3830643

Telstra Europe Limited

Report and Financial Statements

30 June 2007

Registered No 3830643

Directors

A Kelton
D Thorn (Resigned 9 March 2007)
A Hedges (Resigned 28 February 2007)
D Kirton
M Gould
S Vye (Appointed 27 March 2007)

Secretary

M Gould

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

Barclays Bank PLC
1 Churchill Place
Canary Wharf
London
E14 5HP

Registered Office

Telstra House
21 Tabernacle Street
London EC2A 4DE

Directors' report

The directors present their report and financial statements for the year ended 30 June 2007

Results and dividends

The loss for the year after taxation amounted to £9,168,000 (2006 – loss of £6,851,000) The directors do not recommend the payment of a dividend for the year (2006 – £nil)

Principal activity

The principal activity of the company is to provide telecommunication services for domestic and international customers

Review of the business and future developments

The directors believe that the company is now in a good position to take advantage of any opportunities which may arise in the future

On 30 June 2007, the company acquired 167,200 £1 shares in Telstra (Cable Telecom) Limited in addition to its existing holding

Group turnover increased by 1 4% during the year, primarily due to an increase in the selling activity during the normal course of business

Operating loss before exceptional items increased by 1063% during the year This was caused by a rise in cost of sales of 4 8% due to a change in the revenue mix and also a 13 8% rise in administrative expenses due to a significant redundancy program, some rises in utility costs and an increased spend on maintenance of accommodation

The business also recognised exceptional costs of £863,000 for onerous contracts These relate to a number of medium term contracts that the company previously entered into that are now no longer used

Shareholders funds have decreased by £9,168,000 due predominantly to the losses incurred in the year

The total average number of employees has decreased by 2% to 212 These numbers were expected to decline because of the redundancy program and should stabilise at current levels in the forthcoming year

Principal risks and uncertainties

The principal risks and uncertainties facing the group are broadly grouped as competitive, legislative and financial instrument risk

- Competitive Risks

  Competitive risks are driven by a changing market environment and the continued deregulation of the UK Telecom market This trend is expected to continue, but is mitigated by management's ongoing review of the market and the company's ability to differentiate its service model

- Legislative Risks

  There currently appears to be no significant legislative risks for the company

- Financial Instrument Risk

  There currently are no material financial instrument risks for the company

Directors' report

Directors and their interests

The directors who held office during the year and thereafter are as set out on page 1

During the year no share options have been awarded to the directors

The directors had no share interests in the company in the year ended 30 June 2007 which would require disclosure under Schedule 7 of the Companies Act 1985

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made inquires of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

A resolution to reappoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting

By order of the Board

M Gould

Secretary
12 December 2007

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit and 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 judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from the legislation in other jurisdictions

Independent auditors' report

to the members of Telstra Europe Limited

We have audited the company's financial statements for the year ended 30 June 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 21 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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland)

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditors' report

to the members of Telstra Europe Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
12 December 2007

Profit and loss account

for the year ended 30 June 2007

	Notes	2007 £000	2006 £000
Turnover	2	90,622	89,324
Cost of sales		(63,895)	(60,944)
Gross profit		26,727	28,380
Administrative expenses		(32,926)	(28,913)
Operating loss	3	(6,199)	(533)
Dividends received		-	28,924
Exceptional items	4	(863)	(32,923)
Loss on ordinary activities before taxation and interest		(7,062)	(4,532)
Interest receivable	5	638	517
Interest payable	6	(3,252)	(2,338)
Loss on ordinary activities before taxation		(9,676)	(6,353)
Tax credit/(charge) on loss on ordinary activities	9	508	(498)
Loss after taxation for the financial year		(9,168)	(6,851)
Retained loss for the financial year	18	(9,168)	(6,851)

The operating loss for the year is wholly attributable to continuing operations

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalent

The company has no recognised gains and losses other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been presented

Balance sheet

at 30 June 2007

	Notes	*2007* *£000*	*2006* *£000*
Fixed assets			
Tangible fixed assets	10	11,130	9,474
Intangible fixed assets	11	53,209	56,236
Investments	12	54,147	53,980
		118,486	119,690
Current assets			
Debtors	13	19,998	20,061
Cash at bank and in hand		9,939	11,272
		29,937	31,333
Creditors: amounts falling due within one year	14	(147,920)	(141,916)
Net current liabilities		(117,983)	(110,583)
Provision for liabilities	16	(871)	(307)
Net deficit/(assets)		(368)	8,800
Capital and reserves			
Called up share capital	17	12,067	12,067
Profit and loss account	18	(12,435)	(3,267)
Total equity shareholders' funds	18	(368)	8,800

