Europe B.V., the company that actually manages ACN European Services Limited, included the revenues of ACN European Services Limited as its own. In accordance with FRS 5 Application Note G, and in order to establish a fair picture of the activities in the UK market, the company changed this view for the 2003 financial statements. In this report all revenues in the UK market are reported both in ACN European Services Limited and in the consolidated financial statements of ACN Europe B.V. These changes have been reflected for the reported results for 2002 and 2003.

Results and dividends

The company had £nil profit after taxation (2002: £nil). The directors do not recommend payment of a dividend (2002: £nil).

Directors and their interests

The directors who served during the year and at the date of this report were as follows:

C.F. Barker
C.H. Schumacher
W.J. Swenson
R.R. Stevanovski (appointed 1 September 2003)

None of the directors held a beneficial interest in the shares of the company at 31 December 2003 or at any time during the year.

The directors had no interests in the shares of any other body corporate in the American Communications Network Inc. group that are required to be disclosed under S324 of the Companies Act 1985.



Statement of Directors' Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period 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; 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 to 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.

Auditors

During the year PricewaterhouseCoopers LLP resigned and the directors appointed Deloitte & Touche LLP as auditors. A resolution to appoint Deloitte & Touche LLP as auditors to the company will be proposed at the annual general meeting.

By Order of the Board

A handwritten signature in black ink, appearing to read 'C.H. Schumacher', written over a horizontal line.

C.H. Schumacher
4-3-2005



Report of Independent Auditors

We have audited the financial statements of ACN European Services Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 14. 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 or material inconsistencies with the financial statements.

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 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 the company's affairs as at 31 December 2003 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

7-3-2005

Profit and loss account for the year ended 31 December 2003

	<i>Notes</i>	2002 £ restated	2003 £
Turnover	1	4,023,703	4,633,043
Cost of sales		-2,464,598	-2,526,829
Gross Profit		1,559,105	2,106,214
Administrative expenses	2	-1,561,940	-2,143,250
Operating loss	3	-2,835	-37,036
Interest receivable and similar income		2,835	37,036
Profit/(loss) on ordinary activities before taxation		0	0
Tax on profit/(loss) on ordinary activities	4	0	0
Profit/(loss) on ordinary activities after taxation		0	0

All operations are continuing.

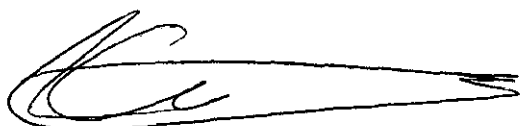
There are no recognised gains or losses for the year other than those already dealt with in the profit and loss account hence no statement of recognised gains and losses is presented.

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

Balance Sheet as at 31 December 2003

	<i>Notes</i>	2002 £ restated	2003 £
Fixed assets			
Tangible assets	5	12,150	0
Current assets			
Debtors	6	1,954,529	2,980,523
Cash at bank and in hand		16,414	299,214
		1,970,943	3,279,737
Creditors: amounts falling due within one year	7	-6,995,926	-8,292,570
Net current liabilities		-5,024,983	-5,012,833
Net liabilities		-5,012,833	-5,012,833
Capital and reserves			
Called up share capital	8	1,000	1,000
Profit and loss account	9	-5,013,833	-5,013,833
Equity shareholders' funds	10	-5,012,833	-5,012,833

The financial statements on pages 7 to 13 were approved by the Board of Directors on the 4/3 2005 and were signed on behalf of the Board:



C.H. Schumacher
Director

Accounting policies and notes to the financial statements for the year ended 31 December 2003

Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Companies Act 1985.

Profit and loss account

FRS 5 Application Note G was applied for the first time following its issue in November 2003. Therefore prior year numbers have been restated.

Turnover represents amounts billed to customers for services provided, excluding VAT and trade discounts. In the current year all revenues and costs are also reported in the financial statements of ACN Europe B.V. in accordance with the terms of the services agreement with that company.

Cash flow statement

The company has not prepared a cash flow statement following the revision of FRS 1 on the basis that ACN Europe B.V. produces consolidated accounts, which include a cash flow statement, into which the company's accounts are fully consolidated.

