

Eurobell Internet Services Limited

Directors' report and financial statements

31 December 2002

Registered number 3172207



Eurobell Internet Services Limited

Directors' report and financial statements

<i>Contents</i>	<i>Page</i>
Directors' report	2 – 3
Independent auditors' report to the members of Eurobell Internet Services Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7 – 12

Eurobell Internet Services Limited

Directors' report

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

Principal activity and review of business

The company is engaged in the provision of Internet access on a telecommunications network.

Subsequent Events

The company's ultimate parent, Telewest Communications plc, is renegotiating its bank facilities and debt financing arrangements. Further details of the financial restructuring are included within Note 1, basis of preparation.

Results and dividends

The loss for the year after taxation was £12,000 (2001: Profit £221,000). The directors recommend that no dividend be paid (2001: £nil).

Directors and their interests

The directors who served during the year, and subsequently, were as follows:

CJ Burdick	
SS Cook	
D Thomas	(resigned 22 January 2002)
PZ Freedman	(resigned 22 January 2002)

None of the directors who held office at the end of the financial year had any interest in the share capital of the Company or group subsidiary undertakings.

At 31 December 2002, CJ Burdick and SS Cook were directors of Telewest Communications plc and their interests in the ordinary share capital of Telewest Communications plc at 31 December 2002 and the beginning of the year or date of appointment are disclosed in the directors' report attached to the financial statements of that company.

During the financial year, no rights to subscribe for shares in the Company or group subsidiary undertakings were granted to or exercised by any director who held office at the end of the financial year or by any member of his immediate family.

Eurobell Internet Services Limited

Directors' report *(continued)*

Statement of directors' responsibilities

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 and of the profit or loss 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, 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 maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors

Pursuant to a shareholder's resolution, the Company is not obliged to reappoint its auditors annually.

On behalf of the board



C Burns
Secretary

Unit 1 Genesis Business Park
Albert Drive
Woking, Surrey
GU21 5RW

17 April 2003

Eurobell Internet Services Limited

Independent auditors' report to the members of Eurobell Internet Services Limited

We have audited the financial statements on pages 5 to 12.

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

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

Basis of audit 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 information in the financial statements.

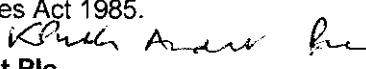
Fundamental Uncertainty – Going Concern

In forming our opinion we have considered the adequacies of the disclosures made in note 1 to the financial statements concerning the fundamental uncertainty as to the ability of the company to continue to meet their debts as they fall due. This depends upon the successful conclusion of the financial restructuring which is referred to in note 1.

In view of the significance of this uncertainty we consider that it should be brought to your attention but our opinion is not qualified in this respect.

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.


KPMG Audit Plc
Chartered Accountants
Registered Auditor

2 Cornwall Street
Birmingham
B3 2DL

17 April 2003

Eurobell Internet Services Limited

Profit and loss account

For the year ended 31 December 2002

	Note	2002 £'000	2001 £'000
Turnover		976	902
Cost of sales		(284)	(92)
Gross profit		692	810
Administrative expenses		(704)	(589)
(Loss)/profit being (loss)/profit on ordinary activities before taxation	2	(12)	221
Tax on (loss)/profit on ordinary activities	3	-	-
(Loss)/profit for the financial year		(12)	221
Retained loss brought forward		(4,264)	(4,485)
Retained loss carried forward		(4,276)	(4,264)

All figures relate to continuing operations and there is no difference between the profit reported in the profit and loss account and the profit on an historical cost basis.

Statement of total recognised gains and losses

For the year ended 31 December 2002

The Company had no recognised gains and losses other than those reflected in its profit and loss account.

Eurobell Internet Services Limited

Balance sheet

At 31 December 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Tangible assets	7	491	765
Intangible assets	8	-	-
Total assets less current liabilities		<u>491</u>	<u>765</u>
Creditors: amounts falling due after more than one year	9	(4,767)	(5,029)
Net liabilities		<u>(4,276)</u>	<u>(4,264)</u>
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account		(4,276)	(4,264)
Equity shareholder's deficit	12	<u>(4,276)</u>	<u>(4,264)</u>

These financial statements were approved by the board of directors on 17 April 2003 and were signed on its behalf by:


CJ Burdick
Director

Eurobell Internet Services Limited

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical costs accounting rules.

The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons.

The company relies on continuing financial support from its ultimate shareholder, Telewest Communications plc ("the Group"), which has continued to provide support since the year end. The directors have assumed that the Group will continue to provide support for at least twelve months from the date of the financial statements on the basis that there will be a successful conclusion of the Group's financial restructuring negotiations with its senior lenders and bond creditors.

Following the Group's decision on 30 September 2002 not to pay the interest on certain of the Group's bonds and other hedging instruments, the Group is now in default of a majority of its bonds and its Senior Secured Facility.

These liabilities are now due for repayment in full and the Group is negotiating with its bondholder creditors ("the Scheme Creditors") and bank facility creditors ("Senior Lenders") to effect a reorganisation of the Group's debt. This will involve, inter alia, the conversion of bond debt to equity and the renegotiation of existing bank facilities. The directors believe the amended facilities will provide the Group with sufficient liquidity to meet the Group's funding needs after completion of the financial restructuring.

In order for the financial restructuring to be effective, the Scheme Creditors need to approve the plan by the relevant statutory majority. In addition, the Group's shareholders need to approve the proposed share capital reorganisation.

The directors are of the opinion that the status of negotiations of the financial restructuring will lead to a successful outcome.

