

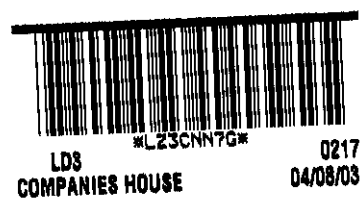
Company Registration No. ~~2883980~~ 2883980

EASYNET TELECOMMUNICATIONS LIMITED

Report and Financial Statements

31 December 2002

**Deloitte & Touche
London**



EASYNET TELECOMMUNICATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2002

CONTENTS

Page

Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditors' report	5
Profit and loss account	6
Balance sheet	7
Notes to the accounts	8

EASYNET TELECOMMUNICATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2002

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
Chartered Accountants
London

EASYNET TELECOMMUNICATIONS LIMITED

DIRECTORS' REPORT

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

ACTIVITIES

The principal activity of the company is that of the leasing and sale of optical fibre cables to telecommunication network operators.

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 2002 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 (2001 - £nil).

DIRECTORS

The directors who served during the year were as follows:

D Rowe (appointed 5 March 2002)
T Hart (appointed 5 March 2002)
N Rafferty (resigned 28 February 2002)
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 2002. 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 director who is also a director 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:

	At 1 January 2002 (or subsequently on appointment)	Ordinary shares of 4 pence each	
		Granted	At 31 December 2002
T Hart	20,000	75,000	95,000

In addition, at 31 December 2002, T Hart held awards of 20,000 notional shares under a 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.

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 2002, the company had 55 days (2001: 44 days) of purchases in trade creditors.

EASYNET TELECOMMUNICATIONS LIMITED

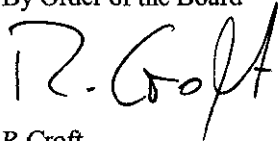
DIRECTORS' REPORT

AUDITORS

Deloitte & Touche has expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Deloitte & Touche has informed the directors that they are intending to transfer their business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, to be known as Deloitte & Touche LLP. It is the current intention of the directors to use the Company's statutory power to give consent to the appointment of Deloitte & Touche being treated as extending to Deloitte & Touche LLP at the appropriate time.

By Order of the Board

A handwritten signature in black ink, appearing to read 'R. Croft', is written over the printed name.

R Croft

Secretary

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 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 19. 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.

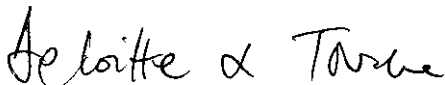
Basis of opinion

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 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors

London

23 July 2003

EASYNET TELECOMMUNICATIONS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

	Note	Year ended 31 December 2002 £'000	Nine months ended 31 December 2001 £'000
TURNOVER	1	17,895	14,284
Cost of sales		(12,371)	(384,916)
GROSS PROFIT/(LOSS)		<u>5,524</u>	<u>(370,632)</u>
Distribution Costs		(112)	(1,325)
Administrative expenses		(4,538)	(13,426)
Operating exceptional items	3	(13,877)	-
OPERATING LOSS	4	(13,003)	(385,383)
Interest receivable and similar income		5,072	7,303
Interest payable and similar charges	5	(6,396)	(5,010)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(14,327)	(383,090)
Tax on loss on ordinary activities	6	-	(472)
RETAINED LOSS FOR THE FINANCIAL YEAR	16	<u>(14,327)</u>	<u>(383,562)</u>

The loss retained for the year represents the only movement in shareholders' funds in 2002 and 2001.

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.

The notes on pages 8 to 14 form part of these financial statements.

EASYNET TELECOMMUNICATIONS LIMITED

BALANCE SHEET 31 December 2002

	Note	2002 £'000	2001 £'000
FIXED ASSETS			
Tangible assets	7	19,313	15,388
CURRENT ASSETS			
Debtors due within one year	8	72,731	29,602
Debtors due after one year	8	4,088	3,878
Investments	9	-	75,000
Cash at bank and in hand		101,764	126,846
		178,583	235,326
CREDITORS: amounts falling due within one year	10	(29,384)	(77,387)
NET CURRENT ASSETS		149,199	157,939
TOTAL ASSETS LESS CURRENT LIABILITIES		168,512	173,327
CREDITORS: amounts falling due after one year	11	(118,224)	(117,020)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(11,078)	(2,770)
NET ASSETS		39,210	53,537
CAPITAL AND RESERVES			
Called up share capital	15	5,822	5,822
Share premium account	16	460,553	460,553
Other reserves	16	100	100
Profit and loss account	16	(427,265)	(412,938)
SHAREHOLDERS' FUNDS	16	39,210	53,537

Approved by the Board on 23 July 2003
and signed on its behalf:



T Hart

The notes on pages 8 to 14 form part of these financial statements.

