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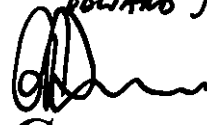
If you have sold or transferred all of your registered holding of Ordinary Shares in Atlantic Telecom Group PLC, please forward these listing particulars and the form of proxy to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

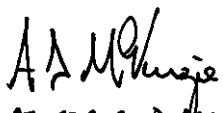
The New Ordinary Shares have not been and will not be registered under the US Securities Act of 1933 (as amended) (the "US Securities Act") or under the securities laws of any state of the United States or under the applicable securities laws of Canada, Japan and Australia and (subject to certain exceptions) may not be offered or sold directly or indirectly within the United States, Canada, Australia or Japan or to or by any national, resident or citizen of such countries.


GRAHAM J. DUNCAN

GORDON B. SLEIGHT




EDWARD J. HORNSBY

NICHOLAS W. BERRY


ALISAIDAR D. MCKENZIE

Atlantic Telecom Group PLC

Proposed Placing

by


MARTIN L. BEARD

Close Brothers Corporate Finance Limited

of

33,333,333 New Ordinary Shares at 150 pence per share

Preliminary announcement of unaudited results for the year to 31st March, 1998

Copies of this document, which comprises listing particulars prepared in accordance with the listing rules made under section 142 of the Financial Services Act 1986, have been delivered to the Registrar of Companies in Scotland for registration as required by section 149 of that Act. Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List. It is expected that Admission will become effective and dealings in the New Ordinary Shares will commence on 11th August, 1998.

Notice of an Extraordinary General Meeting of Atlantic Telecom Group PLC, to be held at 2.30 p.m. on 10th August, 1998, is set out at the end of this document. You will find enclosed with this document a form of proxy for use at the meeting. To be valid, forms of proxy should be completed and returned so as to reach the Company's registrars, Bank of Scotland Registrar Services, Apex House, 9 Haddington Place, Edinburgh EH7 4AL, as soon as possible and in any event no later than 2.30 p.m. on 8th August, 1998.



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EXPECTED TIMETABLE

	<i>1998</i>
Latest time for receipt of forms of proxy	2.30 p.m. on 8th August
Extraordinary General Meeting	2.30 p.m. on 10th August
Dealings in the New Ordinary Shares commence	11th August
Definitive certificates for the New Ordinary Shares despatched	by 12th August

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

"ABN AMRO"	ABN AMRO Bank NV
"ATL"	Atlantic Telecommunications Limited
"Act"	Companies Act 1985, as amended
"Admission"	admission of the New Ordinary Shares to the Official List
"Atlantic" or "the Company"	Atlantic Telecom Group PLC
"Atlantic Cable" or "Aberdeen Cable"	Aberdeen Cable Services Limited
"Atlantic Logicall" or "Logicall"	Logicall Telecommunications Limited
"Bank of Scotland"	The Governor and Company of the Bank of Scotland
"Bell Lawrie"	Bell Lawrie White & Co, a division of Brewin Dolphin Bell Lawrie Limited, joint stockbroker to the Company
"British Linen Bank"	The British Linen Bank Limited, a wholly owned subsidiary of Bank of Scotland
"Broadcasting Act"	the Broadcasting Act 1990 or the Broadcasting Act 1996, as appropriate
"BT" or "British Telecom"	British Telecommunications plc
"Close Brothers"	Close Brothers Corporate Finance Limited, sponsor and financial adviser to the Company and joint underwriter to the Placing
"CREST"	the system operated by CRESTCo Limited in accordance with which securities may be held and transferred in uncertificated form
"Directors" or "Board"	the directors of the Company whose names are set out on page 40 of this document
"DTI"	The Department of Trade and Industry which is responsible, <i>inter alia</i> , 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
"Extraordinary General Meeting"	the extraordinary general meeting of the Company to be held on 10th August, 1998
"Facility Agreement"	the agreement governing the Senior Debt Facility as described in paragraph 9 of Part VII
"Group"	the Company and its subsidiary undertakings
"Hoare Govett"	Hoare Govett Limited, joint stockbroker to the Company and joint underwriter to the Placing
"ITC"	the Independent Television Commission, the UK regulatory body which is responsible, <i>inter alia</i> , for overseeing and licensing cable communications operators
"London Stock Exchange"	London Stock Exchange Limited
"New Ordinary Shares"	the 33,333,333 new Ordinary Shares to be issued pursuant to the Placing
"Official List"	the Official List of the London Stock Exchange
"OFTTEL"	the Office of Telecommunications which is the regulatory body for telecommunications operators established by the Telecommunications Act
"Ordinary Shares"	ordinary shares of 25p each in the capital of the Company

