

**UK ONLINE LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 1996**



**CLARK WHITEHILL**  
**Chartered Accountants**

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A member of Horwath International



**UK ONLINE LIMITED**  
**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 1996**

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The directors have pleasure in presenting their report and the financial statements for the year ended 31 December 1996.

**ACTIVITIES**

The principal activity of the company is that of the provision of Internet Access and Online Services in the United Kingdom.

**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 1996 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 ultimate parent undertaking.

**RESULTS AND DIVIDENDS**

The profit and loss account is set out on page 4 and shows the results for the year. The directors do not recommend the payment of a dividend.

**DIRECTORS**

The directors who served during the year and their beneficial interests in the share capital of the company at the beginning and end of the year were as follows:


	5p Ordinary shares	
	31 December 1996	31 December 1995
G Davies (appointed 14 November 1996)	-	N/A
D Rowe (appointed 14 November 1996)	-	N/A
M de Benedetti (resigned 14 November 1996)	N/A	-
Dr H Hauser (resigned 14 November 1996)	N/A	250,000
Dr T King (resigned 14 November 1996)	N/A	450,000
E Piol (resigned 15 May 1996)	N/A	-
A Watson (resigned 14 November 1996)	N/A	-
P Wynn (resigned 14 November 1996)	N/A	50,000
O Novick (appointed 15 May 1996, resigned 14 November 1996)	N/A	N/A
J Protheroe (appointed 14 November 1996)	-	N/A
G Fenton (appointed 15 November 1996)	-	N/A

During the year Easynet Group Plc acquired the entire ordinary share capital of the company, the directors' interests in Easynet Group Plc are disclosed in that company's financial statements where applicable.

**AUDITORS**

Coopers and Lybrand resigned as auditors during the year and were replaced by Clark Whitehill. Clark Whitehill will retire at the forthcoming annual general meeting and offer themselves for re-appointment.

By Order of the Board

  
Secretary  
20/2/97

**UK ONLINE LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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It is the purpose of this statement to distinguish the directors' responsibilities for the financial statements from those of the auditors, as stated in their report.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the company's state of affairs at the end of the year and of its profit or loss for the 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, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to assume 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 or other irregularities.



# CLARK WHITEHILL

## Chartered Accountants

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### AUDITOR'S REPORT TO THE SHAREHOLDERS OF UK ONLINE LIMITED

A member of Horwath International



We have audited the financial statements on pages 4 to 10 which have been prepared under the accounting policies set out on page 6.

#### Respective Responsibilities of Directors and Auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

#### Basis of Opinion

We conducted our audit in accordance with 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 the information in the financial statements.

#### Unqualified Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs at 31 December 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Clark Whitehill*  
Chartered Accountants  
and Registered Auditor  
20.2.97

**UK ONLINE LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 1996**

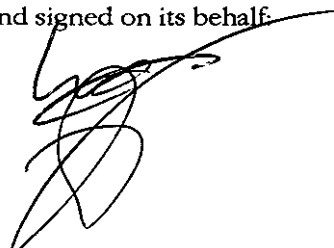
		1996	16 months to 31 December 1995
	Notes	£	£
<b>TURNOVER</b>	1b)	431,490	26,374
Cost of sales		<u>357,869</u>	<u>(96,811)</u>
<b>GROSS PROFIT/(LOSS)</b>		73,621	(70,437)
Administrative expenses		<u>1,277,772</u>	<u>1,112,335</u>
<b>OPERATING (LOSS)</b>	3	(1,204,151)	(1,182,772)
Interest receivable and similar income		3,352	33,113
Interest payable and similar charges		<u>(20,312)</u>	<u>(17)</u>
<b>(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(1,221,111)	(1,149,676)
Tax on (loss) on ordinary activities	4	<u>-</u>	<u>-</u>
<b>RETAINED (LOSS) FOR THE FINANCIAL YEAR</b>	10	<u>(1,221,111)</u>	<u>(1,149,676)</u>

The notes on pages 6 to 10 form part of these financial statements.

