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BIS Limited

Directors' report and Consolidated Financial Statements

Registered number 4037250

31 December 2005

Registered No. 4037250

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DIRECTORS
David Pyemont
Nicholas Teagle (resigned 11 May 2005)
Samantha Keating

AUDITORS
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EC4Y 8BB

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1 Churchill Place
London
E14 5HP

SOLICITOR
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London
EC4M 7WS

REGISTERED OFFICE
Baltic Exchange
38 St Mary Axe
London
EC3A 8BH

DIRECTORS' REPORT

The directors present their annual report and financial statements for the year end 31 December 2005.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is the supply of telecommunications services.

RESULTS AND DIVIDENDS

The consolidated loss for the year after taxation amounted to £327,730 (2004: loss of £613,604) and the directors do not recommend the payment of an ordinary dividend for the year. These financial statements have been prepared on a going concern basis as described in note 1.

DIRECTORS AND THEIR INTERESTS

The directors who held office at 31 December had the following interests in the share capital of the company were as follows:

	At 31 December 2005 or date of resignation if earlier		At 31 December 2004 or date of resignation if earlier	
	Ordinary A shares	Ordinary X shares	Ordinary A shares	Ordinary X shares
David Pyemont	81,600	326,128	81,600	326,128
Samantha Keating	75,000	-	75,000	-

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them during the financial period.

CHARITABLE CONTRIBUTIONS AND POLITICAL DONATIONS

There were no UK charitable contributions, grants or political donations made during the year.

AUDITORS

In accordance with section 385 of the Companies Act 1985 a resolution to reappoint KPMG LLP as auditors will be proposed at the forthcoming Annual General Meeting.

By order of the board

S Keating

Director

25th April 2006

STATEMENT OF DIRECTORS' REPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

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 or loss of the company for that period.

In preparing these 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 UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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.

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of BIS Limited

We have audited the group and parent company financial statements (the "financial statements") of BIS Limited for the year ended 31 December 2005 which comprise of the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheet, the Consolidated Cash Flow Statement, and the related notes. 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 auditor's 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 Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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 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 other transactions is not disclosed.

We read the Directors Report and consider the implications for our report if we become aware of any apparent misstatement 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 group's and 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

25th April 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2005

	Notes	*2005* £	*2004* £
TURNOVER	2	6,170,728	4,476,371
Cost of sales		(3,283,882)	(2,360,858)
Gross profit		2,886,846	2,115,513
Administrative expenses		(3,166,224)	(2,720,587)
OPERATING LOSS	3	(279,378)	(605,074)
Bank interest receivable		-	129
Interest payable and similar charges	6	(48,352)	(8,659)
LOSS ON ORDINARY ACTIVITIES BEFORE TAX		(327,730)	(613,604)
Taxation	7	-	-
LOSS FOR THE FINANCIAL YEAR	14	(327,730)	(613,604)

BIS Limited company loss for the year to 31 December 2005 was £328,176 (2004: loss of £612,422).

A statement of total recognised gains and losses has not been included as part of these financial statements as the group made no gains or losses in the period other than those disclosed above in the profit and loss account.

A note on historical cost profit and losses has not been included as part of these financial statements as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

The results stated above are all derived from continuing operations.

CONSOLIDATED BALANCE SHEET
at 31 December 2005

	Notes	2005 £	2004 £
FIXED ASSETS			
Tangible fixed assets	8	1,043,156	1,511,829
		1,043,156	1,511,829
CURRENT ASSETS			
Debtors	10	1,460,772	996,843
Cash at bank and in hand		332	-
		1,461,104	996,843
CREDITORS: amounts falling due within one year	11	(2,998,821)	(2,448,860)
NET CURRENT LIABILITIES		(1,537,717)	(1,452,017)
TOTAL ASSETS LESS CURRENT LIABILITIES		(494,561)	59,812
CREDITORS: amounts falling due after more than one year	12	(602,194)	(828,837)
NET LIABILITIES		(1,096,755)	(769,025)
CAPITAL AND RESERVES			
Called up share capital	13	413,787	413,787
Share premium account	14	6,248,371	6,248,371
Profit and loss account	14	(7,758,913)	(7,431,183)
EQUITY SHAREHOLDERS' DEFICIT		(1,096,755)	(769,025)

