20509.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services Act 1986.

Close Brothers Corporate Finance Limited, which is regulated in the United Kingdom by the Securities and Futures Authority Limited, is acting for Atlantic Telecom Group PLC and no one else in relation to the matters described in this document and will not be responsible to any other person for providing protections afforded to customers of Close Brothers Corporate Finance Limited or for providing advice in relation to the matters referred to herein.

Chase Manhattan plc, which is regulated in the United Kingdom by the Securities and Futures Authority Limited, is acting for Atlantic Telecom Group PLC and no one else in relation to the matters described in this document and will not be responsible to any other person for providing protections afforded to customers of Chase Manhattan plc or for providing advice in relation to the matters referred to herein.

If you have sold or transferred all of your ordinary shares in Atlantic Telecom Group PLC, please forward this document together with the Form of Proxy at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The New Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) or under the securities laws of any state of the United States or under the applicable securities laws of Canada, Australia, Japan or the Republic of Ireland. Subject to certain limited exceptions, the New Ordinary Shares may not be offered, sold, taken up, renounced or delivered within the United States, Canada, Australia, Japan or the Republic of Ireland or to or by any national, resident or citizen of such countries.

Atlantic

Atlantic Telecom Group PLC

Proposed Acquisition of First Telecom

Listing particulars relating to the proposed issue of up to 67,973,856 New Ordinary Shares of 25p each in connection with the Acquisition

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All statements relating to Atlantic Telecom Group PLC and its subsidiary undertakings' business, financial position and prospects should be viewed in the light of the year 2000 compliance issues set out in paragraph 13 of Part VII of this document.

A copy of this document, which comprises listing particulars relating to Atlantic Telecom Group PLC prepared in accordance with the listing rules of the UK Listing Authority made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in Scotland as required by section 149 of that Act. Applications have been made to the UK Listing Authority and to the London Stock Exchange for the New Ordinary Shares to be issued pursuant to the Acquisition to be admitted to the Official List of the UK Listing Authority and to be admitted to trading on the main market of the London Stock Exchange respectively. It is expected that Admission will become effective and dealings in the New Ordinary Shares will commence on 8 June 2000. Ordinary Shares of the same class are already listed on the Official List of the UK Listing Authority and traded on the main market of the London Stock Exchange. The New Ordinary Shares have not been marketed nor are available in whole or in part to the public in conjunction with the application for Admission.

Notice of an Extraordinary General Meeting of the Company, to be held at 12 noon on 7 June 2000 at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA is set out at the end of this document. To be valid, the enclosed Form of Proxy for use in connection with the Extraordinary General Meeting should be completed in accordance with the instructions thereon and returned to the Company's registrars, Lloyds TSB Registrars Scotland, 117 Dundas Street, Edinburgh EH3 5ED so as to be received by no later than 12 noon on 5 June 2000.

X

Philip N. Allenby
Company Secretary
Atlantic Telecom Group PLC
22 MAY 2000
Holburn House
475-485 Union Street
Aberdeen, AB11 6DB

Contents

Expected Timetable

Documentation sent to Shareholders	22 May 2000
Last time and date for receipt of Form of Proxy	12 noon on 5 June 2000
Extraordinary General Meeting	12 noon on 7 June 2000
Completion	8 June 2000

Directors and Advisers

Directors	Graham John Duncan *Executive Chairman* Gordon Bruce Sleigh *Managing Director* Alisdair Douglas McKenzie *Finance Director* Martin Leslie Beard *Marketing and Commercial Director* Edward Joseph Hornsby *Technical Director* Nicholas Berry *Non-Executive Director* Andrew Arthur Laing *Non-Executive Director*	
Proposed Directors	Mark William Daeche *Special Projects Director* Paul Jude Salem *Non-Executive Director*	
Secretary	Philip Norman Allenby	
Registered office	Holburn House 475-485 Union Street Aberdeen AB11 6DB	
Head office	Holburn House 475-485 Union Street Aberdeen AB11 6DB	
Auditors	Grant Thornton P.O. Box 151 114 West George Street Glasgow G2 1Q5	
Reporting Accountants	Grant Thornton Grant Thornton House Melton Street Euston Square London NW1 2EP	
Reporting Accountants	Arthur Andersen 1 Surrey Street London WC2R 2PS	
Financial advisers	Close Brothers Corporate Finance Limited 10 Crown Place Clifton Street London EC2A 4FT Chase Manhattan plc 125 London Wall London EC2Y 5AJ	
Stockbrokers	Hoare Govett Limited 250 Bishopsgate London EC2M 4AA	Bell Lawrie White & Co 48 St. Vincent Street Glasgow G2 5TS
Solicitors to the Company	Ashurst Morris Crisp Broadwalk House 5 Appold Street London EC2A 2HA	Peterkins 100 Union Street Aberdeen AB10 1QR
Registrars	Lloyds TSB Registrars Scotland 117 Dundas Street Edinburgh EH3 5ED	

Definitions

The following definitions apply throughout this document and the Form of Proxy unless the context requires otherwise:

"A Preference Offer"	the offer by Chase on behalf of Atlantic for the A Preference Shares
"A Preference Shares"	all of the issued and to be issued convertible redeemable A preference shares of £0.001 each in the capital of First Telecom
"Acquisition"	the proposed acquisition of First Telecom by Atlantic pursuant to the Offers
"Act"	Companies Act 1985, as amended
"Admission"	admission of the New Ordinary Shares to the Official List and admission to trading on the main market of the London Stock Exchange
"Affiliate"	(in relation to a company) any of its subsidiaries, the holding company of such company and any other subsidiaries of such holding company
"Articles"	the Articles of Association of the Company
"ATL"	Atlantic Telecommunications Limited
"Atlantic" or the "Company"	Atlantic Telecom Group PLC
"Atlantic Logicall"	Logicall Telecommunications Limited, a subsidiary of Atlantic
"Authorised Share Capital"	the authorised share capital of Atlantic
"B Preference Offer"	the offer by Chase on behalf of Atlantic for the B Preference Shares
"B Preference Shares"	all of the issued and to be issued convertible redeemable B preference shares of £0.001 each in the capital of First Telecom
"Cerbernet"	Cerbernet Limited
"Chase" or "Chase Manhattan"	Chase Manhattan plc
"Circular"	this document
"Close Brothers"	Close Brothers Corporate Finance Limited, sponsor and financial adviser to the Company
"Completion" or "Unconditional Date"	the date upon which the Offers are declared unconditional in all respects
"CREST"	the computerised settlement system operated by CRESTCo Limited in accordance with which securities may be held and transferred in uncertificated form
"CREST Regulations"	the Uncertificated Securities Regulations 1995 (SI 1995 No.95/3272)
"Deed of Warranty"	the deed of warranty dated 27 April 2000 between the Warrantors and Atlantic as summarised in paragraph 9.1(a)(ii) of Part VII of this document
"Deferred New Ordinary Shares"	the New Ordinary Shares, the issue of which to the Warrantors has been deferred until 29 June 2001 in accordance with and subject to the terms of the Deed of Warranty
"Directors" or "Board"	the directors of the Company whose names are set out at Part I of this document
"DTI"	the Department of Trade and Industry which is responsible, *inter alia*, for issuing licences to operate and use the physical networks over which television programmes and telecommunication services may be provided

"EBITDA"	earnings before interest, tax, depreciation and amortisation
"Enlarged Group"	the Group, as enlarged by the acquisition of the First Telecom Group upon the Offers being declared unconditional in all respects
"ESOT"	the First Telecom Group plc Employee Share Ownership Trust made between First Telecom (1) and Mourant and Co. Trustees Limited (2) dated 24 March 1998
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company to be held at 12 noon on 7 June 2000
"First Telecom"	First Telecom Group plc, a company incorporated in England and Wales with registered number 3290628
"First Telecom Deferred Shares"	all of the issued deferred shares of 1p each in the capital of First Telecom
"First Telecom Group"	First Telecom and its subsidiaries
"First Telecom Ordinary Shares"	all of the issued and to be issued ordinary shares of 1p each in the capital of First Telecom
"First Telecom Share Option Schemes"	all those schemes and arrangements between either First Telecom or the trustees of the ESOT and various officers and employees of the First Telecom Group relating to the First Telecom Share Options
"First Telecom Share Options"	the options to subscribe or otherwise acquire First Telecom Shares pursuant to the First Telecom Share Option Schemes or otherwise granted or agreed by First Telecom
"First Telecom Shares"	the First Telecom Ordinary Shares, the 1997 Preference Shares, the 1999 Preference Shares, the A Preference Shares and the B Preference Shares
"First Telecom Shareholder"	any holder of First Telecom Shares or First Telecom Warrants during the period that the Offers remain open for acceptance
"First Telecom Warrants"	the warrants to subscribe for First Telecom Ordinary Shares granted pursuant to a deed poll dated 25 September 1998 between First Telecom and Morgan Stanley Senior Funding, Inc
"Form of Proxy"	the form of proxy for use in connection with the EGM
"FSA"	the Financial Services Authority or the UK Listing Authority
"Group"	the Company and its subsidiary undertakings
"INI"	Interactive Networks Informations Systeme GmbH
"Initial New Ordinary Shares"	the New Ordinary Shares to be issued to the First Telecom Shareholders upon the Offers becoming unconditional in all respects
"ITC"	the Independent Television Commission, the UK regulatory body which is responsible, *inter alia*, for overseeing and licensing cable communications operators
"London Stock Exchange"	The London Stock Exchange Limited
"Marconi"	Marconi plc, or any member of the Marconi Group as the context may require
"Marconi Group"	Marconi plc and its subsidiary undertakings
"MFN"	Metromedia Fiber Network BV
"New Ordinary Shares"	up to 67,973,856 new Ordinary Shares to be issued pursuant to the Acquisition

"Nokia"	Nokia GmbH
"Offer Document"	the document dated 27 April 2000 containing the formal Offers which were made by Chase on behalf of the Company for all the issued and to be issued share capital and warrants of First Telecom
"Offers"	the Ordinary Offer, the 1997 Preference Offer, the 1999 Preference Offer, the A Preference Offer, the B Preference Offer and the Warrant Offer by Chase on behalf of Atlantic, as set out in the Offer Document
"Ordinary Shares" or "Atlantic Shares"	ordinary shares of 25p each in the capital of the Company
"Proposed Directors"	Mark Daeche and Paul Salem, who will become directors of Atlantic upon Completion
"RA"	the Radiocommunications Agency, an executive agency of the DTI which regulates the use and administers licensing of the radio spectrum in the UK
"Registrars"	Lloyds TSB Registrars Scotland, 117 Dundas Street, Edinburgh EH3 5ED
"Resolutions"	the ordinary resolutions to be proposed at the EGM as set out at the end of this document
"Share Option Scheme" or "Scheme"	the Atlantic Telecom Group PLC Approved Executive Share Option Scheme 1995
"Shareholder"	a holder of Ordinary Shares
"UK"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the Financial Services Authority in its capacity as the UK Listing Authority
"US"	the United States of America, its territories and possessions and the District of Columbia
"Vendors"	the holders of shares, issued and to be issued, and warrants in First Telecom
"Warrant Offer"	the offer by Chase on behalf of Atlantic for the First Telecom Warrants
"Warrantors"	Morgan Stanley Capital Partners III LP, Morgan Stanley Capital Investors, L.P., MSCP III 892 Investors L.P., Providence Equity Operating Partners III L.P., Providence Equity Partners III L.P., Marc Citron, Mark Daeche and David Oertle being those First Telecom Shareholders giving warranties to the Offeror in the Deed of Warranty
"1997 Preference Offer"	the offer by Chase on behalf of Atlantic for the 1997 Preference Shares
"1997 Preference Shares"	all of the issued and to be issued convertible redeemable preference shares of 2p each in the capital of First Telecom
"1999 Preference Offer"	the offer by Chase on behalf of Atlantic for the 1999 Preference Shares
"1999 Preference Shares"	all of the issued and to be issued convertible redeemable preference shares of 1p each in the capital of First Telecom

Glossary

The following definitions of telecommunications industry terms apply throughout this document unless the context requires otherwise:

"access network"	that part of the Enlarged Group's network that connects the customer to a base station or a central office exchange
"ADSL"	Asymmetric Digital Subscriber Line, a form of DSL technology providing different transmission capabilities upstream and downstream
"ATM"	Asynchronous Transfer Mode, a packet based system for the transfer of digital signals
"backhaul network"	the trunk part of the Enlarged Group's network, connecting one or more base stations or central office exchange to a switch
"bandwidth"	a measure of the communication capacity or data transmission rate of a circuit. The total frequency spectrum (in Hertz - cycles per second) which is allocated or available to a channel, or the amount of data that can be carried (in bits per second) by a channel
"broadband"	a service or connection allowing a considerable amount of information to be conveyed
"buildout"	network construction
"central office exchange"	the location of a local telephone switch to which customers can be connected
"churn"	the number of customer disconnections during a period expressed as a percentage of the annualised average number of customers during the period
"Crest"	the Company's indirect telecommunications service
"customer installation costs"	the costs associated with the installation of the equipment required to connect a customer to the Enlarged Group's network
"dark fibres"	fibre optic cables which have no electronic equipment connected to them such that they cannot carry traffic
"direct access services"	services provided to customers over Atlantic's networks, currently including voice, data and ISP
"DSL"	Digital Subscriber Line
"FRA" or "fixed radio access"	a fixed access point to multipoint radio based network to deliver telecommunications services in the local loop
"IP"	Internet Protocol
"ISDN"	Integrated Services Digital Network
"ISP"	Internet Service Provider
"ISVR"	International Simple Voice Resale
"Kbs"	Kilobits per second
"line base"	the number of telephone lines in a local area
"lit fibres"	dark fibres which have had electronic equipment connected to them such that they can carry traffic
"local loop"	the part of a telecommunications network in a local area connecting the local telephone exchanges to the customer's premises
"Mbs"	megabits per second
"Multiplexer"	technology which concentrates telecommunications signals

"point to multipoint"	a means of transmitting telecommunications signals over the air from a base station to a number of customers
"point to point"	a means of transmitting telecommunications signals over the air from one fixed point to another fixed point
"PTO"	Public Telecommunications Operator
"SDH"	Synchronous Digital Hierarchy
"SDSL"	Symmetric Digital Subscriber Line, a form of DSL technology promoting the same upstream and downstream transmission speeds
"Telecommunications Act"	Telecommunications Act 1984
"ULL"	unbundling of the local loop
"UMTS"	Universal Mobile Telecommunications System, also known as a type of third generation mobile telephony
"UNE"	unbundled network element
"VoDSL"	Voice over Digital Subscriber Line
"VoIP"	Voice over Internet Protocol

PART I

Letter from the Executive Chairman

ATLANTIC TELECOM GROUP PLC

(Registered in Scotland, No 20509)

Directors	*Registered Office*
Graham John Duncan *(Executive Chairman)*	Holburn House
Gordon Bruce Sleigh *(Managing Director)*	475-485 Union Street
Alisdair Douglas McKenzie *(Finance Director)*	Aberdeen AB11 6DB
Martin Leslie Beard *(Marketing and Commercial Director)*	
Edward Joseph Hornsby *(Technical Director)*	
Nicholas Berry *(Non-Executive Director)*	
Andrew Arthur Laing *(Non-Executive Director)*	

22 May 2000

To Shareholders and, for information only, to the holders of options under the Share Option Scheme

Dear Shareholder

PROPOSED ACQUISITION OF FIRST TELECOM

Introduction

Your Board announced on 27 April 2000 that it had agreed terms for the Acquisition of First Telecom. Pursuant to the Acquisition, Atlantic will issue up to 67,973,856 New Ordinary Shares (representing 29.7 per cent. of the fully-diluted share capital of the Company) to the Vendors, valuing First Telecom at approximately £520 million based on the closing price of an Ordinary Share on 26 April 2000 of 765p.

The Enlarged Group will be able to offer telephony and high speed Internet services, utilising fixed wireless, SDSL and fibre optic cable. Its addressable market will be around 17 million households and one million businesses in the UK and a planned 850,000 SMEs (small and medium-size enterprises) and SoHos (small and home offices) in Germany. The Enlarged Group expects to benefit from the addition of First Telecom's SDSL broadband technology to the predominantly fixed wireless and fibre optic cable services already successfully deployed by Atlantic.

Due to its size, the Acquisition is conditional, *inter alia*, on the approval of Shareholders which will be sought at the Extraordinary General Meeting convened for 12 noon on 7 June 2000.

The purpose of this document is to provide you with the details of the Acquisition, to explain why your Board considers it to be in the best interests of Atlantic and its Shareholders as a whole, to convene the Extraordinary General Meeting and to recommend Shareholders to vote in favour of the Acquisition, to increase the Authorised Share Capital and to give authority to the Directors of the Company to allot Ordinary Shares.

You should read the whole of this document and not just rely on the summarised information set out in this letter.

Information on the First Telecom Group

Overview

The First Telecom Group is a European telecommunications operator, which currently provides telephony and Internet services to SMEs, SoHos and residential customers in the UK, Germany and France.

The First Telecom Group started operations in the UK in 1995 through the provision of competitively priced voice services and has grown significantly and, in the opinion of the Directors, is positioned to become one of the leading UK alternative telephony service providers. First Telecom Group started similar operations in Germany in September 1997 and in France in October 1997. In February 2000 First Telecom expanded into Internet service provision through the acquisition of Cerbernet and INI, which offer Internet access and web hosting services, principally to SMEs in the UK and Germany respectively.

First Telecom's strategy is to provide integrated voice, Internet services and broadband data services to its customer base. As part of this strategy, First Telecom is aggressively pursuing the rollout of its DSL network in the most attractive European markets, in particular Germany, and is migrating its business into being an integrated communications provider, developing value-added services to customers, a strategy similar to that of Atlantic.

DSL technology provides broadband services over the existing twisted pair copper wire local network of the incumbent telephone operators (the "local loop") at transmission speeds of up to 41 times those of standard 56 Kbs analogue dial up modems and of up to 17 times that of basic rate ISDN lines.

In order to address the SME and SoHo market for DSL, First Telecom is rolling out SDSL rather than ADSL. SDSL allows the same downstream and upstream transmission speeds of up to 2.3 Mbs whereas ADSL only provides high speed in the downstream direction. The Directors believe that this feature makes SDSL technology better suited than ADSL for business applications such as video conferencing, web hosting and corporate intranets, where large amounts of data are transferred in both directions. The Directors therefore believe that SDSL will be attractive to its targeted SME and SoHo customers.

Germany is one of the first European countries to unbundle the local loop. First Telecom is currently installing a DSL network in Germany which is expected to be available for commercial launch by July 2000. First Telecom has requested more than 700 co-locations from Deutsche Telekom. First Telecom is currently planning to have approximately 250 co-locations operational by December 2000. The co-locations are the points where the customer's telephone line is connected to First Telecom's DSL broadband network. The initial roll out of First Telecom's DSL broadband network in Frankfurt, Munich and Berlin and seven other major metropolitan areas is expected to be completed by December 2000, and it is anticipated that this will result in First Telecom's DSL broadband services being available to approximately 325,000 SMEs and SoHos. Following the initial roll out, First Telecom plans to complete a nationwide roll out across Germany on a city by city basis in a total of up to 30 major metropolitan areas with approximately 700 co-locations by December 2001. This is expected to result in First Telecom's DSL broadband services being available to approximately 850,000 SMEs and SoHos by December 2001.

Products and Services

DSL services – Initially, First Telecom proposes to offer wholesale products at speeds ranging from 256 Kbs to 2.3 Mbs. The intention is to price these products according to the speed of the service selected and on a basis which will be competitive with the incumbent telephone operator and other new providers of broadband delivery services.

Following completion of the initial rollout of the DSL network in Germany, First Telecom intends to offer an integrated voice and data package to SMEs and to existing voice and Internet business customers in Germany. This will offer high speed data and Internet services to customers together with voice services. The voice element of this package will initially comprise the existing voice telephony services which are already available in Germany.

Upon development of the necessary protocols to adapt the equipment to the European market, which is expected to take place in early 2001, First Telecom intends to launch a voice over DSL product in Germany. This product allows DSL subscribers to use their unbundled local loop for simultaneous voice and broadband data transmission. Multiple voice connections and broadband data signals can be carried simultaneously, without interference, along a single unbundled local loop. The voice connections are transported as data, using protocols such as ATM or IP (VoIP). However, VoDSL technology still requires considerable technical development as European standards are not yet supported.

First Telecom intends to continue to develop value added services such as virtual private networks, virtual private servers, online back-up and storage-on-demand, centralised firewall solutions and horizontal application services.

First Telecom's planned DSL broadband network has been designed in conjunction with Nokia. Nokia has agreed to supply the main components of First Telecom's DSL broadband network in Germany. In February 2000 First Telecom signed a major supply agreement which provides for Nokia to supply and install all the equipment necessary to run the DSL broadband network including central office equipment, city points of presence and management systems in Germany. Under this non-exclusive arrangement Nokia will also provide and install the DSL modems that are required at customers' premises and will operate First Telecom's network management and surveillance centre in Germany for six months from commercial launch.

Voice services – These are offered under branded packages in the UK, France and Germany in the following areas:

- *Business post-paid* – aimed at SMEs and SoHos, this service offers comprehensive billing together with optional ISDN services (in the UK), executive charge cards and non geographic (freephone local and national rate) numbers;
- *Residential post-paid* – a post-paid residential service aimed at high income home owners and offering competitive rates; and
- *Residential pre-paid* – a pre-paid service to residential customers at competitive rates in the UK, France and Germany.

In addition, the German market is also addressed through a call-by-call service and the French market through pre-paid calling cards. First Telecom also provides wholesale termination rates to certain international destinations to enable it to obtain volume discounts.

Internet Service Provision – ISP capability was acquired by First Telecom in February 2000 through the acquisition of Cerbernet, based in London, and INI, based in Frankfurt. Both companies provide connectivity and server hosting services, focused on the SME market. Cerbernet has approximately 1,100 SME customers and INI has approximately 100 SME customers.

Both Cerbernet and INI provide core services to their customers comprising connectivity, or access, to the Internet and server hosting services. Both ISPs offer dedicated access through leased lines and dial up access through ISDN lines and focus on the SME market. Server hosting services are available to customers either on a dedicated basis where the customer is allocated its own server or on a shared server basis. Cerbernet and INI also offer customers the option of co-locating their own servers at the ISP's premises and provide ancillary services such as domain name registration and the administration of e-mail services. In addition, Cerbernet offers webcasting services for audio and video distribution to its customers and INI has developed firewall installation services for its SME customers.

Cerbernet is currently trialling the ADSL service offering with British Telecom and intends to re-sell this service to potential customers for its Internet services in those cities where First Telecom will ultimately roll out its own DSL services.

Network architecture

First Telecom has adopted a "smart build" approach to network development. This involves building a geographic concentration of customers before building, acquiring or extending its network through the acquisition of switches or the leasing of fibre optic transmission facilities. These switches use least cost routing technology.

First Telecom's voice network includes:

- 3 interconnected switches based in London, Frankfurt and Paris;
- Lease arrangements on international cables from London to Paris and London to Frankfurt; and
- Seven points of interconnection outside Frankfurt.

First Telecom is also constructing a DSL network in Germany described above.

Information on Atlantic

Atlantic is a rapidly growing competitive local exchange carrier, concentrating on building advanced local loop telecommunications access networks in heavily populated metropolitan areas. Its primary objective is to provide advanced, reliable, high-quality, attractively-priced data, voice and Internet services to small businesses (fewer than 30 lines), medium-sized businesses (fewer than 200 lines) and high-spending residential customers. Atlantic provides these services through high-bandwidth local network assets, and intends to provide these services through its national network assets beginning in mid-2000. Atlantic launched service in its first metropolitan area network in October 1996 and currently operates four facility-based networks in Glasgow, Edinburgh, Aberdeen and Dundee. It is on schedule to launch commercial services in its first English licence metropolitan area, Greater Manchester, in July 2000. The roll out of the Atlantic network into the Greater Manchester area is being funded largely out of the proceeds of the high yield bond issue, which was completed in February of this year, and the proceeds from the equity issue completed in December 1999.

Atlantic's licence areas encompass Scotland and the North East, North West, Yorkshire, Midlands, South West and South East areas of England, covering a total of approximately 17 million households and one million businesses.

Strategic Partnership with Marconi

The Company announced on 12 November 1999 a conditional agreement for the formation of a strategic partnership with Marconi comprising the following:

- the provision to Atlantic of a 20 year agreement for the exclusive use and maintenance of dedicated fibre over a broadband fibre optic network, together with the benefit of contractual arrangements for the provision of the associated equipment and software to enable the fibre to be "lit";
- the subscription by Marconi of £50 million in cash;
- the issue to Marconi of 39,100,000 Ordinary Shares;
- the provision by Marconi of a vendor finance facility in relation to purchases by Atlantic of £50 million worth of equipment from Marconi;
- the contracting of maintenance services in relation to the network equipment and software to Marconi on arm's length terms; and
- the right to appoint a Marconi representative to the Atlantic Board.

In addition, Marconi had the right to subscribe for up to an additional 2,354,561 Ordinary Shares at 440p per share. This right was exercised on 8 December 1999.

Partnership with Metromedia ("MFN")

Atlantic also announced on 27 April 2000 that it had reached an agreement with MFN in principle under which, subject to a formal contract being entered into, it will receive dark fibre within all the 16 European city networks currently planned or under construction by MFN which is planned to take place from the end of 2000 to the first half of 2002. MFN is a subsidiary of Metromedia Fibre Network Inc., a NASDAQ quoted fibre optic network provider in North America and Europe. These networks include London, Paris and Amsterdam as well as eight major cities in Germany and a number of other key European cities. In exchange Atlantic will provide MFN with two dedicated wavelengths of bandwidth capacity on Atlantic's UK national network.

Reasons for the Acquisition

The Acquisition will provide significant benefits to Atlantic, including:

- Early access to the SME and SoHo markets in Germany, through the roll out of First Telecom's DSL network through the major conurbations;
- Providing a platform for Atlantic to roll out broadband services in other European markets, particularly France, where First Telecom has commercial operations and an infrastructure telecommunications licence;
- Increasing Atlantic's potential customer base for its direct access services in the UK, where First Telecom has 135,000 existing residential and SME customers;
- Adding DSL, the high speed broadband technology, to the fixed wireless and fibre optic cable services already offered by Atlantic in the UK;
- Enhancing First Telecom's existing UK revenues, margins and traffic flows by using Atlantic's national fibre network; and
- Enhancing Atlantic's ISP services announced on 27 April 2000, into server hosting which is already supplied by First Telecom's two existing ISPs.

The Acquisition will position Atlantic to become a provider of broadband data services in Germany, Europe's largest telecommunications market, and enhances Atlantic's position as a growing alternative provider of telecommunications services in the UK.

The Enlarged Group will be able to offer telephony and high speed Internet services, utilising fixed wireless, DSL and fibre optic cable. Its addressable market will be around 17 million households and one million businesses in the UK and a planned 850,000 SMEs and SoHos in Germany. The Enlarged Group expects to benefit from the addition of First Telecom's SDSL broadband technology to the predominantly fixed wireless and fibre optic cable services already successfully deployed by Atlantic.

The transaction also creates a company with expanding operations in a number of geographic markets:

United Kingdom – Atlantic currently operates fixed wireless services in Glasgow, Edinburgh, Aberdeen and Dundee and is on schedule to launch commercial services in its first English metropolitan area, Greater Manchester, in July 2000. Its four current Scottish networks pass more than 735,000 premises and total lines installed and pending installation were 98,272 as at 31 March 2000. Atlantic also leases a national, scaleable, high-capacity fibre optic backbone and expects to access more than 40 points of presence and connections between most major metropolitan areas in the UK by late 2000.

First Telecom offers its UK voice and ISP products to 5,500 companies and 130,000 residential customers and plans to roll out a DSL broadband network aimed at the SME market when access for new entrants to BT's local loop is permitted, in a complementary fashion to Atlantic's fixed radio access networks.

BT is currently scheduled to unbundle its local loop by 1 July 2001 at the latest through the provision of partial baseband leased circuits. First Telecom is one of the fourteen companies which will be participating in the ULL trial process currently taking place.

Germany – ULL has already been implemented in Germany. First Telecom is believed to be one of the first companies to secure agreements with Deutsche Telekom for co-location space and UNEs. It has requested more than 700 co-locations from Deutsche Telekom, has current acceptances on 286 and 13 co-locations have been delivered. First Telecom plans to launch commercially its SDSL broadband network by July 2000 and have approximately 700 co-locations operational by December 2001. Its existing voice and ISP products and services are currently offered to 3,300 companies and 79,000 residential pre-paid customers in Germany.

France – First Telecom currently offers its French voice products and services to 2,200 companies and 49,000 residential pre-paid customers. It will be participating in trials of ULL in the French market and plans to roll out a DSL broadband network when access for new entrants to the local loop is permitted. The French government is currently planning to organise the unbundling of the local loop from early 2001, although implementation may take longer depending upon the resolution of technical and operational issues within the industry. First Telecom holds telecommunications licences to enable it to offer telecommunications services in France, together with a regional infrastructure licence for the Paris region which enables it to participate in the ULL trials.

Atlantic owns a 10.1 per cent. shareholding in Skyline SA, a French company, which has applied for a national and certain regional wireless local loop licences in France, in competition with a number of other operators. The result of the competition is expected later this year. Atlantic has given notice of its intention to exercise its option to acquire a further 4.9 per cent. shareholding.

Summary of the Offer Document and related agreements

Offer Document

Pursuant to the Offer Document, Chase, on behalf of Atlantic, offered to acquire as of 27 April 2000 all of the issued and to be issued First Telecom Shares and First Telecom Warrants for New Ordinary Shares, having an aggregate value of approximately £520 million, calculated on the assumption that First Telecom Deferred Shares shall automatically convert into First Telecom Ordinary Shares upon Completion and that First Telecom Share Options will become exercisable by virtue of the Offers. Up to 67,973,856 New Ordinary Shares will be issued by Atlantic pursuant to the Offers.

Undertakings to accept the Offers have been given by Vendors holding 96.84 per cent. of the issued First Telecom Ordinary Shares, 99.5 per cent. of the A Preference Shares and 100 per cent. of the 1997 Preference Shares, 1999 Preference Shares, B Preference Shares and First Telecom Warrants.

The Offers are conditional on, *inter alia,* (1) the passing of the Resolutions at the Extraordinary General Meeting, (2) the New Ordinary Shares being admitted to trading on the main market of the London Stock Exchange, (3) there having been no material breach by the Warrantors or Atlantic of the warranties given by them respectively in the Deed of Warranty which is material in the context of the Enlarged Group and (4) there having been no material adverse change in the business, operations or financial conditions of the First Telecom Group (since 31 December 1999) or the Group (since 31 March 2000) and not disclosed to each other or announced publicly save as regards changes affecting the industry in which each operates or after 27 April 2000. Each of the Offers is conditional upon each of the other Offers becoming or being declared unconditional in all respects. The Offers will lapse unless the conditions of the Offers are fulfilled or waived (if capable of waiver) no later than 31 December 2000.

The New Ordinary Shares will be issued to First Telecom Shareholders accepting the Offers on Completion (other than 10 per cent. of the New Ordinary Shares to which each Warrantor is entitled under the Offers which will be issued on 29 June 2001 unless and to the extent withheld to satisfy warranty claims pursuant to the Deed of Warranty).

Further details of the Offer Document, the Deed of Warranty and related agreements are set out in paragraph 9.1(a) of Part VII of this document.

Lock Up Undertakings

The Warrantors (other than Mark Daeche) have undertaken to Atlantic not to transfer or dispose of approximately 48,576,000 New Ordinary Shares (the "Lock Up Shares") in aggregate for a period of six months following Completion (the "Lock Up Period"). These undertakings will not apply in certain circumstances including the transfer of Ordinary Shares necessary to pay the fees and expenses of their respective advisers which are estimated to amount to approximately £3 million or any tax liability properly incurred or arising in respect of the Offers. First Telecom has applied for tax clearance from the Inland Revenue under section 138 of the Taxation of Chargeable Gains Act 1992 and the obtaining of such clearance is one of the pre-conditions to the Offers becoming unconditional.

Such holders have agreed to consult with Atlantic if they propose to sell a material number of Lock Up Shares during the period of 18 months following the expiry of the Lock Up Period with regard to the timing and method of any such proposed sale. In the event that a material number of Lock Up Shares is proposed to be sold, Atlantic has agreed to assist in the orderly disposal of the Lock Up Shares and to consult with those holders in advance of any planned primary offering, advising them whether any of the Lock Up Shares could in the opinion of Atlantic's brokers reasonably be included as part of such primary offering.

