Company Registration No. 2883980

EASYNET TELECOMMUNICATIONS LIMITED

Report and Financial Statements

31 December 2003

Deloitte & Touche LLP
London

EASYNET TELECOMMUNICATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

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EASYNET TELECOMMUNICATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Rowe
T Hart
W Gardiner

SECRETARY

R Croft

REGISTERED OFFICE

44-46 Whitfield Street
London
W1T 2RJ

BANKERS

HSBC Bank plc
PO Box 648
27-32 Poultry & Princes Street
London
EC2P 2BX

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

DIRECTORS' REPORT

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

ACTIVITIES

The principal activity of the company is that of the provision of telecommunication services.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The directors have continued to develop the business in the light of prevailing trading conditions and the position at 31 December 2003 is reflected in the accounts for the year then ended. The present intention is to continue the development of the existing business of the company. A more detailed review of the company's business and future developments is contained within the accounts of Easynet Group Plc, the company's parent undertaking.

RESULTS AND DIVIDENDS

The profit and loss account is set out on page 6 and shows the results for the year. The directors do not recommend the payment of a dividend *(2002 - £nil).*

DIRECTORS

The directors who served during the year were as follows:

D Rowe
T Hart
W Gardiner

According to the Register kept by the Company under Section 325 of the Companies Act 1985, none of the directors had any disclosable interests in the shares of the Company or any subsidiary of the Company's parent company at 31 December 2003. The interests of directors in the shares of the Company's parent company, Easynet Group Plc ("Easynet"), are set out below other than those of the directors who are also directors of Easynet and whose interests in the shares of that company are disclosed in the Easynet accounts.

The following director held options over the share capital of Easynet Group Plc:

	Ordinary shares of 4 pence each		
	At 1 January 2003 (or subsequently on appointment)	**Granted**	**At 31 December 2003**
T Hart	95,000	43,480	138,480

The options disclosed above are exercisable between 26 April 2004 and 21 December 2013, at a weighted average exercise price of 114.5p.

In addition, at 31 December 2003, T Hart held awards of 20,000 notional shares under a Easynet Group Plc Long-Term Incentive Plan. These awards are subject to performance conditions, based on the annualised compound growth in Easynet's share price. The awards are capable of vesting in full by 25 July 2004. Further details of the terms of the Long Term Incentive Plan are disclosed in the Easynet Group Plc accounts.

The share price of Easynet Group Plc at 31 December 2003 was 117.5p. The high and low closing mid-point share prices during the year were 150p and 71.5p respectively.

SUPPLIER PAYMENT POLICY

The company applies the policy of agreeing and clearly communicating terms and conditions for business transactions with its suppliers. Payment is then made in accordance with these terms and conditions being met by the suppliers. As at 31 December 2003, the company had 96 days (2002: 55 days) of purchases in trade creditors.

DIRECTORS' REPORT

AUDITORS

On 1 August 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

T Hart

Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EASYNET TELECOMMUNICATIONS LIMITED

We have audited the financial statements of Easynet Telecommunications Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
2 April 2004

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2003

	Note	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
TURNOVER	1	16,445	17,895
Cost of sales		(7,778)	(12,371)
GROSS PROFIT		8,667	5,524
Distribution Costs		-	(112)
Administrative expenses		(4,035)	(4,567)
Operating exceptional items	3	9,663	(13,877)
OPERATING PROFIT/(LOSS)	4	14,295	(13,032)
Interest receivable and other similar income		2,731	5,072
Interest payable and similar charges	5	(7,010)	(6,367)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		10,016	(14,327)
Tax on profit on ordinary activities	6	67	-
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	15	10,083	(14,327)

The profit/(loss) retained for the year represents the only movement in shareholders' funds in 2003 and 2002.

There were no other recognised gains and losses other than those included in the Profit and Loss account in the current year and the prior period.

All results derive from continuing operations.