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

1. ACCOUNTING POLICIES

Basis of preparation

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

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. During the first half of the year where such contracts were paid in advance 15% of the contract value was recognised on acceptance of dark fibre by the customer and a further 10% over the first 12 months of the contract, with the remainder recognised on a straight-line basis over the remaining life of the contract. As a result of the restructuring the UK business in the second half of the year, the cost profile for these sales has changed and as a result, the company has recognised revenue on a straight-line basis for new contracts entered into since July.

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

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 £3,289,000 (2001: £3,101,000) 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

EASYNET TELECOMMUNICATIONS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

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

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balances 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. Deferred tax assets and liabilities are not discounted.

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

	Year ended 31 December 2002 £'000	Nine months ended 31 December 2001 £'000
Employees		
Staff costs (including directors) in the year/period:		
Wages and salaries	3,583	8,380
Social security costs	442	960
Other pension costs	153	270
	<u>4,178</u>	<u>9,610</u>

All directors are remunerated 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/period:

	No.	No.
Sales and distribution	5	16
Administration and technical	50	172
	<u>55</u>	<u>188</u>

EASYNET TELECOMMUNICATIONS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

3. OPERATING EXCEPTIONAL ITEMS

	2002 £'000	2001 £'000
Restructuring and reorganisation costs	13,877	-
	<u>13,877</u>	<u>-</u>

Restructuring and reorganisation costs during the year were primarily a result of the integration of the company into the existing UK business and include £8,067,000 relating to vacant property costs (2001 - £nil), £858,000 relating to redundancy costs (2001 - £nil) and £4,952,000 relating to onerous network contracts (2001: £nil).

4. OPERATING LOSS

	Year ended 31 December 2002 £'000	Nine months ended 31 December 2001 £'000
Is stated after charging:		
Management charge from ultimate parent undertaking	576	234
Depreciation – owned assets	3,202	7,380
- leased assets	-	533
Provision for impairment of tangible fixed assets	-	359,431
Auditors' remuneration – other services	17	72
Operating lease rentals – land and buildings	5,350	1,529
- plant and machinery	97	169
Foreign exchange (gain)/loss	(29)	209
	<u></u>	<u></u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2002 £'000	Nine months ended 31 December 2001 £'000
Interest payable – other third parties	18	223
Interest payable – bank	7	1
Interest payable – finance lease	6,371	4,786
	<u>6,396</u>	<u>5,010</u>

EASYNET TELECOMMUNICATIONS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

6. TAX CHARGE ON LOSS ON ORDINARY ACTIVITIES

	2002 £'000	2001 £'000
UK mainstream corporation tax at 30% (2001: 30%)	-	-
Adjustments in respect of prior periods	-	12,102
Deferred tax credit	-	(11,630)
	<hr/>	<hr/>
Tax credit on loss on ordinary activities	-	472
	<hr/>	<hr/>

The tax assessed for the year is lower than 30% (2001: 30%) standard rate of corporation tax in the UK. The differences are explained below:

	2002 £'000	2001 £'000
Loss on ordinary activities before tax	(14,327)	(383,090)
Tax credit on loss at standard rate 30% (2001 – 30%)	4,298	114,927
Effects of:		
Non-deductible expenses/non taxable income	(13)	(1,212)
Deferred tax asset not recognised	(4,285)	(113,715)
	<hr/>	<hr/>
Current tax	-	-
	<hr/>	<hr/>

There was no provision for deferred tax during the year ended 31 December 2002, 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 2001 is required as a result of the adoption of FRS 19.