Mark Daeche has given a similar undertaking to Atlantic not to transfer or dispose of his 12,246,074 New Ordinary Shares until 31 December 2001 save that his undertaking shall not apply to 20 per cent. of such New Ordinary Shares, and in respect of a further 10 per cent. of such New Ordinary Shares with effect from the expiry of the Lock Up Period or, if earlier, the date on which the other Warrantors are first entitled to dispose of any of their Lock Up Shares.

Having regard to the above, approximately 58,370,000 New Ordinary Shares, representing approximately 86 per cent. of the New Ordinary Shares, are the subject of these undertakings (the "Lock Up Undertakings") further details of which are set out in paragraph 9.1(a)(ii) of Part VII of this document.

Following Completion, holders of First Telecom Share Options who exercise such options in full and accept the Ordinary Offer will receive approximately 3,000,000 New Ordinary Shares. Atlantic has proposed a "cashless exercise" scheme to those option holders where options were granted by the trustee of the ESOT and/or under the First Telecom Group plc Discretionary Share Option Plan (to the extent such options become immediately exercisable on Completion) in order to fund the aggregate exercise price of those options and any attendant PAYE/social security liabilities, amounting to an estimated £7,500,000 in aggregate. It is the current intention of the Directors that the aggregate exercise price of those options and the PAYE/social security liabilities be satisfied by the Company in consideration of the surrender of such number of First Telecom Share Options of an equivalent value.

Board changes

The Board will be strengthened by the addition of Mark Daeche and Paul Salem, who are currently Vice Chairman and Executive Director, and Non-Executive Director of First Telecom respectively. Mark Daeche will be appointed an Executive Director and will take up the role of Special Projects Director and Paul Salem will be appointed a Non-Executive Director of the Company.

Current trading and prospects

The quarterly operating statistics for Atlantic for the quarters ended 31 December 1999 and 31 March 2000 are set out in Part III of this document. Growth in the total lines installed and pending installation and, in particular, directly connected network lines, have shown large quarterly growth over the period. Atlantic's network in Manchester remains on track to launch commercial services in July.

Atlantic expects to announce preliminary results for the year ended 31 March 2000 on 13 June 2000.

Trading since the year end has been encouraging and in line with previous months and with the Directors' expectations.

Details of First Telecom's trading in the year to 31 December 1999 are set out in the audited results which are reproduced in Part IV of this document. Since the year end, the trend in current trading continues in line with previous months and in line with expectations. The DSL roll out is proceeding according to plan.

The audited results for the year ended 31 December 1999 included an explanatory paragraph relating to First Telecom's requirements for funding. Following the Acquisition, the Enlarged Group will meet First Telecom's funding requirements, in particular funding First Telecom's operating losses and the roll out of its DSL network.

The Directors believe that the prospects for the Enlarged Group are strong, with the expansion of networks, in particular, in the United Kingdom and Germany, accessing an increasing customer base.

Extraordinary General Meeting

You will find set out at the end of this document a notice convening an Extraordinary General Meeting of the Company to be held at the offices of Ashurst Morris Group, Broadwalk House, 5 Appold Street, London EC2A 2HA at 12 noon on 7 June 2000 at which the Resolutions will be proposed, *inter alia,* to approve the Acquisition.

Your Directors and Marconi have irrevocably undertaken to vote in favour of the Resolutions in respect of their own beneficial holdings, amounting to, in aggregate, 52,408,248 Ordinary Shares, representing approximately 34.1 per cent. of the current issued share capital of the Company.

Action to be taken in respect of the Extraordinary General Meeting

You will find enclosed with this document a Form of Proxy to enable you to vote at the Extraordinary General Meeting. Whether or not you intend to be present at the Extraordinary General Meeting, you are requested to complete and return the Form of Proxy in accordance with the instructions printed thereon to Lloyds TSB Registrars Scotland, 117 Dundas Street, Edinburgh EH3 5ED, so as to arrive no later than 12 noon on 5 June 2000.

By completing and returning the Form of Proxy, you will not affect your right to attend and vote at the Extraordinary General Meeting if you so wish.

Additional information

Your attention is drawn to the additional information set out in Parts II to VII of this document.

Recommendation

Your Board, which has received financial advice from Close Brothers and Chase Manhattan, considers the Acquisition to be in the best interests of the Company and Shareholders as a whole. In providing financial advice to the Directors, Close Brothers and Chase Manhattan have taken into account the Board's commercial assessments.

Accordingly, your Board unanimously recommends that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting, as your Directors have irrevocably undertaken to do in respect of their own beneficial holdings, which amount to 10,953,687 Ordinary Shares representing approximately 7.1 per cent. of the current issued share capital of the Company.

Yours sincerely

Graham J Duncan

Executive Chairman

PART II

Interim results for the six months ended 30 September 1999

The following is the full text of the announcement of the interim results of Atlantic for the six months ended 30 September 1999 made on 12 November 1999.

"EXECUTIVE CHAIRMAN'S STATEMENT

REVIEW

Atlantic has made considerable progress in the half-year ended 30 September 1999 with customer lines over the two quarters exhibiting record growth to reach 81,799 at 30 September 1999. This compares favourably with 52,212 lines at 31 March 1999 and 40,005 lines at 30 September last year, a doubling of lines in the last twelve months.

Turnover for the half-year increased by 48 per cent. to reach £10,202,000 compared to the corresponding period last year. Nearly 70 per cent. of our turnover now comes from our core telecommunications activities with our cable TV activities in the City of Aberdeen becoming less significant to the overall business with the passage of time.

Operationally, we now provide telecommunications services in four Scottish cities, and have expanded our support services to cater for the new areas and to cope with increased demand for our services. Inevitably, this has caused our operational costs to increase and our loss, before interest costs, for the half-year has widened from £6,552,000 for the half-year to 30 September 1998 to £12,651,000 for this half year, which was consistent with our plans.

During the period we commenced trials of high-speed data technology supplied by Marconi. The trials are progressing well and the project plan remains on track to launch a commercial high-speed service around Easter 2000. This technology can deliver data to customers at up to 3.2 Mbs in either direction using Internet protocols ("IP") on the air interface from the base stations to the customer. This places Atlantic in an excellent position to take full advantage of the anticipated demand for high bandwidth data services in the important "local loop".

In my report to shareholders which formed part of our annual report and accounts for the year ended 31 March 1999, I stated we would be opportunistic in the capital markets. Today we have announced a Strategic Partnership with Marconi, allowing us access to a state-of-the-art national fibre network and cash, which results in Marconi having an important equity holding in Atlantic. We regard this as a milestone for the Group and have taken the opportunity to raise further equity in the capital markets alongside the investment by Marconi. This allows us to fast track our business plans in a way that we would not otherwise be able to achieve. The entire transaction is, of course, subject to shareholder approval.

DIRECTLY CONNECTED SERVICES

The last six months has seen further build in our networks. In this period we brought a further 17 base stations into service to take the number to 118 at 30 September. Our base station networks passed nearly 650,000 sets of premises at the period end and we have achieved a residential penetration of 2.7 per cent. and a business penetration of 4.6 per cent. at 30 September. The network build in Scotland is therefore 75 per cent. complete, the penetration is on track and we remain confident that the Scottish builds will be complete within our current financial year.

Average revenues per directly connected customer remain at encouraging levels. In the residential market we have achieved average monthly revenues per customer of £38.45 excluding value-added tax, averaged over the six-month period. This is an uplift of 4.7 per cent. over the full year to 31 March. This uplift, coupled with a churn of just 13.19 per cent., is an excellent performance in an environment where per minute pricing is on the decline. In the business market the average monthly revenues per connected customer have averaged £85.98 excluding value-added tax and the churn has averaged 14.94 per cent. The average revenue is 3 per cent. ahead of the full year. These results more than mandate our strategy to deliver high value-added services to customers and give us a platform from which we can continue to deliver further value added.

In the early part of this year we were awarded five licences to expand our fixed radio access point to multipoint services into England. Shortly after the half-year, we were awarded a sixth licence in Yorkshire (excluding the City of Hull and its environs). These licences give us a platform for growth and we look forward to expanding the opportunity.

INDIRECTLY CONNECTED SERVICES

Our indirect services cover our branded packaged services in Scotland, under the Crest name, and our managed business product that we operate across the UK under the brand name Logicall.

The half-year has seen considerable progress from our Crest service. At 30 September our Crest residential lines had reached 22,556 a near 172 per cent. increase over the six month period. Furthermore, our average revenue per Crest residential customer had increased to £13.98 per month averaged over the six-month period compared to £12.40 for the full year, an increase of 12.7 per cent.

In the business market our Crest business service had attracted 361 customers with 920 lines in total. These customers have delivered £102 per month revenues averaged over the period.

Our Logicall service continues to attract the high-end business customer attracted by the independent management aspects of our product. At 30 September we had 593 customers with 19,102 lines an increase of 1,439 lines since 31 March 1999. These customers on average spent £793 per month on this service.

We launched an integrated fixed and mobile service to the residential market in late May, with our mobile customers using the BT Cellnet network. This service, branded as Atlantic "All-in-One", capitalises on the bundled theme and has been sold initially only through our retail stores. The take up has been modest but remains encouraging enough for us to expand this service on a wider basis and into the business market.

CABLE TELEVISION

Cable TV take up in the City of Aberdeen continues to please us. At 31 March, the customer base reached 18,219 and the average revenue, despite a material reduction in price the previous November, remained high and had reached £29.76 per customer per month.

In the half-year to 30 September, the customer base has dipped marginally to 18,035. The drop of just 1 per cent. compares to a drop of 2.7 per cent. the previous year. Importantly, the average revenue per customer has held up well and has averaged £28.96 per month over the traditionally difficult summer period.

YEAR 2000 COMPLIANCE

As reported in the 1999 financial statements, the Group has been an active member of the Year 2000 Telecom Operators Forum. This includes a peer review process which requires each member of the Forum to undergo a Year 2000 Healthcheck Review. The Forum Steering Team members are made up of representatives from major telecom companies, Oftel and Action 2000. In April 1999, Atlantic Telecom received confirmation that its process for achieving Year 2000 readiness was assessed as a 'Blue' rating. Blue is the top rating which every telecom operator needs to achieve.

The Group fully recognises the potential for business disruption should its system fail to handle date information in accordance with the BSI DISC PD2000 - 1:1998 Year 2000 specification or should any supplier of goods or services to the Company suffer a failure within their systems. The Group is working to ensure that no disruption will occur due to the Year 2000.

Contingency plans have been made to support all critical or core functions, this includes issues which arise from supply chain failures. For all critical systems, recovery plans covering almost every eventuality are being prepared. These will become effective should any abnormal problems materialise.

The issue is complex, and no business can guarantee that there will be no Year 2000 problems. However, the Board believes that its plans and resources allocated are appropriate and adequate to address the issue. The inter-dependent nature of the Group's business systems, particularly through interconnection with other telecommunication service providers means that the Group may be adversely affected if other telecommunication service providers are not Year 2000 ready.

STRATEGY AND OUTLOOK

We are very encouraged by the developments outlined earlier. The ability to carry our traffic on our own national network, the expansion of our services into new areas and the introduction of new services all go to cement our strategy. The introduction of a very important partner in Marconi strengthens our ability to progress rapidly.

Atlantic remains a provider of high value added services to targeted customer groups and we endeavour at all times to directly connect these customers to our own network. The building blocks are now in place. We look forward to building the business.

GRAHAM J DUNCAN
Executive Chairman

12 November 1999

CONSOLIDATED SUMMARISED PROFIT AND LOSS ACCOUNT

for the six months ended 30 September 1999

	6 months to 30 September 1999 (unaudited) £'000	*6 months to 30 September 1998 (unaudited) £'000*	*12 months to 31 March 1999 (audited) £'000*
TURNOVER	10,202	6,906	14,924
Operating costs – ongoing	(22,853)	(13,028)	(29,647)
– *exceptional*	—	(430)	(1,121)
	(22,853)	(13,458)	(30,768)
OPERATING LOSS	(12,651)	(6,552)	(15,844)
Net interest	(1,065)	(332)	(419)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(13,716)	(6,884)	(16,263)
Tax on loss on ordinary activities	—	—	—
RETAINED LOSS FOR THE PERIOD	(13,716)	(6,884)	(16,263)
Loss per share	(16.18)p	(11.47)p	(22.50)p

The directors regard earnings before interest, tax, depreciation and amortisation, which is set out below and is often used in the telecommunications and cable industry, as an important measure of the operating cash flow of the business.

Operating loss	(12,651)	(6,552)	(15,844)
Depreciation and amortisation of goodwill	3,192	1,804	4,309
Cost of network leases	82	82	165
Earnings before interest, tax, depreciation and amortisation	(9,377)	(4,666)	(11,370)

CONSOLIDATED BALANCE SHEET

as at 30th September 1999

	30 September 1999 (unaudited) £'000	*30 September 1998 (unaudited) £'000*	*31 March 1999 (audited) £'000*
FIXED ASSETS			
Intangible assets	3,645	3,801	3,718
Tangible assets	71,594	38,506	56,022
	75,239	42,307	59,740
CURRENT ASSETS			
Stock	5,528	4,075	6,183
Debtors: amounts falling due after more than one year	9,518	7,694	8,600
Debtors: amounts falling due within one year	9,868	5,599	6,286
Cash at bank	1,079	27,490	5,680
	25,993	44,858	26,749
CREDITORS			
Amounts falling due within one year	(27,350)	(17,834)	(25,006)
NET CURRENT (LIABILITIES)/ASSETS	(1,357)	27,024	1,743
TOTAL ASSETS LESS CURRENT LIABILITIES	73,882	69,331	61,483
CREDITORS			
Amounts falling due after more than one year	(33,498)	(6,827)	(8,389)
	40,384	62,504	53,094
CAPITAL AND RESERVES			
Called up share capital	21,313	21,147	21,150
Share premium account	62,462	61,653	61,619
Profit and loss account	(43,391)	(20,296)	(29,675)
SHAREHOLDERS' FUNDS	40,384	62,504	53,094

CONSOLIDATED SUMMARISED CASH FLOW STATEMENT

for the six months ended 30 September 1999

	6 months to 30 September 1999 (unaudited) £'000	*6 months to 30 September 1998 (unaudited) £'000*	*12 months to 31 March 1999 (audited) £'000*
RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES			
Operating loss from continuing activities	(12,651)	(6,552)	(15,844)
Depreciation	3,192	1,804	4,309
Amortisation of lease prepayment	82	82	165
Network lease prepayments	(1,000)	(1,000)	(2,000)
Decrease/(increase) in stock	655	(3,360)	(5,468)
Increase in debtors	(3,121)	(271)	(961)
Increase in creditors	10,947	2,496	10,146
Gain on disposal of fixed assets	(12)	(47)	(41)
Net cash outflow from operating activities	(1,908)	(6,848)	(9,694)
CASH FLOW STATEMENT			
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(1,908)	(6,848)	(9,694)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(1,065)	(332)	(419)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(18,679)	(9,475)	(25,904)
MANAGEMENT OF LIQUID RESOURCES	—	(26,000)	—
FINANCING	16,047	44,323	43,019
(DECREASE)/INCREASE IN CASH	(5,605)	1,668	7,002

NOTE TO THE CONSOLIDATED SUMMARISED CASH FLOW STATEMENT

ANALYSIS OF NET DEBT

	At 1 April 1999 £'000	*Cash Flow £'000*	*Non-cash Items £'000*	*At 30 September 1999 £'000*
Cash	5,680	(4,601)	—	1,079
Bank overdraft	(987)	(1,004)	—	(1,991)
	4,693	(5,605)	—	(912)
Debt after one year	(700)	(17,800)	—	(18,500)
Debt within year	(522)	—	—	(522)
Finance leases	(10,895)	2,298	(10,948)	(19,545)
	(12,117)	(15,502)	(10,948)	(38,567)
Net debt	(7,424)	(21,107)	(10,948)	(39,479)

NOTES TO THE INTERIM REPORT

1. **Preparation of Interim Report**

   The interim financial information for the six months ended 30 September 1999 was approved by the directors on 12 November 1999. It has been prepared in accordance with relevant accounting standards on a consistent basis using accounting policies set out in the 1999 financial statements. The interim financial information is unaudited but has been reviewed by the auditors and their independent review report is set out below.

2. **Financial information**

   The financial information set out in this announcement does not constitute full financial statements for the purposes of section 240 of the Companies Act 1985. Comparative figures for the year ended 31 March 1999 are extracted from the statutory financial statements, which have been delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified and did not contain a statement under section 237 (2) of the Companies Act 1985.

3. **Loss per share**

   The loss per share is based on the loss attributable to the Ordinary Shareholders of £13,716,000 (30 September 1998 – loss of £6,884,000 and 31 March 1999 – loss of £16,263,000) and on the weighted average number of Ordinary Shares in issue during the period of 84,771,637 (30 September 1998 – 60,023,993 and 31 March 1999 – 72,273,690).

   At 30 September 1999, there were 4,427,346 outstanding share warrants and 1,138,902 outstanding share options in existence. The shares that would be issued in respect of these warrants and options are not treated as dilutive as their issue would decrease the loss per share. Accordingly no diluted loss per share figure is shown.

4. **Dividend**

   In view of the deficit on reserves the directors cannot recommend a dividend and the loss for the period has therefore been transferred to reserves.

5. **Post balance sheet event**

   Subsequent to the period end, the company allotted 4,386,270 ordinary shares of 25p at a price of 160p per share in respect of warrants exercised resulting in a cash inflow of £7 million.

Copies of this interim report can be obtained from the Company's head office at Holburn House, 475 – 485 Union Street, Aberdeen, AB11 6DB, Scotland.

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF ATLANTIC TELECOM GROUP PLC

Introduction

We have been instructed by the group to review the financial information set out in this announcement and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding financial statements except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 'Review of Interim Financial Information', issued by the Auditing Practices Board. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the interim financial information as presented for the six months ended 30 September 1999.

Grant Thornton
Chartered Accountants
Glasgow

12 November 1999"

PART III

Operating statistics for the quarters ended 31 December 1999 and 31 March 2000

Introduction

In accordance with its normal policy the Company has published quarterly operating statistics. Set out below are the quarterly operating statistics for the quarters ended 31 December 1999 and 31 March 2000.

**"ATLANTIC TELECOM GROUP PLC
CONTINUING GROWTH IN LINES AT ATLANTIC TELECOM
QUARTER ENDED 31 DECEMBER 1999**

Atlantic Telecom Group PLC, the innovative provider of high quality, value-added telecommunications services, is pleased to announce its telecommunications operating statistics for its third quarter, ended 31 December 1999.

Highlights

- Total lines installed and pending installation have risen to 89,980, an increase of 8,181 in the quarter. This compares favourably with an increase of 3,931 in the equivalent period last year.
- Directly connected network lines have shown an increase of 5,026 to reach 44,247.
- Churn remains subdued with business churn marginally increased to 15.17 per cent. compared to the previous quarter and residential churn marginally increased to 14.15 per cent. for the twelve month period ended 31 December 1999.
- Our indirect access business, which covers our Crest and Logicall services, took its combined line count to 45,733 compared to 42,578 at 30 September.

Graham J Duncan, Executive Chairman of Atlantic Telecom, commented:

"Our continued growth this quarter has remained very encouraging, particularly in our directly connected lines, in what is a traditionally difficult period. We are very encouraged by the growth of over 5,000 directly connected lines in the period, and along with the indirectly connected lines, the total increase of 8,181 in the quarter is significantly ahead of the equivalent period last year.

As we enter the Millenium, we are pleased to report that we encountered no adverse consequences as a result of the Year 2000 date change.

We look forward to accelerating our growth following the successful equity fund raising which was concluded at the end of last year."

TELECOMMUNICATIONS OPERATING STATISTICS FOR THE QUARTER ENDED 31 DECEMBER 1999

The Board of Atlantic Telecom Group PLC ("Atlantic" or "the Group") is pleased to announce the Group's telecommunications operating statistics for the quarter ended 31 December 1999.

The total lines installed and pending installation at 31 December 1999 have risen to 89,980, an increase of 8,181 in the quarter since 30 September 1999, well ahead of the equivalent quarter last year when the growth was 3,931 lines.

The operating statistics are summarised below. The detail is attached:

	At 31 December 1999	*At 30 September 1999*
a) Directly Connected Lines		
Lines installed and pending installation	44,247	39,221
b) Indirectly Connected Lines		
Lines installed and pending installation	45,733	42,578
	89,980	81,799

The number of direct lines on the Group's networks has reached 44,247 at 31 December compared to 39,221 at 30 September, an increase of 5,026 in the quarter, compared to a growth of 2,953 in the equivalent quarter last year.

Business churn was 15.17 per cent. for the twelve months ended 31 December 1999, compared to 14.94 per cent. for the twelve-month period to 30 September 1999. Churn in the residential market continues at low levels and was 14.15 per cent. in the twelve-month period to 31 December 1999, compared to 13.19 per cent. for the twelve-month period ended 30 September 1999.

The Group's indirectly connected lines, as shown above, cover both the Crest and Logicall services. The Logicall business has recently been integrated into our main operating company, Atlantic Telecommunications Limited, and for this and future quarters, we are reporting our Logicall lines and Crest service lines in combined format. Crest provides indirect services to the residential market, Logicall provides indirect services to the business market. Both grew over the quarter and at 31 December 1999, we had 45,733 indirectly connected lines compared to 42,578 at 30 September 1999.

Network build for the quarter has accelerated compared to last quarter and at 31 December 1999, there were 128 base stations installed an increase of 10 in the quarter. However, as part of our operational strategy for the Year 2000 date change, we applied a freeze on activation of new base stations between mid December and mid January. In effect this meant we held back 6 base stations from active service until the end of January. These base stations would have otherwise been activated just before 1 January 2000. Accordingly, at 31 December 1999, there were 122 active base stations and the other 6 will be brought into service before the end of January.

Commenting, Graham J Duncan, Executive Chairman stated:

"Our continued growth this quarter has remained very encouraging, particularly in our directly connected lines, in what is a traditionally difficult period. We are very encouraged by the growth of over 5,000 directly connected lines in the period, and along with the indirectly connected lines, the total increase of 8,181 in the quarter is significantly ahead of the equivalent period last year.

As we enter the Millenium, we are pleased to report that we encountered no adverse consequences as a result of the Year 2000 date change.

We look forward to accelerating our growth following the successful equity fund raising which was concluded at the end of last year."

Certain Operating Data

The following table sets forth certain data concerning the Group's telecommunications operations as of and for the nine-month period ended 31 December 1999, the six-month period ended 30 September 1999, and for the three-month period ended 30 June 1999.

	As of and for the periods ended		
	30 June 1999	*30 September 1999*	*31 December 1999*
Direct Telecommunications			
Business Customer Data			
Estimated business premises passed(1)	33,621	36,826	38,321
Business customers(2)	1,591	1,687	1,834
Business customer lines(2)	5,448	5,892	6,537
Penetration rate of estimated business premises passed(3)	4.7%	4.6%	4.8%
Average lines per business customer(4)	3.42	3.49	3.56
Business customer churn(5)	15.46%	14.94%	15.17%
Residential Customer Data			
Estimated residential homes passed(1)	551,530	613,014	639,693
Residential customers(2)	13,561	16,775	18,976
Residential customer lines(2)	26,753	33,329	37,710
Penetration rate of estimated residential homes passed(3)	2.5%	2.7%	3.0%
Average lines per residential customer(4)	1.97	1.99	1.99
Residential customer churn(5)	13.56%	13.19%	14.15%
Network Data			
Number of active base stations	103	118	122
Indirect Telecommunications			
Business customers(2)	753	954	1,042
Business customer lines(2)	19,198	20,022	20,984
Average lines per business customer(4)	25.50	20.99	20.14
Residential customers(2)	15,542	22,464	24,642
Residential customer lines(2)	15,594	22,556	24,749
Average lines per residential customer(4)	1.00	1.00	1.00
TOTAL TELECOMMUNICATIONS LINES	66,993	81,799	89,980

(1) Estimated homes passed or estimated business premises passed is the Company's estimate of the residential homes or business premises seen by the direct networks which are capable of connection to a base station or to a fibre network excluding certain multiple dwelling units which the Company does not presently serve.

(2) Residential or business customers or residential or business customer lines represent the number of customers or lines which are connected and in service, the number of customers or lines for which customers, where applicable, have contracted for service but are not yet connected and the number of customers or lines where service has been suspended but the customers or lines have not yet been disconnected.

(3) Penetration rate of estimated homes or estimated business premises passed is calculated by dividing the number of residential customers or business customers on the given date by the estimated homes or estimated business premises passed as of such date, expressed as a percentage.

(4) The average lines per customer is calculated by dividing the number of lines on a given date by the number of customers on that date.

(5) Churn is calculated by dividing net disconnections (total disconnections less the number of disconnected accounts for which service is later restored and disconnections for customers moving premises and reconnecting at their new premises) in a period by the average number of customers in the period (calculated as the simple average of the number of customers at the end of each month during the period). Churn is expressed on a rolling twelve-month basis, meaning that the churn is calculated over the twelve months ended on 30 June 1999, 30 September 1999 and 31 December 1999."

"ATLANTIC TELECOM GROUP PLC
ACCELERATING GROWTH IN LINES AT ATLANTIC TELECOM
QUARTER ENDED 31 MARCH 2000

Atlantic Telecom Group PLC, the innovative provider of high quality, value-added telecommunications services, today reports its telecommunications operating statistics for its fourth quarter, ended 31 March 2000.

Highlights

- Total lines installed and pending installation have risen to 98,272, an increase of 8,292 in the quarter and ahead of last quarter's growth.
- Directly connected network lines have grown significantly by 7,712, to reach 51,959, the largest quarterly increase in the Group's history.
- Churn remains in line with expectations with business churn of 16.87 per cent. and residential churn increasing to 16.77 per cent. for the twelve-month period ended 31 March 2000, comfortably within our anticipated range.
- Our indirect access business, which covers our Crest and Logicall services, increased its combined line count to 46,313, compared to 45,733 at 31 December.

Graham J Duncan, Executive Chairman of Atlantic Telecom, commented:

"Our continued expansion this quarter has remained very pleasing. The beginning of the quarter started slowly, due to the extended Millennium break, but demand has picked up since then and March has shown particularly strong growth. We are very encouraged by the increase of over 7,700 directly connected lines in the quarter period, the highest quarterly direct line growth in the Group's history. We continue to concentrate most of our efforts on our directly connected customers.

The network build has improved this quarter, and 11 new base stations were activated in the period. With over 735,000 premises now passed by our four Scottish networks, we have achieved our aim of completing the main areas we sought to build-out in Scotland. From this point forward, any further Scottish build will be aimed at filling in gaps in our network coverage.

As we look forward to building out the first of our English networks we can confirm that the network in Manchester remains on track to launch commercial services in July. I am pleased to confirm that our high speed data service, at up to 2.4 Mbs, is also expected to launch this month, initially in Glasgow, and full details of the service will be announced shortly."

TELECOMMUNICATIONS OPERATING STATISTICS FOR THE *QUARTER ENDED 31 MARCH 2000*

The Board of Atlantic Telecom Group PLC ("Atlantic" or "the Group") is pleased to announce the Group's telecommunications operating statistics for the quarter ended 31 March 2000.

The total lines installed and pending installation at 31 March 2000 have risen to 98,272, an increase of 8,292 in the quarter since 31 December 1999.

The operating statistics are summarised below. The detail is attached:

	At 31 March 2000	*At 31 December 1999*
a) Directly Connected Lines		
Lines installed and pending installation	51,959	44,247
b) *Indirectly Connected Lines*		
Lines installed and pending installation	46,313	45,733
	98,272	89,980

The number of direct lines on the Group's networks has reached 51,959 at 31 March compared to 44,247 at 31 December, an increase of 7,712 in the quarter, significantly ahead of the growth of 5,026 last quarter and the highest growth of any quarter in the Group's history.

Business churn was 16.87 per cent. for the twelve months ended 31 March 2000, compared to 15.17 per cent. for the twelve-month period to 31 December 1999. Churn in the residential market was 16.77 per cent. in the twelve-month period to 31 March 2000, compared to 14.15 per cent. for the twelve-month period ended 31 December 1999. These figures are comfortably within our expectations.

The Group's indirectly connected lines, as shown above, cover both the Crest and Logicall services. At 31 March 2000, we had 46,313 indirectly connected lines compared to 45,733 at 31 December 1999.

Network activation for the quarter has accelerated compared to last quarter and at 31 March 2000, there were 133 base stations in service an increase of 11 in the quarter. In total the base stations pass over 735,000 sets of premises across the four Scottish cities where we have direct services available.

Graham J Duncan, Executive Chairman of Atlantic Telecom, commented:

"Our continued expansion this quarter has remained very pleasing. The beginning of the quarter started slowly, due to the extended Millennium break, but demand has picked up since then and March has shown particularly strong growth. We are very encouraged by the increase of over 7,700 directly connected lines in the quarter period, the highest quarterly direct line growth in the Group's history. We continue to concentrate most of our efforts on our directly connected customers.

The network build has improved this quarter, and 11 new base stations were activated in the period. With over 735,000 premises now passed by our four Scottish networks, we have achieved our aim of completing the main areas we sought to build-out in Scotland. From this point forward, any further Scottish build will be aimed at filling in gaps in our network coverage.

As we look forward to building out the first of our English networks we can confirm that the network in Manchester remains on track to launch commercial services in July. I am pleased to confirm that our high speed data service, at up to 2.4 Mbs, is also expected to launch this month, initially in Glasgow, and full details of the service will be announced shortly."

Certain Operating Data

The following table sets forth certain data concerning the Group's telecommunications operations as of and for the twelve-month period ended 31 March 2000, the nine-month period ended 31 December 1999, and for the six-month period ended 30 September 1999.

	As of and for the periods ended		
	30 September 1999	*31 December 1999*	*31 March 2000*
Direct Telecommunications			
Business Customer Data			
Estimated business premises passed(1)	36,826	38,321	41,921
Business customers(2)	1,687	1,834	1,959
Business customer lines(2)	5,892	6,537	7,276
Penetration rate of estimated business premises passed(3)	4.6%	4.8%	4.7%
Average lines per business customer(4)	3.49	3.56	3.71
Business customer churn(5)	14.94%	15.17%	16.87%
Residential Customer Data			
Estimated residential homes passed(1)	613,014	639,693	693,804
Residential customers(2)	16,775	18,976	22,435
Residential customer lines(2)	33,329	37,710	44,683
Penetration rate of estimated residential homes passed(3)	2.7%	3.0%	3.2%
Average lines per residential customer(4)	1.99	1.99	1.99
Residential customer churn(5)	13.19%	14.15%	16.77%
Network Data			
Number of active base stations	118	122	133
Indirect Telecommunications			
Business customers(2)	954	1,042	1,054
Business customer lines(2)	20,022	20,984	21,360
Average lines per business customer(4)	20.99	20.14	20.27
Residential customers(2)	22,464	24,642	24,816
Residential customer lines(2)	22,556	24,749	24,953
Average lines per residential customer(4)	1.00	1.00	1.01
TOTAL TELECOMMUNICATIONS LINES	81,799	89,980	98,272

(1) Estimated homes passed or estimated business premises passed is the Company's estimate of the residential homes or business premises seen by the direct networks which are capable of connection to a base station or to a fibre network excluding certain multiple dwelling units which the Company does not presently serve.

(2) Residential or business customers or residential or business customer lines represent the number of customers or lines which are connected and in service, the number of customers or lines for which customers, where applicable, have contracted for service but are not yet connected and the number of customers or lines where service has been suspended but the customers or lines have not yet been disconnected.

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(4) The average lines per customer is calculated by dividing the number of lines on a given date by the number of customers on that date.

(5) Churn is calculated by dividing net disconnections (total disconnections less the number of disconnected accounts for which service is later restored and disconnections for customers moving premises and reconnecting at their new premises) in a period by the average number of customers in the period (calculated as the simple average of the number of customers at the end of each month during the period.) Churn is expressed on a rolling twelve-month basis, meaning that the churn is calculated over the twelve ended on 30 September 1999, 31 December 1999 and 31 March 2000."