“Placing”	the placing of the New Ordinary Shares at the Placing Price as described in this document
“Placing Agreement”	the agreement between Close Brothers, Hoare Govett and the Company in respect of the Placing referred to in paragraph 10.3 of Part VII of this document
“Placing Price”	150 pence per New Ordinary Share
“RA”	the Radiocommunications Agency, an executive agency of the DTI which regulates the use of the radio spectrum and administers licensing in the UK
“Registrars”	Bank of Scotland Registrar Services, Apex House, 9 Haddington Place, Edinburgh EH7 4AL
“Resolution”	the special resolution to be proposed at the Extraordinary General Meeting
“Senior Debt Facility”	the secured senior debt facility made available pursuant to the Facility Agreement
“Shareholder”	a holder of Ordinary Shares
“Share Option Scheme” or “Scheme”	the Atlantic Telecom Group PLC Approved Executive Share Option Scheme 1995
“Tadiran”	InnoWave Tadiran Telecommunications Wireless Systems Limited or Tadiran Telecommunications Limited, companies organised under the laws of Israel
“Telecommunications Act”	Telecommunications Act 1984
“UK”	the United Kingdom of Great Britain and Northern Ireland
“USA”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“Warrants”	the warrants to subscribe for Ordinary Shares at 133p per share (as adjusted), issued on 10 January 1995
“Wireless Telegraphy Act”	Wireless Telegraphy Act 1949 or Wireless Telegraphy Act 1998, as appropriate

GLOSSARY AND DATA SOURCES

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

“access network”	that part of the Company’s FRA network that connects the customer to one of the Company’s base stations
“backhaul network”	the trunk part of the Company’s FRA network, connecting one or more base stations to a switch
“base station”	electronics and related antennas, typically located on tall buildings or masts, used to transmit and receive telecommunications signals from customers
“broadband”	a cable network with the capacity to carry a large number of television channels (usually 25 or more) and other services
“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
“FRA” or “fixed radio access”	a fixed access point to multi point radio based network to deliver telecommunications services in the local loop
“indirect access technologies”	routing boxes that attach to BT’s network which route calls to the switches of the Company
“least-cost routing”	a means of carrying telecommunications traffic by the lowest cost route
“line base”	the number of telephone lines installed or pending installation
“local loop”	a telecommunications network in a local area to which customers can be directly connected
“narrowband”	a cable network which is capable of carrying a limited number of television channels (usually between four and ten) and other services
“point to point microwave”	a means of transmitting telecommunications signals over the air from one fixed point to another fixed point
“PTO”	Public Telecommunications Operator
“Synchronous Digital Hierarchy” or “SDH”	a modern telecommunications architecture which enables large volumes of telecommunications traffic to be managed and delivered efficiently
“V5.2”	a European standard signalling protocol which allows for concentration of telephone calls

The statistics relating to coverage and proposed coverage of the number of homes and businesses contained in Part I are derived from information relating to the size of the UK market (from which the Scottish market size has been derived by the Company based on population statistics) as published by OFTEL, the 1991 Census and Dun & Bradstreet. The operating statistics contained in Parts I and II are generated by the Company.