Foreign exchange

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated at the rates prevailing on the dates of the transactions. Resulting differences on translation are charged or credited to the profit and loss account.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. Provision is made for any impairment. The principal annual rates used for this purpose are:

Computer equipment and software	10% - 33.33% straight line
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Taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred taxation is not provided on timing differences arising from revaluation of fixed assets where there is no commitment to sell the asset. Deferred taxation assets are recognised to the extent that it is regarded, as more likely than not that they will be recovered. Deferred taxation assets and liabilities are not discounted.

Notes to the financial statements

1. Turnover

Turnover in the prior year was all attributable to the company's principal activity.

Turnover	2002 £	2003 £
	restated	
Telecom Revenue	3,712,316	4,236,306
Energy Revenue	5,500	30,655
Distributor Revenue	305,887	366,082
	4,023,703	4,633,043

2. Administrative expenses

Administrative expenses	2002 £	2003 £
	restated	
Distribution and administrative	633,720	474,970
Group charges	928,220	1,668,280
	1,561,940	2,143,250

During the year, group charges were allocated to ACN European Services Limited in respect of staff costs, billing and provisioning services, information technology services and general overhead expenditure.

3. Operating loss

The profit on ordinary activities is stated after:

Operating loss	2002 £ restated	2003 £
Depreciation - Tangible fixed assets - owned	4,050	-8,100
Auditors' remuneration - Audit services	4,466	8,750

The company no longer owns any assets. The negative depreciation corrects a previous over-provision.

4. Tax on profit/(loss) on ordinary activities

Tax on Profit/(loss) on ordinary activities	2002 £	2003 £
Current Tax	0	0
Deferred Tax	0	0

The tax assessed for the current year is equal to the standard rate of corporation tax (30%).

Deferred taxation assets relating to carried forward tax losses have not been recognised in the accounts, as it is more likely than not that they will not be recovered.

5. Tangible fixed assets

Tangible fixed assets	Computer equipment and software £
Cost	
At 1 January 2003	20,251
Transfers	-20,251
At 31 December 2003	0
Depreciation	
At 1 January 2003	8,100
Transfers	-8,100
At 31 December 2003	0
Net book amount	
At 31 December 2003	0

Fixed assets were transferred to ACN Europe B.V. on 1 January 2003 at net book value.

6. Debtors

Debtors	2002	2003
	£	£
	restated	
Trade debtors	825,926	834,248
Amounts owed by group undertaking	1,128,603	2,042,129
Prepayments and accrued income	0	104,146
	1,954,529	2,980,523

7. Creditors: amounts falling due within one year

Creditors	2002	2003
	£	£
	restated	
Trade creditors	717,628	362,040
Amounts owed to group undertaking	6,016,238	7,903,829
Other taxation and social security	26,811	26,701
Accruals and deferred income	235,249	0
	6,995,926	8,292,570

8. Share capital

Share capital	2002	2003
	£	£
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	1,000	1,000

9. Reserves

Reserves	2002	2003
	£	£
At 1 January	-5,013,833	-5,013,833
Profit/(loss) for the year	0	0
At 31 December	-5,013,833	-5,013,833

10. Reconciliation of movements in shareholders' deficit

Reconciliation of movements in shareholders' deficit	2002 £	2003 £
Profit/(loss) for the financial year	0	0
Opening shareholders' deficit	-5,013,833	-5,013,833
Closing shareholders' deficit	-5,013,833	-5,013,833

11. Contingent liabilities

Until January 2003, the company guaranteed its cash at bank and in hand as security for a loan facility that ACN Europe B.V. has from Textron Financial Corporation. This pledge was lifted in the first quarter of 2003.

There is an agreement in place between ACN European Services Limited and ACN Europe B.V. such that any liability incurred by the Company will be paid for by its parent company, ACN Europe B.V.

ACN Europe B.V. is liable for all risks related to the activities of the company, which includes all existing and arising debt.

12. Related party transactions

As a wholly owned subsidiary of American Communications Network Inc. the company is exempt from the requirements of FRS 8 to disclose transactions with other members of the group headed by American Communications Network Inc.

13. Directors and employees

During the year there were no employees of the company (2002: nil). The remuneration of directors was borne by ACN Europe B.V. in both the current and prior year.