PART IV

Financial information on First Telecom

The Directors and Proposed Directors
Atlantic Telecom Group PLC
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Aberdeen
AB11 6DB

ARTHURANDERSEN
Arthur Andersen
1 Surrey Street
London WC2R 2PS

The Directors
Close Brothers Corporate Finance Limited
10 Crown Place
Clifton Street
London EC2A 4FT

22 May 2000

Dear Sirs

First Telecom Group plc

On 27 April 2000 it was announced that Atlantic Telecom Group PLC (the "Company") had agreed terms for the acquisition of First Telecom Group plc ("First Telecom") for a total consideration of up to 67,973,856 ordinary shares (the "Transaction").

We report on the consolidated financial information on First Telecom together with its subsidiary undertakings (together the "First Telecom Group") set out in sections 1 to 6 below. This financial information has been prepared for inclusion in the Circular dated 22 May 2000 of the Company (the "Circular").

We have acted as auditors of First Telecom for the three years ended 31 December 1999. Our audit report, dated 22 May 2000, on the accounts for year ended 31 December 1999 which was unqualified, included an explanatory paragraph relating to First Telecom's requirements for further funding. The wording of this paragraph was as follows:

"In forming our opinion, we have considered the adequacy of the disclosure made in note 1 of the accounts concerning the uncertainty as to the availability of future financing. In view of the significance of this uncertainty we consider that this should be drawn to your attention, but our opinion is not qualified in this respect."

However, First Telecom Directors' current assessment is that the present requirements for further funding will be satisfied by the Company after the Company's shareholders approve the terms of the Transaction and the subsequent completion of the Transaction, as more fully described in section 1(a) set out below. Accordingly, we consider that in the context of this report the explanatory paragraph reproduced above is no longer appropriate.

Basis of preparation

The financial information set out in sections 1 to 6 below which has been prepared in accordance with applicable United Kingdom accounting standards, is based on the audited consolidated accounts of First Telecom for the three years ended 31 December 1999 (the "Accounts"), to which no adjustments were considered necessary.

Responsibility

The Accounts are the responsibility of the First Telecom Directors who approved their issue.

The Directors and Proposed Directors of the Company are responsible for the contents of the Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investments Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Circular dated 22 May 2000, a true and fair view of the state of affairs of First Telecom Group as at 31 December 1997, 1998 and 1999 and of its losses, cash flows and recognised gains and losses for each of the three years ended 31 December 1999.

1. Statement of accounting policies

The principal accounting policies which have been applied consistently in the preparation of the financial information, are as follows.

As permitted by paragraph 3(3) of Schedule 4 to the Companies Act 1985, in preparing the Accounts underlying the financial information in this report the First Telecom Directors have adapted the prescribed format to First Telecom Group's requirements. The First Telecom Directors consider EBITDA (defined as earnings before net interest expense, taxation, depreciation and amortisation) as a standard measure commonly reported and widely used by parties interested in the telecommunications industry.

(a) Basis of preparation

First Telecom Group incurred retained losses of £36.3 million in 1999 (1998: £17.3, million 1997: £7.3 million). Further operating losses have been incurred in 2000. First Telecom Group is planning significant further investment in infrastructure, product development and marketing. In addition, it expects to incur negative cashflow from operations, operating losses and net losses for at least the next year as it implements its strategy. The First Telecom Group has cash (net of debt) of £20.0 million at 31 December 1999.

On 27 April 2000, the Company announced it had reached agreement on the terms for the acquisition of First Telecom's shares in exchange for newly issued shares of the Company. The acquisition is subject to approval by the Company's shareholders and to the UK Listing Authority agreeing to admit the newly issued shares to the Official List and the London Stock Exchange agreeing to admit the newly issued shares to trading.

The Company have agreed that, subject to the Transaction completing, it will provide the First Telecom Group with sufficient financing to meet its present working capital requirements.

On this basis the First Telecom Directors believe that First Telecom Group has sufficient financing to meet its needs for a period of at least a year and therefore the First Telecom Directors have drawn up the 31 December 1999 accounts on a going concern basis.

(b) History of the business and basis of consolidation

The financial information has been prepared under the historical cost convention.

First Telecom was incorporated on 11 December 1996. On 19 December 1998, First Telecom acquired all of the issued share capital of First Telecom plc by issuing one ordinary share in First Telecom in exchange for every one ordinary share in First Telecom plc and one preference share in First Telecom in exchange for every one preference share in First Telecom plc.

The combination of First Telecom and First Telecom plc has been accounted for as a merger in accordance with the group reconstruction provisions of Financial Reporting Standard 6 Acquisitions and Mergers. Consequently, although First Telecom was not incorporated until 11 December 1996 and the combination did not take place until 19 December 1997, the financial information is presented as if the merged businesses had always been part of First Telecom Group. Accordingly, the financial information consolidates the accounts of First Telecom and the accounts of First Telecom plc and its subsidiary undertakings for the years ended 31 December 1997, 1998 and 1999, as if the First Telecom Group had been in existence throughout the whole of that period.

(c) Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

(d) Goodwill and other intangible fixed assets

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is between five and a maximum of twenty years. Provision is made for any impairment.

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet.

Other intangible fixed assets, being business intellectual property, are stated at cost net of amortisation and provision for diminution in value. Amortisation is provided on a straight line basis over an expected useful economic life of three years.

(e) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment in value. Telecom equipment comprises assets purchased at cost, together with capitalised direct labour and operating expenses relating to the design, construction and connection of the equipment.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Computer and telecom equipment	3 to 10 years
Office equipment	4 years

Depreciation of telecom equipment commences from the date it becomes operational. No depreciation is provided for assets under construction, or for completed assets prior to them becoming operational.

(f) Taxation

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

(g) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. Any gain or loss arising from a change in rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge First Telecom Group's investment in such operations, are dealt with through reserves.

(h) Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

(i) Preference share finance costs

The preference share finance costs are allocated to periods over the term of the preference shares at a constant rate on the carrying amount of the preference shares in accordance with the provisions of Financial Reporting Standard 4.

(j) Other finance costs

Loan finance costs, being the difference between the net proceeds of the instrument and the total amount of the payments are recognised as a constant proportion of the outstanding balance.

(k) Awards under share option schemes

The First Telecom Group accounts for the costs of awarding options to employees under share option schemes in accordance with the provisions of UITF 17. The costs of certain schemes are amortised over the period to vesting. In the case of a trigger event, such as an initial public offering by First Telecom or a trade sale of First Telecom, options may be exercised early and precipitates the exercise date of the options, all costs will be charged to profit over the reduced period of time.

2. Consolidated profit and loss accounts

For the years ended 31 December

	Section	*1997* *£'000*	*1998* *£'000*	*1999* *£'000*
Turnover	6.1	27,610	47,458	59,946
Cost of sales		(20,323)	(34,980)	(45,906)
Gross profit		7,287	12,478	14,040
Other operating expenses (net)	6.2	(13,759)	(26,626)	(42,020)
EBITDA		(6,472)	(14,148)	(27,980)
Depreciation and amortisation		(814)	(1,970)	(5,584)
Operating loss		(7,286)	(16,118)	(33,564)
Interest receivable and similar income		347	350	647
Interest payable and similar charges	6.3	(12)	(319)	(2,026)
Loss on ordinary activities before and after taxation	6.4	(6,951)	(16,087)	(34,943)
Preference share finance costs		(320)	(1,178)	(1,358)
Retained loss for the year	6.14	(7,271)	(17,265)	(36,301)

All operations are continuing throughout 1997, 1998 and 1999.

The accompanying sections are an integral part of the consolidated profit and loss accounts.

3. Statements of total recognised gains and losses

	1997 *£'000*	*1998* *£'000*	*1999* *£'000*
Loss for the financial year	(6,951)	(16,087)	(34,943)
Currency translation differences in foreign currency net investments	37	(182)	504
	(6,914)	(16,269)	(34,439)

4. Consolidated balance sheets

31 December

	Section	1997 £'000	1998 £'000	1999 £'000
Fixed assets				
Intangible assets	6.7	57	27	—
Tangible assets	6.8	3,592	12,968	14,082
		3,649	12,995	14,082
Current assets				
Debtors	6.10	3,154	6,320	9,692
Cash at bank and in hand		9,818	2,153	34,413
		12,972	8,473	44,105
Creditors: *Amounts falling due within one year*	6.11	(16,347)	(25,950)	(50,172)
Net current assets/(liabilities)		(3,375)	(17,477)	(6,067)
Total assets less current liabilities		274	(4,482)	8,015
Creditors: *Amounts falling due after more than one year*	6.12	(12)	(9,233)	—
Net assets/(liabilities)		262	(13,715)	8,015
Capital and reserves				
Called-up share capital	6.13	438	438	591
Share premium account	6.14	—	—	54,901
Other reserves	6.14	9,295	9,333	9,716
Profit and loss account	6.14	(9,471)	(23,486)	(57,193)
Shareholders' funds	6.15	262	(13,715)	8,015
Shareholders' funds may be analysed as:				
Equity interests		(9,381)	(24,536)	(58,993)
Non-equity interests		9,643	10,821	67,008
		262	(13,715)	8,015

The accompanying sections are an integral part of the consolidated balance sheets.

5. **Consolidated cash flow statements**

For the year ended 31 December

	Notes	1997 £'000	1998 £'000	1999 £'000
Net cash (outflow)/inflow from operating activities	6.16	2,870	(6,922)	(18,953)
Returns on investments and servicing of finance	6.17	296	319	(889)
Capital expenditure and financial investment	6.17	(3,478)	(7,753)	(5,507)
Cash outflow before management of liquid resources and financing		(312)	(14,356)	(25,349)
Management of liquid resources	6.17	(3,236)	5,414	(24,264)
Financing	6.17	6,698	6,691	57,271
Increase/(decrease) in cash in the year	6.18	3,150	(2,251)	7,658

The accompanying sections are an integral part of the consolidated cash flow statements.

6. **Notes**

6.1 *Segment information*

Geographical segments:

1997	*United Kingdom £'000*	*Germany £'000*	*France £'000*	*First Telecom Group £'000*
Turnover by origin				
Sales to third parties	27,383	158	69	27,610
Segment operating loss	(5,570)	(901)	(815)	(7,286)
Interest receivable and similar income				347
Interest payable and similar charges				(12)
Loss on ordinary activities before taxation				(6,951)
Segment operating liabilities	(9,165)	(200)	(170)	(9,535)
Net funds/(debt)				9,797
Net assets/(liabilities)				262

1998	*United Kingdom £'000*	*Germany £'000*	*France £'000*	*Group £'000*
Turnover by origin				
Sales to third parties	40,448	4,846	2,164	47,458
Segment operating loss	(9,890)	(3,121)	(3,107)	(16,118)
Interest receivable and similar income				350
Interest payable and similar charges				(319)
Loss on ordinary activities before taxation				(16,087)
Segment operating liabilities	(1,524)	(3,738)	(813)	(6,075)
Net funds/(debt)				(7,640)
Net assets/(liabilities)				(13,715)

1999	United Kingdom £'000	Germany £'000	France £'000	Group £'000
Turnover by origin				
Sales to third parties	39,689	12,836	7,421	59,946
Segment operating loss	(22,920)	(4,861)	(5,783)	(33,564)
Interest receivable and similar income				647
Interest payable and similar charges				(2,026)
Loss on ordinary activities before taxation				(34,943)
Segment operating liabilities	(6,018)	(4,021)	(1,905)	(11,944)
Net funds/(debt)				19,959
Net assets/(liabilities)				8,015

There is no material difference between turnover by origin and turnover by destination. Accordingly, no separate analysis of the turnover by destination is presented.

6.2 *Other operating expenses (net)*

	1997 £'000	1998 £'000	1999 £'000
Selling and marketing costs	9,432	19,546	25,646
Administrative expenses	4,327	7,080	16,374
Other operating expenses	13,759	26,626	42,020
Depreciation and amortisation	814	1,970	5,584
	14,573	28,596	47,604

6.3 *Interest payable and similar charges*

	1997 £'000	1998 £'000	1999 £'000
Bank loans and overdrafts	8	254	1,624
Finance leases and hire purchase contracts	4	65	402
	12	319	2,026

6.4 *Loss on ordinary activities before and after taxation*

Loss on ordinary activities before and after taxation is stated after charging:

	1997 £'000	1998 £'000	1999 £'000
Depreciation and amounts written off tangible fixed assets			
– owned	769	1,918	5,152
– held under finance leases and hire purchase contracts	15	22	405
Loss on sale of tangible fixed assets	119	—	—
Amortisation of intangible fixed assets	30	30	27
Operating lease rentals	201	376	1,000
Auditors' remuneration for audit services	69	119	198
Share scheme costs, including related National Insurance in 1999	191	2,113	1,044

Share scheme costs in 1998 include £1,762,000 (1997 – £nil; 1999 – £nil) in respect of the costs for awarding options to employees under a share option plan for past service. These costs have been charged in full on grant in accordance with the provisions of UITF 17.

Amounts payable to Arthur Andersen by the First Telecom Group in respect of non-audit services were £110,000 (1998 – £380,000; 1997 – £837,000).

6.5 *Staff costs*

The average monthly number of employees (including directors) was:

	1997 Number	*1998 Number*	*1999 Number*
Sales	177	278	372
Administration	52	97	160
	229	375	532

	1997 £'000	*1998 £'000*	*1999 £'000*
Their aggregate remuneration comprised:			
Wages and salaries	5,411	9,196	13,931
Social security costs	564	1,185	2,042
Other pension costs	17	17	18
	5,992	10,398	15,991

6.6 *Directors' remuneration*

	1997 £'000	*1998 £'000*	*1999 £'000*
Emoluments	803	596	530
Fees	—	—	27
Money purchase pension scheme contributions	17	17	18
	820	613	575

The above amounts do not include the value of any shares or share options receivable under directors' service agreements. One director and one former director (resigned 18 August 1999) are entitled to receive shares or share options. Details of the share option schemes are set out in section 6.13.

Pensions

The number of directors for whom First Telecom contributed to personal pension schemes was as follows:

	1997 Number	*1998 Number*	*1999 Number*
	2	2	2

Highest-paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	1997 £'000	*1998 £'000*	*1999 £'000*
Emoluments	399	222	214
Contributions to personal pension schemes	8	9	9
	407	231	223

6.7 Intangible fixed assets

Business intellectual property

	£'000
Cost	
At 31 December 1997, 1998 and 1999	90
Amortisation	
At 31 December 1997	33
Charge	30
At 31 December 1998	63
Charge	27
At 31 December 1999	90
Net book value	
At 31 December 1997	57
At 31 December 1998	27
At 31 December 1999	—

6.8 Tangible fixed assets

	Computer and telecom equipment £'000	*Office equipment £'000*	*Total £'000*
Cost			
At 31 December 1997	3,672	800	4,472
Exchange differences	20	11	31
Additions	9,715	1,589	11,304
At 31 December 1998	13,407	2,400	15,807
Exchange differences	(165)	(54)	(219)
Additions	5,846	976	6,822
Retirements	(1,641)	(28)	(1,669)
At 31 December 1999	17,447	3,294	20,741
Depreciation			
At 31 December 1997	785	95	880
Exchange differences	13	6	19
Charge for the year	1,688	252	1,940
At 31 December 1998	2,486	353	2,839
Exchange differences	(54)	(14)	(68)
Charge for the year	4,914	643	5,557
Retirements	(1,641)	(28)	(1,669)
At 31 December 1999	5,705	954	6,659
Net book value			
At 31 December 1997	2,887	705	3,592
At 31 December 1998	10,921	2,047	12,968
At 31 December 1999	11,742	2,340	14,082

	Computer and telecom equipment £'000	Office equipment £'000	Total £'000
Assets held under finance leases			
Net book value			
At 31 December 1997	5	17	22
At 31 December 1998	3,722	—	3,722
At 31 December 1999	6,225	—	6,225

The net book value of own labour and direct overheads capitalised within the cost of computer and telecom equipment at 31 December 1999 was £261,000 (1998 – £909,000; 1997 – £452,000).

6.9 *Fixed asset investments*

First Telecom and the First Telecom Group have investments in the following wholly-owned subsidiary undertakings which principally affected the results or assets of the First Telecom Group.

	Country of incorporation and operation or principal business addresses	*Principal activity*	*Holding*	*%*
First Telecom plc +	England	Telecommunications	Ordinary shares of £1 each	100
First Telecom GmbH	Germany	Telecommunications	Ordinary shares of DM 500,000	100
First Telecom S.A.	France	Telecommunications	Ordinary shares of FRF 1 each	100

\+ Held directly by First Telecom

6.10 *Debtors*

	1997 £'000	*1998 £'000*	*1999 £'000*
Amounts falling due within one year:			
Trade debtors	1,310	4,193	5,420
Other debtors	794	1,453	1,795
Prepayments and accrued income	1,050	674	2,477
	3,154	6,320	9,692

6.11 Creditors: Amounts falling due within one year

	1997	*1998*	*1999*
	£'000	*£'000*	*£'000*
Bank overdraft	—	—	338
Bank loan	—	—	10,000
Obligations under finance leases and hire purchase contracts	9	560	4,116
Trade creditors	9,654	17,304	20,805
Taxation and social security	228	658	984
Other creditors	—	25	188
Accruals and deferred income	6,456	7,403	13,741
	16,347	25,950	50,172

The bank loan is secured by way of a charge over First Telecom's investment in First Telecom plc and intra group indebtedness, and a fixed and floating charge on the assets of First Telecom plc. The loan is wholly repayable in September 2001 on an initial public offering or on other change of control of First Telecom. In connection with the provision of the loan the bank has been granted the right to warrants to subscribe for up to 0.6% of the ordinary share capital of First Telecom for a nominal amount. The percentage of the ordinary share capital which may be subscribed is dependent upon the timing of exercise and timing of repayment of the bank loan.

6.12 Creditors: Amounts falling due after more than one year

	1997	*1998*	*1999*
	£'000	*£'000*	*£'000*
Bank loan	—	7,000	—
Obligations under finance leases and hire purchase contracts	12	2,233	—
	12	9,233	—

Obligations under finance leases and hire purchase contracts:

	1997	*1998*	*1999*
	£'000	*£'000*	*£'000*
Amounts payable:			
– within one year	12	798	4,927
– between two and five years	14	2,683	—
	26	3,481	4,927
Finance charges allocated to future periods (assuming the lease runs its full term)	(5)	(688)	(811)
	21	2,793	4,116

The finance leases are potentially repayable when the holdings of certain shareholders fall below specific levels and given the agreement with the Company in 1999 the finance leases are included within creditors falling due within one year (see section 6.21).

6.13 Called-up share capital

	1997 *£'000*	*1998* *£'000*	*1999* *£'000*
Authorised			
Equity			
84,721,104 (1998 – 82,075,000; 1997 – 164,150) ordinary shares of 1p (1998 – 1p; 1997 – £5) each	821	821	847
Non-equity			
9,752,500 (1998 – 9,752,500; 1997 – 19,505) convertible redeemable preference shares of 2p (1998 – 2p; 1997 – £10) each	195	195	195
12,987,013 (1998 – nil; 1997 – nil) convertible redeemable preference shares of 1p each	—	—	130
9,808,440 (1998 – nil; 1997 – nil) convertible redeemable 'A' preference shares of 0.1p each	—	—	10
12,987,020 (1998 – nil; 1997 – nil) convertible redeemable 'B' preference shares of 0.1p each	—	—	13
	1,016	*1,016*	*1,195*
Allotted, called-up and fully-paid			
Equity			
24,384,000 (1998 – 24,309,000; 1997 – 48,618) ordinary shares of 1p (1998 – 1p; 1997 – £5) each	243	243	243
Non-equity			
9,752,500 (1998 – 9,752,000; 1997 – 19,505) convertible redeemable preference shares of 2p (1998 – 2p; 1997 – £10) each	195	195	195
12,987,013 (1998 – nil; 1997 – nil) convertible redeemable preference shares of 1p each	—	—	130
9,808,440 (1998 – nil; 1997 – nil) convertible redeemable 'A' preference shares of 0.1p each	—	—	10
12,987,013 (1998 – nil; 1997 – nil) convertible redeemable 'B' preference shares of 0.1p each	—	—	13
	438	438	591

Non-equity shareholders' funds consist of the proceeds from the issue of the following:

convertible redeemable preference shares of 2p each ("1997 preference shares");

convertible redeemable preference shares of 1p each ("1999 preference shares");

convertible redeemable 'A' preference shares of 0.1p each ("A preference shares"); and

convertible redeemable 'B' preference shares of 0.1p each ("B preference shares").

A holder of 1997 preference shares or 1999 preference shares may, at their option, convert all or some of their holding into ordinary shares of 1p each ("Ordinary Shares") on the basis of one 1997 preference share or one 1999 preference share into one ordinary share (subject to adjustment on the happening of certain events).

A holder of A preference shares or B preference shares may at any time after the formal announcement of an initial public offering convert all or some of their holding into ordinary shares. The number of ordinary shares which will result from conversion of each A preference share or B preference share is dependent upon the timing of the conversion. If all the holders of the A preference shares opted for conversion then, depending upon the timing, all of the A preference shares would be convertible into between 4,315,714 and 9,808,440 ordinary shares in aggregate. If all the holders of the B preference shares opted for conversion then, depending upon the timing, all of the B preference shares would be convertible into between 5,714,286 and 12,987,013 ordinary shares in aggregate (subject to adjustment depending on the financial performance of the First Telecom Group for the six months ending 31 March 2000).

The holders of the majority of each class of preference share may at any time on or after 18 September 2001 require First Telecom to redeem all, but not part only, of their class of preference share at fair market value.

If there has been no request for redemption of a class of preference share or such request remains unsatisfied, then First Telecom will redeem all of the preference shares in issue on 31 December 2003. Each redeemed 1997 preference share will be paid at their nominal value plus a special premium of £1.49756 per share (subject to a maximum aggregate special premium of £14,604,950), being a total of £1.51756 per share. Each redeemed 1999 preference share will be paid at their nominal value plus a special premium of £1.53 per share (subject to a maximum aggregate special premium of £20,000,000), being a total of £1.54 per share. For each A preference share and each B preference share redeemed the amount paid will be the nominal value of each share plus a special premium of £1.5390 per share, being a total of £1.54 per share.

If not previously converted or redeemed, all of the preference shares will automatically be converted into an equivalent number of ordinary shares (subject to adjustment) immediately before an initial public offering of the shares in First Telecom.

The 1997 preference shares and A preference shares each carry an entitlement to receive a special dividend of a maximum of £25,000 in aggregate (£50,000 in total) immediately before an initial public offering of shares in First Telecom.

On a distribution of assets on a winding-up of First Telecom or other return of capital, the holders of the A and B preference shares shall be entitled, proportionately with each other but in priority to any holder of any other class of share, to receive an amount equal to the aggregate of the nominal value of each share together with a special premium of £1.5390 per share, being a total of £1.54 per share.

The holders of the 1997 preference shares and the 1999 preference shares are entitled on a distribution of assets on a winding-up of First Telecom or other return of capital, but subject to the prior payment of all sums due to the holders of the A preference shares and the holders of the B preference shares, to receive an amount equal to the aggregate of the nominal value of each share plus a special premium. For holders of 1997 preference shares, the special premium amounts to £1.49756 per share. For holders of 1999 preference shares, the special premium amounts to £1.53 per share.

Provided that the 1997 preference shares and the A preference shares in issue would on conversion into ordinary shares constitute at least 10% of the fully diluted shares of First Telecom: (1) certain matters require the written consent of the holders of 75% in nominal value of 1997 preference shares and the written consent of the holders of 75% in nominal value of A preference shares; (2) no general meeting of First Telecom can be quorate without the presence of at least one 1997 preference shareholder and at least one A preference shareholder: and (3) the holders of the majority of the 1997 preference shares and the A preference shares shall be entitled to appoint jointly two directors to the board of First Telecom.

Provided that the 1999 preference shares and the B preference shares in issue would on conversion into ordinary shares constitute at least 10% of the fully diluted shares of First Telecom: (1) certain matters require the written consent of the holders of 75% in nominal value of 1999 preference shares and the written consent of the holders of 75% in nominal value of B preference shares; (2) no general meeting of First Telecom can be quorate without the presence of at least one 1999 preference shareholder and at least one B preference shareholder; and (3) the holders of the majority of the 1999 preference shares and the B preference shares shall be entitled to appoint two directors to the board of First Telecom.

Each preference shareholder is entitled to receive notice of, attend and speak, at any general meeting of First Telecom. At any general meeting of First Telecom each shareholder has one vote for each share they hold.

The preference share finance costs relate to the difference between the net proceeds of the 1997 and 1999 preference shares and the total payment that First Telecom may be required to make in respect of the 1997 and 1999 preference shares. The net proceeds is the fair value of the consideration received on the issue of the 1997 and 1999 preference share after deduction of issue costs.

Warrants

On 25 September 1998 under the terms of the bank loan (see note 6.11), warrants to subscribe at par value for, up to 0.6% of the ordinary share capital, were granted to the bank. The percentage of the ordinary share capital which may be subscribed for is dependent upon the timing of exercise and timing of repayment of the bank loan.

Issue of shares during 1999

On 1 March 1999 First Telecom issued 9,808,440 convertible redeemable 'A' preference shares of 0.1p each for a total consideration of £15,105,000.

On 16 June 1999 First Telecom issued 75,000 ordinary shares of 1p each for cash for a total consideration of £225,000.

On 12 October 1999 First Telecom issued 12,987,013 convertible redeemable preference shares of 1p each for cash for a total consideration of £19,876,800 and 12,987,013 convertible redeemable 'B' preference shares of 0.1p each for cash for a total consideration of £19,876,800.

Share option schemes

Options have been granted under the share option schemes to subscribe for ordinary shares in First Telecom as set out below. The maximum number of shares which can be allocated under all employee share option schemes is in aggregate 4,575,515 ordinary shares of 1p each. The actual number of options which will be issued is dependent upon the performance of the First Telecom Group. Options may be exercised on the earlier of a trigger event, such as sale or flotation of the First Telecom Group, and 7 and 10 years from the date of grant depending upon which scheme the grant was made under. The maximum exercise period is set out below.

Plan name	*Number of shares under option*	*Exercise price per share*	*Maximum vesting period***
Executive Incentive Plan	669,535	* Nil price	7th anniversary of the date of the grant, 3 April 1998
Employee Incentive Plan	506,284	* Nil price	7th anniversary of the date of the grant, 3 April 1998
Employee Participation Plan	277,457	£1.54	10th anniversary of date of grants, which was between December 1998 and December 1999
Employee Participation Plan 1999	283,290	£1.54	10th anniversary of date of the grant, 7 December 1999
National MD Incentive Plan	180,000	* Nil price	7th anniversary of date of the award, 3 April 1998
National MD No 2 Incentive Plan	67,672	£1.54	10th anniversary of date of grant, 22 December 1998

*£1 for total allocation

**Vesting may be earlier if a trigger event occurs

Changes to the options granted since the year end are set out in note 6.21.

In addition to the employee share option schemes, David Oertle (Chairman), was granted options during the year to subscribe for 231,104 shares at an exercise price of 1p and 290,000 shares at an exercise price of £1.54. These options vest and are exercisable (subject to the happening of certain defined events) on the earlier of a trigger event and, in certain cases, May 2000 and, in others May 2001.

6.14 *Reserves*

	Share premium account £'000	*Other reserves £'000*	*Profit and loss account £'000*	*Total £'000*
At 31 December 1997	—	9,295	(9,471)	(176)
Foreign currency translation	—	—	(182)	(182)
Preference share finance costs	—	—	1,178	1,178
Warrants for shares to be issued	—	38	—	38
Share scheme costs	—	—	2,254	2,254
Retained loss for the year	—	—	(17,265)	(17,265)
At 31 December 1998	—	9,333	(23,486)	(14,153)
Shares issued	54,931	—	—	54,931
Share issue costs	(30)	—	—	(30)
Foreign currency translation	—	—	504	504
Preference share finance costs	—	—	1,358	1,358
Warrants for shares to be issued	—	383	—	383
Share scheme costs	—	—	732	732
Retained loss for the year	—	—	(36,301)	(36,301)
At 31 December 1999	54,901	9,716	(57,193)	7,424

The cumulative amount of goodwill written off against the reserves is £28,000 (1998 – £28,000; 1997 – £28,000).

6.15 *Reconciliation of movements in group shareholders' funds*

	1997 £'000	*1998 £'000*	*1999 £'000*
Loss for the financial year	(6,951)	(16,087)	(34,943)
Other recognised gains and (losses) relating to the year (net)	37	(182)	504
	(6,914)	(16,269)	(34,439)
Share scheme costs	—	2,254	732
Warrants for shares to be issued	—	38	383
Issue of shares by First Telecom	—	—	55,084
Issue of shares by subsidiary undertaking	10,189	—	—
Repurchase of ordinary shares of subsidiary undertaking	(3,000)	—	—
Expenses of share issue	—	—	(30)
Expenses of share issue by subsidiary undertaking	(477)	—	—
Net addition/(depletion) to shareholders' funds	(202)	(13,977)	21,730
Opening shareholders' funds	464	262	(13,715)
Closing shareholders' funds	262	(13,715)	8,015

6.16 *Reconciliation of operating loss to net cash (outflow)/inflow from activities*

	1997 £'000	*1998 £'000*	*1999 £'000*
Operating loss	(7,286)	(16,118)	(33,564)
Depreciation and amortisation charges	814	1,970	5,584
Share scheme cost (excluding National Insurance)	193	2,254	732
Loss on sale of tangible fixed assets	119	—	—
Increase in debtors	(2,526)	(2,845)	(3,730)
Increase in creditors	11,556	7,817	12,025
Net cash (outflow)/inflow from operating activities	2,870	(6,922)	(18,953)

6.17 *Analysis of cash flows*

(a) Returns on investments and servicing of finance

	1997 *£'000*	*1998* *£'000*	*1999* *£'000*
Interest received	308	384	370
Interest paid	(8)	—	(927)
Interest element of finance lease rentals	(4)	(65)	(332)
Net cash (outflow)/inflow	296	319	(889)

(b) Capital expenditure and financial investment

	1997 *£'000*	*1998* *£'000*	*1999* *£'000*
Purchase of tangible fixed assets	(3,487)	(7,753)	(5,507)
Sale of tangible fixed assets	9	—	—
Net cash (outflow)	(3,478)	(7,753)	(5,507)

(c) Management of liquid resources

	1997 *£'000*	*1998* *£'000*	*1999* *£'000*
Net (increase)/decrease in seven day, one month and three month deposits	(3,236)	5,414	(24,264)
Net cash (outflow)/inflow	(3,236)	5,414	(24,264)

(d) Financing

	1997 *£'000*	*1998* *£'000*	*1999* *£'000*
New secured bank loan	—	7,000	3,000
Issue of shares	—	—	55,084
Issue of shares by subsidiary undertaking	10,189	—	—
Repurchase of ordinary shares of subsidiary undertaking	(3,000)	—	—
Expenses of raising financing	(477)	(291)	(30)
Capital element of finance lease rental payments	(14)	(18)	(783)
Net cash inflow	6,698	6,691	57,271

6.18 *Analysis and reconciliation of net debt*

	31 December 1996 *£'000*	*Cash flow* *£'000*	*Other non-cash movements* *£'000*	*31 December 1997* *£'000*	*Cash flow* *£'000*	*Other non-cash movements* *£'000*	*31 December 1998* *£'000*	*Cash flow* *£'000*	*Other non-cash movements* *£'000*	*31 December 1999* *£'000*
Cash at bank and in hand	518	3,150	—	3,668	(2,251)	—	1,417	7,996	—	9,413
Bank overdraft	—	—	—	—	—	—	—	(338)	—	(338)
	518	3,150	—	3,668	(2,251)	—	1,417	7,658	—	9,075
Bank loan	—	—	—	—	(7,000)	—	(7,000)	(3,000)	—	(10,000)
Finance leases	(15)	14	20	(21)	18	(2,790)	(2,793)	783	(2,106)	(4,116)
Liquid resources	2,914	3,236	—	6,150	(5,414)	—	736	24,264	—	25,000
Net debt	3,417	6,400	(20)	9,797	(14,647)	(2,790)	(7,640)	29,705	(2,106)	19,959

	1997 £'000	1998 £'000	1999 £'000
Increase/(decrease) in cash in the year	3,150	(2,251)	7,658
Cash inflow from increase in debt	—	(7,000)	(3,000)
Cash outflow from decrease in lease financing	14	18	783
Cash outflow/(inflow) from increase/(decrease) in liquid resources	3,236	(5,414)	24,264
Change in net debt resulting from cash flows	6,400	(14,647)	29,705
New finance lease	(20)	(2,790)	(2,200)
Exchange differences	—	—	94
Movement in net funds/(debt) in year	6,380	(17,437)	27,599
Net funds/(debt) at 1 January	3,417	9,797	(7,640)
Net funds/(debt) at 31 December	9,797	(7,640)	19,959

Liquid resources comprise £25.0 million (1998 – £0.7 million; 1997 – £6.2 million) in 7 day, one month and three month deposit accounts.