BALANCE SHEET
31 December 2003

	Note	2003 £'000	2002 £'000
FIXED ASSETS			
Tangible assets	7	17,413	19,313
CURRENT ASSETS			
Debtors due within one year	8	118,937	72,731
Debtors due after one year	8	765	4,088
Cash at bank and in hand		64,049	101,764
		183,751	178,583
CREDITORS: amounts falling due within one year	9	(26,290)	(29,384)
NET CURRENT ASSETS		156,696	145,111
TOTAL ASSETS LESS CURRENT LIABILITIES		174,874	168,512
CREDITORS: amounts falling due after one year	10	(114,498)	(118,224)
PROVISIONS FOR LIABILITIES AND CHARGES	13	(11,083)	(11,078)
NET ASSETS		49,293	39,210
CAPITAL AND RESERVES			
Called up share capital	14	5,822	5,822
Share premium account	15	460,553	460,553
Other reserves	15	100	100
Profit and loss account	15	(417,182)	(427,265)
SHAREHOLDERS' FUNDS	15	49,293	39,210

Approved by the Board on 1 April 2004
and signed on its behalf:

T Hart

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with applicable United Kingdom accounting standards and on the going concern basis.

Minor reclassifications have been made to comparative information in order to ensure consistent presentation.

Turnover and revenue recognition

Turnover represents the value of goods and services supplied and is stated net of value added tax.

Where contracts for sales of dark fibre are paid in advance, contracted income is recognised over the life of the contract in proportion to costs of services performed. Application to this policy includes the use of estimates of the costs of services performed.

Contracted income is recognised over the life of the contract in proportion to the value of services provided.

The turnover was derived from the company's principal activity, which was carried out wholly in the UK.

Reciprocal transactions

Reciprocal transactions are transactions where the company provides capacity under Indefeasible Rights of Use (IRU) agreements to other telecommunication companies at approximately the same time that the company purchases capacity or facilities from these same companies. The company enters into reciprocal transactions only when they are considered to be a core component of the expansion of the UK infrastructure. Amounts receivable as part of reciprocal transactions are recorded at fair value as deferred revenue and recognised in line with the company's dark fibre revenue recognition policy detailed above. Capacity acquired as part of these transactions is recorded with tangible fixed assets and depreciated through cost of sales on a straight-line basis over the term of the relevant agreement. Turnover for the year included £1,198,000 (2002: £3,289,000) in respect of reciprocal transactions.

Tangible fixed assets

Certain costs incurred by the company, which relate to the planning, design and construction of the network assets and its related infrastructure are capitalised. General overheads such as accommodation and administration costs, are not capitalised.

Depreciation is charged on the following bases to write off the cost of the company's tangible fixed assets over their estimated useful lives.

Cable and ducting	- 20 years
Electronic equipment	- 3 years
Leasehold improvements, office equipment and fixtures.	- 3 to 7 years

The costs arising from the acquisition of network assets, under finance leases, are capitalised at the inception of the lease and discounted to their estimated present value. These costs are charged to the profit and loss account, over the life of the asset, through the depreciation of the asset and the unwinding of the discount.

Capital work in progress is depreciated from the point that it is ready for use.

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding. Rentals under operating leases are charged to the profit and loss account as they accrue.

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 were translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

Deferred 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. Timing differences arise from inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Pension costs

Pension costs are charged to the profit and loss account as they accrue and relate to contributions made by the company into employees' personal pension schemes.

Cash flow statement

The company has taken advantage of the exemption available under Financial Reporting Standard No 1 (Revised 1996) not to prepare a statement of cash flows as it is a wholly owned subsidiary undertaking. Easynet Limited cash flows are included in the consolidated accounts of Easynet Group Plc, which are publicly available.

2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2003 £'000	2002 £'000
Employees		
Staff costs (including directors) in the year/period:		
Wages and salaries	1,754	3,583
Social security costs	210	442
Other pension costs	70	153
	2,034	4,178

All directors are renumerated through other companies within the Easynet group of companies. The directors feel it is not practical to allocate part of the salary in respect of their duties as directors of the company.