The financial statements were approved by the Board of Directors on 12 December 2007

and were signed on its behalf by

S Vye

Director

Notes to the financial statements

at 30 June 2007

1. Accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis and under the historical cost convention in accordance with the Companies Act 1985 and applicable UK accounting standards

The parent company (Telstra Global Limited) has agreed not to recall the amounts advanced to the company until all other creditors have been met

Fundamental accounting concept

The financial statements have been prepared on the going concern basis because the parent undertaking (Telstra Global Limited) has given the necessary assurances that sufficient resources will be made available so that the company can meet its liabilities as and when they fall due, for at least the next twelve months

Turnover

Turnover represents the value of telecommunications services, excluding value added taxes, supplied by the company

Depreciation of tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition

Development of new products is capitalised and will be depreciated over the useful life of the product from the date of the product launch This is currently estimated to be three years

Asset under construction represents £2,826,000 for the Network refresh and will not be depreciated until the Project is complete and the asset is ready to be used, at which time the asset will then be depreciated over its useful life The useful life is expected to be ten years

Depreciation is provided on fixed assets calculated on the straight line method in order to write-off the cost of these assets over their estimated useful lives at the following rates

Software and product development	–	three years
Plant and machinery	–	three to five years
Leasehold improvements	–	three to ten years
Motor vehicles	–	three years
Assets under construction	–	not applicable

Intangible fixed assets

The cost of novating BT circuit licenses from Powergen to Telstra Europe Limited is being amortised over the remaining estimated life of the network, being three years

Amortisation of goodwill arising from the group reorganisation is being amortised on a straight line basis over its useful economic life currently presumed to be 20 years This is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value

Pensions

Contributions in respect of the defined contribution Group Personal pension plan are charged in the profit and loss account for the year in which they are payable to the scheme

Notes to the financial statements

at 30 June 2007

Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation

The effect of the time value of money is not material and therefore the provisions are not discounted

Deferred taxation

Following the adoption of Financial Reporting Standard No 19 "Deferred Tax", the company provides for deferred tax in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or receive more, tax, with the following exceptions

- provision is made for deferred tax that would arise on remittance of the retained earnings of associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable, and

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term Lease incentives are recognised over the shorter of the lease term and the date of the next rent review

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date Any transaction differences are dealt with in the profit and loss account

Statement of cash flows

The company is exempt from the obligation to prepare a statement of cash flows under the provisions of Financial Reporting Standard No 1 (revised) as a 90%-owned subsidiary within a group where the financial statements are publicly available (see note 21)

Consolidated financial statements

Consolidated financial statements have not been prepared for Telstra Europe Limited as it is a wholly owned subsidiary of Telstra Global Limited, which is incorporated within the European Union These financial statements are for Telstra Europe Limited as an individual company only Consolidated financial statements for Telstra Corporation Limited are available from Telstra Corporation Limited, 242 Exhibition Street, Melbourne, Victoria 3000, Australia

2. Turnover

A business and geographical analysis of turnover, results and net assets has not been disclosed as the directors believe this would be seriously prejudicial to the interests of the company

Notes to the financial statements

at 30 June 2007

3. Operating loss

This is stated after charging/(crediting)

	2007 £000	2006 £000
Depreciation of owned tangible fixed assets (see note 10)	2,158	1,992
Amortisation of intangible fixed assets	3,072	3,244
Auditors' remuneration – audit services	156	160
– other services	–	–
Foreign exchange loss/(gain)	109	55

4. Exceptional items

	2007 £000	2006 £000
Group reorganisation (write-down) / credit	–	(32,923)
Onerous contracts	(608)	–
Write down goodwill	(255)	–
	(863)	(32,923)

A strategy review by the Board, has resulted in a write down of the investment in Goodman Blue Additionally a number of contracts were noted as onerous and expensed

A company reorganisation occurred during 2005, which spanned the year-end Due to the nature of the reorganisation and the fact that it spanned the year-end of the UK group, an exceptional profit was recorded in the books of Telstra Europe Limited of £32,923,000 for the year-ended 30 June 2006

5. Interest receivable and similar income

	2007 £000	2006 £000
Bank interest	427	351
Group interest receivable	147	166
Other interest	64	-
	638	517