The non cash movements include foreign exchange movements of £94,000 on finance lease obligations. During 1999 the First Telecom Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £2,200,000 (1998 – £2,790,000; 1997 – £20,000).

6.19 *Financial commitments*

Annual commitments under non-cancellable operating leases are as follows:

	1997 Land & Buildings £'000	1997 Other £'000	1998 Land & Buildings £'000	1998 Other £'000	1999 Land & Buildings £'000	1999 Other £'000
Expiry date						
– within one year	—	—	—	—	—	26
– between two and five years	283	—	358	—	400	70
– after five years	128	—	512	—	793	—
	411	—	870	—	1,193	96

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

At the end of 1999 the First Telecom Group had no capital commitments (1998 – £nil; 1997 – £nil), except as follows:

Acquisition of switch

On 6 January 2000, First Telecom Group accepted delivery of a telecommunications switch in Paris. This switch has a total purchase price of £1.9 million. As at 31 December 1999, 25% of the purchase price had been paid. The remaining 75% of equipment cost became payable on acceptance only and will be financed by means of a finance lease facility already available to the First Telecom Group.

6.20 *Related party transactions*

There were no related party transactions during the period covered by this report to be disclosed under Financial Reporting Standard 8 "Related Party Disclosures".

6.21 Subsequent events

Changes to authorised and issued share capital

On 24 February 2000 First Telecom's authorised share capital was increased from £1,194,000 to £1,203,900 by the creation of 378,571 ordinary shares of 1p each and 521,429 deferred shares of 1p each. The deferred shares were allotted as part of the consideration for the purchase of Cerbernet Limited.

On 2 March 2000, First Telecom increased its authorised share capital by £400 to £1,204,300 by the creation of 40,000 ordinary shares of 1p each.

On 18 April 2000, First Telecom increased its authorised share capital by £3,300 to £1,207,600 by the creation of 330,000 ordinary shares of 1p each.

Changes to share option schemes

On 18 April 2000, 2,126,812 options were granted to subscribe for ordinary shares in First Telecom under the employee share option schemes. 310,000 of these options have an exercise price of 1p; 710,000 have an exercise price of £1.54; 150,000 have an exercise price of £2.50 and 956,814 an exercise price of £3. These options may be exercised on the earlier of a trigger event, such as sale or flotation of First Telecom Group and 10th anniversary of the date of grant.

Acquisitions

Since the year end, First Telecom Group has purchased two Internet service provider companies (ISPs).

On 3 February 2000, First Telecom Group purchased the entire share capital of Interactive Network Information Systeme GmbH, a company incorporated and operating in Germany. The total consideration amounted to DM 9.5 million, of which DM 2.85 million was to be satisfied by the granting of options to subscribe for 300,000 ordinary shares in First Telecom and the remaining DM 6.65 million to be satisfied by cash, 50% of which was paid on completion with the balance due on the first anniversary of completion.

On 29 February 2000 First Telecom purchased the entire share capital of Cerbernet Limited, a company incorporated and operating in England and Wales. The total consideration amounted to £3.0 million. The consideration was satisfied by the issue of 521,429 deferred shares of 1p each, and the granting options with the right to subscribe for 78,571 ordinary shares in First Telecom, and £1.5 million of cash, 50% of which was paid on completion with the remaining £0.75 million due on the first anniversary of completion.

Nokia agreement

In February 2000, First Telecom Group entered into a DSL supply agreement with Nokia for the equipment and operational systems required for its DSL broadband network roll out in Germany.

Proposed acquisition by Atlantic Telecom

On 27 April 2000, the Company announced it had reached agreement on the terms for the acquisition of First Telecom's shares in exchange for newly issued shares in the Company. The acquisition is subject to approval by the Company's shareholders and to the UK Listing Authority agreeing to admit the newly issued shares to the Official List and the London Stock Exchange agreeing to admit the newly issued shares to trading.

Prior to this agreement with the Company, First Telecom was considering an initial public offering. The costs incurred in connection with the proposed initial public offering and the agreement with the Company were approximately £4.5 million.

On acquisition, certain costs will crystallise and liabilities will become payable. Details of these costs and liabilities are set out below. All of these items have been reflected in the profit and loss account for the year ended and the balance sheet as at 31 December 1999.

- **Share option schemes** (see section 6.13)

  Certain awards under the employee share option schemes will vest. An accelerated charge has therefore been recognised in 1999 for the costs of the schemes over the shorter vesting period.

  National Insurance is payable on the exercise of certain options which are "readily convertible assets". On the basis that the Company's shares are listed on the London Stock Exchange, the shares acquired on exercise of the options will be readily convertible assets and as such the National Insurance liability should be recognised. The National Insurance liability based on the First Telecom Directors' estimate of the market value of the shares at the balance sheet date has been recognised in 1999.

- **Warrant costs** (see section 6.13)

  The outstanding warrants will crystalise and as such, the full costs of these warrants are recognised in the profit and loss account in 1999.

- **Repayment of loan and finance leases** (see sections 6.11 and 6.12)

  The bank loan is repayable on change of control and the finance leases are potentially repayable when the holdings of certain shareholders fall below specific levels. Accordingly, these liabilities have been classified as due within one year.

Yours faithfully

Arthur Andersen
Chartered Accountants

PART V

Financial information on Atlantic

A. Nature of financial information

The financial information relating to Atlantic has been extracted without material adjustment, from the audited consolidated financial statements of Atlantic for each of the three years ended 31 March 1997, 1998 and 1999. *The information set out in this Part V has been extracted from previously published sources and* does not constitute statutory accounts within the meaning of section 240 of the Act. Audited statutory accounts have been delivered to the Registrar of Companies for each of the years ended 31 March 1997, 1998 and 1999. Unqualified audit reports in accordance with the requirements of the Act for each of the three years ended 31 March 1999 have been given by Grant Thornton, Chartered Accountants and Registered Auditors, being the auditors of Atlantic for the relevant financial periods.

B. Consolidated profit and loss accounts

		Years ended 31 March		
		1997	*1998*	*1999*
	Note	*£'000*	*£'000*	*£'000*
Turnover				
Continuing operations		6,713	10,595	14,924
Discontinued operations	1	2,180	795	—
	2	8,893	11,390	14,924
Operating costs	3	(11,399)	(20,285)	(30,768)
Operating loss				
Continuing operations		(2,180)	(8,733)	(15,844)
Discontinued operations		(326)	(162)	—
		(2,506)	(8,895)	(15,844)
Exceptional items				
Continuing operations:				
Provision for operations to be discontinued		(1,028)	—	—
Discontinued operations:	1			
Profit/(loss) on sale of discontinued operations		3,779	(1,698)	—
Less: provision at 31 March 1997		—	1,028	—
Reinstatement of goodwill previously written off		(3,238)	—	—
		(487)	(670)	—
Loss on ordinary activities before interest		(2,993)	(9,565)	(15,844)
Net interest	4	145	25	(419)
Loss on ordinary activities before taxation		(2,848)	(9,540)	(16,263)
Tax on loss on ordinary activities	6	—	—	—
Retained loss for the financial year		(2,848)	(9,540)	(16,263)
Loss per share	7	(7.35)p	(18.86)p	(22.50)p

There were no recognised gains or losses other than the loss for the financial periods.

The accompanying accounting policies and notes are an integral part of this financial information.

C. Consolidated balance sheet

	Note	1997 £'000	1998 £'000	1999 £'000
		As at 31 March		
Fixed assets				
Intangible assets	8	4,048	3,883	3,718
Tangible assets	9	13,297	29,709	56,022
		17,345	33,592	59,740
Current assets				
Stocks	11	1,049	715	6,183
Debtors: amounts falling due after more than one year	12	5,366	6,776	8,600
Debtors: amounts falling due within one year	13	2,246	4,046	6,286
Cash at bank and in hand		17,475	57	5,680
		26,136	11,594	26,749
Creditors: amounts falling due within one year	14	(6,946)	(15,517)	(25,006)
Net current assets/(liabilities)		19,190	(3,923)	1,743
Total assets less current liabilities		36,535	29,669	61,483
Creditors: amounts falling due after more than one year	15	(4,946)	(7,598)	(8,389)
		31,589	22,071	53,094
Capital and reserves				
Called up share capital	18	12,639	12,644	21,150
Share premium account	19	22,822	22,839	61,619
Profit and loss account	19	(3,872)	(13,412)	(29,675)
Shareholders' funds	20	31,589	22,071	53,094

D. Consolidated cash flow statements

	Note	1997 £'000	1998 £'000	1999 £'000
		Years ended 31 March		
Net cash outflow from operating activities	21	(6,250)	(3,802)	(9,694)
Returns on investments and servicing of finance	22	183	(15)	(419)
Capital expenditure	22	(7,704)	(13,709)	(25,904)
Acquisitions and disposals	22	6,818	420	—
Management of liquid resources	22	(16,000)	16,000	—
Financing	22	24,922	(1,984)	43,019
Increase/(decrease) in cash		1,969	(3,090)	7,002

E. *Accounting Policies*

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies of the Group have remained unchanged throughout the three year period.

During the year ended 31 March 1999 the Group has implemented the requirements of Financial Reporting Standards 9 – 14. The necessary disclosures required by these Standards are reflected in the financial information. The requirements of these Standards have had no effect on the profit and loss account for that year.

(a) Basis of consolidation

The Group financial information consolidates the financial information of the Company and of its subsidiary undertakings (see note 10). The financial information of each company in the Group has been prepared to 31 March 1997, 1998 and 1999. The results of subsidiary undertakings disposed of are included to the date of disposal.

(b) Turnover

Turnover is the total amount receivable by the Group in the ordinary course of business with outside customers for goods supplied as a principal and for services provided, excluding VAT and trade discounts.

(c) Goodwill

Goodwill arising on consolidation representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired is capitalised and is amortised on a straight line basis over its estimated useful economic life as shown in note 8.

Before 23 December 1998, the implementation date of Financial Reporting Standard number 10, depending on the circumstances of each acquisition goodwill arising on consolidation was either set off directly against reserves or capitalised and amortised through the profit and loss account over the directors' estimate of its useful life.

If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

(d) Development costs

Development costs on specific projects are capitalised when recoverability can be assessed with reasonable certainty, and amortised over the licence period of the project or its expected economic life, whichever is the shorter. All other development costs are written off in the year of expenditure.

(e) Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets in equal annual instalments over the shorter of their expected useful lives or the unexpired portion of any finance leases.

The periods generally applicable are:

Networks	10-40 years
Leasehold improvements	5-13 years
Plant and equipment	3-10 years
Office equipment	5 years

(f) *Investments*

Fixed asset investments are shown at cost less amounts provided for diminution in value.

(g) Stocks

Stocks are stated at the lower of cost and net realisable value. Network equipment for customer installations is held in stock prior to installation. Following installation the equipment is transferred to fixed assets and depreciated over its useful life.

(h) Deferred tax

Deferred tax is the tax attributable to timing differences between profits or losses as computed for tax purposes and results as stated in the financial statements.

Deferred tax is provided to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

Deferred tax is calculated at the rates at which it is estimated that the tax will be paid when the timing differences reverse.

(i) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Balances denominated in foreign currencies are translated at exchange rates ruling at the balance sheet date. Gains or losses on transactions are dealt with through the profit and loss account.

(j) Leased assets

Assets held under finance lease are treated as if they had been purchased outright on credit. They are recorded as a fixed asset and a liability at a sum equal to the fair value of the asset. Leasing payments on such assets are regarded as consisting of a capital element which reduces the outstanding liability, and an interest charge.

Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(k) Contributions to pension funds

The pension costs charged against profits represent the amounts of the contributions payable to the pension scheme in respect of the accounting period.

(l) Financial instruments

Financial assets and liabilities are recognised in the balance sheet as the lower of the cost and net realisable value. Provisions are made for diminution in value where appropriate. Income and expenditure arising on financial instruments is recognised on the accruals basis, and charged or credited to the profit and loss account in the financial period to which it relates.

F. NOTES TO THE FINANCIAL INFORMATION

1. *Continuing operations/Discontinued operations*

Discontinued operations represent the results of Coventry Cable Limited (which was disposed of in April 1996), Broadcast Satellite Television Limited (which was disposed of in July 1997) and Hull Cablevision Limited (which was closed on 31 March 1998).

2. Turnover

Turnover, which was all generated within the United Kingdom, can be analysed between broadband and narrowband cable networks and telecommunications services. The Directors consider these to be the same class of business and accordingly no segmental analysis of operating loss or net assets is shown.

Turnover comprised the following:

	1997	*1998*	*1999*
	£'000	*£'000*	*£'000*
Telecommunications services	1,088	4,698	9,308
Broadband cable networks	5,878	5,897	5,616
Narrowband cable networks	1,927	795	—
	8,893	11,390	14,924

The loss on ordinary activities is stated after:

	1997	*1998*	*1999*
	£'000	*£'000*	*£'000*
Auditors' remuneration – audit services	60	60	63
– non-audit services	86	42	245
Hire of plant and machinery	144	227	307
Other operating lease rentals – land and buildings	221	328	528
Depreciation	895	2,199	4,144
Depreciation capitalised on development assets	85	—	—
Permanent diminution in value of fixed assets	913	121	—
Amortisation of network lease prepayments	176	164	165
Amortisation of intangibles	69	165	165

In addition to the charges for non-audit services during the year ended 31 March 1999 above, £115,000 was charged to the share premium account in relation to the share placing.

3. Operating costs

	Ongoing £'000	Dis-continued £'000	1997 Total £'000
Operating costs:			
Telephony expenses	879	—	879
Programming expenses	3,020	1,200	4,070
Administrative expenses:			
Ongoing	3,074	1,028	4,252
Exceptional	—	—	—
Selling and distribution expenses	1,010	48	1,058
Depreciation and amortisation	910	230	1,140
	8,893	2,506	11,399

	Ongoing £'000	Dis-continued £'000	1998 Total £'000	1999 Total £'000
Operating costs:				
Telephony expenses	2,430	—	2,430	5,748
Programming expenses	3,325	490	3,815	3,367
Administrative expenses:				
Ongoing	7,476	390	7,866	12,519
Exceptional	325	—	325	1,121
Selling and distribution expenses	3,313	1	3,314	3,539
Depreciation and amortisation	2,459	76	2,535	4,474
	19,328	957	20,285	30,768

Exceptional administrative expenses relate to professional fees incurred in respect of due diligence exercises and in relation to an issue of senior discount notes which was withdrawn.

Given the nature of the Group's business, an analysis of operating costs in the manner prescribed by the Act is not considered appropriate. The directors have, as required by paragraph 3(3) of Schedule 4 of the Act, adapted the prescribed format to the requirements of the Group's business.

4. Net interest

	1997 £'000	1998 £'000	1999 £'000
On bank loans and overdrafts	60	161	650
Finance charges in respect of finance leases	334	415	678
Other interest payable and similar charges	60	12	11
	454	588	1,339
Other interest receivable and similar income	(599)	(613)	(920)
	(145)	(25)	419

5. Directors and employees

The average number of employees of the Group and their aggregate emoluments are shown below:

	1997 *£'000*	*1998* *£'000*	*1999* *£'000*
Wages and salaries	2,781	4,151	6,309
Social security	270	391	472
Pension costs	107	146	144
	3,158	4,688	6,925
Less: amounts capitalised	(524)	(771)	(1,127)
	2,634	3,917	5,798

The average number of employees of the Group during the year ended 31 March 1999 was 324 (1998: 223; 1997: 156) in the following categories:

	1997 *£'000*	*1998* *£'000*	*1999* *£'000*
Administration	75	88	128
Engineering	64	90	112
Sales and marketing	17	45	84
	156	223	324

Remuneration in respect of directors was:

	Salaries and fees 1997 £000	*Performance related bonuses 1997 £'000*	*Benefits 1997 £'000*	*Total 1997 £'000*	*Pension contributions 1997 £'000*
Executive directors					
GJ Duncan (highest paid director)	192	—	19	211	23
GB Sleigh	104	—	10	114	8
AD McKenzie	55	—	7	62	4
ML Beard	62	—	8	70	4
EJ Hornsby	53	—	6	59	4
Non-executive directors					
N Berry	10	—	—	10	—
AA Laing	15	—	—	15	—
	491	—	50	541	43

	Salaries and fees 1998 £'000	*Performance related bonuses 1998 £'000*	*Benefits 1998 £'000*	*Total 1998 £'000*	*Pension contributions 1998 £000*
Executive directors					
GJ Duncan (highest paid director)	195	—	18	213	25
GB Sleigh	111	—	10	121	8
AD McKenzie	72	—	9	81	5
ML Beard	78	—	8	86	5
EJ Hornsby	94	—	10	104	7
Non-executive directors					
N Berry	11	—	—	11	—
AA Laing	15	—	—	15	—
	576	—	55	631	50

	Salaries and fees 1999 £'000	Performance related bonuses 1999 £'000	Benefits 1999 £'000	Total 1999 £'000	Pension contributions 1999 £'000
Executive directors					
GJ Duncan (highest paid director)	200	69	32	301	26
GB Sleigh	125	43	25	193	9
AD McKenzie	100	34	15	149	9
ML Beard	107	34	6	147	7
EJ Hornsby	100	34	8	142	8
Non-executive directors					
N Berry	19	—	—	19	—
AA Laing	19	—	—	19	—
	670	214	86	970	59

The pension contributions in respect of Directors are to a defined contribution scheme.

The benefits in kind represent car benefits, mobile telephones and healthcare.

Details of Directors' share options are reported in note 18.

6. Tax on loss on ordinary activities

There are no tax charges due to trading losses.

Unrelieved tax losses of approximately £27 million at 31 March 1999 (1998: £13.5 million; 1997: £8.5 million) remain available to offset against future taxable trading profits.

7. Loss per share

The loss per share is based on the loss attributable to the Ordinary Shareholders of £16,263,000 (31 March 1998 – loss of £9,540,000; 31 March 1997 – loss of £2,848,000) and on weighted average number of Ordinary Shares in issue during the period of 72,273,690 (31 March 1998–50,574,520; 31 March 1997 – 38,750,906).

As shown in note 18, at 31 March 1999 outstanding warrants and share options were in existence. The shares that would be issued in respect of these warrants and options are not treated as dilutive as their issue would decrease the loss per share. Accordingly no diluted loss per share figure is shown.

8. *Intangible fixed assets*

	Goodwill £'000	Development costs £'000	Total £'000
Cost and net book value			
At 31 March 1998 and 31 March 1999	444	3,673	4,117
Amortisation			
At 1 April 1997	8	61	69
Provided in 1998	18	147	165
At 31 March 1998	26	208	234
Provided in 1999	18	147	165
At 31 March 1999	44	355	399
Net book value at 31 March 1999	400	3,318	3,718
Net book value at 31 March 1998	418	3,465	3,883

Goodwill and development costs relate to the acquisition of Atlantic Telecommunications Limited and the development of its telecommunications network. These costs are being amortised following the launch of commercial service over the licence period of 25 years.

9. Tangible fixed assets

	Networks £'000	Leasehold improvements £'000	Plant and equipment £'000	Office equipment £'000	Total £'000
Cost					
At 1 April 1997	10,194	491	6,435	405	17,525
Additions	15,514	177	3,790	245	19,726
Disposals	—	—	(152)	(2)	(154)
Disposal of subsidiary undertaking	(2,234)	—	(296)	(25)	(2,555)
At 31 March 1998	23,474	668	9,777	623	34,542
Additions	24,095	1,556	3,765	1,112	30,528
Disposals	(7)	(349)	(552)	(5)	(913)
At 31 March 1999	47,562	1,875	12,990	1,730	64,157
Depreciation					
At 1 April 1997	2,183	347	1,508	190	4,228
Provided in the year	1,113	35	952	99	2,199
Provision for permanent diminution	121	—	—	—	121
Disposals	—	—	(82)	(1)	(83)
Disposal of subsidiary undertaking	(1,428)	—	(182)	(22)	(1,632)
At 31 March 1998	1,989	382	2,196	266	4,833
Provided in the year	2,358	97	1,416	273	4,144
Disposals	(7)	(349)	(481)	(5)	(842)
At 31 March 1999	4,340	130	3,131	534	8,135
Net book value at 31 March 1999	43,222	1,745	9,859	1,196	56,022
Net book value at 31 March 1998	21,485	286	7,581	357	29,709

The net book value of tangible assets includes amounts in respect of assets held under finance leases as follows:

	Networks £'000	Leasehold improvements £'000	Plant and equipment £'000	Office equipment £'000	Total £'000
Net book value at 31 March 1999	6,830	—	5,816	328	12,974
Net book value at 31 March 1998	7,430	—	2,338	40	9,808
Depreciation charge for 1999	601	—	615	44	1,260
Depreciation charge for 1998	340	—	523	24	887

10. Fixed asset investments

At 31 March 1999 the Company held 100 per cent. of the equity of the following operating companies, all of which are registered and operate in Great Britain.

		Proportion Held		
Name of Company	*Class of Share Capital held*	*By parent undertaking*	*By subsidiary Undertaking*	*Nature of Business*
Atlantic Telecom Holdings Limited*	Ordinary shares	100 per cent.	—	Holding company
ATG Holdings Limited	Ordinary shares	—	100 per cent.	Holding company
Devanha Group plc	Ordinary shares	—	100 per cent.	Holding company
Atlantic Telecommunications Limited	Ordinary shares	—	100 per cent.	Telecommunications
Logicall Telecommunications Limited	Ordinary shares	—	100 per cent.	Telecommunications
Aberdeen Cable Services Limited	Ordinary shares	—	100 per cent.	Operation of cable TV networks
Hull Cablevision Limited	Ordinary Share	100 per cent.	—	Operation of cable networks
Cable Television Projects Limited	Ordinary Shares	100 per cent.	—	Operation of cable networks

* This company was incorporated during the year ended 31 March 1999

11. Stocks

	1998 *£'000*	*1999* *£'000*
Consumable stores	234	518
Network equipment	481	5,665
	715	6,183

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

	1998 *£'000*	*1999* *£'000*
Network lease prepayments	6,765	8,600
Other debtors	11	—
	6,776	8,600

The network lease prepayments represent the excess of payments over the annual amortised charge which is written off to the profit and loss account in equal annual instalments over the life of the lease (see note 27).

13. Debtors: amounts falling due within one year

	1998 *£'000*	*1999* *£'000*
Trade debtors	661	1,483
Other debtors	1,694	1,619
Prepayments	1,691	3,184
	4,046	6,286

14. Creditors: amounts falling due within one year

	1998 *£'000*	*1999* *£'000*
Unsecured loan notes	200	122
Bank term loan	400	400
Bank overdrafts	2,366	987
Trade creditors	3,318	3,526
Social security and other taxes	189	241
Other creditors	3,901	13,331
Accruals and deferred income	2,737	3,193
Amounts due under finance leases	2,406	3,206
	15,517	25,006

The unsecured loan notes carry interest at 8 per cent. They are repayable, at par, on either 31 March or 30 September between 31 March 1998 and 8 September 2001 on not less than one month's notice from the note holder.

The Group has negotiated extended credit terms with two of its major suppliers. Amounts due under these arrangements are included within other creditors.

15. Creditors: amounts falling due after more than one year

	1998 *£'000*	*1999* *£'000*
Bank term loan	1,100	700
Amounts due under finance leases	6,498	7,689
	7,598	8,389

16. Financial instruments

The Group uses financial instruments comprising borrowings, cash, liquid resources and various items, such as trade debtors, trade creditors etc. that arise directly from its operations. The Group does not use derivatives. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

It is and has been the Group policy that no trading in financial instruments shall be undertaken.

Short term debtors and creditors

Short term debtors and creditors have been excluded from all of the following disclosures, other than the currency risk disclosures.

Interest rate risk

The Group finances its operations through a mixture of shareholders' equity, bank deposits and borrowings and leasing. The Group exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities. The Group also mixes the duration of its deposits and borrowings to reduce its impact of interest rate fluctuations.

The interest rate exposure of the financial liabilities of the Group as at 31 March 1998 and 1999, was:

Currency	*Interest rate fixed* £	*Interest rate floating* £	*Total* £
1999			
Sterling financial liabilities	9,942	2,087	12,029
US Dollar	—	1,075	1,075
	9,942	3,162	13,104
1998			
Sterling financial liabilities	7,526	3,866	11,392
US Dollar	—	1,578	1,578
	7,526	5,444	12,970

	Fixed rate financial liabilities	
	Weighted average fixed interest rate per cent.	*Weighted average period for which rate is fixed in years*
1999		
Sterling financial liabilities	7.9	5 years
1998		
Sterling financial liabilities	7.9	5 years

The floating rate borrowings bear interest at rates based on the six month US LIBOR and UK bank base rate.

Liquidity risk

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Maturity of financial liabilities

The Group's financial liability analysis is set out below:

	As at 31 March	
	1998 *£'000*	*1999* *£'000*
Within one year		
Unsecured loan notes	200	122
Bank borrowings	2,766	1,387
Finance leases	2,406	3,206
After one and within two years		
Bank borrowings	400	400
Finance leases	2,403	2,977
After two and within five years		
Bank borrowings	700	300
Finance leases	4,095	3,832
After five years		
Finance leases	—	880
	12,970	13,104

Borrowing facility

At 31 March 1999 the Group had an undrawn committed senior debt of up to £50 million borrowing facility. The facility is split into two tranches. The first tranche of £20 million is available once all conditions precedent have been met and will be replaced by the second tranche of up to £50 million which is available subject to the achievement of certain performance criteria.

This facility is repayable in instalments from June 2002 to December 2005.

This facility is secured by bond and floating charges and debentures over Group assets.

Subsequent to 31 March 1999 the Group drew down on this facility.

Fair values

The book values of the Group's financial instruments approximates their fair value.

Currency risk

The Group is exposed to transaction and translation foreign exchange risk. The Group does not enter into hedge arrangements in relation to foreign currency transactions.

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than sterling.

Foreign exchange differences of net translation of assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

Functional Currency of Operation	*Net foreign currency monetary liabilities*	
	1998	*1999*
	£'000	*£'000*
US Dollar	3,564	11,973

17. Provisions for liabilities and charges

Deferred taxation provided in the financial statements is set out below:

	Accelerated capital allowances £'000	*Other timing differences £'000*	*Trading losses £'000*	*Total £'000*
At 1 April 1997	534	35	(569)	—
(Utilised)/ provided during the year	(164)	82	82	—
At 1 April 1998	370	117	(487)	—
Provided during the year	2,339	911	(3,250)	—
At 31 March 1999	2,709	1,028	(3,737)	—

18. Share capital

	1998	*1999*
	£'000	*£'000*
Authorised		
120,000,000 ordinary shares of 25p each (1998: 80,000,000 ordinary shares of 25p each)	20,000	30,000
Allotted, called up and fully paid		
84,601,363 ordinary shares of 25p each (1998: 50,577,792 ordinary shares of 25p each)	12,644	21,150

On 30 April 1997 the Company allotted 17,608 ordinary shares of 25p at a price of 115p by way of an exercise of options. The difference between the total consideration of £20,000 and the total nominal value of £4,000 has been credited to the share premium account. This exercise of share options was permitted under the scheme rules as they were held by an employee of Coventry Cable Ltd which was disposed of during April 1996.

On 30 June 1997 and 31 December 1997 respectively the Company allotted 4,657 and 854 Ordinary Shares of 25p at a price of 133p per share in respect of 5,511 warrants exercised. The difference between the total consideration of £7,000 and the total nominal value of £2,000 has been credited to the share premium account.

On 13 July 1998, the Company allotted 665,219 Ordinary Shares of 25p at a price of 133p by way of an exercise of warrants. The difference between the total consideration of £885,000 and the total nominal value of £166,000 has been credited to the share premium account.

On 17 July 1998, the Company allotted 12,919 Ordinary Shares of 25p at a price of 133p per share in respect of warrants exercised. The difference between the total consideration of £17,000 and the total nominal value of £3,000 has been credited to the share premium account.

On 11 August 1998, the Company issued 33,333,333 Ordinary Shares by way of a placing. The difference between the total consideration of £50 million and the total nominal value of £8.3 million, net of expenses, has been credited to the share premium account.

On 1 March 1999, 12 March 1999 and 16 March 1999, the Company allotted 4,200, 3,900 and 4,000 ordinary shares of 25p at a price of 115p in respect of options exercised. The difference between the total consideration of £14,000 and the total nominal value of £3,000 has been credited to the share premium account.

Contingent rights to the allotment of shares

	1998 Number	*1999 Number*
Warrants in issue	5,715,380	5,037,242

Warrants are exercisable in the period of thirty days commencing on the day following publication of the preliminary announcement of the final results of the Company for the year ending 31 March 1999 and the month of September 1999 at an exercise price of 160p per Ordinary Share.

The Company has outstanding options to certain directors and employees in respect of the following:

Date option granted	*Exercise price per share*	*Period of exercise*	*Conditions of exercise*	*Number of shares Total*	*Directors*
30 March 1995	115p	30 March 1998 – 30 March 2005	Share price exceeds 135p	482,613	396,737
28 February 1997	154½p	28 February 2000 – 28 February 2007	Annual operating profit exceeds £2 million	682,365	373,626

Share options have been granted to directors as follows:

	Ordinary share options held		*Date options granted*	
	31.3.98	*31.3.99*	*28.2.97*	*30.3.95*
Gordon B Sleigh	235,426	235,426	108,253	127,173
Alisdair D McKenzie	179,795	179,795	84,143	95,652
Martin L Beard	177,571	177,571	90,615	86,956
Edward J Hornsby	177,571	177,571	90,615	86,956

12,100 options were exercised during the year ended 31 March 1999 by employees (1998: 17,608 options).

The middle market price of the shares at 31 March 1999 was 249p. The highest price during the year was 271p and the lowest price during the year was 98p.

19. Share premium account and reserves

	Share premium account £'000	*Profit and loss account £'000*
At 1 April 1997	22,822	(3,872)
Premium on shares issued during the year	21	—
Costs relating to issue	(4)	—
Retained loss for the year	—	(9,540)
At 1 April 1998	22,839	(13,412)
Premium on shares issued during the year (see note 18)	42,410	—
Costs relating to issue	(3,630)	—
Retained loss for the year	—	(16,263)
At 31 March 1999	61,619	(29,675)

The cumulative amount of goodwill arising from acquisitions which has been written off to group reserves to date is £17,425,000 (1998: £17,425,000).