Unprovided deferred taxation is shown below:

	2002 £'000	2001 £'000
Capital Allowances in excess of depreciation	55,174	55,014
Other Timing Differences	3,585	1,112
Tax effect of losses carried forward	24,785	23,143
	<hr/>	<hr/>
Unprovided deferred tax assets	83,544	79,269
	<hr/>	<hr/>

EASYNET TELECOMMUNICATIONS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

7. TANGIBLE FIXED ASSETS

	Cable and ducting £'000	Electronic equipment £'000	Leasehold improvements, office equipment and fixtures £'000	Total £'000
Cost				
At 1 January 2002	301,762	65,038	34,833	401,633
Additions	7,127	-	-	7,127
Disposals	-	-	(2,181)	(2,181)
At 31 December 2002	308,889	65,038	32,652	406,579
Depreciation				
At 1 January 2002	288,162	65,038	33,045	386,245
Charge for the year	1,414	-	1,788	3,202
Disposals	-	-	(2,181)	(2,181)
At 31 December 2002	289,576	65,038	32,652	387,266
Net book value				
At 31 December 2002	19,313	-	-	19,313
At 31 December 2001	13,600	-	1,788	15,388

The net book value of tangible fixed assets includes an amount of £nil (2001 - £nil) in respect of assets held under finance leases.

8. DEBTORS

	2002 £'000	2001 £'000
Amounts falling due within one year		
Trade debtors	2,058	11,111
Amounts owed by group undertakings	69,297	13,298
Interest receivable	195	-
VAT recoverable	96	-
Other debtors	36	2,757
Prepayments and accrued income	1,049	2,436
	<u>72,731</u>	<u>29,602</u>
Amounts falling due after more than one year		
Other debtors	4,088	3,633
Prepayments and accrued income	-	245
	<u>4,088</u>	<u>3,878</u>

9. INVESTMENTS

	2002 £'000	2001 £'000
Cash investments	-	75,000

EASYNET TELECOMMUNICATIONS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £'000	2001 £'000
Trade creditors	16,660	26,001
Amounts owed to group undertakings	965	19
Taxation and social security	7	-
Interest payable	1,591	-
Obligations under finance leases	144	126
Accruals and deferred income	10,017	51,241
	<u>29,384</u>	<u>77,387</u>

11. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2002 £'000	2001 £'000
Obligations under finance leases	59,621	59,764
Accruals and deferred income	58,603	57,256
	<u>118,224</u>	<u>117,020</u>

12. FINANCE LEASE OBLIGATIONS

	2002 £'000	2001 £'000
Net obligations under finance leases:		
Within one year	144	126
Between one and two years	160	140
Between two and five years	593	520
After more than 5 years	58,868	59,104
	<u>59,765</u>	<u>59,890</u>

13. PENSION SCHEME

The company makes payments into a Group Personal Pension Plan, open to all employees. Costs of the scheme are charged against profits as incurred. During the year ended 31 December 2002 the charge amounted to £153,000 (2001 - £270,000). As at 31 December 2002, there were outstanding contributions of £nil (2001 - £46,500).

EASYNET TELECOMMUNICATIONS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Warranty £'000	Vacant leasehold £'000	Closure / redundancy £'000	Other £'000	Total £'000
At 1 January 2002	-	-	350	2,420	2,770
Charged to the profit and loss account	4,560	6,373	858	426	12,217
Amounts paid in year	(401)	(1,908)	(1,208)	(392)	(3,909)
Other movements	(4,159)	-	-	4,159	-
At 31 December 2002	-	4,465	-	6,613	11,078

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. All amounts are due to be paid over the length of the relevant contract.

15. SHARE CAPITAL

	2002 £'000	2001 £'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

16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £	Share premium account £	Other reserves £	Profit and loss account £	Total £
At 1 January 2001	1,475	-	-	(29,376)	(27,901)
Retained loss for the year	4,347	460,553	100	(383,562)	81,438
At 31 December 2001	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

EASYNET TELECOMMUNICATIONS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

17. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2002, the company had annual commitments under non-cancellable operating leases as set out below:

	2002		2001	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	-	39	-	61
In more than five years	2,238	-	2,234	-
	<u>2,238</u>	<u>39</u>	<u>2,234</u>	<u>61</u>

18. CAPITAL COMMITMENTS

Commitments for capital expenditure entered into and not provided for in these accounts are £nil (2001 - £4,323,000).

19. 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.