Notes to the financial statements

at 30 June 2007

6. Interest payable

	2007	2006
	£000	£000
Bank interest	13	1
Other interest payable	13	–
Finance charges payable under finance leases	(58)	(15)
Group interest payable and similar charges	3,284	2,352
	3,252	2,338

7. Directors' emoluments

The directors' emoluments (including pension contributions) for the year ended 30 June 2007 amounted to £669,563 (2006 – £596,037) The highest paid director earned £338,070 (2006 – £256,750), including compensation for loss of office £147,800

	2007	2006
	No	No
Members of money purchase pension schemes	–	3

8. Staff costs

	2007	2006
	£000	£000
Wages and salaries	11,538	10,610
Social security costs	1,515	1,315
Other pension costs	491	481
	13,544	12,406

The average number of persons employed during the year was as follows.

	No	No
Sales	55	53
Administration	157	164
	212	217

Notes to the financial statements

at 30 June 2007

9. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge/(credit) is made up as follows

	2007 £000	2006 £000
Current tax		
UK corporation tax	–	–
Adjustments in respect of previous period group relief	–	48
Total current tax (note 9(b))	–	48
Deferred tax		
Recognition of deferred tax asset	–	–
Origination and reversal of timing differences	(709)	444
Adjustments in respect of prior years	109	6
Decrease in tax rate	92	–
Total deferred tax (note 9 (c))	(508)	450
Tax charge/(credit) on loss on ordinary activities	(508)	498

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax of 30% (2006 – 30%) The differences are reconciled below:

	2007 £000	2006 £000
(Loss)/profit on ordinary activities before tax	(9,676)	(6,353)
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2006 – 30%)	(2,903)	(1,906)
Group reorganisation write-down non-deductible	–	9,877
Dividend received	–	(8,677)
Expenses not deductible for tax purpose	1,152	1,150
Depreciation in excess of capital allowances	732	(411)
Provisions not deductible for tax purposes	–	(47)
Other timing differences	–	14
Adjustments in respect of previous period group relief	–	48
Charges on income carried forward	1	–
Loss on disposal of non-qualifying assets	2	–
Group relief surrendered and not paid for	1,130	–
Decrease in pensions accrual	(10)	–
Transfer pricing adjustment to impute interest payable to subsidiary	(90)	–
Utilisation of provisions treated as not deductible in prior periods	(14)	–
Total current tax charge	–	48

Notes to the financial statements

at 30 June 2007

9. Tax on profit on ordinary activities (continued)

(c) Deferred tax

	2007	*2006*
	£000	*£000*
Deferred tax asset at start of year	779	321
Recognition of deferred tax asset	–	(450)
Transfers from subsidiaries	–	908
Deferred tax credit in profit and loss account for the year	508	–
Deferred tax asset at end of year	1,287	779

(d) Factors that may affect future tax charges

The company has deferred tax assets of 1,287,000 (2006 – £779,000) in respect of tax losses, accelerated capital allowances and other timing differences Deferred tax assets have been recognised because the directors consider that there will be sufficient future taxable profits in the company against which to set off the reversal of these assets

The company has an unrecognised tax loss transferred in 2006 from PSINet Datacentre Limited of £32,000

Notes to the financial statements

at 30 June 2007

10. Tangible fixed assets

	Motor vehicles	*Software & Product development*	*Plant and machinery*	*Leasehold improvements*	*Assets in course of construction*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Cost						
At 1 July 2006	89	1,574	27,181	9,036	–	37,880
Additions	–	437	1,051	223	2,826	4,537
Disposals	(26)	–	(36)	(75)	–	(137)
Write Offs	–	(862)	(430)	(8)	–	(1,300)
At 30 June 2007	63	1,149	27,766	9,176	2,826	40,980
Depreciation						
At 1 July 2006	70	889	25,490	1,957	–	28,406
Provided during the year	17	359	1,006	776	–	2,158
Disposals	(24)	–	–	(11)	–	(35)
Write Offs	–	(419)	(258)	(2)	–	(679)
At 30 June 2007	63	829	26,238	2,720	–	29,850
Net book value						
At 30 June 2007	–	320	1,528	6,456	2,826	11,130
At 30 June 2006	19	685	1,691	7,079	–	9,474