**UK ONLINE LIMITED**  
**BALANCE SHEET**  
**31 DECEMBER 1996**

	Notes	£	1996 £	1995 £
<b>FIXED ASSETS</b>				
Tangible assets	5		152,838	<u>369,415</u>
<b>CURRENT ASSETS</b>				
Debtors	6	23,005		119,512
Cash at bank and in hand		<u>8,408</u>		<u>114,610</u>
		31,413		234,122
<b>CREDITORS:</b> amounts falling due within one year	7	<u>(363,135)</u>		<u>(188,913)</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>			(331,722)	45,209
<b>CREDITORS:</b> amounts falling due after more than one year	8		<u>-</u>	<u>(514,300)</u>
<b>NET (LIABILITIES)</b>			<u>(178,884)</u>	<u>(99,676)</u>
<b>CAPITAL AND RESERVES</b>				
Called up share capital	9,10		180,803	87,500
Share premium account	10		2,011,100	962,500
Profit and loss account	10		<u>(2,370,787)</u>	<u>(1,149,676)</u>
<b>SHAREHOLDERS' (DEFICIT)</b>	10		<u>(178,884)</u>	<u>(99,676)</u>

Approved by the Board on  
and signed on its behalf:



} Directors

20 February 1997

**The notes on pages 6 to 10 form part of these financial statements.**

UK ONLINE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 1996

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**1. ACCOUNTING POLICIES**

**a) 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.

The directors believe this basis to be appropriate as Easynet Group Plc has indicated its intention to provide sufficient financial support to enable the company to continue to trade until at least 20 February 1998. The directors have also estimated the company's likely cash requirements until that date and believe Easynet Group Plc has adequate resources to provide the necessary support.

**b) Turnover and Revenue Recognition**

Turnover represents the invoiced value of sales excluding value added tax. Invoiced subscription revenues are recognised in full at the commencement of the subscription contract. The company's costs of fulfilling its obligations under the terms of subscription contracts are accrued at the commencement of the subscription period. All turnover arose from the company's principal activity, and arose entirely in the UK.

**c) Tangible Fixed Assets**

Depreciation on tangible fixed assets is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:-

Leasehold improvements	- over the period of the lease
Fixtures, fittings and equipment	- 33% per annum
Computer equipment	- 50% per annum
Internet access equipment	- 50% per annum

**d) Leases**

The costs of operating leases are charged to the profit and loss account as they accrue.

**e) 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 currency at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

**f) Deferred Taxation**

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is expected that the tax will arise.

<b>2.</b>	<b>INFORMATION REGARDING DIRECTORS AND EMPLOYEES</b>	<b>1996</b>	<b>1995</b>
		<b>£</b>	<b>£</b>
	Directors' emoluments		
	Remuneration:		
	Fees	<b>22,308</b>	<b>102,699</b>
	Salaries and taxable benefits	<b>78,657</b>	-
	Pension contributions	<b>6,271</b>	<b>5,500</b>
		<b><u>107,236</u></b>	<b><u>108,199</u></b>
	Emoluments of the Chairman and the highest paid director		
	Remuneration:		
	Salaries and taxable benefits - Highest Paid Director	<b>51,907</b>	<b>78,750</b>
	- Chairman	-	-
	Emoluments of the directors, excluding pension contributions and compensation for loss of office were within the following bands:		
		<b>No.</b>	<b>No.</b>
	£0 - £5,000	<b>8</b>	<b>4</b>
	£20,001 - £25,000	<b>1</b>	<b>1</b>
	£25,001 - £30,000	<b>1</b>	-
	£50,001 - £55,000	<b>1</b>	-
	£75,001 - £80,000	<b>-</b>	<b>1</b>
		<b><u>-</u></b>	<b><u>1</u></b>
	Employees		
	Staff costs (including directors) in the year:		
	Wages and salaries	<b>439,523</b>	<b>331,962</b>
	Social security costs	<b>39,861</b>	<b>32,854</b>
	Other pension cost	<b>18,379</b>	<b>15,148</b>
		<b><u>497,763</u></b>	<b><u>379,964</u></b>
	Average number of persons employed by the company in the year:	<b>No.</b>	<b>No.</b>
	Sales and distribution	<b>12</b>	<b>4</b>
	Administration and technical	<b>16</b>	<b>7</b>
		<b><u>28</u></b>	<b><u>11</u></b>
<b>3.</b>	<b>OPERATING (LOSS)</b>		
		<b>£</b>	<b>£</b>
	Is stated after charging:		
	Depreciation	<b>297,178</b>	<b>104,880</b>
	Auditor's remuneration - as auditors	<b>5,000</b>	<b>1,850</b>
	- other services	-	-
	Operating lease rentals	<b>49,528</b>	



**UK ONLINE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 DECEMBER 1996**

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**4. TAX ON (LOSS) ON ORDINARY ACTIVITIES**

No corporation tax charge arises as a result of taxable losses incurred in the period.

