

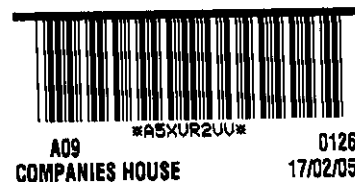


CityLink Telecommunications Holdings Limited

Report And Accounts

For The Year Ended

31st March 2004



CityLink Telecommunications Holdings Limited

Directors

J Howe
P P Flaherty
D Potts
G I Craig
I McCullagh

Company Secretary

P Waller

Auditors

KPMG LLP
8 Salisbury Square
London EC4Y 8BB

Registered Office

4th Floor
89 Albert Embankment
London SE1 7TP

CityLink Telecommunications Holdings Limited

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 March 2004.

PRINCIPAL TRADING ACTIVITIES

The principal activity of the company is to carry on the business of taking over and upgrading London Underground's existing radio and telecommunications systems and implementing and operating a new system. The project has been systematically delayed and the company has claims for delay and disruption costs outstanding against London Underground. The company has recently sought a formal decision from the London Underground Contract Manager on these claims, following which a dispute resolution process may be entered. The directors are confident of a positive outcome from this process and are satisfied that no additional amounts will become payable that should be provided for in these accounts. Progress continues to be made on providing additional enabling works using the additional loan facility agreed last year.

The directors consider that the new build project has continued to progress despite low payments to subcontractors during the year. This is considered to be a function of the milestones which trigger payments to EPC. Substantial work has been undertaken but very few payments have been triggered. As such the directors consider that it is appropriate to continue capitalising interest on the new build programme.

The profit on ordinary activities after taxation for the year was £21,826,000 (2003:£11,221,000).

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the authorised and issued share capital are shown in note 15.

DIRECTORS

The following directors held office during the period.

J L M Hughes (resigned 31st July 2004)
P P Flaherty
G I Craig
D Potts
R Harris (Resigned 26th July 2004)
I McCullagh (Appointed 26th July 2004)
J Howe (Appointed 22nd September 2004)

DIRECTORS' INTERESTS

No director has, or has held at any time during the year, any interest in the share capital of the company.

No director has a service contract with or receives any remuneration from the company. No director has, or had during the year, any personal interest in any significant or material contract with the company.

CityLink Telecommunications Holdings Limited

REPORT OF THE DIRECTORS (continued)

POLICY ON PAYMENT OF CREDITORS

It is policy to comply with the terms of supply agreed with suppliers. Where payment terms are not negotiated the company endeavours to adhere to the suppliers' standard terms. The average creditors days outstanding for the group were 32 (2003: 14).

DIRECTORS' RESPONSIBILITIES

The board is responsible to the shareholders for all aspects of the group's performance and meets on a regular basis to review the strategic direction of the group and to monitor performance against an approved business plan and budget.

The directors are required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and the group as at the end of the financial period and of the profit or loss 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 year ended 31 March 2004. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

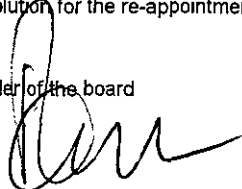
The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

All directors have access to the advice and services of the company secretary, who is responsible for ensuring that board procedures and all applicable rules and regulations are observed, and, where appropriate, to external advisors.

AUDITORS

A resolution for the re-appointment of KPMG LLP as auditors will be proposed at the annual general meeting.

By order of the board



P Waller
Company Secretary
1st November 2004

Registered Office: 4th Floor, 89 Albert Embankment, London, SE1 7TP

CityLink Telecommunications Holdings Limited

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CityLink
TELECOMMUNICATIONS HOLDING LIMITED**

We have audited the financial statements on pages 5 to 15.

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 auditor's 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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our professional ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with the 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 Group'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 as at 31 March 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP

Chartered Accountants
Registered Auditors

2nd November 2004

CityLink Telecommunications Holdings Limited

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2004**

	Note	2004 £'000	2003 £'000
Turnover	2	122,131	69,216
Net operating costs		(90,128)	(53,058)
Operating profit	3	32,003	16,158
Interest receivable		1,824	168
Interest payable and similar charges	6	(22,429)	(17,531)
Interest costs capitalised	6	19,769	17,263
Profit on ordinary activities before taxation		31,167	16,058
Taxation	7	(9,341)	(4,837)
Profit for the year		21,826	11,221

A statement of movement on reserves is given in Note 16

All gains and losses are recognised in the profit and loss account

All items in the profit and loss account relate to continuing operations.

The notes on pages 8 to 15 form part of these financial statements.