These financial statements were approved by the board of directors on 25th April 2006 and were signed on its behalf by

David Pyemont

Director

COMPANY BALANCE SHEET
at 31 December 2005

	Notes	2005 £	2004 £
FIXED ASSETS			
Tangible fixed assets	8	1,043,156	1,511,829
Investments	9	6,000	6,000
		1,049,156	1,517,829
CURRENT ASSETS			
Debtors	10	1,460,772	996,843
		1,460,772	996,843
CREDITORS: amounts falling due within one year	11	(2,998,821)	(2,448,746)
NET CURRENT LIABILITIES		(1,538,049)	(1,451,903)
TOTAL ASSETS LESS CURRENT LIABILITIES		(488,893)	65,926
CREDITORS: amounts falling due after more than one year	12	(602,194)	(828,837)
NET LIABILITIES		(1,091,087)	(762,911)
CAPITAL AND RESERVES			
Called up share capital	13	413,787	413,787
Share premium account	14	6,248,371	6,248,371
Profit and loss account	14	(7,753,245)	(7,425,069)
EQUITY SHAREHOLDERS' DEFICIT		(1,091,087)	(762,911)

These financial statements were approved by the board of directors on 25th April 2006 and were signed on its behalf by

David Pyemont

Director

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2005

	Notes	2005 £	2004 £
NET CASH FLOW FROM OPERATING ACTIVITIES	15(a)	353,291	432,858
RETURNS ON INVESTMENTS & SERVICING OF FINANCE			
Interest received		-	129
Interest paid		(16,772)	(991)
Interest element of finance lease rental payments		(21,316)	(10,426)
		(38,088)	(11,288)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(323,343)	(447,266)
		(323,343)	(447,266)
NET CASH OUTFLOW BEFORE USE OF MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(8,140)	(25,696)
Issue of ordinary share capital		-	696
Repayment of capital elements of finance leases		(126,000)	(178,149)
DECREASE IN CASH IN THE YEAR		(134,140)	(203,149)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Notes	2005	2004
Decrease in cash		(134,140)	(203,149)
Repayment of capital elements of finance leases		126,000	178,149
		(8,140)	(25,000)
Increase in net debt due to new finance lease		(67,534)	-
Decrease in net debt due to capitalisation of finance lease interest		-	10,849
MOVEMENT IN NET DEBT		(75,674)	(14,151)
NET DEBT AT START OF YEAR		(870,737)	(856,586)
NET DEBT AT END OF YEAR	15(b)	(946,411)	(870,737)

RECONCILIATION OF SHAREHOLDERS' DEFICIT
for the year ended 31 December 2005

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT
Group

	2005	2004
	£	£
Loss for the financial year	(327,730)	(613,604)
New share capital subscribed	-	696
Net increase in shareholders' deficit	(327,730)	(612,908)
Opening shareholders' deficit	(769,025)	(156,117)
Closing shareholders' deficit	(1,096,755)	(769,025)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT
Company

	2005	2004
	£	£
Loss for the financial year	(328,176)	(612,422)
New share capital subscribed	-	696
Net increase in shareholders' deficit	(328,176)	(611,726)
Opening shareholders' deficit	(762,911)	(151,185)
Closing shareholders' deficit	(1,091,087)	(762,911)

1. ACCOUNTING POLICIES

Basis of preparation
The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and the provisions of the Companies Act 1985. The group financial statements consolidate those of the company and its subsidiary undertaking.