**5. TANGIBLE FIXED ASSETS**

	Plant and machinery etc. £
Cost	
At 1 January 1996	474,295
Additions	<u>80,601</u>
<b>At 31 December 1996</b>	<b><u>554,896</u></b>
Depreciation	
At 1 January 1996	104,880
Charge for the year	<u>297,178</u>
<b>At 31 December 1996</b>	<b><u>402,058</u></b>
<b>Net book value</b>	
<b>31 December 1996</b>	<b><u>152,838</u></b>
<i>31 December 1995</i>	<i><u>369,415</u></i>

<b>6. DEBTORS</b>	<b>1996</b>	<b>1995</b>
	£	£
Trade debtors	3,526	-
Other debtors	-	68,566
Prepayments and accrued income	<u>19,479</u>	<u>50,946</u>
	<b><u>23,005</u></b>	<b><u>119,512</u></b>

**7. CREDITORS:**

Amounts falling due within one year

Trade creditors	130,920	145,136
Amounts due to group undertakings	153,407	-
Other creditors	10,072	17,777
Taxation and social security	7,891	-
Accruals and deferred income	<u>60,845</u>	<u>26,000</u>
	<b><u>363,135</u></b>	<b><u>188,913</u></b>

**UK ONLINE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 DECEMBER 1996**

8. CREDITORS	1996	1995
amounts falling due after more than one year	£	£
Long term loan	<u>-</u>	<u>514,300</u>

During the year part of the loan, which was advanced by Olivetti Telemedia BV was converted into 500,000 ordinary shares of 5p each. A premium of 95p per share was paid.

9. SHARE CAPITAL	1996	1995
	No.	No.
Ordinary shares of 5p each		
Authorised	<u>4,200,000</u>	<u>3,000,000</u>
Allotted, called up and fully paid	<u>3,616,062</u>	<u>1,750,000</u>

On 7 November 1996 the company's authorised share capital was increased by £60,000 by the creation of an additional 1,200,000 ordinary shares of 5p each.

During the year, the following movements in shares occurred:-

	Notes	No of Ordinary shares of 5 pence each	Amount per share pence	Total consideration £
March 1996	(i)	500,000	100	500,000
November 1996	(ii)	1,268,000	50	634,000
November 1996	(iii)	78,062	5	3,903
November 1996	(iv)	<u>20,000</u>	20	<u>4,000</u>
		<u>1,866,062</u>		<u>1,141,903</u>

- (i), (ii) Shares issued to Olivetti Telemedia BV  
 (iii) Shares issued to employees  
 (iv) Shares issued to Interconnect Group Limited

**10. SHAREHOLDERS' FUNDS**

	Called Up Share Capital £	Share Premium Account £	Profit and Loss Account £	Total £
At incorporation	-	-	-	-
Shares issued in the period	87,500	962,500	-	1,050,000
Retained loss for the period	<u>-</u>	<u>-</u>	<u>(1,149,676)</u>	<u>(1,149,676)</u>
At 1 January 1996	87,500	962,500	(1,149,676)	(99,676)
Shares issued in the period	93,303	1,048,600	-	1,141,903
Retained loss for year	<u>-</u>	<u>-</u>	<u>(1,221,111)</u>	<u>(1,221,111)</u>
At 31 December 1996	<u>180,803</u>	<u>2,011,100</u>	<u>(2,370,787)</u>	<u>(178,884)</u>

**UK ONLINE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 DECEMBER 1996**

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**11. COMMITMENTS UNDER OPERATING LEASES**

At 31 December 1996, the company had annual commitments under non-cancellable operating leases as set out below:

	1996		1995	
Operating leases which expire	<b>Land and buildings</b>	<b>Other</b>	<i>Land and buildings</i>	<i>Other</i>
	£	£	£	£
Within one year	-	4,130	-	-
Within two to five years	<u>45,000</u>	<u>4,294</u>	<u>-</u>	<u>-</u>

**12. PENSION OBLIGATIONS**

The company participates in a defined contribution scheme. The pension cost for the period was £18,379 (1995: £15,148). At 31 December 1996 there was £5,853 contributions outstanding (1995: £Nil).

**13. DIRECTORS' MATERIAL INTEREST IN CONTRACTS**

T King and P Wynn were materially interested in the transfer of the company's entire issued share capital to Easynet Group plc on 7 November 1996 by virtue of their shareholdings in the company prior to the transfer.

**14. CAPITAL COMMITMENTS**

The company had no capital commitments at 31 December 1996.

**15. ULTIMATE PARENT UNDERTAKING**

The directors consider Easynet Group plc to be the ultimate parent undertaking.