20. *Reconciliation of movements in shareholders' funds*

	1998 £'000	*1999 £'000*
Loss for the financial year	(9,540)	(16,263)
Issue of shares net of expenses	22	47,286
Net (decrease)/increase in shareholders' funds	(9,518)	31,023
Shareholders' funds at 1 April 1998	31,589	22,071
Shareholders' funds at 31 March 1999	22,071	53,094

21. Reconciliation of operating loss to net cash outflow from operating activities

	1997 £'000	*1998 £'000*	*1999 £'000*
Operating loss from continuing activities	(2,180)	(8,733)	(15,844)
Depreciation and amortisation	758	2,312	4,309
Cost of network leases	164	164	165
Network lease prepayments	(1,625)	(1,875)	(2,000)
(Increase)/decrease in stock	(978)	305	(5,468)
(Increase) in debtors	(986)	(1,748)	(961)
(Decrease)/increase in creditors	(1,595)	6,349	10,146
Profit on disposal of fixed assets	(12)	(14)	(41)
Net cash outflow from continuing operating activities	(6,454)	(3,240)	(9,694)
Net cash inflow/(outflow) from discontinued operations	204	(562)	—
Net cash outflow from operating activities	(6,250)	(3,802)	(9,694)

22. Analysis of cash flow headings netted in the cash flow statement

	1997 £'000	1998 £'000	1999 £'000
Returns on investments and servicing of finance			
Interest received	471	573	920
Interest paid	(120)	(173)	(661)
Finance lease interest	(168)	(415)	(678)
Net cash inflow/(outflow) from returns on investments and servicing of finance	183	(15)	(419)
Capital expenditure and financial investment			
Purchase of intangible fixed assets	(1,999)	—	—
Purchase of tangible fixed assets	(5,787)	(13,822)	(26,016)
Sale of tangible fixed assets	82	113	112
Net cash outflow from capital expenditure and financial investment	(7,704)	(13,709)	(25,904)
Acquisitions and disposals			
Acquisition of subsidiary undertaking	(117)	—	—
Loan repaid on purchase of subsidiary	(85)	—	—
Sale of subsidiary undertaking	1,980	420	—
Receipt of inter-company debtor on disposal of subsidiary	5,040	—	—
Net cash inflow from acquisitions and disposals	6,818	420	—
Management of liquid resources			
Cash placed on short term deposit	(16,000)	16,000	—
Financing			
Issue of shares	25,462	26	50,916
Receipt from borrowing	2,000	—	—
Repayment of borrowing	(100)	(400)	(478)
Capital element of finance lease rentals	(435)	(1,606)	(2,521)
Expenses paid in connection with share issue	(2,005)	(4)	(3,630)
Loan finance costs	—	—	(1,268)
Net cash inflow/(outflow) from financing	24,922	(1,984)	43,019

23. Reconciliation of net cash flow to movement in net (debt)/funds

	1997 £'000	1998 £'000	1999 £'000
Increase/(decrease) in cash in the period	1,969	(3,090)	7,002
Cash outflow/(inflow) from movement in liquid resources	16,000	(16,000)	—
Cash (inflow)/outflow from movement in debt	(1,900)	400	478
Cash inflow from lease financing	435	1,606	2,521
Change in net funds/(debt) resulting from cash flows	16,504	(17,084)	10,001
Issue of loan notes	(200)	—	—
Inception of finance leases	(3,780)	(5,904)	(4,512)
Movement in net funds/(debt) in the year	12,524	(22,988)	5,489
Opening net (debt)/funds	(2,449)	10,075	(12,913)
Closing net funds/(debt)	10,075	(12,913)	(7,424)

24. Analysis of net funds/(debt)

	At 1 April 1996 £'000	*Cash flow £'000*	*Non-cash flow £'000*	*At 1 April 1997 £'000*	*Cash flow £'000*	*Non-cash items £'000*	*At 1 April 1998 £'000*	*Cash flow*	*Non-cash items*	*At 31 March 1999*
Cash	50	17,425	—	17,475	(17,418)	—	57	5,623	—	5,680
Less cash on deposit	—	(16,000)	—	(16,000)	16,000	—	—	—	—	—
	50	1,425	—	1,475	(1,418)	—	57	5,623	—	5,680
Bank overdrafts	(1,238)	544	—	(694)	(1,672)	—	(2,366)	1,379	—	(987)
	(1,188)	1,969	—	781	(3,090)	—	(2,309)	7,002	—	4,693
Liquid resources										
Cash on short term deposit	—	16,000	—	16,000	(16,000)	—	—	—	—	—
	(1,188)	17,969	—	16,781	19,090	—	(2,309)	7,002	—	—
Debt due after one year	—	(1,500)	—	(1,500)	400	—	(1,100)	400	—	(700)
Debt due within one year	—	(400)	(200)	(600)	—	—	(600)	78	—	(522)
Finance leases	(1,261)	435	(3,780)	(4,606)	1,606	(5,904)	(8,904)	2,521	(4,512)	(10,895)
	(1,261)	(1,465)	(3,980)	(6,706)	2,006	(5,904)	(10,604)	2,999	(4,512)	(12,117)
Net funds/(debt)	(2,449)	16,504	(3,980)	10,075	(17,084)	(5,904)	(12,913)	10,001	(4,512)	(7,424)

25. *Major non-cash transactions*

During the year ended 31 March, 1999 the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £4,512,000 (1998: £5,904,000; 1997: £3,780,000).

26. Capital commitments

At 31 March 1999 the Group had contracted for £2,571,000 (1998: £6,772,000; 1997: £4,159,000) of capital expenditure not provided for in this financial information.

27. Leasing commitments

(a) Cable network lease

The lease for the cable network operated by Aberdeen Cable Services Limited is treated as an operating lease with a life equal to the length of the lease, of 99 years. Total payments due under the lease agreement are amortised and spread the cost equally over the term of the lease (see note 12). Under the terms of the lease there is an option, but not a requirement, for the Company to make an advance payment in respect of future rentals for primary and secondary lease payments.

Having reviewed the terms of the network lease, the directors consider it prudent not to recognise the discount available to the Group from exercising the advance payment option in respect of the primary period rentals. It remains the intention of the directors to exercise the advance payment option in respect of secondary rentals for approximately £3.3 million. This sum has been calculated in accordance with the advance payment provisions of the lease.

The estimate upon which the calculation of the charge is based is reviewed annually. Any additional costs arising from a change in this estimate will be amortised and spread in equal annual instalments over the remaining life of the lease.

The operating lease commitment due within one year in respect of the period prior to prepayment of the secondary lease is £2,000,000 (1998: £2,000,000).

(b) Leasing commitments

At 31 March 1999 the Group had commitments under non-cancellable operating leases to pay the following amounts in the year to 31 March 2000:

	1998		*1999*	
	Land and Buildings £'000	*Other £'000*	*Land and Buildings £'000*	*Other £'000*
Expiring within one year	12	39	7	47
Expiring between two and five years	33	81	42	297
Expiring in five years or more	480	—	770	—
	525	120	819	344

28. Contingent liabilities

In addition to the disclosure in note 14, the Company has provided guarantees in respect of subsidiary company borrowings amounting to £9,800,000 at 31 March 1999 (1998: £6,900,000).

29. Pension commitments

The Group operates a defined contribution pension scheme for directors and certain employees. The assets of the pension scheme are administered by trustees in a fund independent from those of the Group. No contributions were payable to the fund at the year end. The pension charge for the year ended 31 March 1999 was £144,000 (1998: £112,000) (1997: £107,000).

PART VI

Pro forma statement of net assets of the Enlarged Group

The unaudited pro forma statement of net assets of the Enlarged Group following the proposed Acquisition has been prepared for illustrative purposes only to show the effect of the Acquisition as if Completion had taken place on 30 September 1999, the strategic partnership with Marconi and the issue of notes and warrants in February 2000. The pro forma statement of net assets of the Enlarged Group, *because of its nature, may not give a true picture of the financial position of the Enlarged Group. It is based* on the unaudited pro forma statement of net assets as at 30 September 1999, without adjustment, included in Part VII of the circular issued on 16 November 1999, Strategic Partnership with Marconi and Placing and Open Offer, and further adjusted as referred to in the notes below.

	Unadjusted Information (note 1) £'000	*Adjustment (note 2) £'000*	*Adjustment (note 3) £'000*	*Adjustment (note 4) £'000*	*Adjustment (note 5) £'000*	*Pro forma net assets £'000*
Fixed assets						
Intangible assets	3,645	—	—	—	519,585	523,230
Tangible assets	117,894	—	—	14,082	—	131,976
	121,539	—	—	14,082	519,585	655,206
Current assets						
Stocks	5,528	—	—	—	—	5,528
Debtors: amounts falling due after more than one year	9,518	—	—	—	—	9,518
Debtors: amounts falling due within one year	12,268	—	—	9,692	—	21,960
Cash at bank	125,079	10,360	139,304	34,413	(7,600)	301,556
Restricted investments	—	—	48,619	—	—	48,619
	152,393	10,360	187,923	44,105	(7,600)	387,181
Creditors: amounts falling due within one year	(27,350)	—	—	(50,172)	—	(77,522)
Net current (liabilities)/assets	125,043	10,360	187,923	(6,067)	(7,600)	309,659
Total assets less current liabilities	246,582	10,360	187,923	8,015	511,985	964,865
Creditors: amounts falling due after more than one year	(15,498)	—	(177,233)	—	—	(192,731)
	231,084	10,360	10,690	8,015	511,985	772,134

Notes

1. The unadjusted information is extracted without material adjustment from the unaudited pro forma statement of net assets as at 30 September 1999 included in the Atlantic circular dated 16 November 1999.
2. This adjustment represents the take up of Marconi's right to subscribe for an additional 2,354,561 Atlantic Shares for a consideration of approximately £10.4 million, which was exercised on 9 December 1999.
3. This adjustment has been made to reflect the cash proceeds of approximately £187.9 million, net of estimated expenses of *£8.2 million, from the issue on 3 February 2000 of Euro and Sterling units consisting of notes and warrants.*

   £10,690,000 of the gross cash proceeds from the issue is recognised in accordance with FRS 4 as attributable to the warrants and is recognised in reserves.

   The restricted investments of £48,619,000 comprise government securities which will be held by trustees to make the first four scheduled interest payments on the notes.
4. This adjustment includes the net assets of First Telecom which are based on the net assets at 31 December 1999 extracted from the Accountants Report as set out in Part IV of this document.
5. *This adjustment reflects the goodwill created on the acquisition based on the closing price of an Ordinary Share on 26 April 2000* of 765p and the cash effect of the expenses in relation to the transaction (£7.6 million).

	£'000
Fair value of consideration for shares	520,000
Expenses of transaction	7,600
Net assets of First Telecom at 31 December 1999	(8,015)
Goodwill	*519,585*

   No adjustment has been made to reflect the PAYE element on share options which may be satisfied by the Company in consideration of the surrender of such number of First Telecom Share Options of an equivalent value.
6. No adjustment has been made to take into account the results of either the Group or First Telecom since 30 September 1999 and 31 December 1999 respectively or to reflect the fair values of the assets of First Telecom.

The Directors and Proposed Directors
Atlantic Telecom Group PLC
Holburn House
475-485 Union Street
Aberdeen
AB11 1QR

Grant Thornton

Grant Thornton
Grant Thornton House
Melton Street
London NW1 2EP

The Directors
Close Brothers Corporate Finance Limited
10 Crown Place
Clifton Street
London
EC2A 4FT

22 May 2000

Dear Sirs

ATLANTIC TELECOM GROUP PLC ("THE COMPANY")

We report on the pro forma statement of net assets of the Enlarged Group (defined as the Company, together with its present subsidiaries, as enlarged by the Acquisition, which in turn is defined in the listing particulars dated 22 May 2000 (the "Listing Particulars")) set out in Part VI of the Listing Particulars, which has been prepared, for illustrative purposes only, to provide information about how the Acquisition, the strategic partnership with Marconi and the issue of notes and warrants in February 2000 might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the Directors and Proposed Directors of the Company to prepare the pro forma financial information in accordance with paragraph 12.29 of the Listing Rules of the UK Listing Authority.

It is our responsibility to form an opinion, as required by the Listing Rules of the UK Listing Authority, on the pro forma statement of net assets of the Enlarged Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom the reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma statement of net assets with the directors of the Company.

Opinion

In our opinion:

(i) the pro forma statement of net assets has been properly compiled on the basis stated;

(ii) such basis is consistent with the accounting polices of the Company; and

(iii) the adjustments are appropriate for the purposes of the pro forma statement of net assets as disclosed pursuant to paragraph 12.29 of the Listing Rules of the UK Listing Authority.

Yours faithfully

GRANT THORNTON

PART VII

Additional Information

1. Responsibility

The Directors and Proposed Directors, whose names appear below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and Proposed Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Directors

The Directors of the Company are:

Graham John Duncan, aged 49, qualified as a chartered accountant in 1975 and is Executive Chairman and founder of the Group. He was co-founder of Aberdeen Cable Services Limited in 1983 and in 1984 he joined that company and was its Finance Director from 1984 to 1986 and Managing Director from 1986 to 1988. In 1991 he set up Devanha Group plc, of which he was Chairman. In January 1995 Devanha Group plc reversed into Worth Investment Trust plc which in 1998 was renamed Atlantic Telecom Group PLC. He has been Executive Chairman of Atlantic since 10 January 1995. Mr Duncan is responsible for overall strategy and development.

Gordon Bruce Sleigh, aged 52, is Group Managing Director. Mr Sleigh worked in the cable industry for over 25 years with early experience in narrowband systems with Rediffusion Consumer Electronics Limited. He joined Aberdeen Cable Services Limited in 1984 and was appointed Sales and Marketing Director of Aberdeen Cable in 1988. Mr Sleigh was appointed Group Managing Director of Devanha Group plc in September 1991 and was appointed to the Board of Atlantic on 10 January 1995. He is responsible for the overall running of the various companies that comprise Atlantic Telecom Group PLC.

Alisdair Douglas McKenzie, aged 38, is Group Finance Director. Mr McKenzie qualified as a chartered accountant in 1985. In 1988 he joined Aberdeen Cable Services Limited as Finance Manager. In 1990 he was appointed Commercial Manager of Aberdeen Cable with responsibility for finance. In September 1991 he was appointed Group Finance Director of Devanha Group plc and was appointed to the Board of Atlantic on 10 January 1995.

Martin Leslie Beard, aged 37, is Group Marketing and Commercial Director. Mr Beard has worked in sales and marketing areas of the cable and telecommunications industry since 1985. He joined Coventry Cable Limited (then owned by the Group) as General Manager in January 1992 and was appointed to the Board of Atlantic on 10 January 1995. Mr Beard is responsible for overseeing the Group's sales and marketing activities.

Edward Joseph Hornsby, aged 53, is Group Technical Director. Mr Hornsby was one of the founders of Atlantic Telecommunications Limited, and has worked in the telecommunications industry for many years both in the UK and overseas. Mr Hornsby was appointed to the Board of Atlantic in August 1996. Mr Hornsby is responsible for the technical activities of the Group.

Nicholas Berry, aged 57, is a non executive director of Atlantic. Mr Berry is an investor and publisher. He was appointed to the Board of Atlantic on 10 January 1995. Mr Berry and his family control Stancroft Trust Limited, which together with its associates, is a significant shareholder in a number of public and private companies.

Andrew Arthur Laing, aged 47, is a non executive director of Atlantic. Mr Laing is Managing Director of Aberdeen Asset Management PLC, a listed investment management company based in Aberdeen. He was appointed to the Board of Atlantic on 10 January 1995.

The business address for all of the Directors is Holburn House, 475-485 Union Street, Aberdeen AB11 6DB the head office of the Company.

The Proposed Directors are:

Mark William Daeche, aged 36, is to be Special Projects Director of Atlantic. Mr Daeche was a co-founder of First Telecom and has spent his career in software design and in the development of advanced telecommunications billing and database software. He was Managing Director of the European division of Fox Software International Inc. from 1989 to 1992 and was responsible for sales, marketing and support within Europe, the Middle East and Africa. He formed Xitech Inc., a software consultancy company with offices in the United States, the United Kingdom and the Czech Republic in 1992. Xitech developed billing and database software for telecommunications clients.

Paul Jude Salem, aged 36, is to be a non-executive director of Atlantic and is currently a Managing Director of Providence Equity Partners Inc. and the head of its European office in London. Providence Equity Partners Inc. is a private equity investment fund specialising in telecommunications and media investments. Mr Salem has been responsible for many of Providence's investment activities, including its investments in competitive local exchange carriers, Internet Service Providers, enhanced specialised mobile radio, telecommunications infrastructure and wireless. He is currently a director of AT&T Canada Inc, Mpower Communications Inc, Tele 1 Europe Holding AB and Verio Inc.

The business address for the Proposed Directors is One Harbour Exchange Square, London E14 9GB.

The names of all companies or partnerships (other than subsidiaries of the Company or of any of the companies listed below) of which the Directors and Proposed Directors are, or have been directors or partners within the five years preceding the date of this document are as follows:

Name	*Existing Directorships or Partnerships*	*Former Directorships or Partnerships in the five years ending on the date of this document*
Nicholas William Berry	Blackwells Limited Cornwood Limited European Magazines Limited Fleming Asian Investment Trust plc Fleming Mercantile Investment Trust plc GMIS Limited IG Index plc IIS Limited IIS Mintel Limited Mintel International Group Limited Mintel Publications Limited RE Pilkington Limited Silverdart Limited St Jean Enterprises Limited Stancroft Capital Limited Stancroft Trust Limited Stanford Investment Trust Limited Stowe School Limited The 140 Investment Managers Limited The 140 Trustee Company The 140 Unit Trust Managers Limited The Foundation for the Encouragement of Constructive Thinking Yeoman II Investment Trust plc Fortress Holdings PLC The Last Pharoah Productions Limited Mickelway Limited	Barlows plc Bartree Developments Limited Dawnmaker Limited Fortress Trust Limited Helicon Publishing Limited Java Investment Loan Agency Limited Ledburn Properties Limited Midmite Limited Prospect Investment Trust plc Stancroft Born Limited Stancroft Investments Limited Stancroft Securities Limited Stancroft Trust Property Holdings Limited Yeoman Investment Trust plc Fleming Far Eastern Investment Trust PLC The Fortress Trust PLC Barlow Avenue Limited Barlows (Property Services) Limited
Martin Leslie Beard	—	Comtel Coventry Limited
Andrew Arthur Laing	Aberdeen Asset Management plc Aberdeen Asset Managers Limited Aberdeen Development Capital plc Aberdeen International Assurance (Isle of Man) Limited Aberdeen International Limited Aberdeen International Management Ireland Limited Aberdeen New Thai Investment Trust plc Aberdeen Unit Trust Management Limited AFM Nominees Limited Oakbridge Corporation Phoenix - Aberdeen International Advisers LLC Pointon York Nominees Limited Radiotrust plc	CGA Accountancy Limited APFM Wind Up Limited CGA Nominees Limited Prolific Financial Management Services Limited Prosperity (Nominees) Limited Richards Longstaff (Nominees) Limited Prosperity Investment Management Limited Prosperity Trust Management Limited Arthur House (No. 9) Limited Prolific Unit Trust Nominees Limited AM Wind Up Limited Burnbeck Holdings SA Abtrust Accumulator plc PFM Developments Limited Aberdeen High Income Trust plc

Name	Existing Directorships or Partnerships	Former Directorships or Partnerships in the five years ending on the date of this document
	Rossbray Limited Tenon Nominees Limited	CGA Trustee & Executor Company Limited UTM Wind-Up Limited Prolific Technology Limited Arthur House (No. 10) PLC Caledonian Rented Homes (Scotland) Limited Arthur House Management Limited UTM Wind Up II Limited
Alisdair Douglas McKenzie	—	Comtel Coventry Limited Broadcast Satellite Television Limited Multi-channel Television (49) Limited Chatham Cablevision Limited Salford Cable Television Limited Multi-channel Television (15) Limited Gwent Cable Vision Limited Herne Bay Cable Television Limited Cablevision (Kent) Limited Faversham Cable Television Limited Sittingbourne Cablevision Limited Medway Cablevision Limited
Graham John Duncan	Duncan Ventures Limited Paul Parsons Racing Limited Framlington Netnet.inc PLC	Coast to Coast Radio Limited Comtel Coventry Limited Broadcast Satellite Television Limited The Cable Communications Association Limited Multi-channel Television (49) Limited Chatham Cablevision Limited Salford Cable Television Limited Multi-Channel Television (15) Limited Gwent Cable Vision Limited Herne Bay Cable Television Limited Cablevision (Kent) Limited Faversham Cable Television Limited Sittingbourne Cablevision Limited Medway Cablevision Limited
Edward Joseph Hornsby	—	—
Gordon Bruce Sleigh	—	Comtel Coventry Limited Broadcast Satellite Television Limited Multi-Channel Television (49) Limited Chatham Cablevision Limited Salford Cable Television Limited Multi-Channel Television (15) Limited Gwent Cable Vision Limited Herne Bay Cable Television Limited Cablevision (Kent) Limited Faversham Cable Television Limited Sittingbourne Cablevision Limited Medway Cablevision Limited DBS Communications Limited
Mark William Daeche	—	—
Paul Jude Salem	Providence Equity Partners Limited Thinkventures.Com Limited AT&T Canada Inc. Mpower Communications Inc. Tele 1 Europe Holding AB Verio, Inc	NC Holding Limited Netcom Internet Limited

None of the Directors or Proposed Directors:

(a) has any unspent convictions in relation to indictable offences; or

(b) has been adjudged bankrupt or been a party to a deed of arrangement or any form of voluntary arrangement; or

(c) has been a director with an executive function of any company which, whilst he was such a director or within 12 months after his ceasing to be such a director, was put into compulsory liquidation or creditors voluntary liquidation or had an administrator or administrative or other receiver appointed or entered into any composition or arrangement with its creditors generally or any class of creditors; or

(d) has been a partner in any partnership, which, whilst he was a partner, or within 12 months after his ceasing to be a partner, was put into compulsory liquidation or had an administrator or an administrative or other receiver appointed or entered into any voluntary arrangement; or

(e) has had an administrative or other receiver appointed in respect of any asset belonging to him or to a partnership of which he was a partner at the time of such appointment or within the 12 months preceding such appointment; or

(f) has received any public criticisms by statutory or regulatory authorities (including recognised professional bodies) and have not been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

3. Incorporation and status of the Company

The Company was incorporated as a limited company in Scotland on 4 July 1938 under the Companies Act 1929 with registered number 20509. It was re-registered as a public limited company on 23 June 1981 under the Companies Acts 1948 to 1980 and now operates under the Act. The Company's name on re-registration was Worth Investment Trust PLC. Following the reverse takeover of the Company by Devanha Group plc, the Company changed its name to Caledonian Media Communications PLC on 10 January 1995. The Company changed its name to Atlantic Telecom Group PLC on 13 August 1996.

4. Memorandum and articles of association

4.1 The memorandum of association of the Company states its principal objects to be carrying on the business of a holding company to construct, acquire and operate cable television and cable telephone systems, to act as a media company, a telecommunications company and as a general commercial company. The objects of the Company are set out in full in Clause IV of its memorandum of association, which is available for inspection at the address specified in paragraph 17 below.

4.2 The Articles, which are available for inspection at the address specified in paragraph 17 below, contain, inter alia, provisions to the following effect:

(a) Voting

Subject to any rights or restrictions attached to any class of shares, on a show of hands every member who is present in person (which expression includes a person present as a duly authorised representative of a corporate member) shall have one vote and on a poll, every member present as aforesaid or represented by proxy shall have one vote for each share of which he is the holder.

No member shall be entitled to be present or to vote at any meeting or exercise any other right if any call or other sum presently payable by him to the Company in respect of any shares in the capital of the Company remains unpaid.

(b) Restriction on shares

If a member, or any other person appearing to be interested in shares held by such member, has been duly served with a notice ("Statutory Notice") pursuant to section 212 of the Act and is in default for the prescribed period (as defined below) in supplying to the Company the information required, then the Directors may in their absolute discretion at any time thereafter, by notice ("Direction Notice") to such member or any such person, direct that, in respect of the shares in relation to which the default occurred and any other shares held by the member in question ("Default Shares"), the member shall not (nor shall any transferee to which any of the shares are transferred other than pursuant to an approved transfer as defined in the Articles) be entitled to be present or to vote at any general meeting or class meeting of the Company.

Where the Default Shares represent at least one quarter of one per cent. of the issued shares of the class concerned, the Direction Notice may additionally direct that until the Statutory Notice has been complied with in all respects:

(i) any cash dividend or other money or money's worth which would otherwise be payable in respect of the Default Shares shall be retained by the Company without liability to pay interest thereon when monies are finally paid to the member (although any dividend so retained shall be paid immediately following receipt of the information requested in the Statutory Notice); and

(ii) no transfer, other than an approved transfer as defined in the Articles, of any of the shares held by the member, shall be registered unless the member is not himself in default in supplying the information requested and the transfer is of part only of the member's holding and, when presented for registration, is accompanied by a certificate given by the member in a form satisfactory to the Board to the effect that after due and careful enquiry the member is satisfied that no person in default is interested in any shares which are the subject of the transfer.

The prescribed period referred to above means 14 days from the date of service of the Statutory Notice. Any Direction Notice shall have effect in accordance with its terms until seven days after the earlier of:

(i) receipt by the Company of notice that the Default Shares have been transferred by such member by means of an approved transfer as defined in the Articles; and

(ii) due compliance, to the satisfaction of the Board, with the Statutory Notice.

If, while any of the restrictions apply to a Default Share, another share is allotted in place of it the same restrictions shall apply to that share as if it were a Default Share.

(c) Transfer of shares

The Ordinary Shares are eligible for trading in CREST, a paperless settlement system enabling securities to be evidenced in uncertificated form and transferred otherwise than by a written instrument. Any holder of certificated shares may transfer all or any of his shares by an instrument of transfer in writing in any usual or any other form which the Directors may approve and shall be executed by or on behalf of the transferor and shall be deemed to remain the holder of the share until the transferee's name is entered in the register of members in respect of the share.

The Directors may, in their absolute discretion and without giving any reason, refuse to register the transfer of a share which is not fully paid unless any such share is listed on the London Stock Exchange. The Directors may likewise refuse to register any allotment or transfer of a share, whether fully paid or not, in favour of more than four persons jointly. The Directors may decline to register a transfer of certificated shares unless the instrument of transfer is in respect of one class of share only, is lodged with the Company and is accompanied by the share certificate(s) representing the shares in question, and (if applicable) the instrument is duly stamped. If the Directors refuse to register a transfer or an allotment, they shall within two months after the date on which the instrument of transfer or letter of allotment was lodged with the Company send to the transferee or allottee notice of the refusal.

Pursuant to the Articles, the Board may decline to register a transfer of the Company's shares or any warrant if any share or warrant may be acquired by persons whose holding of any such share (whether directly or indirectly) might or could be prejudicial to the prospects of any member of the Group (i) being granted any licence (being defined in the Articles as a Cable Licence and/or Telecommunications Licence and any other licence granted by any regulatory authority which has power to regulate the telecommunications, media and satellite business of the Company), or of obtaining any further such licence, (ii) being granted any such licence extension or renewal; or (iii) continuing to hold any such licence. The Board may also refuse to register any transfer of any share where any such acquisition may give rise to or cause a variation to be made to any such licence. In addition, the Board may also request any information from a shareholder where it appears that such holding of a share (whether directly or indirectly) might or could prejudice the prospects of any member of the Group from doing the matters stipulated in (i), (ii), or (iii) above, or cause a variation to be made to such licence in like manner. As set out in the Articles, if the Board, subsequent to the request for such information and its provision to the ITC or any other relevant authority, determines that the interest in shares is or may be prejudicial to the continued holding of a Telecommunications Licence or Cable Television Licence (both as defined in the Articles), or to the grant, renewal or extension of any such licence, the Directors may require a disposal of such shareholding in accordance with the Articles. Where the Directors require such a disposal, the shares required to be disposed of shall be disenfranchised. Further, prior to the service of such a disposal notice, the Directors may remove the right to vote where a shareholder has failed to comply with a request for information to enable the Directors to decide whether any of the Group's existing Telecommunications or Cable Licences (or any which are to be applied for, renewed or extended) may be prejudiced by the holding of that share or warrant or where the Board has given notice that such a prejudicial situation exists in relation to any of its shares. Where the Ordinary Shares are held in uncertificated form the Directors may refuse to register the transfer only if such transfer is not in accordance with the regulations relating to CREST or the transfer is in favour of more than four transferees.

No fee shall be charged by the Company on the registration of any instrument of transfer or any document relating to or affecting the title to any shares or otherwise for making an entry into the register of members.

The registration of transfers may be suspended at such times and for such periods (not exceeding 30 days in any calendar year) as the Directors may determine.

(d) Dividends

Subject to the provisions of the Statutes, the Company may, by ordinary resolution, declare dividends, but no dividend shall exceed the amount recommended by the Directors. Interim dividends may be paid if profits available for distribution justify such payment and if the Directors so resolve. Subject to the rights attached to shares, all dividends shall be declared and paid according to the amount paid up on the shares in respect of which the dividend is paid. No dividends payable in respect of any share shall bear interest unless otherwise provided by the rights attached to any share. The Directors may, with the prior sanction of an ordinary resolution of the Company, offer the holders of shares the right to elect to receive additional shares of the same class credited as fully paid in lieu of receiving the net cash amount due to them in respect of such dividend. All dividends (and other sums payable by the Company) unclaimed for one year after having been declared (or become payable) may be invested or otherwise made use of for the benefit of the Company until claimed. If on two consecutive occasions cheques, warrants or orders in payment of dividends (or other monies payable in respect of a share) have been returned as undelivered or left uncashed, the Company need not thereafter despatch such further cheques, warrants or orders until the person entitled to receive them has supplied the Company with an address for the purpose of receiving the same.

(e) Unclaimed dividends

Any dividend unclaimed for 12 years after the date such dividend became due or payable shall be forfeited and shall revert to the Company.

(f) Return of capital

On a winding up of the Company, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Statutes, divide amongst the members in specie or in kind the whole or any part of the assets of the Company and may set such value as he deems fair upon any property to be divided and may determine how such divisions shall be carried out as between members or different classes of members.

(g) Variation of rights and alteration of capital

If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class may be modified, abrogated or varied with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting, the provisions of the Act and the Articles relating to general meetings shall apply *mutatis mutandis*, but the necessary quorum at any such meeting, other than an adjourned meeting, shall be two persons, present in person or by proxy or a duly authorised representative of a corporate member, holding or representing by proxy at least one third in nominal value of the issued shares of the class in question and any holder of shares of the class in question, present in person or by proxy, may demand a poll and on a poll every such holder shall have one vote for every share of that class held by him. At an adjourned meeting, any holder of shares of the class present in person or by proxy or a duly authorised representative of a corporate member shall be a quorum.

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, sub-divide all or any of its share capital into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person.

The Company may by such resolution as is required by the Act and every other statute (including any orders, resolutions or other subordinate legislation made under it or them) for the time being in force relating to companies and affecting the Company ("Statutes") purchase all or any of its own shares or reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner with, and subject to, any incident, authorisation or consent required by law.

(h) Directors

Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than four and not more than twelve.

For so long as Marconi and its Affiliates hold not less than 10 per cent. of the issued Ordinary Shares, Marconi shall have the right to appoint one person as a director and to remove and replace any director appointed by Marconi.

The Directors (other than directors holding an executive office of, or employed under a contract of service by, the Company or any of its subsidiaries) shall be paid out of the funds of the Company, by way of fees for their services as directors, such sums as the Board determines. The Directors may also be paid all reasonable expenses incurred by them in attending and returning from meetings of the Board or a committee of the Board or general meetings of the Company or any separate meeting of the holders of any class of shares or other securities of the Company. Any Director who holds any executive office or who serves on any committee or who devotes special attention to the business of the Company or who otherwise performs services which in the opinion of the Board, are outside the scope of the ordinary duties of a director may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Board may determine.

The Board may from time to time appoint one or more of their number to hold such executive office in relation to the management of the Company's business on such terms and for such period as the Board may determine and may revoke or vary such appointment (subject to the terms of any service contract).

There shall be no share qualification required of any Director, but section 293 of the Act (which regulates the appointment and continuation in office of directors who have attained the age of 70) shall apply to the Company.

Each Director may at any time, by notice in writing deposited at the registered office of the Company, appoint any person to be his alternate and may in like manner at any time terminate such appointment. If such alternate is not another Director, such appointment, unless previously approved by the Directors, shall have effect only upon and subject to being so approved. An alternate Director shall not be entitled as such to receive remuneration from the Company, but shall otherwise be subject to the provisions of the Articles relating to Directors (except that he shall not be counted in reckoning the permitted minimum or maximum number of Directors).

Subject to the provisions of the Statutes, a Director may be a party to or in any way interested in any contract, arrangement, transaction or proposal to which the Company is party or in which the Company is in any way interested and he may hold and be remunerated (in addition to any other remuneration provided for by, or payable pursuant to, the Articles) in respect of any other office or place of profit (other than the office of auditor of the Company or any of its subsidiaries) which the Company or its subsidiaries and he (or any firm in which he is a member) may act in a professional capacity for the Company or any of its subsidiaries and be remunerated therefor (in addition to any other remuneration provided for, or payable pursuant to, the Articles). Subject to the provisions of the Statutes, no such contract, arrangement, transaction or proposal entered into by or on behalf of the Company, in which any Director or person connected with him is in any way interested, whether directly or indirectly, shall be liable to be avoided, nor shall any Director who enters into any such contract, arrangement, transaction or proposal or who is so interested, be liable to account to the

Company for any profit realised by any such contract, arrangement, transaction or proposal by reason of such Director holding that office or of the fiduciary relationship thereby established, provided that such Director shall declare the nature of his interest in accordance with the Statutes.