The company acquired all the share capital of Baltic Internet Services Limited on 22 September 2000 and in effect became the top company of the group. The consolidated financial statements in the prior period were prepared by adopting group reconstruction principles in accordance with Financial Reporting Standard 6 'Acquisitions and Mergers' and used merger accounting for the combination of the company and its subsidiary, Baltic Internet Services Limited.

Merger accounting presents the combining companies as if the new Group had always existed.

Under section 230(4) of the Companies Act 1985, the company is exempt from the requirement to present its own profit and loss account.

The company has adopted FRS 28 (Corresponding Amounts) for the first time in the 2005 financial statements. FRS 28 (Corresponding Amounts) has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

Going concern
The financial statements have been prepared on a going concern basis which assumes that the Group will continue to trade. The validity of this assumption is dependent upon the Group being able to grow its business in order to generate profits and positive cash flows. The Group incurred large losses in its early stage of development, primarily due to initial infrastructure charges and depreciation. The Group cumulative losses to date are £7,758,913. The Group also has a £150,000 bank overdraft facility in place to 31 December 2006, which was temporarily increased to £250,000 until 31 July 2006.

The Directors have prepared a cash flow forecast for the period through to 30 April 2007. This forecast indicates that the Group has sufficient finances in place to cover forecast cash flow requirements and that the business is generating positive cash flows. The Directors believe that this will enable the Group to continue to meet its debts as they fall due for at least the next twelve months from the date of approval of these financial statements.

Tangible fixed assets
Tangible fixed assets are stated at historical cost less depreciation.

Depreciation is provided on tangible fixed assets on a straight-line basis from the time they are available for use, so as to write off their costs over their estimated useful lives taking into account any expected residual values.

The lives assigned to tangible fixed assets are:

Network equipment	3 to 5 years
Computers and office equipment	3 years
Computer Software	1 to 3 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. The group's depreciation policies are reviewed on a regular basis against the background of rapidly changing technology.

1. ACCOUNTING POLICIES (continued)

Debtors
Debtors are stated in the balance sheet at estimated net realisable value. Net realisable value is the invoiced amount less provisions for bad and doubtful debts. Provisions are made specifically against debts where there is evidence of dispute or an inability to pay.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

Leasing commitments
Operating lease rentals are charged against the profit and loss account on a straight-line basis over the lease period.

Assets held under leases which confer rights and obligations similar to those attaching to owned assets are capitalised as tangible fixed assets and the capital element of the leasing commitments is disclosed as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element of the lease payments is charged to the profit and loss account in proportion to the reducing capital element outstanding. Lease payments are split between capital and interest elements using the sum of digits method.

The capitalised values of the assets are depreciated on a straight-line basis over the useful lives of the assets concerned.

Taxation
The charge for taxation is based on the profit or 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.

Deferred tax is recognised without discounting, in respect of timing differences that have originated but not reversed at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements 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 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 and liquid resources
Cash for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and either readily convertible into known amounts of cash at or close to their carrying value or traded in an active market.

2. TURNOVER

Group turnover, which excludes value added tax, comprises the value of services provided. Turnover from rentals is recognised evenly over the customer rental period. Turnover from installation and connection activities is recognised evenly over the customer contract or life of the asset. Turnover from calls is recognised in the group profit and loss account at the time the call is made.

No segmental information has been presented as the directors believe that the company operates within one class of business, which is based entirely in the United Kingdom.

3. OPERATING LOSS

		2005	2004
		£	£
This is stated after charging/(crediting):			
Auditors' remuneration	- audit	26,500	25,000
	- other services	4,250	5,500
Depreciation of owned fixed assets		283,463	211,647
Depreciation of assets under finance leases		576,087	570,459
Operating lease rentals	- network equipment	1,976,187	1,695,264
	- other	73,194	80,374
Net exchange gain		-	(1,596)

4. DIRECTORS' EMOLUMENTS

	2005	2004
	£	£
Emoluments	186,516	242,210
Highest paid director	78,750	92,210

The group did not contribute to a pension scheme on behalf of any director during the period (2004: £ nil).