Notes to the financial statements
at 30 June 2007

11. Intangible fixed assets

	Novation Costs	*Goodwill*	*Total*
	£000	*£000*	*£000*
Cost			
At 1 July 2006	830	59,122	59,952
Additions	–	300	300
Write offs		(300)	(300)
At 30 June 2007	830	59,122	59,952
Amortisation			
At 1 July 2006	760	2,956	3,716
Provided during the year	70	3,002	3,072
Write off of amortisation		(45)	(45)
At 30 June 2007	830	5,913	6,743
Net book value			
At 30 June 2007	–	53,209	53,209
At 30 June 2006	70	56,166	56,236

Notes to the financial statements
at 30 June 2007

12. Fixed asset investments

	Total *£000*
Cost	
At 1 July 2006	53,980
Additional investment in Telstra (Cable Telecom) Limited	167
At 30 June 2007	54,147
At 30 June 2006	53,980

The company invested an additional amount in Telstra (Cable Telecom) Limited in order to complete the final steps of the group reorganisation

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital is as follows

Name of company	*Holding*	*Proportion of voting rights held*	*Country of incorporation*	*Nature of business*
Telstra (Cable Telecom) Limited	Ordinary Shares	100%	England & Wales	Non-trading
PSINet Jersey Limited	Ordinary Shares	100%	Jersey	Non-trading
Inteligen Communications Limited	Ordinary Shares	100%	England & Wales	Non-trading
Telstra (CTE) Limited	Ordinary Shares	100%	England & Wales	Non-trading
Cable Telecommunication Limited	Ordinary Shares	100%	England & Wales	Non-trading
London Hosting Centre Limited	Ordinary Shares	100%	Jersey	Non-trading
Cordoba Holdings Limited	Ordinary Shares	100%	Jersey	IP service provider
PSINet Datacentre UK Limited	Ordinary Shares	100%	England & Wales	Non-trading
Telstra (PSINet)	Ordinary Shares	100% *	England & Wales	Non-trading

* Indirect holding

Notes to the financial statements
at 30 June 2007

13. Debtors

	2007 £000	2006 £000
Trade debtors	10,792	8,212
Amounts owed by group undertakings	–	1,894
Deferred tax	1,287	779
Other debtors	524	424
Prepayments and accrued income	7,395	8,752
	19,998	20,061

14. Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	8,588	11,624
Amounts owed to group undertakings	125,216	122,602
Other taxes and social security costs	468	840
Accruals and deferred income	13,587	6,816
Other creditors	61	34
	147,920	141,916

15. Obligations under leases

At the end of the year the company had annual commitments under non-cancellable operating leases as set out below

	Land Buildings 2007 £000	*Land Buildings 2006 £000*	*Other 2007 £000*	*Other 2006 £000*
Operating leases which expire.				
Within one year	–	–	–	–
In two to five years	306	306	458	458
In over five years	716	716	–	–
	1,022	1,022	458	458

Notes to the financial statements

at 30 June 2007

16. Provision for liabilities

	Onerous Contract Provision £000	*Total £000*
At 1 July 2006	307	307
Arising during the year	608	608
Utilised	(44)	(44)
At 30 June 2007	871	871

This is due to additional onerous contracts in relation to some redundant network

17. Share capital

Authorised	*2007 £000*	*2006 £000*
23,000,000 Ordinary shares of £1 each	23,000	23,000
Allotted, called up and fully paid	*£000*	*£000*
12,067,178 Ordinary shares of £1 each	12,067	12,067

Notes to the financial statements

at 30 June 2007

18. Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	*Profit and loss account £000*	*Total £000*
At 1 July 2005	12,067	3,584	15,651
Retained profit for the year	–	(6,851)	(6,851)
At 30 June 2006	12,067	(3,267)	8,800
Retained profit for the year	–	(9,168)	(9,168)
At 30 June 2007	12,067	(12,435)	(368)

19. Pension commitments

The company operates a defined contribution Group Personal pension plan for its employees The assets of the scheme are held separately from those of the company in an independently administered fund The unpaid contributions outstanding at the year end, included in accruals and deferred income (note 14) are £77,105 (2006 – £111,000)

20. Related party disclosures

The company, being a wholly-owned subsidiary, has taken advantage of the exemption provided by Financial Reporting Standard No 8 (Related Party Transactions) from disclosing transactions between group companies

21. Ultimate parent undertaking

The company is a wholly owned subsidiary of Telstra Global Limited, a company incorporated in the United Kingdom The ultimate parent undertaking is Telstra Corporation Limited, a company incorporated in Australia

Group financial statements are drawn up by Telstra Corporation Limited and may be obtained from Corporate Secretary, Telstra Corporation Limited, 242 Exhibition Street, Melbourne, Victoria 3000, Australia