CityLink Telecommunications Holdings Limited

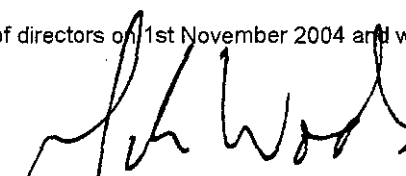
BALANCE SHEET AS AT 31 MARCH 2004

	Note	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
FIXED ASSETS					
Investments	8	-	-	1	1
Tangible assets	9	279,762	258,484	-	-
CURRENT ASSETS					
Debtors falling due within one year	10	17,018	11,972	-	-
Debtors falling due after one year	10	69,307	7,819	-	-
Cash at bank and in hand		30,991	11,692	-	-
		<u>117,316</u>	<u>31,483</u>	<u>-</u>	<u>-</u>
Creditors: amounts falling due within one year	11	<u>(27,304)</u>	<u>(15,957)</u>	<u>-</u>	<u>-</u>
NET CURRENT ASSETS		<u>90,012</u>	<u>15,526</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		369,774	274,010	1	1
Creditors: amounts falling due after more than one year	11	(302,446)	(243,204)	-	-
PROVISIONS FOR LIABILITIES AND CHARGES	13	(24,357)	(9,661)	-	-
NET ASSETS		<u>42,971</u>	<u>21,145</u>	<u>1</u>	<u>1</u>
CAPITAL AND RESERVES					
Called up share capital	15	1	1	1	1
Allotted, called up and fully paid		42,970	21,144	-	-
Profit and loss account					
EQUITY SHAREHOLDERS' FUNDS	16	<u>42,971</u>	<u>21,145</u>	<u>1</u>	<u>1</u>

The notes on pages 8 to 15 form part of these financial statements.

The financial statements on pages 5 to 15 were approved by the board of directors on 1st November 2004 and were signed on its behalf by:


Derek Potts
Director


Mark Woodhams
Director

CityLink Telecommunications Holdings Limited

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2004**

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities	17	(22,389)	11,382
Returns on investment and servicing of finance			
Interest received		1,824	168
Interest paid		(20,397)	(16,614)
		(18,573)	(16,446)
Net cash (outflow)/inflow before capital expenditure		(40,962)	(5,064)
Capital expenditure			
Payments to acquire fixed assets		(1,856)	(66,252)
Net cash outflow before financing		(42,818)	(71,316)
Financing			
Increase in bank debt falling due within one year	18	3,200	193
Increase in bank debt falling due after more than one year	18	57,750	77,207
Increase in other loans falling due after more than one year	18	1,167	1,715
Increase/(decrease) in cash	18	19,299	7,799

1. **PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Accounting Standards in the United Kingdom and comply with the Companies Act 1985. A summary of the principal accounting policies, which have been consistently applied, is shown below.

Basis of consolidation

The group financial statements comprise a consolidation of the financial statements of CityLink Telecommunications Holdings Limited and all its subsidiary undertakings. The financial statements of each company in the group are prepared to 31 March 2004.

In accordance with section 230 of the Companies Act 1985, no separate profit and loss account has been presented for the company.

Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise:

- (i) Assets in the course of construction, being assets created to upgrade the existing radio and telecommunications system or to implement the new system. These assets will be depreciated over their estimated useful life when the assets are commissioned.
- (ii) Other assets, including fixed electrical and mechanical equipment and fixtures and fittings. Depreciation is calculated on a straight line basis in order to write down the costs of assets to their estimated residual value over their expected useful lives, which is estimated to be four years.

Investments

Investments are stated at cost less impairment.

Deferred Taxation

Provision is made for deferred taxation on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Capitalised Interest

Interest costs incurred on borrowing to fund construction of the new system are capitalised during the construction period. Capitalisation ceases once the additions have been commissioned.

Turnover

Turnover represents amounts received and receivable excluding value added tax under the concession agreement for the period.

Finance Debtor

Where substantially all of the risks and rewards of a property remain with the purchaser, the company accounts for property under FRS5 Application Note F and SSAP21 as a finance lease debtor.

YEAR ENDED 31 MARCH 2004

NOTES TO THE ACCOUNTS (continued)

2. **TURNOVER**

Turnover relates wholly to amounts paid under the concession agreement and is considered to be arising from one class of business.

3. **OPERATING PROFIT IS STATED AFTER CHARGING:**

	2004 £'000	2003 £'000
Fees payable to auditors:		
Audit services	14	8
Other services	69	31
Depreciation	347	652
Thales Telecommunications Services Ltd*	17,800	12,830
Flour Limited*	64,536	33,101
Other operating charges	7,362	6,436
	<u>90,128</u>	<u>53,058</u>

*See Related Parties Note 20

4. **EMOLUMENTS OF DIRECTORS**

The directors did not receive any remuneration from the group during the period. Fees are due to the The amounts payable for the year totalled £273,000 (2003:£257,000).