Taxation and deferred taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. The Company adopted FRS 19 *Deferred Tax* during the year. Deferred tax is recognised in respect of all timing differences, which have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or right to pay less tax in future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statement that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Cash flow exemption

The Company is exempt from the requirement of Financial Reporting Standard No.1 (revised 1996) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Telewest Communications plc and its cash flows are included within the consolidated cash flows of that company.

Eurobell Internet Services Limited

Notes (continued)

1 Accounting policies (continued)

Related party transactions

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose transactions with other group undertakings, as more than 90% of the Company's voting rights are controlled within that group and the consolidated accounts of Telewest Communications plc, in which the Company is included, are publicly available.

Fixed assets and depreciation

Tangibles fixed assets are recorded at cost. Cost includes materials, direct labour and overhead expenses directly attributable to design, construction and installation of the company's telecommunications and cable television network

Depreciation is provided by the Company to write off the cost, less estimated residual value, of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold improvements	-	over the life of the lease
Civil works and installation	-	5%-25% per annum straight line
Computer and office Equipment	-	10%-20% per annum straight line
Motor vehicles	-	25% per annum straight line

Leases

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments. All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease.

Turnover

All turnover arises from sales in the United Kingdom. Revenues are recognised as network communications services are provided. Connection and activation fees relating to cable television, telephony and internet customers are recognised in the period of connection to the extent that such fees are less than direct selling costs. All other up-front fees are deferred and recognised over the estimated average period that the customers are expected to remain connected to the system.

2 Operating loss

Operating loss is stated after charging:

	2002 £'000	2001 £'000
Depreciation of owned fixed assets		
Owned assets-ordinary	207	155
Impairment of owned fixed assets	48	-
Remuneration of auditors - audit fees	-	1
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Eurobell Internet Services Limited

Notes (continued)

3 Tax on ordinary activities

Reconciliation of the company's current tax to the UK statutory rate

	2002 £'000	2001 £'000
Tax on pre tax (loss)/profit at 30%	(4)	66
Effects of:		
Timing differences	(73)	(105)
Utilisation of tax losses	77	38
Current tax	-	-
UK Corporation tax at 30% (2001: 30%)	-	-
UK Deferred tax	-	-
Tax on ordinary activities	-	-

4 Deferred tax

As at 31 December 2002, the Company estimates that it has, subject to Inland Revenue agreement, £3,414,000 (2001: £3,657,000), of tax losses available to relieve future profits. In addition the Company estimates that it has unclaimed capital allowances as at 31 December 2002 of £1,207,000 (2001: £1,226,000), subject to Inland Revenue agreement.

5 Directors' remuneration

No remuneration was paid to the directors during the year (2001: £nil).

6 Staff costs

Employees of fellow group companies undertake the Company's activities.

Eurobell Internet Services Limited

Notes (continued)

7 Tangible fixed assets

	Improvements to leasehold buildings	Computer and office equipment	Total
	£'000	£'000	£'000
Cost			
At 1 January 2002	32	1,342	1,374
Additions	1	-	1
Disposals	-	(20)	(20)
At 31 December 2002	33	1,322	1,355
Depreciation			
At 1 January 2002	29	580	609
Impairment	4	44	48
Charge for year	-	207	207
At 31 December 2002	33	831	864
Net book value			
At 31 December 2002	-	491	491
At 1 January 2002	3	762	765

8 Intangible fixed assets

	Goodwill	Development costs	Total
	£'000	£'000	£'000
Cost			
At 1 January 2002 and 31 December 2002	162	326	488
Depreciation			
At 1 January 2002 and 31 December 2002	162	326	488
Net book value			
At 1 January 2002 and 31 December 2002	-	-	-

Goodwill arises from the acquisition of dial up services from Zynet Limited on 18 March 1998. Development costs capitalised comprise the pre-launch costs of setting up the company as an Internet provider.

Eurobell Internet Services Limited

Notes (continued)

9 Creditors: amounts falling due after one year

	2002 £'000	2001 £'000
Amounts owed to parent and fellow subsidiary undertakings	4,767	5,029

Inter company creditors are unsecured, non-interest bearing and have no fixed payment terms, so are deemed due after one year.

10 Provision

A deferred tax asset of £1,239,000 has not been recognised on carry forward losses and other timing differences. These assets can only be deducted against certain types of future income. There is currently insufficient evidence that the right type of income will be generated.

11 Share capital

	2002 £'000	2001 £'000
Authorised:		
1,000 ordinary shares of £1 each	1	1

	2002 £	2001 £
Allotted, issued and fully paid:		
1 ordinary share of £1 each	1	1

12 Reconciliation of movements in shareholders' deficit

	2002 £'000	2001 £'000
Opening shareholders' deficit	(4,264)	(4,485)
(Loss)/profit for the financial year	(12)	221
Closing shareholders' deficit	(4,276)	(4,264)

Eurobell Internet Services Limited

Notes *(continued)*

13 Contingent liabilities

The Company, along with fellow subsidiary undertakings, is party to a senior secured credit facility with a syndicate of banks. Borrowings under the facility are secured by the assets of the group including those of the Company.

14 Ultimate parent company

The ultimate parent company is Telewest Communications plc, which is registered in England and Wales. Telewest Communications plc is the parent of the smallest and largest group for which group financial statements, including the Company, are drawn up. Copies of these group financial statements may be obtained from The Company Secretary, Telewest Communications plc, Genesis Business Park, Albert Drive, Woking, Surrey, GU21 5RW.