Average number of persons employed by the company in the year:	**No.**	**No.**
Sales and distribution	4	5
Administration and technical	35	50
	39	55

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

3. OPERATING EXCEPTIONAL ITEMS

	2003 £'000	2002 £'000
Restructuring and reorganisation costs	3,763	13,877
Impairment of UK telecommunications network fixed assets and goodwill on acquisition of Easynet Telecommunications Ltd	(1,329)	-
Release of provision for doubtful debt	(12,097)	-
	(9,663)	13,877

Restructuring and reorganisation costs during the year were primarily a result of the integration of the company into the existing UK business and include £3,662,000 relating to vacant property costs (2002 - £8,067,000).

The £1,329,000 exceptional operating credit in 2003 in respect of UK telecommunications network fixed assets arose from the release of fixed asset accruals on the UK network that were identified as no longer required following the finalisation of certain network costs. The corresponding assets had previously been subjected to impairment write-downs in 2001 leading to the release as an exceptional credit reported above.

The release of provision for doubtful debt is in respect of a debt owed by Marconi Corporation plc that is now considered collectible in full following Marconi's restructuring during 2003.

4. OPERATING PROFIT/(LOSS)

	2003 £'000	2002 £'000
Is stated after charging:		
Management charge from ultimate parent undertaking	2,043	576
Depreciation – owned assets	1,583	3,202
- leased assets	-	-
Auditors' remuneration – other services	-	17
Operating lease rentals – land and buildings	2,238	5,350
– plant and machinery	21	97

All UK audit fees are charged through other companies within the Easynet group of companies. The directors feel it is not practical to allocate part of this charge to the company.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000	2002 £'000
Interest payable – other third parties	-	18
Interest payable – bank	5	7
Interest payable – finance lease	6,360	6,371
Other Finance Costs:		
Unwind of FRS12 discount on long-term provisions and creditors	583	-
Foreign exchange loss/(gain)	62	(29)
	7,010	6,367

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

6. TAX CREDIT ON PROFIT ON ORDINARY ACTIVITIES

	2003 £'000	2002 £'000
Current tax		
UK corporation tax at 30% (2002: 30%)	-	-
Adjustments in respect of prior periods	67	-
Tax credit on profit on ordinary activities	67	-

The tax assessed is lower than that resulting from applying the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £'000	2002 £'000
Profit/ (Loss) on ordinary activities before tax	10,016	(14,327)
Tax (charge)/ credit on profit (loss) at standard rate 30% (2002 – 30%)	(3,005)	4,298
Effects of:		
Non-deductible expenses/ (non taxable income)	3,629	(13)
Deferred tax asset not recognised	(624)	(4,285)
Prior year adjustment	67	-
Current tax	67	-

Deferred taxation is provided on timing differences which are expected to reverse in the future. Deferred tax assets are recognised to the extent that they will be recovered. Both assets and liabilities are recognised at the rates at which it is expected that the tax will reverse.

Deferred tax is not discounted.

There was no provision for deferred tax during the year ended 31 December 2003, as the asset is not expected to be utilised in the next accounting period. In addition, no restatement of the deferred tax position of the company at 31 December 2002 is required as a result of the adoption of FRS 19.

Unprovided deferred taxation is shown below:

	2003 £'000	2002 £'000
Capital Allowances in excess of depreciation	71,662	55,174
Other Timing Differences	3,956	3,585
Tax effect of losses carried forward	22,853	24,785
Unprovided deferred tax assets	98,471	83,544

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

7. TANGIBLE FIXED ASSETS

	Cable and ducting £'000	Electronic equipment £'000	Leasehold improvements, office equipment and fixtures £'000	Total £'000
Cost				
At 1 January 2003	308,889	65,038	32,652	406,579
Additions	363	-	-	363
Disposals	(680)	-	-	(680)
At 31 December 2003	308,572	65,038	32,652	406,262
Depreciation				
At 1 January 2003	289,576	65,038	32,652	387,266
Charge for the year	1,583	-	-	1,583
Disposals	-	-	-	-
At 31 December 2003	291,159	65,038	32,652	388,849
Net book value				
At 31 December 2003	17,413	-	-	17,413
At 31 December 2002	19,313	-	-	19,313

The net book value of tangible fixed assets includes an amount of £nil (2002 - £nil) in respect of assets held under finance leases.