Save as provided in the Articles, a Director shall not vote on, or be counted in a quorum at a meeting in relation to any resolution concerning any contract, arrangement, transaction or proposal in which he has an interest which (together with any interest of any person connected with the Director within the meaning of section 346 of the Act) is a material interest (other than by virtue of his interest in shares, debentures or other securities of the Company). This prohibition will not apply, and a Director is entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following:

(i) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiaries;

(ii) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility, in whole or in part, under a guarantee or an indemnity or by the giving of security;

(iii) any contract, arrangement, transaction or proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or may be entitled to participate as a holder of securities or as a participant in the underwriting or sub-underwriting thereof;

(iv) any contract, arrangement, transaction or proposal concerning any other company in which he does not hold an interest in shares (as that term is used in Part IV of the Act) representing one per cent. or more of either any class of the equity share capital or of the voting rights available to members of the relevant company;

(v) any contract, arrangement, transaction or proposal concerning or relating to a pension superannuation or similar scheme on retirement, death or disability benefits scheme or employees' share scheme which has been approved by the Inland Revenue or is conditional on such approval or does not award him any privilege or benefit not awarded to the employees to whom such scheme relates; and

(vi) any proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of directors or for the benefit of persons including the directors.

A Director shall not vote on, or be counted in the quorum in respect of, any resolution concerning his own appointment (including fixing or varying the terms, or the termination, thereof) as the holder of any office or place of profit with the Company or with any company in which the Company is interested.

Unless otherwise determined, two Directors shall constitute a quorum. Questions arising at any meeting of the Board shall be decided by a majority of votes, and in the case of an equality of votes, the Chairman of the Board shall have a second or casting vote.

The Board may delegate any of its powers (with power to sub-delegate) to committees consisting of such member or members of the Board as it thinks fit and may revoke or vary any such delegation.

The Directors may exercise all the powers of the Company to provide or pay pensions, annuities, gratuities and superannuation or other allowances or benefits to Directors or ex-directors or any person who is or has been employed by or in the service of the Company or any of its subsidiaries (whether past or present) or any holding company of the Company or of any company which is allied or associated with the Company and to the wives, widows, children or other relatives or dependants of such persons and may establish, maintain, support or subscribe to all kinds of schemes, trusts and funds (whether contributory or non-contributory) for the benefit of all such persons.

At every Annual General Meeting of the Company one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office. A Director retiring at a meeting shall retain office until the dissolution of such meeting.

(i) Borrowing Powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (both present and future) and uncalled capital, or any part thereof, and subject to the provisions of the Statutes and the Articles, to issue debentures, debenture stock and other securities, whether outright or as security for any debt, liability or obligation of the Company or of any third party. The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries (if any) so as to secure (so far, as regards subsidiaries, as by such exercise they can secure) that the aggregate principal amount for the time being remaining undischarged of all monies borrowed by the Company and its subsidiaries for the time being (exclusive of borrowings between the Company and any of its subsidiaries or between such subsidiaries) together with any fixed or minimum premium payable thereon on final redemption or repayment thereof after deducting the amount of cash deposited shall not, at the time of the borrowing, without the previous sanction of an ordinary resolution of the Company in general meeting, exceed a sum equal to the greater of £400 million and a sum equal to four times the Adjusted Total of Capital and Reserves (as defined in the Articles) provided that to the extent that any excess has been caused by currency changes, there shall be no breach under this Article until the expiry of six months from the time when such excess came to the notice of the Board. The estimated net present value of the network operating leases is to be added to the Adjusted Total of Capital and Reserves.

The Articles make provision for certain liabilities and other amounts to be included in or excluded from the definition of "monies borrowed" for the computation of monies borrowed and for the computation of the Adjusted Total of Capital and Reserves. The Articles provide that the borrowing limit shall not be deemed to be breached until the expiry of six months from the time when the excess of monies borrowed came to the notice of the Directors.

5. Share capital

5.1 The authorised and issued and fully paid up share capital of the Company as at 19 May 2000 (being the latest practicable date prior to the publication of this document) is set out in the table below:

Ordinary Shares	*Authorised*	*Issued and fully paid up*
Nominal value	£51,463,196	£38,430,294
Number	205,852,784	153,721,177

5.2 The authorised and issued and fully paid up share capital of the Company as it will be following the Offers being declared unconditional in all respects is set out in the table below, assuming that there are no further issues of share capital other than pursuant to the Offers.

Ordinary Shares	*Authorised*	*Issued and fully paid up*
Nominal value	£76,261,416	£55,423,758
Number	305,045,664	221,695,033

5.3 During the three years preceding the date of this document there have been the following changes in the issued share capital of the Company:

(a) On 13 July 1998, and 17 July 1998 respectively 665,219 Ordinary Shares and 12,919 Ordinary Shares were issued pursuant to the exercise of the warrants to subscribe for Ordinary Shares at 160p per share (as adjusted), issued on 10 January 1995, all of which have now been exercised.

(b) On 11 August 1998, 33,333,333 Ordinary Shares were issued at a price of £1.50 per share in connection with a placing more fully described in the listing particulars of the Company dated 16 July 1998 which are available for inspection as set out in paragraph 17 of this Part VII.

(c) On 1 March 1999, 12 March 1999 and 16 March 1999 respectively 4,200 Ordinary Shares, 3,900 Ordinary Shares and 4,000 Ordinary Shares were issued pursuant to the exercise of options under the Share Option Scheme.

(d) On 7 May 1999, 29 July 1999 and 3 August 1999 respectively 17,826, 4,750 and 3,500 Ordinary Shares were issued pursuant to the exercise of options under the Share Option Scheme.

(e) On 30 August 1999, 18 October 1999 and 22 October 1999 respectively 609,896 Ordinary Shares, 4,386,270 Ordinary Shares and 41,076 Ordinary Shares were issued pursuant to the exercise of warrants.

(f) On 10 December 1999 22,416,170 Ordinary Shares were issued at a price of 440p in connection with a placing and open offer and on the same date 41,454,561 Ordinary Shares were issued to Marconi in connection with its strategic partnership with Atlantic and the details of both the placing and open offer and the Marconi strategic partnership are more particularly described in the Listing Particulars dated 16 November 1999 which are available for inspection as set out in paragraph 16 of this Part VII.

(g) On 18 November 1999, 7 February 2000 and 28 February 2000 respectively 57,597 Ordinary Shares, 127,173 Ordinary Shares and 995 Ordinary Shares were issued pursuant to the exercise of options under the Share Option Scheme.

5.4 An Extraordinary General Meeting of the Company will be held at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA at 12 noon on 7 June 2000 at which the Resolutions will be proposed conditional upon Admission becoming effective:

(a) to approve the acquisition of the entire issued and to be issued share capital of, and warrants in the capital of First Telecom by way of the Offers;

(b) to increase the authorised share capital of the Company by approximately 48.19 per cent. from £51,463,196 to £76,261,416 by the creation of an additional 99,192,880 Ordinary Shares;

(c) to authorise the Directors for the purposes of section 80 of the Act to allot relevant securities (as defined in section 80(2) of the Act) to such persons, at such times and on such terms as the Directors might determine, up to an aggregate nominal amount of £36,058,818, during the period commencing on the date of the passing of the Resolutions and expiring on the fifth anniversary thereof, such authority supplementing the previous authority conferred at the Extraordinary General Meeting of the Company on 9 December 1999. Following Completion the Company will have £19,065,354 in nominal value of authorised but unissued Ordinary Share capital which the Directors are authorised to issue. These Ordinary Shares will represent approximately one third of the Company's enlarged issued Ordinary Share capital following Completion.

5.5 Apart from the Directors' intentions in connection with the Offers, the exercise of options under the Share Option Scheme and the exercise of the Warrants pursuant to the Warrant Agreements described in paragraph 9.1(b) of Part VII of this document, the Directors have no present intention to issue any of the authorised but unissued shares and no issue will be made which would effectively alter control of the Company without the prior approval of the Shareholders in general meeting.

5.6 The provisions of section 89(1) of the Act confer on the holders of Ordinary Shares rights of pre-emption in respect of the allotment of equity securities (as defined in section 94 (2) of the Act) which are, or are to be, paid up in cash.

5.7 No unissued share of the Company or its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option save under the terms of the Share Option Scheme, which are summarised in paragraph 10 below.

5.8 Save as disclosed in this paragraph 5, the Company has not issued any share capital and none of its subsidiaries has issued any share capital which is material within the three years preceding the publication of this document.

5.9 So far as the Directors are aware, there are no persons who, directly or indirectly, jointly or severally, exercise control over the Company.

6. Directors' and other interests

6.1 The interests of the Directors all of which are beneficial, in the Ordinary Shares as at 19 May 2000 (being the latest practicable date prior to the publication of this document) which have been notified by each Director to the Company pursuant to sections 324 or 328 of the Act and required pursuant to section 325 of that Act to be entered in the register referred to therein, or are interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed, and the existence of which is known to or could with reasonable diligence be ascertained by that Director, are as follows:

	Immediately prior to the date of this document		*Following the implementation of the Proposals*	
	Number of Ordinary Shares	*Percentage of issued share capital*	*Number of Ordinary Shares*	*Percentage of issued share capital*
Graham J Duncan	8,000,999	5.2%	8,000,999	3.6%
Gordon B Sleigh	407,337	0.3%	407,337	0.2%
Alisdair D McKenzie	2,500	—	2,500	—
Martin L Beard	3,750	—	3,750	—
Edward J Hornsby	227,584	0.1%	227,584	0.1%
Nicholas Berry	2,303,267	1.5%	2,303,267	1.0%
Andrew A Laing	6,250	—	6,250	—

6.2 In addition, under the Share Option Scheme, certain Directors have outstanding options, which were granted for nil consideration to subscribe for the following Ordinary Shares:

	First Series			*Second Series**		
Name	*Number of Ordinary Shares*	*Date of grant*	*Exercise price per Ordinary Share*	*Number of Ordinary Shares*	*Date of grant*	*Exercise price per Ordinary Share*
Gordon B Sleigh	—	—	—	108,253	28/02/97	154½p
Alisdair D McKenzie	95,652	30/03/95	115p	84,143	28/02/97	154½p
Martin L Beard	86,956	30/03/95	115p	90,615	28/02/97	154½p
Edward J Hornsby	86,956	30/03/95	115p	90,615	28/02/97	154½p

* The grants under the Second Series were made in breach of the limits set out in the Finance Act 1996, including all of the grants set out above. The Inland Revenue is aware of the position and it has been confirmed that these options are unapproved share options.

First Series Options are exercisable at any time between 30 March 1998 and 29 March 2005 at the holder's option provided the market price of the Ordinary Shares, at the date the option is exercised, exceeds 135p per share. Second Series Options are exercisable at any time between 28 February 2000 and 3 February 2007 provided the Company has published annual accounts disclosing EBITDA of at least £2 million.

6.3 Save as disclosed above, no beneficial or non-beneficial interest, direct or indirect, in Ordinary Shares of any Director or any member of his immediate family or person connected with him within the meaning of section 346 of the Act has been notified by each Director to the Company under section 324 or section 328 of the Act or entered in the register maintained under section 325 of the Act.

Further there are no interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed under sections 324 or 328 of the Act or are required pursuant to section 325 to be entered in the register referred to therein.

6.4 The Company has entered into the following service contracts (which are available for inspection at the address specified in paragraph 17 below):

(a) Graham J Duncan's service contract is dated 19 February 1998 and is for a period to 8 January 1999 and thereafter until terminated by either party giving the other party not less than one year's notice expiring on or at any time after the end of the said period. In any event his appointment shall terminate when he reaches 65 years of age which is the normal retirement age. He receives a basic salary of £217,350 per annum which shall be reviewed on 1 February 2001 and annually thereafter and is inclusive of any other remuneration from the Company or any other member of the Group. He also receives further benefits by way of the Company contributing to a non-contributory pension scheme, life cover of four times his basic salary, private medical insurance, permanent health insurance and fully expensed company car (including private mileage) or a monthly payment in lieu thereof. He is entitled to reimbursement for expenses incurred in carrying out his obligations to the Company or any member of the Group and is also entitled to relocation expenses if he is required to change his residence by the Company.

(b) Gordon B Sleigh's service contract is dated 19 February 1998 and is for a period to 8 January 1999 and thereafter until terminated by either party giving the other party not less than one year's notice expiring on or at any time and after the end of the said period, provided that the appointment shall terminate in any event when he reaches 65 years of age which is the normal retirement age. He receives a basic salary of £135,844 per annum which will be reviewed on 1 February 2001 and annually thereafter and is inclusive of any other remuneration from the Company or any other member of the Group. He also receives further benefits from the Company by being a member of the Company's contributory pension scheme, receiving life cover of four times his basic salary, private medical insurance and permanent health insurance. He is also provided with a fully expensed company car (including private mileage) or a monthly payment in lieu thereof. He is entitled to reimbursement for expenses incurred in carrying out his obligations to the Company or any member of the Group and is also entitled to relocation expenses if he is required to change his residence by the Company.

(c) Alisdair D McKenzie's service contract is dated 19 February 1998 and is for a period to 8 January 1999 on the same terms as that of Gordon B Sleigh except that he is paid an annual salary of £108,675.

(d) Martin L Beard's service contract is dated 19 February 1998 and is for a period to 8 January 1999 on the same terms as that of Gordon B Sleigh except that he is paid an annual salary of £108,675.

(e) Edward J Hornsby's service contract is dated 19 February 1998 and is for a period to 8 January 1999 on the same terms as that of Gordon B Sleigh except that he is paid an annual salary of £108,675.

6.5 Nicholas Berry and Andrew A Laing were appointed under the terms of letters of appointment dated 14 December 1994. The appointments are at the will of the parties. The non-executive Directors are entitled to fees per annum at the rate of £20,000 each together with all out-of-pocket expenses incurred in the performance of his duties.

6.6 At completion Paul J Salem will be appointed under a letter of appointment on identical terms to the other non-executive directors of the Company, other than receiving fees of £30,000 per annum.

6.7 On Completion Mark W Daeche will enter into a service agreement with the Company which provides for his appointment as director of special projects of the Company. The service agreement is terminable by either party giving to the other 12 months' written notice. The service agreement provides that he is entitled to an annual salary of £200,000 and £17,400 per annum in lieu of the provision of a motor car. He is entitled to a pension contribution by the Company of such an amount as ensures a pension of two-thirds of qualifying salary upon retirement. He is also entitled to participate in the Company's permanent health insurance scheme, medical insurance scheme, personal accident insurance scheme and share option scheme. He is not entitled to participate in any commission or profit share arrangements. The Company may at its discretion terminate the service agreement by making a payment in lieu of notice. In addition, in the event of such termination he shall be entitled either to any share options under any share option scheme which would have vested during the period of notice, paid in lieu, or to compensation for the value of any such options lost under the rules of the share option scheme upon termination. The service agreement does not provide for compensation to be payable upon early termination of the agreement.

6.8 No Director is or has been interested in any transactions which are or were unusual in their nature or conditions or significant to the business of the Group during the current or immediately preceding financial year or were effected by any member of the Group during an earlier year and remain in any respect outstanding or unperformed.

6.9 Apart from the interests shown in paragraph 6.1 above, as at 19 May 2000 (being the latest practicable date prior to the publication of this document) insofar as is known to the Company, the following persons were interested directly or indirectly in three per cent. or more of the issued share capital of the Company:

Name	*Immediately prior to the date of this document*		*Following the implementation of the Proposals*	
	Number of Ordinary Shares	*Percentage of issued share capital*	*Number of Ordinary Shares*	*Percentage of issued share capital*
Marconi plc	41,454,561	26.97	41,454,561	18.70
RBSTB Nominees Limited	8,360,167	5.44	8,360,167	3.77
NY Nominees Limited	8,008,349	5.21	8,008,349	3.61
Goldman Sachs Equity Securities UK	6,200,000	4.03	6,200,000	2.80
Chase Nominees Limited	5,593,117	3.64	5,593,117	2.52
The Equitable Life Assurance Society	5,041,074	3.28	5,041,074	2.27
Morgan Stanley Capital Partners III Capital LP	—	—	17,720,502	7.99
Providence Equity Partners III LP	—	—	16,141,132	7.28
M Citron	—	—	12,246,075	5.52
M Daeche	—	—	12,246,074	5.52

6.10 Save as mentioned in paragraphs 6.1 and 6.9 above, there are no other persons, so far as the Company is aware, who are interested, directly or indirectly, in three per cent. or more of the Company's share capital.

6.11 There is no outstanding loan granted by any member of the Group to any of the Directors nor is any guarantee provided by any member of the Group for the benefit of any of the Directors.

6.12 Apart from Graham J Duncan's executive directorship of Duncan Ventures Limited and its subsidiary companies, the executive Directors have no business interests outside the Group.

6.13 The total aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of the Group during the financial year ended 31 March 2000 was £1,190,000.

6.14 The aggregate of the remuneration payable (excluding pension contributions, bonuses and benefits in kind) to the Directors by members of the Group in respect of the year ending 31 March 2001 under the arrangements in force at the date of this document, is expected to amount to approximately £970,000.

6.15 There is no arrangement under which any Director has agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

6.16 The total emoluments receivable by the Directors will not be varied as a consequence of the transaction.

7 The Company and its subsidiaries

7.1 *The Company acts as a holding company of the Group which carries on the business of developing* and operating telecommunications systems and services and the operation of cable television networks.

7.2 The Company is the holding company of the Group. Details of the subsidiaries of the Group, all of which are registered and operate in the UK, are set out below:

	Proportion held			
	By the Company	*By subsidiary undertaking*	*Nature of business*	*Registered offices*
Aberdeen Cable Services Limited	—	100 per cent.	Operation of cable TV networks	Holburn House, 475-485 Union Street, Aberdeen AB11 6DB
Cable Television Projects Limited	100 per cent.	—	Operation of cable TV networks	Holburn House, 475-485 Union Street, Aberdeen AB11 6DB
Caledonian Media Limited	100 per cent.	—	Dormant	Holburn House, 475-485 Union Street, Aberdeen AB11 6DB
CFW Securities Limited	100 per cent.	—	Dormant	Holburn House, 475-485 Union Street, Aberdeen AB11 6DB
Devanha Group plc	—	100 per cent.	Holding company	Holburn House, 475-485 Union Street, Aberdeen AB11 6DB
Atlantic Telecom Holdings Limited	100 per cent.	—	Holding company	Holburn House, 475-485 Union Street, Aberdeen AB11 6DB
ATG Holdings Limited	—	100 per cent.	Holding company	Holburn House, 475-485 Union Street, Aberdeen AB11 6DB
Atlantic Broadcasting Limited	100 per cent.	—	Dormant	Willoughby House 20 Low Pavement Nottingham NG1 7DL
Atlantic Cable Limited	100 per cent.	—	Dormant	Willoughby House 20 Low Pavement Nottingham NG1 7DL
Atlantic Cablecom Limited	100 per cent.	—	Dormant	Express Buildings 29 Upper Parliament Street Nottingham NG1 2AQ
Atlantic Logicall Limited	100 per cent	—	Dormant	Express Buildings 29 Upper Parliament Street Nottingham NG1 2AQ
Atlantic Mobile Communications Limited	100 per cent.	—	Dormant	Willoughby House 20 Low Pavement Nottingham NG1 7DL
Atlantic Networks Limited	100 per cent.	—	Dormant	Willoughby House 20 Low Pavement Nottingham NG1 7DL
Atlantic Online Limited	100 per cent.	—	Dormant	Willoughby House 20 Low Pavement Nottingham NG1 7DL
Atlantic Technologies Limited	100 per cent.	—	Dormant	Willoughby House 20 Low Pavement Nottingham NG1 7DL
Atlantic Telecommunications Limited	—	100 per cent.	Telecommunications	Willoughby House 20 Low Pavement Nottingham NG1 7DL
Logicall Limited	100 per cent.	—	Dormant	Willoughby House 20 Low Pavement Nottingham NG1 7DL
Logicall Telecommunications Limited	—	100 per cent.	Telecommunications	Willoughby House 20 Low Pavement Nottingham NG1 7DL
Telecom Atlantic Limited	100 per cent.	—	Dormant	Willoughby House 20 Low Pavement Nottingham NG1 7DL
Hull Cablevision Limited	100 per cent.	—	Dormant	Willoughby House 20 Low Pavement Nottingham NG1 7DL
atlantic-e.com Limited	100 per cent.	—	Dormant	Holburn House 475-485 Union Street Aberdeen AB11 6DB
Faststill (Jersey) Limited	100 per cent.	—	Dormant	PO Box 404 Whiteley Chambers Don Street St. Helier Jersey JE4 9WG
Faststill Limited	100 per cent.	—	Dormant	Ashurst Morris Crisp Broadwalk House 5 Appold Street London EC2A 2HA

8 Premises

8.1 The Company's principal place of business is Holburn House, 475-485 Union Street, Aberdeen AB11 6DB. The premises occupied by the Group are:

Property	*Tenure and annual rental (exclusive of VAT)*	*Area*
303, 305, 307 and 315 King Street, Aberdeen	20 year lease from 1 January 1998 £70,000	Offices: 3,060 sq ft Warehouse: 11,615 sq ft
Floor 17, rooftop site and car park spaces, St Andrew House, 141 West Nile Street, Glasgow	25 year lease from 3 January 1996, £47,602 in respect of Floor 17, £1 in respect of rooftop site £1,500 x 3 car parking spaces. Stepped increase in rental during first 4 years until full amount of £47,602 is reached in year 5	4,537 sq ft in respect of Floor 17, three car parking spaces and use of roof top for siting of microwave and/or broad spectrum transmission/receiver equipment and others which form part of the Company's network
Floor 16 and car park spaces, St Andrew House, 141 West Nile Street, Glasgow	25 year lease from 1 July 1996, £47,602 and £1,500 x 3 for car parking spaces. Stepped rental increase as for Floor 17	4,537 sq ft in respect of Floor 16 and three car parking spaces
Floor 14 and car park spaces, St Andrew House, 141 West Nile Street, Glasgow	Year to year lease from 1 July 1997, £47,602 and £1,500 x 3 for car parking spaces. Stepped rental increase as for Floor 17	4,537 sq ft in respect of Floor 14 and three car parking spaces
Two thirds of Floor 10, St Andrews House, 141 West Nile Street, Glasgow	Year to year lease from 1 July 1997, £47,602 and £1,500 x 3 for car parking spaces. Rent is two thirds of £47,602 = £31,735. Stepped rental increase as per Floor 17 on a pro rata basis.	2,651 sq ft
Unit 1, 7 Sandpiper Way, The Birchwod Courtyards, Strathclyde Business Park, Bellshill, North Lanarkshire	Five year lease from 9 August 1996, £32,567	(6,889 sq ft) - area not mentioned in lease
50 St Vincent Street, Glasgow	15 year sub-lease from 20 September 1996, £32,500 - reviews 20 September 2001 and 2006. Sub-lease guaranteed by Atlantic	(1,200 sq ft) - area not mentioned in lease
Unit 13 Bon Accord Centre, Aberdeen	25 year lease from 6 October 1995 £55,000 rising to £59,000 as at 29 September 1996	1,028 sq ft
Ground floor, 1st and 2nd floor and attic of 16 Prebendal Court, Aylesbury, Buckinghamshire	15 year lease from 7 June 1996, £19,000	1,350 sq ft
Unit 2, Prebendal Court, Aylesbury, Buckinghamshire	15 year lease from 21 December 1998 at a rent of £13,000 per annum	Approximately 900 sq ft
Holburn House, 475-485 Union Street, Aberdeen	25 year lease from 21 March 1998, £316,400	Approximately 22,000 sq ft
Head End Building, Charlotte Place, Aberdeen AB25 1LX	99 year lease from 13 September 1990, £1	1,628 sq ft
27A James Watt Place, East Kilbride	Freehold acquired for £15,000 (plus VAT) on 11 March 1998	
7 Kirkshaws Road, Coatbridge, North Lanarkshire	15 year lease from 21 October 1998, initial rent of £52,000 per annum	10,271 sq ft
Office B, Market Mews, Dundee	5 year lease from 30 October 1998 at a rent of £27,524 per annum	Approximately 2,500 sq ft
Unit B, Clocktower Industrial Estate, South Gyle Crescent, Edinburgh	15 year lease from 8 October 1998 at an annual rent of £26,250 per annum	Approximately 4,000 sq ft
7-9 Reform Street, Dundee	15 year lease from 16 March 1999 at an annual rent of £60,000 per annum	Approximately 1,800 sq ft
Unit C, Trafford Park, Manchester	15 year lease from 25 March 2000 at £39,881 in year 1, thereafter £79,762, subject to 5 yearly reviews	Approximately 16,792 sq ft

9. Material contracts

9.1 *Atlantic Material Contracts*

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by Atlantic either within the two years immediately preceding the date of this document and are, or may be, material, or at any time under which the Atlantic Group has any obligation or entitlement which is, or may be, material as at the date of this document.

(a) **Summary of the Offers and related agreements**

(i) **The Offer Document**

Pursuant to the Offer Document Chase, on behalf of Atlantic, offered to acquire all of the First Telecom Shares and First Telecom Warrants on the following basis:

for each First Telecom Ordinary Share	1.04343278 New Ordinary Shares
for each 1997 Preference Share	1.04343278 New Ordinary Shares
for each 1999 Preference Share	1.15937065 New Ordinary Shares
for each A Preference Share	0.45911050 New Ordinary Shares
for each B Preference Share	0.51012309 New Ordinary Shares
for each First Telecom Warrant	1.04343278 New Ordinary Shares

The aggregate price of approximately £520 million payable pursuant to the Offers has been calculated on the assumption that First Telecom Deferred Shares shall automatically convert into 571,429 First Telecom Ordinary Shares upon Completion and that First Telecom Share Options over 5,187,218 First Telecom Ordinary Shares will become exercisable by virtue of the Offers. 67,973,856 New Ordinary Shares will be issued by Atlantic pursuant to the Offers.

The Offers are conditional on, *inter alia*:

A valid acceptances being received (and not withdrawn) by no later than 3.00 p.m. on 31 December 2000 in respect of not less than:

(i) 90 per cent. of the First Telecom Ordinary Shares to which the Ordinary Offer relates;

(ii) 90 per cent. of the 1997 Preference Shares to which the 1997 Preference Offer relates;

(iii) 90 per cent. of the 1999 Preference Shares to which the 1999 Preference Offer relates;

(iv) 90 per cent. of the A Preference Shares to which the A Preference Offer relates;

(v) 90 per cent. of the B Preference Shares to which the B Preference Offer relates;

(vi) 90 per cent. of the First Telecom Warrants to which the Warrant Offer relates;

B the passing of the Resolutions at the Extraordinary General Meeting;

C the UK Listing Authority agreeing to admit the New Ordinary Shares to the Official List and such admission becoming effective in accordance with the listing rules of the UK Listing Authority;

D the London Stock Exchange agreeing to admit the New Ordinary Shares to be issued in connection with the Offers to trading;

E clearance being obtained from the Inland Revenue that section 135 of the Taxation of Chargeable Gains Act 1992 will not be prevented from applying to the issue of New Ordinary Shares in exchange for First Telecom Shares and First Telecom Warrants by virtue of Section 137 of that Act;

F there having been no material breach by the Warrantors or Atlantic of the warranties given by them respectively in the Deed of Warranty which is material in the context of the Enlarged Group;

G since 31 December 1999 and save as disclosed to Atlantic, there having been no material adverse change in the business, operations or financial condition of the First Telecom Group save as regards changes affecting the industry in which First Telecom operates or changes arising after 27 April 2000;

H since 31 March 1999 and save as disclosed in any public document or announcement, there having been no material adverse change in the business, operations or financial condition of the Group save as regards changes affecting the industry in which Atlantic operates or changes arising after 27 April 2000;

Each of the Offers is conditional upon each of the other Offers becoming or being declared unconditional in all respects.

The Offers will lapse unless the conditions of the Offers are fulfilled or waived (if capable of waiver) no later than 31 December 2000.

Undertakings to accept the Offers have been given by Morgan Stanley Capital Partners III, L.P., Morgan Stanley Capital Investors, L.P., MSCP III 892 Investors L.P., Providence Equity Operating Partners III L.P., Providence Equity Partners III L.P., Marc Citron, Mark Daeche, Darren Braham and David Oertle together representing 96.84 per cent. of the issued First Telecom Ordinary Shares, 99.5 per cent. of the A Preference Shares, 100 per cent. of the B Preference Shares, 100 per cent. of the 1997 Preference Shares, 100 per cent. of the 1999 Preference Shares. An undertaking to accept the Warrant Offer has been given by Morgan Stanley Senior Funding, Inc. in respect of 100 per cent. of the First Telecom Warrants. These undertakings to accept the Offers are revocable only if Atlantic Telecom is in breach of conditions relating to there being no material change in relation to matters pertaining to the Group contained in the Offer Document or in breach of its warranties and assurances given in the Deed of Warranty to an extent which is material in the context of the Offers.

The Initial New Ordinary Shares will be issued to First Telecom Shareholders accepting the Offers on the Unconditional Date. The Offeror will declare the Offers unconditional once all the conditions of the Offers have been satisfied or waived. New Ordinary Shares representing 10 per cent. of the shares to which each Warrantor is entitled under the Offers will not be issued to the Warrantors on the Unconditional Date but will be issued (subject to adjustment in accordance with the Deed of Warranty) on 29 June 2001.

(ii) **The Deed of Warranty**

A Pursuant to the terms of the Deed of Warranty, the Warrantors (holding in aggregate 96.57 per cent. of the issued First Telecom Ordinary Shares, 99.3 per cent. of the issued A Preference Shares, 100 per cent. of the issued B Preference Shares, 100 per cent. of the issued 1997 Preference Shares and 100 per cent. of the issued 1999 Preference Shares) have given warranties on a separate and individual basis to Atlantic in respect of, inter alia, the accounts and financial position of the First Telecom Group, and the accuracy of certain reports given by First Telecom's accountants and legal advisers. Claims for breach of warranty which must exceed £7,500,000 in aggregate (or £750,000 in aggregate in respect of warranties given as to title of First Telecom ordinary shares and details of First Telecom options not held by the Warrantors and £10,000 per individual claim (with the aggregate and individual limits not applying to warranties given as to title of First Telecom shares and details of First Telecom options held by each Warrantor) must be notified by Atlantic to the Warrantors prior to 29 June 2001. Any liability of the Warrantors arising from breach of warranty claims notified by Atlantic prior to 29 June 2001 will be satisfied by a reduction in the aggregate number of Deferred New Ordinary Shares to be issued to the relevant Warrantor. For this purpose, the Deferred New Ordinary Shares will be deemed to have an aggregate value of £44,779,161, representing the middle market price of that number of Ordinary Shares quoted on the London Stock Exchange on 26 April 2000. Atlantic's sole remedy for breach of warranty by a Warrantor lies in not issuing some or all of the Deferred New Ordinary Shares to which that Warrantor would otherwise be entitled.

B Subject, in the case of the Warrantors, to any adjustment in accordance with the Deed of Warranty, the Deferred New Ordinary Shares shall be issued to the Warrantors on 29 June 2001.

C If, prior to 29 June 2001 Atlantic has duly notified a claim for breach of warranty to the relevant Warrantor in accordance with the Deed of Warranty including an opinion addressed to Atlantic and the Warrantor, from leading counsel at the commercial bar of not less than 10 years standing agreed by the solicitors to Atlantic and the solicitors to the Warrantors to be of high repute that, on the balance of probability the claim will succeed at trial and that the Warrantors' aggregate liability is as stated in the notice, then such number of Deferred New Ordinary Shares as have a value equal to the relevant Warrantor's proportionate share (calculated in accordance with the Deed of Warranty) of the relevant claim shall not be issued to the relevant Warrantor until the matter is finally determined or otherwise agreed in writing between Atlantic and the relevant Warrantor.

D If the amount of a claim under the Warranties has been finally determined or has been agreed by the relevant Warrantor then the relevant Warrantor's entitlement to such number of Deferred New Ordinary Shares shall, if Atlantic so elects, be reduced by such number of Deferred New Ordinary Shares as have a value equal to the relevant Warrantor's proportionate share of the relevant claim.

E To the extent that the value of any Deferred New Ordinary Shares to which a Warrantor is entitled exceeds that Warrantor's proportionate share of any liability to which paragraph B or C above applies, the balance of such Deferred New Ordinary Shares shall be issued forthwith to the relevant Warrantor.