5. STAFF COSTS

	2005 £	2004 £
Wages and salaries	1,228,133	1,170,669
Social security costs	146,685	141,115
	1,374,818	1,311,784

The average monthly number of employees during the year was as follows:

	2005 No.	2004 No.
Administration	3	3
Sales and marketing	10	10
Operations	12	10
	25	23

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £	2004 £
Finance charges payable under finance leases	(31,580)	(7,668)
Bank interest payable	(16,772)	(991)
	(48,352)	(8,659)

7. TAXATION

Factors affecting the tax charge for the current period

The current tax charge for the year is different from the small companies' rate of corporation tax in the UK of 19% (2004: 19%). The differences are explained below.

	2005 £	2004 £
Current tax reconciliation		
Loss on ordinary activities before tax	(327,730)	(613,604)
Current tax at 19% (2004:19%)	(62,269)	(116,585)
Effects of:		
Expenses not deductible for tax purposes	3,979	3,188
Depreciation for the year in excess of capital allowances	53,858	40,213
Tax losses for utilisation in future years	4,432	73,184
Total current tax	-	-

7. TAXATION (continued)

No provision for taxation has been made as the group made a loss in the financial period. Tax losses will be carried forward and will be offset against the future profits of the group. No deferred tax asset, relating to the tax losses carried forward, has been recognised in the financial statements. A deferred asset as at 31 December 2005 of £1,306,088 (2004: £1,247,798) is unrecognised in these financial statements.

8. TANGIBLE FIXED ASSETS

Group & Company

	Network equipment £	Office fixtures & equipment £	Software licences £	Total £
Cost:				
At 1 January 2005	3,967,141	154,523	305,764	4,427,428
Additions	315,032	15,834	60,011	390,877
At 31 December 2005	4,282,173	170,357	365,775	4,818,305
Depreciation:				
At 1 January 2005	2,464,504	146,941	304,154	2,915,599
Charged during the year	822,212	7,704	29,634	859,550
At 31 December 2005	3,286,716	154,645	333,788	3,775,149
Net book value at 31 December 2005	995,457	15,712	31,987	1,043,156
Net book value at 31 December 2004	1,502,637	7,582	1,610	1,511,829

8. TANGIBLE FIXED ASSETS (continued)

Group & Company

Included in the amounts for network equipment above are the following amounts relating to assets held under finance leases for both the group and the company.

	31 December 2005 £	31 December 2004 £
Costs	2,919,828	2,852,294
Depreciation	(2,563,445)	(1,987,358)
Net book value	356,383	864,936

9. FIXED ASSETS INVESTMENTS

Investment in subsidiary undertaking:

	Company 2005 £	*Company 2004 £*
Investment at cost	6,000	6,000

The company owns 100% of the ordinary share capital of Baltic Internet Services Limited, a company incorporated in England and Wales with a principal activity of the supply of telecommunications services.

The investment in Baltic Internet Services Limited has been accounted for using merger relief. This means that the investment in Baltic Internet Services Limited has been included at the nominal value of shares issued by the company.

10. DEBTORS

	Group & Company 2005 £	*Group & Company 2004 £*
Trade debtors	812,808	454,500
Other debtors	30,846	6,136
Prepayments and accrued income	617,118	536,207
	1,460,772	996,843

11. CREDITORS: amounts falling due within one year

	Group 2005 £	*Group 2004* £
Bank overdraft	154,558	20,086
Obligations under finance leases	225,047	126,000
Trade creditors	1,205,169	1,115,062
Taxation and social security	163,734	113,384
Other creditors	3,159	5,364
Accruals and deferred revenue	1,247,154	1,068,964
	2,998,821	2,448,860

	Company 2005 £	*Company 2004* £
Bank overdraft	154,558	19,972
Obligations under finance leases	225,047	126,000
Trade creditors	1,205,169	1,115,062
Taxation and social security	163,734	113,384
Other creditors	3,159	5,364
Accruals and deferred revenue	1,247,154	1,068,964
	2,998,821	2,448,746

BIS Limited assigned a fixed charge over all book debts and other debts and a floating charge over all other assets to Barclays Bank Plc on 6 June 2003. This was to secure the obligations of the company under the terms of an overdraft agreement.