5. **STAFF NUMBERS AND COSTS**

The company had no employees during either period.

6. **INTEREST PAYABLE AND SIMILAR CHARGES**

	2004 £'000	2003 £'000
Amounts payable:		
On bank loans and overdrafts	(22,104)	(17,206)
Amortisation of finance costs	(325)	(325)
	<u>(22,429)</u>	<u>(17,531)</u>
Less: interest capitalised	19,769	17,263
	<u>(2,660)</u>	<u>(268)</u>

YEAR ENDED 31 MARCH 2004

NOTES TO THE ACCOUNTS (continued)

7. TAXATION

	2004 £'000	2003 £'000
Current year taxation	-	-
Consortium relief at 30%	-	-
Deferred tax charge (see note 12)	(9,355)	(4,837)
Prior years' taxation	-	-
Consortium relief at 30%	-	-
Deferred tax charge (see note 12)	14	-
	9,341	(4,837)

No corporation tax is payable due to losses that, to the extent that they are not surrendered as consortium relief, will be carried forward to be used in future years.

Factors affecting the current tax charge

	2004 £000	2003 £000
Profit on ordinary activities before tax	31,167	16,058
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	9,350	4,817
Effects of:-		
Items not deductible for tax purposes	5	20
Capital allowances for the period in excess of depreciation	(9,355)	(4,837)
Current tax charge for the year	(0)	0

Factors that may affect future tax charges

The company has significant trade losses in the order of £114m (2003: £95m) which should be available to set against future taxable profits arising from the same trade.

8. INVESTMENTS

<u>Company</u>	2004 £'000	2003 £'000
Interest in Group Undertakings:		
At 31 March	1	1

The principal subsidiary undertaking is CityLink Telecommunications Limited, a wholly owned subsidiary whose only activity is to carry out the Connect contract for London Underground.

CityLink Telecommunications Holdings Limited

YEAR ENDED 31 MARCH 2004

NOTES TO THE ACCOUNTS (continued)

9. TANGIBLE FIXED ASSETS

<u>Group</u>	Assets in the course of construction £'000	Fixtures, fittings and equipment £'000	Total £'000
<u>Cost</u>			
At 1 April 2003	258,137	2,479	260,616
Additions - Fluor Ltd	94	-	94
Additions - Thales Telecommunications Ltd	1,762	-	1,762
Interest capitalised	19,769	-	19,769
Additions - other	-	-	-
At 31 March 2004	279,762	2,479	282,241
<u>Accumulated depreciation</u>			
At 1 April 2003	-	2,132	2,132
Charge for the year	-	347	347
At 31 March 2004	-	2,479	2,479
<u>Net book value</u>			
At 31 March 2004	279,762	-	279,762
At 31 March 2003	258,137	347	258,484

The company has no tangible fixed assets during either year. Bayerische Landesbank, acting as security trustee, has a registered charge over the whole of the share capital of CityLink Telecommunications Ltd.

Included in the cost of tangible fixed assets is £58m (2003 : £38m) in respect of interest capitalised to date.

10. DEBTORS

<u>Group</u>	2004 £'000	2003 £'000
Trade debtors	8,640	7,250
Prepaid expenses	4,068	2,584
Accrued income	3,978	2,138
Other debtors	332	-
	17,018	11,972
Accrued Income falling due after 1 year	69,307	7,819
TOTAL	86,325	19,791

Accrued Income falling due after 1 year represents amounts for the provision of Enabling Work services.

YEAR ENDED 31 MARCH 2004

NOTES TO THE ACCOUNTS (continued)

11. CREDITORS

<u>Group</u>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Amounts falling due within one year:		
Trade creditors - others	8,525	44
Trade creditors - related parties	4,046	5,018
Other creditors including tax and social security	-	34
Bank loans due within one year - see note 12	3,393	193
Accruals	8,955	8,283
Deferred income	2,385	2,385
	<u>27,304</u>	<u>15,957</u>
Amounts falling due after more than one year:		
Bank loans due between two and five years - see note 12	29,528	3,416
Bank loans due after more than five years - see note 12	271,778	240,141
Less arrangement fees - see note 12	(4,365)	(4,690)
Interest free loan from Thales due after more than five years	5,504	4,337
	<u>302,446</u>	<u>243,204</u>

12. BANK LOANS

The company has a £500 million facility provided by a syndicate of banks, with Bayerische Landesbank acting as agent in order to finance the new radio and transmission system as contracted in the concession agreement. This includes a £145 million loan facility to fund Enabling Works required for the new system. Interest on the facility is charged at rates linked to LIBOR. The loan is repayable in instalments over the next 14 years. The above repayment classifications are based on an estimate of the likely repayments to be made in accordance with the facilities agreement and forecast progress of the new system works. The banks have step-in rights to replace the company as the concession company in certain circumstances.