F If any of the following events affecting the share capital of Atlantic occur prior to 29 June 2001, or, in the case of Deferred New Ordinary Shares withheld but ultimately determined to be due to the relevant Warrantor, the date on which the claim is finally determined, the number of Deferred New Ordinary Shares to be issued to the Warrantors and the value to be taken into account in respect of any claim for breach of Warranty shall be adjusted pursuant to the terms of the Deed of Warranty:

(i) an alteration in the nominal value of the Ordinary Shares as a result of a consolidation or sub-division. Such adjustment shall become effective immediately after the alteration takes effect;

(ii) the issue of any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves (other than Ordinary Shares paid up out of profits or reserves (including any share premium account or capital redemption reserves) and issued instead of the whole or part of a cash dividend (if and to the extent that such cash dividend does not constitute a capital distribution) which the relevant Shareholders would or could otherwise have received, but only to the extent that the market value of such Ordinary Shares does not exceed the amount of the cash dividend or the relevant part thereof (and, to the extent there is such an excess, an adjustment relating to the excess will be made). Such adjustment shall become effective as at the date of the issue of such Ordinary Shares;

(iii) the payment or making of any capital distribution (except where adjustment is already made pursuant to paragraph (ii) above). Such adjustment shall become effective at the date of payment or making of such capital distribution;

(iv) the issue of Ordinary Shares to Shareholders as a class by way of rights or the issue or grant to such Shareholders as a class by way of rights, options or warrants or other rights to subscribe for or purchase Ordinary Shares in each case at less than 95 per cent. of the market price per Ordinary Share on the dealing day immediately preceding the date of the announcement of the terms of the issue or grant. Such adjustment shall become effective on the first day the Ordinary Shares are traded ex-rights, ex-options, or ex-warrants on the London Stock Exchange;

(v) the issue of any securities or options, warrants or other rights to subscribe or purchase any such securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares) to Shareholders as a class by way of rights. Such adjustment shall become effective on the date the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the London Stock Exchange;

(vi) the issue (otherwise than in paragraph (iv) above) wholly for cash of any Ordinary Shares or the grant wholly for cash of options, warrants or other rights to subscribe for or purchase Ordinary Shares at less than 95 per cent. of the market price per Ordinary Share on the dealing day immediately preceding the date of the announcement of the terms of the issue of such Ordinary Shares. Such adjustment shall become effective on the date of such issue or grant;

(vii) the issue at any time (otherwise than pursuant to paragraphs (iv), (v) or (vi)) wholly for cash or for no consideration of any securities which by their terms of issue are convertible into or exchangeable for or carry rights of subscription for Ordinary Shares and the consideration per Ordinary Shares receivable thereof by Atlantic upon conversion exchange or subscription is less than 95 per cent. of the market price per Ordinary Share on the dealing day immediately preceding the date of announcement of the terms of issue of such securities with a grant of such rights. Such adjustment shall become effective on the date of such issue or grant;

(viii) the modification of any rights of conversion, exchange or subscription attached to any securities so that following such modification the consideration per Ordinary Share receivable by Atlantic upon conversion or exchange of such securities or subscription shall be less than the market price per Ordinary Share on the dealing day immediately preceding the date of announcement of the proposal to modify such rights of conversion, exchange or subscription. Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities;

(ix) the offering of any securities in connection with which the Shareholders as a class are entitled to participate by way of rights and arrangements whereby such securities may be acquired by them other than where adjustment is made pursuant to paragraphs (iv) or (v) above or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the market price per Ordinary Share on the relevant dealing day. Such adjustment shall become effective on the first day the Ordinary Shares are traded ex-rights on the London Stock Exchange;

(x) the occurrence of any event which is not one of the events set out in paragraphs (i) - (ix) above but which ought reasonably to result in an adjustment. At the request of a Warrantor Atlantic will appoint an international investment bank in the City of London of international repute to determine a fair and reasonable adjustment to take account thereof and the date on which such adjustment should take effect;

No adjustment will be made as a result of the events in paragraphs (i) - (x) above where Ordinary Shares or other securities (including rights, warrants or options) are issued, offered, exercised, allotted, appropriated, modified or granted in relation to any employee's share scheme (which would include the Share Option Scheme)

G Any Deferred New Ordinary Shares which are not withheld as descibed in paragraph (B) shall be issued immediately on any change of control of Atlantic prior to 29 June 2001.

H Atlantic has given certain warranties in the Deed of Warranty for the benefit of all First Telecom Shareholders in respect of the accuracy of publicly available information about Atlantic and the contents of these listing particulars. Claims for breach of warranty which must exceed £7,500,000 in aggregate and £10,000 per individual claim must be notified to Atlantic by Jim Hoch acting as representative of the First Telecom Shareholders prior to 29 June 2001 and are subject to a maximum liability of £520 million. No First Telecom Shareholder shall be entitled to claim more than its pro rata share (represented by its percentage holding of shares in First Telecom at the Unconditional Date) of all claims against Atlantic in respect of any such breach of warranty. First Telecom Shareholders may individually elect to require Atlantic to satisfy any claim for breach of warranty through the issue of Ordinary Shares which have an aggregate value (determined by reference to the middle market price of Ordinary Shares as at the date of allotment of such shares) equal to the amount of the relevant claim.

In addition, Atlantic has given certain assurances in the Deed of Warranty for the benefit of all First Telecom Shareholders. These include Atlantic:

(i) making applications for the New Ordinary Shares to be admitted to listing by the UK Listing Authority and to be admitted for trading by London Stock Exchange and using its reasonable endeavours to procure that such admission is effective on or before 21 June 2000;

(ii) *not, between 27 April 2000 and the Unconditional Date, issuing additional shares of* any class or securities convertible into or rights, warrants or options to subscribe for or acquire such shares other than pursuant to the exercise of options taken into account in the calculation of 29.7 per cent. of the Offeror's fully diluted enlarged share capital for the purpose of determining the consideration payable under the Offers;

(iii) at the direction of Marc Citron and Mark Daeche, waiving the condition relating to tax clearances and not waiving that condition unless so directed;

(iv) *at the direction of Jim Hoch waiving the "no material adverse change" conditions* that relate to Group and not waiving any of those conditions unless so directed;

(v) consulting with Jim Hoch in advance of making any public announcement prior to the Offers becoming unconditional in all respects.

In addition, in the Deed of Warranty Atlantic has given an undertaking to advise First Telecom Shareholders of its status as a potential passive foreign investment company as defined under section 1297 of the US Internal Revenue Code of 1986, and Atlantic has also given certain representations (the "US Representations") to assist First Telecom Shareholders who are resident in the United States for tax purposes (the "US First Telecom Shareholders") to claim "rollover" relief in respect of the Ordinary Shares to which they become entitled pursuant to the Offers. The US Representations expire on the Unconditional Date and the Group, its directors and agents have been irrevocably released by each US First Telecom Shareholder from all claims for liability whatsoever in respect of the US Representations as well as in respect of any representation given by the First Telecom Group, its directors or agents with respect to the US tax consequences of the transactions described in the Offer Document.

(iii) **Lock Up Undertakings**

Each of Morgan Stanley Capital Partners III L.P., Providence Operating Equity Partners III L.P., Marc Citron, Morgan Stanley Capital Investors L.P., Providence Equity Partners III L.P., and MSCP III 892 Investors L.P. have undertaken to Atlantic not to transfer or dispose of the legal or beneficial interest that they will have in approximately 48,576,000 New Ordinary Shares which will be issued to them pursuant to or in connection with the Offers (the "Lock Up Shares") for a period of six months following Completion (the "Lock-Up Period"). These undertakings will not apply, *inter alia*:

A to any acceptance of a general offer to acquire all the shares of Atlantic, or sale of Ordinary Shares to an offeror or bona fide potential offeror seeking to acquire all of the Ordinary Shares or to the giving of an irrevocable undertaking in respect of Ordinary Shares held by such person to accept an offer from a person seeking to acquire all of the Ordinary Shares;

B if a Director is released from restrictions to which he is currently subject on the disposal of any Ordinary Shares;

C in the case of a pressing financial commitment or other hardship (in the opinion of Atlantic's clearance officer);

D to any transfer of Lock Up Shares to a member of the shareholder's family or trust or to any of the partners in the shareholder or any manager or adviser of the shareholder or to a fund under common control or management with the shareholder provided the transferee enters into a like undertaking in favour of Atlantic;

E if the transfer is made pursuant to any court order, on death, or if Atlantic is in breach of any of the warranties or assurances or other obligations given by it in connection with the Offers which is material in the context of the Offers;

F if the shareholder ceases to be an employee of the Group, unless the shareholder is dismissed in circumstances where such dismissal is neither wrongful nor unfair;

G to the transfer of Ordinary Shares necessary to pay expenses or any tax liability properly incurred or arising in respect of the Offers;

If any of those holders of New Ordinary Shares desire to sell a material number of Lock Up Shares during the period of 18 months following the expiry of the Lock Up Period, it will consult with Atlantic, who may consult with its brokers, with regard to the timing and method of any proposed sale of Lock Up Shares. In the event that a material number of Lock Up Shares is proposed to be sold, Atlantic has agreed to assist in the orderly disposal of the Lock Up Shares and to make its directors and other key employees available to attend road shows, press briefings, analyst briefings and similar events and to produce the necessary offering document to the standards required by applicable law and regulation. If Atlantic is planning a primary offering of shares, then Atlantic has agreed to consult with those holders in advance of any such primary offering and inform those holders of the advice it receives from its brokers as to whether any of the Lock Up Shares could reasonably be included as part of any such primary offering.

Mark Daeche has given a similar undertaking to Atlantic not to transfer or dispose of the legal or beneficial interest he has or will have in any of the 12,246,074 New Ordinary Shares issued to him in connection with the Offers ("the Daeche Lock Up Shares") until 31 December 2001 save that his undertaking shall not apply to 20 per cent. of the Daeche Lock Up Shares and in respect of a further 10 per cent. of the Daeche Lock Up Shares with effect from the expiry of the Lock-Up Period or, if earlier, the date on which the other holders who are entering into similar undertakings in connection with the Offers are first entitled to dispose of any of their Lock Up Shares.

(iv) **First Telecom Deferred Shares and First Telecom Share Option Schemes**

The Ordinary Offer extends to any First Telecom Ordinary Shares issued or unconditionally allotted as at the date of the Offers together with any further First Telecom Ordinary Shares which are unconditionally allotted or issued whilst the Offers remain open for acceptance (i.e. until 31 December 2000), including the First Telecom Ordinary Shares into which all First Telecom Deferred Shares will convert upon Completion and any First Telecom Ordinary Shares which are unconditionally allotted or issued pursuant to the exercise of First Telecom Share Options. If the holders of First Telecom Ordinary Shares resulting from the conversion of First Telecom Deferred Shares or upon the exercise of options do not accept the Ordinary Offer prior to its being declared wholly unconditional, it is the intention of Atlantic to compulsorily acquire such First Telecom Ordinary Shares pursuant to sections 428 and 430F of the Act.

Letters making appropriate proposals to the holders of First Telecom Share Options have been posted to all holders of First Telecom Share Options, in the following terms:

A Subsisting First Telecom Share Options to acquire First Telecom Ordinary Shares granted under the schemes and deeds listed below which have not lapsed will become exercisable pursuant to, and subject to, the scheme rules or the terms of the deeds on the Unconditional Date. Holders of First Telecom Share Options will then have a maximum period of one month immediately following the Unconditional Date within which to exercise their First Telecom Share Options. If holders of First Telecom Share Options do not exercise their rights within this period, then their options will lapse under the terms of the relevant scheme or deed. The relevant schemes and deeds are as follows:-

1. INI Share Option Deeds
2. Cerbernet Share Option Deeds
3. First Telecom Group plc Executive Incentive Plan
4. First Telecom Group plc Employee Incentive Plan
5. First Telecom Group plc Employee Participation Plan
6. First Telecom Group plc National MD Incentive Plan
7. First Telecom Group plc National MD (No.2) Incentive Plan

Subject to the Offers becoming unconditional in all respects, participants under the above schemes or deeds will be given the opportunity to accept the Ordinary Offer in respect of the First Telecom Ordinary Shares they acquire on the exercise of their First Telecom Share Options.

B Under the First Telecom Group plc Employee Participation Plan 1999 (the "1999 Plan") one third of options granted under the 1999 Plan which have not previously lapsed will be exercisable pursuant to, and subject to, the 1999 Plan rules on the Unconditional Date. Under the terms of the 1999 Plan, all options will lapse 30 days after Completion (save to the extent previously exercised).

Atlantic has made an offer to those who hold subsisting options under the 1999 Plan at the date the Offers become wholly unconditional and which do not become exercisable on the Unconditional Date to roll over their options under the 1999 Plan into options over Ordinary Shares with the number of Ordinary Shares being calculated by reference to the terms of the Ordinary Offer. This roll over offer is conditional upon the Offers becoming wholly unconditional. The replacement options over Ordinary Shares will be granted on substantially similar terms to the 1999 Plan save that the terms will allow optionholders to exercise their replacement options (to the extent they have not previously lapsed) in two tranches - 12 and 24 months after the Unconditional Date.

C Atlantic has made an offer to those who hold subsisting options at the date the Offers become wholly unconditional under the First Telecom Group plc Discretionary Share Option Plan (the "DSOP"), to roll over their options under the DSOP, to the extent they do not lapse on a change of control of First Telecom, into new options over Ordinary Shares with the number of Ordinary Shares being calculated by reference to the terms of the Ordinary Offer. This roll over offer will be conditional upon the Offers becoming wholly unconditional. The replacement options will be granted on the same terms as apply to the existing options under the DSOP.

D Atlantic has made offers to the executives who each hold subsisting First Telecom Share Options granted to them under share option agreements made between (i) First Telecom and David Oertle dated 16 June 1999, 2 December 1999 and 18 April 2000; and between First Telecom and David Reibel dated 18 April 2000 to (a) exercise their First Telecom Share Options; and/or (b) roll over their subsisting First Telecom Share Options under the terms of their share option agreements into new options over Ordinary Shares with the number of Ordinary Shares being calculated by reference to the terms of the Ordinary Offer. This roll over offer will be conditional upon the Offers becoming wholly unconditional. The replacement options will be granted on the same terms as apply to the existing options granted to the executives save as amended to provide that options may be exercised within 12 months of the Unconditional Date. Each of the executives have agreed by a deed dated 17 May 2000 that they will roll over their subsisting options pursuant to Atlantic's offer, conditional upon the Offers becoming wholly unconditional.

(v) **Further details of the Offers**

The First Telecom Shares and First Telecom Warrants which are the subject of the Offers will be acquired by Atlantic fully paid and free from all liens, charges, equitable interests, third party rights and encumbrances and together with all rights now or hereafter attaching thereto, including the right to receive all dividends and other distributions (if any) declared, paid or made on or after 27 April 2000.

The Offers will extend to any First Telecom Shares and First Telecom Warrants issued or unconditionally allotted while the Offers remain open for acceptance.

It is the intention of Atlantic, upon the Offers being declared unconditional in all respects and upon acquiring, contracting to acquire and/or receiving acceptances in respect of at least 90 per cent. of the First Telecom Shares to which each of the Offers relates, to exercise its rights pursuant to sections 428 to 430F of the Companies Act to acquire compulsorily the First Telecom Shares which it does not already hold and in respect of which acceptances of the Offers have not been received.

(b) **High Yield debt agreements**

(i) **The Purchase Agreement**

On 27 January 2000 Atlantic entered into a Purchase Agreement with Chase Manhattan International Limited, ABN AMRO Incorporated, and UBS AG, acting through its division Warburg Dillon Read (the "Initial Purchasers"). Subject to the conditions set forth in the Purchase Agreement, the Company issued (i) 200,000 Euro Units consisting of

13 per cent. Euro Notes due 2010 and Euro Warrants and (ii) 75,000 Sterling Units consisting of 13.25 per cent. Sterling Notes due 2010 and Sterling Warrants to the Initial Purchasers. In consideration for the issuance, the Initial Purchasers paid the Company approximately € 311.4 million after deduction of underwriting discount (each Euro Unit and Sterling Unit being sold at a discount of 3.5 per cent. totalling € 11.3 million discount) and other expenses, raising funds of approximately € 322.7 million.

In accordance with the terms of the Purchase Agreement:

A 200,000 Euro Notes and 75,000 Sterling Notes (the "Notes") were issued pursuant to a Euro Indenture and a Sterling Indenture respectively (the "Indentures");

B 200,000 Euro Warrants and 75,000 Sterling Warrants (the "Warrants") were issued pursuant to a Euro Warrant Agreement and a Sterling Warrant Agreement respectively (the "Warrant Agreements");

Each Euro Warrant gives the holder the right to purchase 19.174 Ordinary Shares at an exercise price of £9.80 per share, thus a maximum of 3,834,741 Ordinary Shares could be purchased pursuant to the Euro Warrants. Each Sterling Warrant gives the holder the right to purchase 31.375 Ordinary Shares at an exercise price of £9.80 per share, thus a maximum of 2,353,117 Ordinary Shares could be purchased pursuant to the Sterling Warrants.

C The holders of the Notes are entitled to the benefits of a Euro Exchange and Registration Rights Agreement and a Sterling Exchange and Registration Rights Agreement (the "Registration Rights Agreements") pursuant to which the Company agreed to file with the US Securities and Exchange Commission a registration statement under the US Securities Act of 1933 and to use its best efforts to cause such registration statement to become effective;

D The Company entered into a Euro Note Deposit Agreement and a Sterling Note Deposit Agreement (the "Note Deposit Agreements") with Deutsche Bank Luxembourg S.A. to act as Book-Entry Depositary for the Notes; and

E The Company entered into a Euro Escrow Agreement and a Sterling Escrow Agreement (the "Escrow Agreements") with Bankers Trust Company (the "Escrow Agent") whereby the Company deposited with the Escrow Agent, for the benefit of the holders of the Notes, an amount of government securities sufficient to pay the first four interest payments on the Notes.

The Purchase Agreement also contains certain representations, warranties, and indemnities by the Company in favour of the Initial Purchasers relating, but not limited to, the following:

A The accuracy and completeness of the Offering Memorandum;

B The validity and good standing of the Company and its affiliates;

C The absence of market conditioning by the Company;

D The Company's authority to issue the Euro Units and Sterling Units (the "Units");

E The indemnification of the Initial Purchasers of loss resulting from an untrue statement contained in the Offering Memorandum; and

F The assumption by the Company of various costs associated with the issue of the Units issue.

(ii) The Indentures

On 3 February 2000 the Company entered into an Euro Indenture and a Sterling Indenture with ATG Holdings Ltd., Devanha Group PLC, Atlantic Telecommunications Ltd., Logicall Telecommunications Ltd., Atlantic Telecom Holdings Limited, and Aberdeen Cable Services Ltd., (the "Subsidiary Guarantors") and Bankers Trust Company (the "Trustee"). Subject to the conditions set forth in the Indentures, the Company and the Subsidiary Guarantors have agreed to abide by and perform their obligations according to the terms of the Notes contained in the Indentures. The Trustee, *in consideration of an annual fee, has agreed to perform certain monitoring and reporting* tasks on behalf of the Note holders to facilitate the performance of the Company and the Subsidiary Guarantors under the terms of the Notes.

Among other things, the Company and the Subsidiary Guarantors have agreed that:

A The Euro Notes and Sterling Notes will bear and pay interest on a semiannual basis in an amount equal to 13 per cent. per annum and 13.25 per cent. per annum respectfully;

B Principal and final interest on the Notes will be payable in full on 15 January 2010;

C The Notes will be guaranteed on an unsecured senior basis by the Subsidiary Guarantors and by any future restricted subsidiaries;

D The due and punctual payment of the first four semi-annual interest payments on the Euro Notes and Sterling Notes shall be secured by an amount of government *securities (approximately € 50 million and £19 million respectively) deposited by the* Company with the Escrow Agent;

E The holders of the Notes will have the right to put their Notes to the Company for an amount equal to 101 per cent. of their principal amount plus accrued and unpaid interest upon the Company undergoing a change of control as defined in the Indentures;

F The Company will have the right to redeem all of the Notes as a result of certain withholding tax law changes;

G The Company and the Subsidiary Guarantors will, among other things, be limited in their ability to incur additional indebtedness, pay dividends on share capital, issue or purchase certain types of shares, create liens, guarantee certain indebtedness, sell, merge with, or dispose of certain assets of the Company, incur secured indebtedness, or repay certain unsecured indebtedness;

H Pursuant to the Registration Rights Agreements the Company will file and make best efforts to cause to be effective a registration statement with the US Securities and Exchange Commission and to consummate an exchange offer for the existing *Notes for new, registered Notes;*

I Euro Warrant holders will be entitled to purchase 19.174 of the Company's Ordinary Shares at an exercise price of £9.80 per share after the first anniversary of the date of the original issuance of the Euro Warrants (subject to certain exceptions); and

J Sterling Warrant holders will be entitled to purchase 31.375 of the Company's Ordinary Shares at an exercise price of £9.80 per share after the first anniversary of the date of the original issuance of the Sterling Warrants (subject to certain exceptions).

(iii) The Escrow Agreements

On 3 February 2000 the Company entered into an Euro Escrow and Disbursement Agreement and a Sterling Escrow and Disbursement Agreement with Bankers Trust Company as the Escrow Agent. Subject to the conditions set forth in the Escrow Agreements, the Company has agreed that as security for its obligations under the Notes and the Indentures the Company grants to the Escrow Agent, for the benefit of the Escrow Agent and the holders of the Notes, a security interest in and a lien upon the Euro Escrow Account and Sterling Escrow Accounts (the "Escrow Accounts").

Among other things, the Company agreed that:

A The due and punctual payment of the first four semi-annual interest payments on the Euro Notes and Sterling Notes shall be secured by an amount of government securities (approximately € 50 million and £19 million respectfully) deposited by the Company with the Escrow Agent;

B The Company shall irrevocably grant a security interest in, and pledge, assign and set over to the Escrow Agent all of its right, title and interest in, the Escrow Accounts, all funds held therein, and all government securities and replacements thereof;

C The Escrow Agent shall disburse from the Escrow Accounts to the principal paying agent for payment to the holders of the Notes on the day of each interest payment date the amount specified in a payment notice and disbursement request; and

D So long as no default or event of default shall have occurred and be continuing, at such time as all interest due on the Notes through and including the fourth interest payment date on the Notes has been paid to the holders thereof pursuant to the Indentures and in accordance therewith, and all other amounts due and owing under the Escrow Agreements and the Indentures, the Escrow Agent shall disburse all remaining funds and government securities in the Escrow Accounts to the Company and pending such disbursement shall hold such funds or securities for the Company's benefit.

(iv) **The Warrant Agreements**

On 3 February 2000 the Company entered into a Euro Warrant Agreement and a Sterling Warrant Agreement with Deutsche Bank Luxembourg S.A. as the Warrant Agent for the issue and distribution of Company Warrants as part of the Unit offering.

Subject to the conditions set forth in the Warrant Agreements, the Company has agreed that:

A Euro Warrant holders will be entitled to purchase 19.174 of the Company's Ordinary Shares at an exercise price of £9.80 per share after the first anniversary of the date of the original issuance of the Euro Warrants (subject to certain exceptions);

B Sterling Warrant holders will be entitled to purchase 31.375 of the Company's Ordinary Shares at an exercise price of £9.80 per share after the first anniversary of the date of the original issuance of the Sterling Warrants (subject to certain exceptions);

C The Warrants shall be exercisable at any time or from time to time on any business day during the exercise period beginning on or after 3 February 2001 and ending on 3 February 2010;

D The Warrants will not trade separately from the Notes until the earliest of (i) 180 days after the issue date, (ii) the commencement of an exchange offer for the Notes pursuant to an effective registration statement, (iii) the effectiveness of a shelf registration statement for the Notes, (iv) a Change of Control and (v) such date as Chase Manhattan International Limited may, in its discretion, deem appropriate;

E The number of Ordinary Shares or other shares of capital stock issuable upon exercise of each Warrant shall be adjusted so that, after giving effect to such adjustment, the holder of each Warrant shall be entitled to receive the type and number of Ordinary Shares or other shares of capital stock that such Warrant holder would have owned or have been entitled to receive had such Warrants been exercised immediately prior to the happening of certain dilutive events described in the Warrant Agreements; and

F The holders of the Warrants will be entitled to "piggy-back" registration rights with respect to the underlying Ordinary Shares in connection with a registered public equity offering and in certain underwritten offerings pursuant to Rule 144A of Ordinary Shares or American Depositary Shares representing the right to receive Ordinary Shares.

(v) **The Registration Rights Agreements**

On 3 February 2000 the Company, ATG Holdings Ltd., Devanha Group PLC, Atlantic Telecommunications Ltd., Logicall Telecommunications Ltd., Atlantic Telecom Holdings Limited, and Aberdeen Cable Services Ltd. entered into a Euro Exchange and

Registration Rights Agreement and a Sterling Exchange and Registration Rights Agreement with Chase Manhattan International Limited, ABN AMRO Incorporated, and UBS AG, acting through its division Warburg Dillon Read.

Subject to the conditions set forth in the Registration Rights Agreements, the Company and its Subsidiary Guarantors has agreed that:

A The Company shall file with the US Securities and Exchange Commission a registration statement under the US Securities Act of 1933 within 90 days of the issue date of the Notes;

B The Company shall use its best efforts to cause such registration statement to become effective within 180 days of the issue date of the Notes;

C The Company shall use its best efforts to consummate an exchange of the existing Notes for newly registered Notes within 210 days of the issue date of the existing Notes; and

D The Company shall pay the holders of the Notes certain liquidated damages ranging from 0.5 per cent. to 1.5 per cent. per annum on the outstanding principal of the Notes (as more fully set forth in the Registration Rights Agreements) in the event that any of the aforementioned registration obligations is not complied with.

(vi) **The Note Deposit Agreements**

On 3 February 2000 the Company entered into a Euro Note Deposit Agreement and a Sterling Note Deposit Agreement with Deutsche Bank Luxembourg S.A. to act as Book-Entry Depositary for the Notes.

Subject to the conditions set forth in the Note Deposit Agreements, the Company has agreed that:

A The Book-Entry Depositary shall accept custody of the Notes (all such Notes being in global form) and shall hold the Notes at its Corporate Trust Office in Luxembourg or at such place or places as it shall determine with the consent of the Company;

B The Book-Entry Depositary shall issue certificateless depositary interests in the Notes ("CDIs") for acceptance by Euroclear and Clearstream for entry into its book-entry settlement system;

C The Book-Entry Depositary shall maintain at the Corporate Trust Office records in which the Book-Entry Depositary shall (i) record Euroclear and Clearstream as the initial owner of the CDIs and (ii) record the transfer of the CDIs thereafter;

D Whenever the Book-Entry Depositary shall receive from a paying agent appointed under the Indenture any payment on any Note, the amount so received shall be distributed, with appropriate designation, promptly to the Depositary (e.g. Euroclear and Clearstream) on the relevant payment date; and

E The Book-Entry Depositary will upon redemption of the Notes promptly (upon receipt of the redemption price) deliver such Notes to the Trustee and request the Trustee to endorse the Notes so as to reflect the reduction resulting from such redemption in the principal amount.

(c) **Skyline**

(i) **Subscription Agreement**

Pursuant to a subscription agreement between Patrick Cruise O'Brien, Bernard Lafont, Euro-invest SAL Holding ("Euro-Invest"), Françoise Lemaire, Antoine Assi, Dominique Doussot, Jean Pierre Machart, Henry Edouard Lebel de Penguilly and Philippe Durance (together the "Founders"), Whizhire Limited ("Chase"), Arganil Investments BV ("GMT") and the Company (together the "Investors") and Skyline SA ("Skyline") dated 28 January 2000 the Investors subscribed for shares in Skyline in French Francs to an approximate value of US$6.7 million. The purpose of the investment was to assist Skyline in its application to the French telecommunications regulator ("ART") for a national licence and certain regional wireless local loop licences in France in competition with a number of other operators (the "ART Application"). The Company subscribed approximately US$672,000 in consideration for 5.1 per cent. of the share capital of the Company on a fully-diluted basis. At closing, the Founders transferred to the Company a further 5 per cent. of the issued share capital of the Company (on a fully-diluted basis) in consideration for services provided by the Company to Skyline in connection with the ART Application. Thus, immediately following closing on 31 January 2000 the Company held 10.1 per cent. of the share capital of Skyline, the Founders 44 per cent., Chase 36.4 per cent. and GMT 9.5 per cent. The agreement terminates on 13 January 2005 and is governed by French law.

On the award of the licence to Skyline, the agreement provides that Skyline's capital may be increased further, and although the Company is not obliged to invest further, it may be obliged to waive its pre-emption rights to the extent required by the Skyline shareholders' agreement referred to below (although it retains the right to maintain a 15 per cent. stake in Skyline).

(ii) **Shareholders' Agreement**

Pursuant to a shareholders' agreement relating to Skyline between the Founders, the Investors and Skyline dated 31 January 2000 (the "Shareholders' Agreement"). The Company was granted an option to purchase an additional 4.9 per cent. of the share capital of Skyline from Chase for FRF 4,303,260 (approximately US$602,000) (the "Chase Option"). The Company has given notice to Chase pursuant to the Shareholders' Agreement that it intends to exercise the Chase Option. Thus, immediately following the Company's exercise of the Chase Option, the Company will hold 15 per cent. of the share capital of Skyline, the Founders 44 per cent., Chase 31.5 per cent. and GMT 9.5 per cent.

The Shareholders' Agreement sets out pre-emption rights arising on the transfer of shares based on the following priorities:

A Where the transferor is a member of the Founders' group, first to the other parties in the Founders' group and second to the Investors;

B Where the transferor is an Investor other than the Company, first to the Company, second to the remaining Investor(s) and thirdly to the Founders; and

C Where the transferor is Atlantic, first to the other Investors and second to the Founders.

In addition, should a transfer of shares be proposed which would result in a change of control then the Company has a priority right to purchase all, but not some only, of the shares being sold at the price set out in the transfer notices. If the Company decides not to do so, then it will lose this right if another bidder subsequently offers a higher price for the shares whilst the initial bid remains outstanding.

Where a proposed transfer of shares would result in a change of control and the pre-emption rights have not been exercised then the other shareholders have a tag along right whereby they are entitled to transfer to the purchaser all or any part of their shares at the highest price offered by the purchaser to the proposed transferor.

The shareholders' agreement also provides for the mandatory sale by minority shareholders if (a) a person acting alone or in concert acquires at least 90 per cent. of the shares in Skyline, or (b) if an offer is made to acquire 100 per cent. of the shares in Skyline, and shareholders holding at least 51 per cent. of the shares in respect of which the Offer is made indicate that they wish to accept the offer.

Where shareholders in Skyline are in fact holding companies belonging to a Founder or an Investor, the shareholders' agreement provides for a deemed transfer notice to be issued if the relevant party no longer controls this holding company. For individuals, the threshold is 95 per cent. of the shares of the holding company; in the case of Investors, the holding company or fund must remain within the Investor's group. Euro-Invest gives a similar undertaking that at least 51 per cent. of its shares will remain directly held by its existing shareholders. The managers of Skyline are prohibited from transferring their shares for a period of two years from the date of the shareholders' agreement.

The Company has a right on new share issues to maintain a 15 per cent. shareholding in Skyline on a fully-diluted basis following the relevant issue (or such lower percentage as the Company may hold at the time of the issue). Subject to this right, all shareholders undertake to waive up to 25 per cent. of the preferential right of subscription which they hold under French law for any future share issues for the benefit of a third party.

The management board of Skyline is appointed pursuant to the Shareholders' Agreement with Skyline able to appoint one director, and two should it reach a 25 per cent. shareholding.

The agreement lasts for a fixed period of 10 years and then terminates. The agreement is governed by French law.

(d) A memorandum of understanding dated 26 April 2000 agreed between MFN and ATL. The memorandum of understanding sets out the basic terms for the negotiation of a formal agreement for the provision by MFN to ATL on a right of use basis of specified fibre optical cable within MFN's European networks and associated facilities and the provision by ATL to MFN of two wavelengths of bandwidth capacity on ATL's UK fibre network.

The memorandum of understanding does not place legally binding obligations on the parties, apart from the provision stating that each party shall be responsible for their own costs in the preparation of the formal agreement. The memorandum of understanding will terminate three months from the date of execution.

(e) The following material contracts which were summarised in the circular dated 16 November 1999:

(i) an agreement dated 12 November 1999 between Marconi, the Company, Fibreway Limited ("Fibreway"), Marconi Communications Limited ("Marconi Communications"), Atlantic Telecommunications Limited ("ATL") and Faststill (Jersey) Limited ("Telco") (the "*Framework Agreement*");

(ii) an equipment software and supply agreement (with vendor finance) between Marconi Communications and ATL dated 9 December 1999;

(iii) an agreement between Fibreway and Telco dated 9 December 1999 pursuant to which Fibreway provides Telco with the exclusive use of the Fibres for a period of 20 years;

(iv) a network framework agreement between Marconi Communications, Telco and Fibreway dated 9 December 1999;

(v) a maintenance and support services agreement between Marconi Communications and Telco in agreed form to be entered into pursuant to the Framework Agreement;

(vi) a placing agreement dated 16 July 1998 between the Company, Close Brothers and Hoare Govett Limited; and

(vii) a placing agreement dated 12 November 1999 between the Company, Close Brothers Limited and Hoare Govett Limited.