8. DEBTORS

	2003 £'000	2002 £'000
Amounts falling due within one year		
Trade debtors	627	2,058
Amounts owed by group undertakings	100,487	69,297
Interest receivable	474	195
VAT recoverable	139	96
Corporation tax receivable	67	-
Other debtors	15,448	36
Prepayments and accrued income	1,695	1,049
	118,937	72,731
Amounts falling due after more than one year		
Other debtors	765	4,088
	765	4,088

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £'000	2002 £'000
Obligations under finance leases	156	144
Trade creditors	11,664	16,660
Amounts owed to group undertakings	2,867	965
Taxation and social security	4	7
Interest payable	1,591	1,591
Accruals and deferred income	10,008	10,017
	26,290	29,384

10. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2003 £'000	2002 £'000
Obligations under finance leases	59,469	59,621
Accruals and deferred income	55,029	58,603
	114,498	118,224

11. FINANCE LEASE OBLIGATIONS

	2003 £'000	2002 £'000
Net obligations under finance leases:		
Within one year	156	144
Between one and two years	173	160
Between two and five years	642	593
After more than five years	58,654	58,868
	59,625	59,765

12. PENSION SCHEME

The company makes payments into a Defined Contribution Group Personal Pension Plan, open to all employees. Costs of the scheme are charged against profits as incurred. During the year ended 31 December 2003 the charge amounted to £70,000 (2002 - £153,000). As at 31 December 2003, there were outstanding contributions of £nil (2002 - £nil).

13. PROVISIONS FOR LIABILITIES AND CHARGES

	Vacant leasehold £'000	Other £'000	Total £'000
At 1 January 2003	4,465	6,613	11,078
Charged to the profit and loss account	3,817	-	3,817
Reclassification to Accruals	-	(2,419)	(2,419)
Unwind of discount	-	427	427
Amounts paid in year	(1,580)	(240)	(1,820)
At 31 December 2003	6,702	4,381	11,083

The provision for vacant leasehold premises is in respect of premises that the company no longer has a use for, and has been made for the residual lease commitments, together with outgoings, after taking into account likely subtenant arrangements. The other provision is in relation to onerous network maintenance and colocation contracts. An amount of £2,419,000 was reclassified to accruals following the final settlement of an onerous network maintenance and collocation contract in February 2004. All amounts are due to be paid over the length of the relevant contract.

14. SHARE CAPITAL

	2003 £'000	2002 £'000
Authorised		
5,821,766 ordinary shares of £1 each	5,822	5,822
Allotted, called up and fully paid		
5,821,766 ordinary shares of £1 each	5,822	5,822

15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £	Share premium account £	Other reserves £	Profit and loss account £	Total £
At 1 January 2002	5,822	460,553	100	(412,938)	53,537
Retained (loss) for the year	-	-	-	(14,327)	(14,327)
At 31 December 2002	5,822	460,553	100	(427,265)	39,210
Retained profit for the year	-	-	-	10,083	10,083
At 31 December 2003	5,822	460,553	100	(417,182)	49,293

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

16. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2003, the company had annual commitments under non-cancellable operating leases as set out below:

	2003		2002	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	-	43	-	39
In more than five years	2,238	-	2,238	-
	2,238	43	2,238	39

17. CAPITAL COMMITMENTS

Commitments for capital expenditure entered into and not provided for in these accounts are £nil (2002 - £nil).

18. ULTIMATE PARENT UNDERTAKING

The directors consider Easynet Group Plc, which is incorporated in Great Britain, to be the immediate and ultimate parent undertaking, controlling party and the only group of which the company is a member for which group accounts are prepared. Copies of that company's accounts are available from its registered office: 44-46 Whitfield Street, London, W1T 2RJ.