14. Ultimate parent undertaking and controlling party

The directors consider the ultimate parent undertaking and the ultimate controlling party of the company to be American Communications Network Inc., a company incorporated in Delaware, USA, which is the parent of the largest group of undertakings for which group accounts have been drawn up.

ACN Europe B.V. is the parent of the smallest group of undertakings for which group accounts have been drawn up.

Copies of the group financial statements for American Communications Network Inc. and ACN Europe B.V. are publicly available and can be obtained from 32991 Hamilton Court, Farmington Hills, Michigan 48334, USA and Adam Smith Building, Thomas R. Malthusstraat 1-3, 1066 JR Amsterdam, The Netherlands, respectively.

Insert to the annual report of ACN European Services Limited

What is Multi-Level Marketing and how does it differ from pyramid selling?

The terms *Network Marketing (or Multi-Level Marketing)* and *Direct Selling* are frequently used and often misinterpreted by many people.

The most common misconception is the comparison of Multi-Level Marketing to illegal sales methods such as 'pyramid selling'.

The purpose of this document is to explain ACN's marketing method (Multi-Level Marketing) and to identify criteria that differentiate legitimate marketing models from illegal pyramid schemes.

Direct Selling

Direct Selling is the marketing of products and services directly to consumers - generally in their homes, at the homes of others, or at a workplace, but *not* at a permanent retail location. Direct Selling typically happens with an explanation or demonstration by a salesperson, normally referred to as direct seller. In ACN we refer to direct sellers as Independent Representatives.

Multi-Level Marketing

Multi-Level Marketing (also referred to as Network Marketing) is one method of organising a direct selling business, in which products and services are supplied to consumers for final consumption through sales made by a network of independent representatives. These representatives receive compensation from their own sales of products and services to consumers, and from the sales to consumers generated by their network of other independent direct sellers that have been entered into the business.

It may be best described as a direct selling compensation plan in which salespeople can receive compensation in two fundamental ways.

- First, representatives earn compensation from their personal sales of goods and services to consumers.
- Second, representatives earn compensation from the sales of the people they have personally introduced or sponsored into opportunity. And they also earn compensation from the sales of the group or network introduced or sponsored into the plan by those they have personally introduced.

Thus, Multi-Level Marketing offers a representative, or direct seller, the opportunity to build an independent business selling goods and services to consumers and to train an organisation, or network, of direct sellers to do the same.

Pyramid Selling

A pyramid scheme is any plan or operation where the primary form of compensation is derived from the fee that others pay to join the plan, rather than from the sale of goods or services. These schemes are illegal.

Since pyramid schemes simply reward the addition of new participants they are the perfect mechanism for greedy promoters to quickly enrich themselves in a geometric progression via payments made by new participants. Related fraudulent schemes have been described as 'chain letters', 'snowball schemes', 'chain selling', 'money games' and 'investment lotteries'.

It is important to remember that legitimate Multi-Level Marketing plans reward the distribution and sale of goods and services to consumers. No money is earned merely by introducing additional participants (representatives) into the plan.

Below are key questions for you to differentiate between a legitimate Multi-Level Marketing company and a pyramid structure.

- **What is the company's primary source of income?**

If the revenue of the company is derived primarily from the representatives' contributions, the company is considered to be a pyramid scheme. If, on the contrary, the company's income comes from the sales of products or services, then the company is regarded as a legitimate Multi-Level Marketing business.

ACN's business is to provide telecommunications services to consumers, and the sale of these services constitute ACN's revenue source.

- **How are the company's representatives remunerated?**

If the company's representatives are remunerated purely for recruiting new people into the organisation, this is a clear signal that the company is involved in a pyramid game. If, however, representatives are remunerated on the basis of their sales of products and services to the end consumer, this is a legitimate Multi-Level Marketing business.

At ACN compensation of independent representatives is based on the customer usage of telephone services.

ACN compensates independent representatives in two ways:

1. ACN pays a commission percentage on the combined monthly bills of the representative's personal customers and a *residual* commission on the combined customer billings of all the customers in the network;



2. ACN offers a bonus when a representative helps train a new sponsored representative to acquire 6 active customers in the first 30 days.

Representatives do not get paid for recruitment of other representatives into the organisation.

Representatives are compensated only when customers use ACN services. This is the fundamental difference between a genuine Network Marketing company and a pyramid game.