Arrangement fees of £5,768,750 were paid in November 1999, of which £1,403,304 have been amortised. The balance of £4,365,446 has been included in bank loans.

The company has interest rate swaps with notional principals that vary over time and are intended to hedge the interest cost of the bank loans.

YEAR ENDED 31 MARCH 2004

NOTES TO THE ACCOUNTS (continued)

13. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Taxation £'000	Other Liabilities £'000	Total £'000
Balance at 1 April 2003	9,661	0	9,661
Charge for year	<u>9,341</u>	<u>5,355</u>	<u>14,696</u>
Balance at 31 March 2004	<u>19,002</u>	<u>5,355</u>	<u>24,357</u>

Provisions for other liabilities represents an amount deemed likely to be payable to LUL in respect of an interest saving benefit experienced by CityLink as a result of the delayed achievement of EPC milestones. Under agreements reached in relation to the grant of extensions of time this saving would be payable to LUL on completion of the new build phase of the project. The sum provided represents the best estimate of the obligation that exists at the balance sheet date.

Deferred tax is provided for in full on timing differences that are expected to reverse. The directors believe that the losses carried forward will be able to be used against profits arising in future periods.

	2004 £000	2003 £000
Accelerated capital allowances	34,963	25,846
Other timing differences	18,242	12,450
Trade losses	(34,203)	(28,635)
	<u>19,002</u>	<u>9,661</u>

14. CAPITAL COMMITMENTS

	2004 £'000	2003 £'000
Capital expenditure contracted but not provided in the financial statements	<u>89,906</u>	<u>90,000</u>

15. CALLED UP SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid £1 Ordinary Shares	<u>1,000</u>	<u>1,000</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

<u>Group</u>	2004 £'000	2003 £'000
Profit for the financial year	21,826	11,221
Net movement in shareholders' funds	<u>21,826</u>	<u>11,221</u>
Opening shareholders' funds	21,145	9,924
Closing shareholders' funds	<u>42,971</u>	<u>21,145</u>

CityLink Telecommunications Holdings Limited

YEAR ENDED 31 MARCH 2004

NOTES TO THE ACCOUNTS (continued)

17. RECONCILIATION OF OPERATING PROFIT TO
NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004 £'000	2003 £'000
Operating profit	32,003	16,158
(Increase)/decrease in debtors	(66,534)	(4,090)
Increase/(decrease) in creditors	11,795	(1,338)
Depreciation	347	652
Net cash inflow from operating activities	<u>(22,389)</u>	<u>11,382</u>

18. ANALYSIS OF CHANGES IN NET DEBT

	2004 £'000	2003 £'000	Cashflow £'000	Other movements £'000
Cash at bank	30,991	11,692	19,299	-
Bank debt repayable within one year	(3,393)	(193)	(3,200)	-
Bank debt repayable in more than one year	(296,942)	(238,867)	(57,750)	(325)
Other loans repayable after more than one year	(5,504)	(4,337)	(1,167)	-
	<u>(274,848)</u>	<u>(231,705)</u>	<u>(42,818)</u>	<u>(325)</u>

19. RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

	2004 £'000	2003 £'000
Increase/(decrease) in cash in the period	19,299	7,799
Increase in bank debt due within one year	(3,200)	(193)
Increase in bank debt due in more than one year	(57,750)	(77,207)
Increase in other loans due after more than one year	(1,167)	(1,715)
Other movements	(325)	325
Movement in net debt in the period	<u>(43,143)</u>	<u>(70,991)</u>
Net debt at start of year	(231,705)	(160,714)
Net debt at end of year	<u>(274,848)</u>	<u>(231,705)</u>

20. RELATED PARTY TRANSACTIONS

The shareholders of CityLink Telecommunications Holding Limited are Thales Telecommunications Services Limited, Hyder Investments Limited (a wholly owned subsidiary of Laing Investments Limited), HSBC Infrastructure Limited, Fluor International Limited and Motorola Limited.

Thales have been contracted to provide operations and maintenance services to the company. The value of this work and costs of variations and seconded staff is disclosed in note 3. Thales have also been contracted to carry out improvements to the existing system and to the new system. The value of this work is disclosed in note 8.

Fluor have been contracted to design, engineer, procure and commission the new system. The value of this work is disclosed in note 8. Additional payments relating to variations, disruption costs and seconded staff (including costs relating to enabling works) have been disclosed in note 3.

The shareholders invoice the company for the services of the directors. The charge for the year is disclosed in note 4.

The amounts outstanding to related parties at the year-end are disclosed in note 10.