12. CREDITORS: amounts falling due after more than one year

	Group & Company 2005 £	*Group & Company 2004* £
Obligations under finance leases	567,138	724,651
Trade creditors	-	77,220
Accruals and deferred revenue	35,056	26,966
	602,194	828,837

12. CREDITORS: amounts falling due after more than one year (continued)

The maturity of obligations under finance lease contracts is as follows for both the group and the company:

	Group & Company 2005 £	*Group & Company 2004* £
Amounts payable:		
Within one year	256,334	151,000
In the second to fifth years	660,683	829,651
	917,017	980,651
Less future finance charges	(124,832)	(130,000)
	792,185	850,651

13. SHARE CAPITAL

Authorised	*2005* £	*2004* £
847,380 Ordinary A shares of £1.00 each	847,380	847,380
3,000,000 (2004: 1,026,217) Ordinary X shares of £0.01 each	30,000	10,262
Total	877,380	857,642

Allotted, called up and fully paid	*2005* £	*2004* £
408,727 Ordinary A shares of £1.00 each	408,727	408,727
506,027 Ordinary X shares of £0.01 each	5,060	5,060
Total	413,787	413,787

All ordinary shares rank equally and each ordinary share gives the holder one vote at a general meeting of the company and the rights to participate in the profits of the company by way of a dividend.

14. RESERVES

Group

	Share Premium account £	Profit and loss account £	Total £
At 1 January 2005	6,248,371	(7,431,183)	(1,182,812)
Loss for the year	-	(327,730)	(327,730)
At 31 December 2005	6,248,371	(7,758,913)	(1,510,542)

Company

	Share Premium account £	Profit and loss account £	Total £
At 1 January 2005	6,248,371	(7,425,069)	(1,176,698)
Loss for the year	-	(328,176)	(328,176)
At 31 December 2005	6,248,371	(7,753,245)	(1,504,874)

15. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating loss to net cash flow from operating activities

	2005 £	2004 £
Operating loss	(279,378)	(605,074)
Depreciation	859,550	782,106
Increase in debtors	(463,929)	(132,183)
Increase in creditors	237,048	388,009
Net cash flow from operating activities	353,291	432,858

15. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(b) Analysis of net debt

	At 1 January 2005 £	Cash flow £	Other non-cash movements £	At 31 December 2005 £
Cash	-	332	-	332
Bank overdraft	(20,086)	(134,472)	-	(154,558)
Finance leases	(850,651)	126,000	(67,534)	(792,185)
	(870,737)	(8,140)	(67,534)	(946,411)

16. FINANCIAL COMMITMENTS

At 31 December 2005 the group and company had annual commitments under non-cancellable operating leases as set out below:

Group and company

	Land and buildings		Other	
	2005 £	2004 £	2005 £	2004 £
Operating leases which expire:				
Within one year	-	6,315	833,837	78,847
Between one and five years	118,184	-	1,647,738	1,699,858
Total	118,184	6,315	2,481,575	1,778,705

17. RELATED PARTY TRANSACTIONS

During the year the group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into during the year, and trading balances outstanding at 31 December 2005, are as follows:

	Sales to related party £	Purchases from related party £	Amounts due from related party £	Amounts owed to related party £
Anthony Grant				
31 December 2004	-	-	-	178,249
31 December 2005	-	-	-	103,249
Amphone Telecommunications Limited				
31 December 2004	187	-	340	-
31 December 2005	139	-	41	-
Nicholas Teagle				
31 December 2004	-	-	-	-
31 December 2005	-	22,940	-	20,045

The company has taken advantage of the exemption contained within Financial Reporting Standard 8 and has therefore not disclosed transaction or balances with its wholly owned subsidiary.