Save as disclosed above, no other contracts (not being contracts entered into in the ordinary course of business) have been entered into which contain provisions under which Atlantic or any subsidiary of Atlantic have an obligation or entitlement which is, or may be, material.

9.2 First Telecom Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by First Telecom either within the two years immediately preceding the date of this document and are, or may be, material, or at any time under which the First Telecom Group has any obligation or entitlement which is, or may be, material as at the date of this document:

(a) The share purchase agreement dated 3 February 2000 between Mr John Fitzgerald and Mr Richard Fitzgerald (together the vendors), INI, First Telecom GmbH and First Telecom for the sale and purchase of the entire issued share capital of INI by First Telecom GmbH for a consideration of DM 9,500,000 (subject to adjustments following audit of the financial statements of INI for the 12 months ended 31 December 1999). Of the total consideration, DM 2,850,000 was satisfied by the grant of options to acquire a total of 300,000 First Telecom Ordinary Shares. The balance of the consideration, comprising DM 6,650,000, was payable in cash in two instalments. The first instalment of DM 3,325,000 was paid on 3 February 2000 and the second instalment of DM 3,325,000 is due on 3 February 2001. The consideration was split between each of the vendors in unequal shares to reflect the fact that certain intellectual property rights transferred to INI as part of the acquisition.

The option to acquire 300,000 First Telecom Ordinary Shares was granted on such terms that it becomes exercisable on a change of control of First Telecom.

The vendors gave various representations and warranties in connection with the transaction. The vendors are restricted from competing with INI in the provision of telecommunication services and Internet services for three years after completion.

(b) The share purchase agreement dated 29 February 2000, between Mr Daniel Harris and Mr Justin Keery as vendors and First Telecom as purchaser, for the entire issued share capital of Cerbernet for a consideration of £3,029,630 of which £1,465,343 was payable in cash with the balance being satisfied by (i) the allotment to the vendors of 491,451 First Telecom Deferred Shares and (ii) the allotment to two consultants of 29,978 First Telecom Deferred Shares. In addition and in consideration of the cancellation of options over ordinary shares in Cerbernet, First Telecom agreed to issue 78,571 options over First Telecom Ordinary Shares to Mr Keery and to various employees of Cerbernet. The share options will become exercisable on a change of control of First Telecom at an exercise price of 1p per share.

Of the total cash consideration of £1,465,342, the amount of £732,647 was paid at completion of the sale and purchase of the shares of Cerbernet on 29 February 2000. The balance of £732,696 is payable by First Telecom on 1 March 2001. This amount may be reduced if the net asset value of Cerbernet as at 29 February 2000 was less than its net asset value as at 30 November 1999 as stated in the unaudited accounts available at 29 February 2000.

The vendors gave certain warranties and indemnities to and entered into certain non-compete covenants with First Telecom.

(c) The Shareholders' Agreement dated 12 October 1999 (the "Shareholders Agreement") between Marcus Citron, Mark Daeche, Morgan Stanley Capital Partners III, L.P., Morgan Stanley Capital Investors, L.P., MSCP III 892 Investors, L.P. (such limited partnerships being together the "Morgan Stanley Funds"), Providence Equity Partners III L.P., Providence Equity Operating Partners III L.P. (such limited partnerships being together the "Providence Funds"), Darren Braham, Lawrence Foulds, David Oertle (together, "Shareholders") and First Telecom. Pursuant to the Shareholders Agreement, the Shareholders and First Telecom agreed to various provisions relating to the management of First Telecom including to exercise all voting rights to procure that the composition of the board of directors includes two nominees of the Morgan Stanley Funds and two nominees of the Providence Funds. In the Deed of Warranty the Warrantors have agreed that the Shareholders' Agreement will terminate with effect from Completion.

(d) The agreement dated 16 February 2000 between First Telecom GmbH and Nokia relating to the supply by Nokia of a broadband access system and related equipment and services, for Germany, including hardware equipment and software. The agreement envisages three stages, a pilot stage, a roll-out stage and a subsequent period during which further orders can be made. Prior to the commencement of the pilot stage, First Telecom GmbH has placed an initial order for equipment including laboratory equipment. The provisional pilot stage was to have been completed by 12 May 2000 unless extended by agreement and is now expected to be in June 2000. The final pilot stage is to be completed by 1 September 2000 unless extended by agreement. If Nokia failed to complete the provisional pilot stage by 12 May 2000, or such later date as may be agreed between the parties, and such failure is due to fundamental breaches by Nokia or its suppliers or subcontractors of its obligations, it shall be liable to pay First Telecom GmbH the sum of US$500,000 and First Telecom GmbH shall be entitled to terminate the contract, if such breaches are not remedied by Nokia within an eight week grace period, and may require repayment to it of any sums paid pursuant to the agreement.

The agreement includes provisions relating to the supply, installation and testing of equipment. There are also obligations on Nokia to provide technical support to First Telecom GmbH in the operation of the system for an initial five year term following completion of the pilot stage. The price payable by First Telecom GmbH for such technical support will depend on the level of support provided; the agreement contains a framework of such costings. On the expiry of this five year period, Nokia must offer to provide technical support for a further five year term on terms to be agreed between the parties.

The agreement is for a minimum term of three years following completion of the pilot stage. Thereafter it will continue on a rolling basis. Once the pilot stage has been completed, First Telecom GmbH has minimum purchase commitments of US$17 million under the agreement, although these can be reduced in accordance with the provisions of the agreement.

The agreement contains certain warranties given by Nokia to First Telecom, including warranties relating to the provision and performance of the equipment, the compatibility of the hardware and software and the quality of performance of the services.

(e) The agreements between, variously, Ericsson IFS ("IFS"), Ericsson Limited ("E Ltd"), Ericsson GmbH ("E GmbH"), First Telecom, First Telecom plc, First Telecom Group Limited, First Telecom GmbH and First Telecom SA which principally relate to the lease by First Telecom plc, First Telecom GmbH and First Telecom SA of telecommunications equipment and related software for applications in Europe.

The agreements comprise (i) a supply agreement dated 30 April 1998, between E Ltd and First Telecom plc; (ii) a master lease agreement dated 30 July 1998 between IFS and First Telecom plc together with a related guarantee from First Telecom dated 30 July 1998; (iii) a title transfer agreement dated 30 July 1998 between IFS, First Telecom plc and E Ltd; (iv) a guarantee dated 30 July 1998 of First Telecom in respect of First Telecom plc's obligations under the supply agreement and the title transfer agreement; (v) a novation agreement dated 19 October 1998 between E Ltd, E GmbH, First Telecom plc and IFS; (vi) a third supplemental agreement to the master lease agreement dated 12 October 1999, which supersedes the two supplemental agreements dated 4 November 1998 and 16 June 1999; (vii) a sub-lease agreement between First Telecom plc and First Telecom GmbH dated 28 July 1999; and (viii) a sub-lease agreement between First Telecom plc and First Telecom SA dated 6 January 2000.

Pursuant to these various agreements, First Telecom plc has agreed to lease various equipment and software for up to a maximum consideration of £13 million excluding VAT. Under the terms of the master lease agreement there are restrictions on First Telecom plc disposing of, mortgaging, charging or sub-leasing the equipment or moving it. However, First Telecom plc can sub-lease the equipment to any of its wholly owned subsidiaries subject to the prior written approval of IFS and a guarantee being issued to IFS. First Telecom plc remains responsible for the cost of maintenance, repair, servicing, testing and insuring the equipment.

First Telecom plc and IFS gave limited reciprocal representations and warranties; no warranties, either express or implied by law, were given by IFS in respect of the equipment leased or the software.

There were various financial comfort requirements placed on First Telecom plc – these have been updated and form part of the third supplemental agreement discussed below. First Telecom plc's obligations were guaranteed by First Telecom.

Pursuant to the title transfer agreement, it was agreed that IFS would acquire title to certain equipment from E Ltd. IFS could then lease this equipment to First Telecom plc under the terms of the master lease agreement. The amount of consideration payable by First Telecom plc depends on the individual purchase orders placed, but any such consideration satisfies its payment obligations to E Ltd under the supply agreement. First Telecom guaranteed the performance of First Telecom plc's obligations. It was a term of the agreement that IFS received comfort that at least £5 million was available to First Telecom plc whether by way of bank facility or otherwise.

E Ltd remained subject to certain warranties given to First Telecom plc under the supply agreement, including warranties relating to the quality of equipment and services provided and the workability of the equipment and the software. Pursuant to the novation agreement the rights and obligations of E Ltd under the supply agreement and the transfer agreement (including the warranties) were discharged and replaced by identical rights and obligations on E GmbH.

IFS can terminate the leasing of the equipment and the licensing of the software if an Event of Default occurs or if First Telecom plc fails to perform its obligations under this agreement. The definition of Event of Default covers a range of situations including a change of control of First Telecom plc, a default in payment under the master lease agreement by First Telecom plc, First Telecom plc failing to hold the relevant licences required to carry out their business and termination of any agreement which is material to the business of First Telecom plc.

As the Ericsson agreements are inter-related the occurrence of an Event of Default will grant IFS a right to terminate the master lease agreement, the title transfer agreement and the novation agreement. Termination of these agreements will consequently terminate the other Ericsson agreements.

In the event of termination the leased equipment and software will be returned to IFS and First Telecom plc will be required to pay the outstanding balance of the purchase price of the equipment and an additional fee.

The third supplemental agreement dated 12 October 1999 amended the financial covenants contained in the master lease agreement. Additionally, First Telecom ratified and confirmed its guarantee of First Telecom plc's obligations. New financial covenants were included to the effect that:

(i) First Telecom must ensure that the First Telecom Group's cash balance (cash at bank and in hand) will be no less than £6,000,000 at the end of each quarterly period. This quarterly cash balance requirement started from the quarter ending 31 December 1999 and will continue whilst sums are outstanding from First Telecom plc to IFS.

The sub-lease agreements in Germany and France relating to telecommunications equipment and software are governed by English law. The terms of both of these agreements are essentially the same as the master lease agreement dated 30 July 1998. The German and French First Telecom companies sub-lease their equipment and software from First Telecom plc.

The sub-lease Agreement in Germany between First Telecom plc and First Telecom GmbH is dated 28 July 1999. The French sub-lease Agreement between First Telecom plc and First Telecom S.A. is dated 6 January 2000. If the Master Lease Agreement is terminated due to an Event of Default these sub-lease agreements will also terminate as First Telecom plc will no longer have the capacity to sub-lease.

(f) Under a facility agreement dated 24 September 1998 between First Telecom, MSSF, First Telecom plc and First Telecom B.V. (as amended by an amendment agreement dated 30 April 1999), the financial institutions named in the agreement ("Banks") granted to First Telecom a multicurrency term loan facility in an aggregate amount not exceeding £7 million and a multicurrency revolving credit facility in an aggregate amount not exceeding £3 million. Interest is payable on outstanding amounts at 3.25 per cent. per annum over LIBOR plus the associated costs rate (although the percentage rate will increase by 0.25 per cent. at the end of every six months after March 2000). The facility agreement obliges First Telecom to provide certain financial information to the Banks. Under the facility agreement, First Telecom, First Telecom plc and First Telecom B.V. gave certain undertakings, representations and warranties to Morgan Stanley Senior Funding, Inc. and the Banks. It is expected that the facilities will be repaid on Completion.

(g) The Investment Agreement dated 12 October 1999 between First Telecom, the Morgan Stanley Funds and the Providence Funds, pursuant to which Funds invested an aggregate amount of £39,753,679.25 for 12,987,013 "B" such Preference Shares and 12,987,013 convertible 1999 Preference Shares. Under this agreement, First Telecom gave certain warranties to the Morgan Stanley Funds and the Providence Funds.

(h) The Investment Agreement dated 2 March 1999 between First Telecom and the Morgan Stanley Funds pursuant to which the Morgan Stanley Funds invested an aggregate amount of £15,000,000 for 9,740,259 A Preference Shares. Under this agreement First Telecom gave certain warranties to the Morgan Stanley Funds.

(i) The investment agreement dated 2 September 1997 between First Telecom and the Morgan Stanley Funds, pursuant to which the Morgan Stanley Funds invested an aggregate amount of £9,800,000 for 19,505 1997 Preference Shares. Under this agreement, First Telecom gave certain warranties to the Morgan Stanley funds.

Save as disclosed above, no other contracts (not being contracts entered into in the ordinary course of business) have been entered into which contain provisions under which First Telecom or any subsidiary of First Telecom have an obligation or entitlement which is, or may be, material.

10. The Share Option Scheme

10.1 Summary of the Scheme

(a) *Introduction*

The Scheme has been approved by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988.

(b) *Constitution of the Scheme and the Committee*

The purpose of the Scheme is to enable full-time employees and directors of the Company and directors of any participating subsidiary to acquire options to subscribe for or buy shares in the ordinary share capital of the Company ("Scheme Shares"). All subsisting options are options to subscribe.

The Scheme is administered by a committee ("Committee") consisting wholly or mainly of non-executive directors or directors who do not and will not themselves participate in the grant of options under the Scheme. The Committee selects those persons who will be granted options.

(c) *Eligibility*

Only directors who work at least 25 hours each week and employees of the Company or employees of a participating subsidiary who work at least 20 hours each week are eligible to have options granted to them.

(d) *Grant of options*

The Committee may grant any eligible employee an option over such number of Scheme Shares as the Committee may determine at its discretion. Options may normally be granted at any time within the period of 42 days following the announcement to the London Stock Exchange of the interim or final results of the Group. No option may be granted after the tenth anniversary of the adoption date.

(e) *Option Price*

The price ("Option Price") payable for each Scheme Share on exercise of an option is that determined by the Committee from time to time but (subject as mentioned below) shall not be less than the market value of an Ordinary Share (as derived from the Official List on the date of grant or, in the absence of any dealings, as agreed with the Inland Revenue).

(f) *Individual limits*

No option may be granted to any employee or director if, as a result, the total market value of Shares subject to subsisting options held by him under the Scheme or any other Inland Revenue approved discretionary share option scheme adopted by the Company would exceed or further exceed £30,000. Normally no person may at any time hold options over Scheme Shares if the aggregate market value of all shares over which rights have been granted to or conferred on him within the previous ten years (but after 10 January 1995) under the Scheme and any other share option scheme of the Company (other than a savings-related share option scheme), exceeds four times his earnings.

(g) *Exercise of options*

Except on death and in certain other circumstances, an option may not be exercised prior to the third anniversary of the date of grant or prior to the satisfaction of any performance criteria or other conditions imposed on the grant of the option. Options lapse on the tenth anniversary of the date of grant.

(h) *Five per cent. in ten years limit*

No option may be granted under the Scheme if as a result the aggregate nominal value of all shares issued or issuable pursuant to options granted during the previous ten years under the Scheme or under any other share option scheme of the Company which would exceed five per cent. of the ordinary share capital of the Company in issue on the day preceding the proposed date of grant.

(i) *Three per cent. in three years limit*

No option may be granted under the Scheme if as a result the aggregate nominal value of all shares issued or issuable pursuant to options granted during the previous three years under the Scheme or any other employee share scheme of the Company would exceed three per cent. of the ordinary share capital of the Company in issue on the day preceding the proposed date of grant. This limit shall not apply if the five per cent. in five years limit described in sub-paragraph (j) below is and always has been complied with.

(j) *Five per cent. in five years limit*

No option may be granted under the Scheme if as a result the aggregate nominal value of all shares issued or issuable pursuant to options granted during the previous five years under the Scheme or under any other discretionary share option scheme of the Company would exceed five per cent. of the nominal value of the ordinary share capital of the Company in issue on the day preceding the proposed date of grant.

(k) *Ten per cent. in ten years limit*

No option may be granted under the Scheme if as a result the aggregate nominal value of all shares issued or issuable pursuant to options granted during the previous ten years under the Scheme or under any other employee share scheme of the Company would exceed ten per cent. of the nominal value of the ordinary share capital of the Company in issue on the day preceding the proposed date of grant.

(l) *Performance criteria*

Options granted under the Scheme will normally only be exercisable if a specified performance condition is met. The rules of the Scheme contain the appropriate powers allowing the Committee to impose such a condition when granting options under the Scheme and it is the intention of the Committee to do so in respect of all options granted under the Scheme. The performance criteria for the series of options granted in 1995 and 1997 are set out in paragraph 6.2 above.

(m) *Change of control*

In the event that a company ("Acquiring Company") (a) obtains control of the Company either (1) as a result of a takeover offer or (2) in pursuance of a compromise or arrangement sanctioned by the court under section 425 of the Act or (b) serves a notice or notices on the shareholders of the Company under section 429 of the Act, each holder of an option may exercise his options or, with the agreement of the Acquiring Company, exchange it for the grant of an equivalent option to acquire shares in the Acquiring Company.

(n) *Alteration*

The rules of the Scheme cannot be altered to the advantage of participants without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the Scheme and amendments to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the Scheme or for the Company or members of the Group).

10.2 *Grant of options by the Company*

The Company has granted options for nil consideration over Ordinary Shares to employees under the Share Option Scheme as follows:

As at 19 May 2000, (being the latest practicable date prior to the publication of this document), there were outstanding options over a total of 901,357 Ordinary Shares representing approximately 0.6 per cent. of the issued share capital of the Company.

Details of the options outstanding under the Share Option Scheme are as follows:

Ordinary Shares	*Date of grant*	*Price per Ordinary Share*	*Exercise period*
319,316 (First Series)	30 March 1995	115p	30 March 1998 — 29 March 2005
582,041 (Second Series)	28 February 1997	154.5p	4 February 2000 — 3 February 2007

* The grants under the Second Series were made in breach of the limits set out in the Finance Act 1996, including all of the grants set out above. The Inland Revenue is aware of the position and it has been confirmed that these options are unapproved share options.

11. Licences

The following tables contain summaries of the Group's and the First Telecom Group's cable licences and telecommunications licences necessary for the present operation of the Group's and the First Telecom Group's business.

A. United Kingdom Licences

11.1 (a) Licences to provide telecommunications services under section 7 of the Telecommunications Act issued by the DTI.

Licence area	*Licensee*	*Type of Licence*	*Commencement Date*	*Expiry date*
United Kingdom	Atlantic Telecommunications Limited	Fixed PTO	30 December 1997	29 December 2022
	First Telecom plc	Fixed PTO	21 April 1997	20 April 2022
	First Telecom plc	ISVR Registration	31 December 1997	30 December 2022

(b) Licences to provide wireless based services under section 1 of the Wireless Telegraphy Act issued by the RA.

Licence area	*Licensee*	*Commencement Date*	*Expiry date*
Strathclyde region (point to multipoint)	Atlantic Telecommunications Limited	9 September 1996	Until revoked by the Secretary of State
Central and East of Scotland (point to multi-point)	Atlantic Telecommunications Limited	15 October 1997	Until revoked by the Secretary of State
UK: the sites specified in the schedules to the licence (point to point)	Atlantic Telecommunications Limited	14 June 1996	Until revoked by the Secretary of State
Northwest England (point to multi-point)	Atlantic Telecommunications Limited	28 May 1999	Until revoked by the Secretary of State
North East England (point to multi-point)	Atlantic Telecommunications Limited	22 December 1999	Until revoked by the Secretary of State
Central England (point to multi-point)	Atlantic Telecommunications Limited	30 March 2000	Until revoked by the Secretary of State
South East England excluding the City of London (point to multi-point)	Atlantic Telecommunications Limited	30 March 2000	Until revoked by the Secretary of State
Yorkshire & Lincolnshire (point to multi-point)	Atlantic Telecommunications Limited	30 March 2000	Until revoked by the Secretary of State
South West England (point to multi-point)	Atlantic Telecommunications Limited	30 March 2000	Until revoked by the Secretary of State

11.2 Broadband licences

(a) Licence to run telecommunications systems under section 7 of the Telecommunications Act issued by the DTI.

Franchise area	*Licensee*	*Commencement Date*	*Expiry date*
Aberdeen and the surrounding area	Aberdeen Cable and Broadband Ventures Ltd	28 May 1985	27 May 2000

Discussions with the DTI to renew this licence have been commenced.

(b) Licence to provide local delivery services under Part II of the Broadcasting Act issued by the ITC.

Franchise area	*Licensee*	*Commencement Date*	*Expiry date*
Aberdeen	Aberdeen Cable	16 October 1991	Renewed from 4 May 1999

The above licence replaced a licence issued by the Home Office which came into effect on 4 May 1985.

(c) Licence to provide a licensable programme service under Part I of the Broadcasting Act issued by the ITC.

Franchise area	*Licensee*	*Commencement Date*	*Expiry date*
Aberdeen	Aberdeen Cable	1 January 1991	31 December 2001

11.3 Class Licence

Atlantic Logicall has the benefit of a class licence, which was granted on 31 December 1997 and expires on 30 December 2022, to run branch systems to provide telecommunications services. This licence authorises all persons of the class described in the licence to run telecommunications systems described in the licence.

B. France

Type of Licence	*Licence Area*	*Licensee*	*Commencement Date*	*Expiry Date*
L34-1 – Licence for the Provision of Telephony Services	France	First Telecom S.A.	14 December 1999	31 December 2014
L33.1 – Licence for the Installation and Operation of Telecommunications Networks	Ile-de-France	First Telecom S.A.	14 December 1999	13 December 2014

C Germany

Type of Licence	*Licence Area*	*Licensee*	*Commencement Date*	*Expiry Date*
Class 4 Licence for Provision of Voice Telephony Services	Germany	First Telecom GmbH	16 April 1999	Unlimited term
Class 3 Licence giving Rights of Access in Relation to Public Land amongst other things	Berlin, Hamburg, Munich, Dusseldorf and Frankfurt	First Telecom GmbH	7 December 1999	Unlimited term

D United States

Type of Licence	*Licence Area*	*Licensee*	*Commencement Date*	*Expiry Date*
Section 214 International Facilities and Services Authorisation	International Facilities and Services originating in the United States	First Telecom Inc.	21 February 1997	Unlimited term

12. Working capital

The Company is of the opinion that, having regard to the bank and other facilities available to it, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

13. Year 2000

Following the Year 2000, the Directors and the Proposed Directors continue to be alert to the potential risks and uncertainties surrounding the Year 2000 issue. As at the date of this document, neither the Directors nor the Proposed Directors are aware of any significant factors which have arisen, or that may arise, which will affect the activities of the Enlarged Group; however, the situation is still being monitored.

14. Consents

14.1 Close Brothers has given and not withdrawn its written consent to the issue of this document and the references to its name in the form and context in which they appear.

14.2 Chase has given and not withdrawn its written consent to the issue of this document and the references to its name in the form and context in which they appear.

14.3 Grant Thornton has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter set out in Part VI of this document and the references to its name in the form and context in which they appear and has authorised the contents of Part VI of this document for the purposes of Section 152(1)(e) of the Financial Services Act 1986.

14.4 Arthur Andersen has given and not withdrawn its written consent to the inclusion in Part IV of this document of its accountants' report and the references thereto and its name, in the form and context in which they appear and has authorised the contents of its accountants' report in Part VI for the purposes of Section 152(1)(e) of the Financial Services Act 1986.

15. Taxation

Advance corporation tax ("ACT") was abolished with effect from 5 April 1999 and therefore the Company will not have to account for ACT when it pays a dividend. The Company does not withhold tax at source on dividends.

A Shareholder who is resident (for tax purposes) in the United Kingdom and who receives a dividend from the Company will be entitled to receive a tax credit equal to one ninth of the cash dividend. The aggregate of the dividend and the tax credit (the "gross dividend") will be treated for UK income tax purposes as the Shareholder's top slice of income. The tax credit will be taken to satisfy the whole of the income tax liability in respect of the gross dividend of individuals resident in the UK for tax purposes whose income does not exceed the threshold for higher rate tax. Higher rate taxpayers will have to pay additional tax equal to 22.5 per cent. of the gross dividend. Generally, shareholders will no longer be entitled to reclaim the tax credit attaching to any dividends paid by the Company, save where their Ordinary Shares are held in a Personal Equity Plan or Individual Savings Account, when the tax credit can be reclaimed for dividends paid on or before 5 April 2004. Certain transitional relief applies to dividends received by charities.

Any person who may be resident (for tax purposes) outside the UK should note that, since 6 April 1999, most non-UK resident shareholders who had previously been able to claim repayment of any part of the tax credit on UK dividends have either ceased to be able to obtain such repayment or have seen the amounts repayable fall to less than 1 per cent. of the dividend. Any such person should consult his own tax adviser concerning his liability on the dividends received, and on whether he is entitled to reclaim any part of the tax credit and, if so, the procedure for doing so and whether any double taxation relief is due in any country in which he is subject to tax.

Subject to certain restrictions for some insurance companies, a corporate shareholder which is resident in the United Kingdom (for tax purposes) is not usually liable to United Kingdom corporation tax in respect of dividends received from the Company. However, where shares are held as trading stock, dividends paid will be treated for tax purposes as part of the shareholder's trading profit.

UK pension funds are not entitled to reclaim any part of the tax credit associated with dividends paid by the Company.

***The above comments are intended only as a general guide to certain aspects of current United Kingdom* law and Inland Revenue practice. It applies only to persons who are the absolute beneficial owners of their Ordinary Shares and New Ordinary Shares, who hold their Ordinary Shares and New Ordinary Shares as *investments and not as trading stock and who, as regards section (a) above, are resident or* ordinarily resident for tax purposes in the United Kingdom, or trade in the United Kingdom through a branch or agency for the purposes of which trade, branch or agency Ordinary Shares and New Ordinary Shares are used or held. *Different rules may apply in other cases.* Persons who may be subject to tax in a jurisdiction other than the United Kingdom or who are in any doubt as to their tax position should consult their professional advisers immediately.**

16. General

16.1 (a) Since 30 September 1999 the material changes in the indebtedness of the Group have been:

- repayment of the Senior Debt provided by ABN AMRO and others amounting to £18,000,000;
- the issue for cash of 200,000 Euro Units consisting of 13 per cent. Euro Notes due 2010 and Euro Warrants and 75,000 Sterling Units consisting of 13.25 per cent. Sterling Notes due 2010 and Sterling Warrants. In total, this amounts to approximately £196,000,000. The High Yield Debt agreements are set out at paragraph 9.1(b) of Part VII of this document.

(b) Save as disclosed in paragraph 16.1(a) above, and the strategic partnership with Marconi, referred to in Part I of this document, there has been no significant change in the financial or trading position of the Group since 30 September 1999, the end of the period to which the interim results of the Company have been published.

16.2 There has been no significant change in the financial or trading position of First Telecom since 31 December 1999, the end of the period to which the results of First Telecom have been published.

16.3 The issued Ordinary Shares are, and the New Ordinary Shares will be, in registered form and are capable of being held in uncertificated form. The New Ordinary Shares will be issued on 7 June 2000. The New Ordinary Shares will, when issued, rank *pari passu* with the existing Ordinary Shares. Application has been made for the 67,973,856 New Ordinary Shares to be admitted to the Official List of the UK Listing Authority and to be traded on the main market of the London Stock Exchange and no other stock exchange. A copy of these listing particulars has been delivered to the Registrar of Companies in Scotland.

16.4 The New Ordinary Shares will be issued at a price of 765p, which is a premium of 740p over the nominal value of 25p per Ordinary Share.

16.5 The expenses relating to the Acquisition which are payable by the Company (listing fees, printing and other expenses) are estimated to amount to approximately £7.6 million (including VAT).

16.6 The registered auditors of the Company are Grant Thornton, Chartered Accountants and Registered Auditors, who have audited the accounts of the Company for the three financial years ended 31 March 1999.

16.7 There are no legal or arbitration proceedings (nor are there any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the last 12 months, a significant effect on the financial position of the Group.

16.8 There are no legal or arbitration proceedings (nor are there any such proceedings which are pending or threatened of which First Telecom is aware) which may have, or have had during the last 12 months, a significant effect on the financial position of the First Telecom Group.

17. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) for a period of 14 days from the date of this document at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA:

(a) the memorandum and articles of association of the Company;

(b) the audited consolidated accounts of the Group for the three financial years ended 31 March 1999;

(c) the audited consolidated accounts of the First Telecom Group for the three financial years ended 31 December 1999;

(d) the service contracts and letters of appointment of the Directors and Proposed Directors referred to in paragraphs 6.4 to 6.7 above;

(e) the material contracts referred to in paragraph 9;

(f) the letters of consent referred to in paragraph 14 above;

(g) the letter from Grant Thornton set out in Part VI;

(h) the report from Arthur Andersen set out in Part IV;

(i) the listing particulars dated 16 July 1998 and relating to the placing of 33,333,333 Ordinary Shares of the Company issued at 150p per share;

(j) the prospectus dated 16 November 1999 and relating to the placing and open offer of up to 22,416,170 ordinary shares of the Company issued at 440p per share; and

(k) the offering memorandum dated 3 February 2000 relating to the high yield bond issue referred to at paragraph 9.1(b).

22 May 2000

ATLANTIC TELECOM GROUP PLC

(Registered in Scotland, No. 20509 and hereinafter referred to as "the Company")

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of the Company will be held at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA on 7 June 2000 at 12 noon for the purpose of considering and, if thought fit, passing the following resolutions, which are conditional on each other, **whereby all the resolutions are to be proposed as ordinary resolutions:**

RESOLUTIONS

1. **THAT** subject to and conditional upon admission to trading on the main market of the London Stock Exchange Limited and admission to listing on the Official List of the UK Listing Authority of the ordinary share capital to be issued pursuant to the Acquisition (as defined in the Circular dated 22 May, 2000 a copy of which document is produced to the meeting and signed for identification purposes by the Chairman of the meeting (the **"Circular"**)) becoming effective:

   (i) The authorised share capital of the Company be increased from £51,463,196 to £76,261,416 by the creation of an additional 99,192,880 Ordinary Shares of 25p each in the capital of the Company;

   (ii) The directors of the Company be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (**"Act"**) but without any prejudice to any existing authority granted under section 80 of the Act (**"Existing Authority"**) to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal value of £36,058,818; provided that in the case of any allotment (other than allotments of ordinary shares of 25p each in connection with or incidental to the Acquisition as described in the Circular) the authority conferred under this resolution and any Existing Authority shall be limited to the allotment of relevant securities up to an aggregate nominal amount equal to one-third of the aggregate nominal amount of all ordinary shares of 25p each in the capital of the Company issued and fully paid immediately following the issue of the New Ordinary Shares (as defined in the Circular); and provided further that this authority shall expire (unless previously revoked, varied or renewed by the Company in general meeting) on the fifth anniversary of the passing of this resolution but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and the directors of the Company may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

2. **THAT** the proposed acquisition by the Company of all or any of the issued and to be issued shares and warrants in the capital of First Telecom Group plc (**"First Telecom"**) on the terms and subject to the conditions of the offers summarised in the paragraph entitled "Summary of the Offer Document and related agreements" of the letter from the Executive Chairman of the Company on pages 13 and 14 of the Circular (further details of which are contained in paragraph 9.1(a) of Part VII of the Circular) or on and subject to the terms and conditions of any amended, extended, revised, renewed, additional or other offer or offers approved by the Board of Directors of the Company (the **"Board"**) (or any duly constituted committee thereof (a **"Committee"**)) (the **"Offers"**) be and is hereby approved and that the Board (or a Committee) be and is hereby authorised to waive, amend, vary or extend, in a non-material way any of the terms and conditions of the Offers and to do all such things as it may consider necessary or desirable in connection with the Offers.

Registered Office
Holburn House
475–485 Union Street
Aberdeen
AB11 6DB

By Order of the Board
Philip Norman Allenby
Secretary

22 May 2000

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. A form of proxy accompanies this Notice of Extraordinary General Meeting. Lodgement of a form of proxy will not preclude a member from attending and voting in person at the meeting if he or she wishes to do so.
2. To be valid the enclosed form of proxy must be completed and lodged together with the power of attorney or other authority (if any) under which it is signed, or a duly certified copy of such authority, with Lloyds TSB Registrars, 117 Dundas Street, Edinburgh EH3 5ED so as to arrive not later than 48 hours before the time fixed for the meeting.