PART I

ATLANTIC TELECOM GROUP PLC

(Registered in Scotland, No. 20509)

Directors

Graham J. Duncan (*Executive Chairman*)
Gordon B. Sleight (*Managing Director*)
Alisdair D. McKenzie (*Finance Director*)
Martin L. Beard (*Sales and Marketing Director*)
Edward J. Hornsby (*Technical Director*)
Nicholas W. Berry (*Non-Executive Director*)
Andrew A. Laing (*Non-Executive Director*)

Registered Office

100 Union Street
Aberdeen
AB10 1QR

16th July, 1998

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

Dear Shareholder

PROPOSED PLACING OF 33,333,333 NEW ORDINARY SHARES

Introduction

Your Board indicated in a statement issued on 20th February, 1998 that it was the Group's intention to raise funds in order to expand rapidly its telecommunications networks. It was originally intended that these funds would be provided through an issue of senior discount notes but on 13th March, 1998 the Company announced that it had postponed the issue due to deteriorating market conditions. Since that date, the Board has been considering alternative sources of finance in order to fulfil its business plan. I am pleased to inform you that, subject to Shareholder approval, funding has now been conditionally secured for the next stage of our expansion. This comprises the Placing to raise £45 million, net of expenses, and the Senior Debt Facility, which is conditional on the Placing, for the provision of up to £60 million.

This financial package will provide the Group with the funding required to finance fully the Scottish build plan.

The Company has today also announced its unaudited preliminary results for the year to 31st March, 1998, which are included in Part II of this document.

The purpose of this document is to provide you with details of the Placing and the Senior Debt Facility and the reasons why your Board considers the Placing to be in the best interests of the Company. The Placing comprises a placing of 33,333,333 New Ordinary Shares and is conditional, *inter alia*, on the approval of Shareholders at an Extraordinary General Meeting to be held on 10th August, 1998. The Placing has been fully underwritten by Close Brothers and Hoare Govett and the Senior Debt Facility has been underwritten by ABN AMRO and British Linen Bank.

The Group's business plan shows that in the absence of further funding the Company would exhaust current financial resources in the very near term. In the event that the Placing did not go ahead, the Senior Debt Facility would also not be available. The Directors would therefore have to give urgent consideration to the options available to secure adequate finance for the Company's business. In such circumstances, the Directors believe that the terms on which any finance may be available would be materially less favourable to Shareholders than the terms of the Placing and that, if finance were not available, there would be significantly adverse consequences for Shareholders. Shareholders are therefore strongly urged by the Board to vote in favour of the Resolution which has to be passed in order to complete the Placing.

Business strategy and achievements to date

The Company is a competitive local exchange carrier, concentrating on building telecommunications access networks in the local loop in heavily populated urban areas of Scotland. It is the intention of the Directors that the Company continues to be a premier provider of high quality value added services within targeted sectors of the UK telecommunications market, utilising appropriate technologies that are tailored to its customer base. Since launching its commercial service over its FRA network in the City of Glasgow in October 1996, the Company has succeeded in capturing a growing share in its target markets of residential and small business customers. A number of significant achievements have been made since launch, including the following:

- The Company has substantially completed its network build in the City of Glasgow so that by 31st March, 1998 it had passed approximately 200,000 homes and 21,000 businesses in the city with its fixed radio access network, achieving a penetration rate of the homes and businesses passed of 3 per cent. after just 17 months of operation. This penetration was achieved in almost half the time originally anticipated by the Directors when the Company first launched the service.
- The Company's feature rich service packages and innovative pricing and bundling strategies have resulted in average revenues per residential customer materially above the UK average. In the year ended 31st March, 1998, the Company had an average revenue per residential customer of £36 per month. At 31st March, 1998, approximately 22 per cent. of directly connected lines were business lines and the average revenues per business customer were £89 per month.
- The churn rate has been kept to levels which are considered satisfactory and which are below those originally anticipated by the Directors. For the year ended 31st March, 1998, residential churn has averaged 17 per cent. per annum and business churn has averaged 10 per cent. per annum.
- The Directors believe that the Company has established strong brand recognition in a relatively short time with an image of high quality and good value.
- The FRA network has been designed and managed to cater for a high density of customers on each base station. At 31st March, 1998, the access network had excess capacity of approximately 48 per cent. compared to the installed line base at that time, which will allow the Company significantly to increase its customer base without capacity constraints.
- The network has performed to a very high standard. In the year ended 31st March, 1998 it has performed to an availability in excess of 99.99 per cent.
- When the Company first launched commercial service over its FRA network, its operations were restricted by licence to the Strathclyde Region of Scotland. Since then the Company has obtained further licences which permit it to operate across substantially the rest of Scotland.
- In December 1997, the DTI issued ATL with a PTO licence for the whole of the UK. This national PTO licence provides opportunities to expand certain aspects of the business, although further regional radio licences will be required in order to construct and operate FRA networks outside Scotland. The Directors expect to conclude discussions with the RA on the procedures for further licensing in the next few months.
- In September 1997, using indirect access technologies, the Company introduced its Crest service for residential customers. Crest has succeeded in capturing customers in Scotland ahead of the Directors' planned expansion of the Company's fixed radio access network. In addition, Crest is winning customers in areas where the Directors do not currently intend to build FRA networks.
- Following the acquisition of Logically in September 1996, this company's line base has increased by over six times. The Directors believe that this has been achieved by the successful penetration of larger business customers as a result of Logically's blend of telecommunications management services and least-cost routing capability.

Scottish build plan

The net proceeds from the Placing and the Senior Debt Facility will be used principally to fund fully the Scottish build plan and to upgrade the Group's Aberdeen cable TV network with digital technology. During 1998, the Directors intend to expand the Company's fixed radio access network so as to include substantially all of the Greater Glasgow area, covering approximately an additional 300,000 homes and 10,000 businesses, as well as to construct its network in Aberdeen, a city of approximately 100,000 homes and 7,500 businesses. The Directors also intend to upgrade the backhaul links in the Company's existing fixed radio access network in the City of Glasgow with the introduction of V5.2 technology and to build further resilience into the backhaul portion of the network by installing SDH rings. All future fixed radio access networks will be constructed with such technology and resilience incorporated.

In 1999, the Directors plan that the Company should complete construction of its Scottish FRA networks covering the remaining two principal cities in Scotland, Edinburgh and Dundee, containing approximately 300,000 homes and 16,500 businesses in total. This will give the Company a combined total coverage by its Scottish FRA networks of approximately 900,000 homes and over 55,000 businesses.

In addition to its telecommunications activities, the Group is the licensed broadband cable operator for the City of Aberdeen where its operational headquarters are based. The Company is in the process of building an FRA network in Aberdeen and when this is operational will market telecommunications services jointly with its existing cable television service. The Directors believe that this will further enhance the service offered to customers and the added attraction of cable television will add value to the telephone service. The Directors expect to complete a digital upgrade of the Group's cable network in Aberdeen, although the Group will not undertake this upgrade until it is satisfied with the general demand for digital services in the UK.

The Directors will continue to develop the Company's indirect access services in Scotland extending the market by approximately 1,350,000 homes. Whilst the focus of the Group's plan is to complete the build-out of Atlantic's FRA networks in Scotland, the Group will also consider directly related capital investments in the whole of the UK subject to strategic and economic justification. The Directors' plans for the further development of the Group outside Scotland include the further development of the Company's services to business customers throughout the UK and the installation of a switch in the London area to handle anticipated call volumes.

The Directors believe that the net proceeds from the Placing and the Senior Debt Facility will fully fund the Scottish build plan and these additional developments.

Build plan outside Scotland

Subject to being awarded the requisite licences, raising the appropriate funding and the build plan outside Scotland being demonstrated to be economically attractive, the Directors intend that the Company should build additional fixed radio access networks outside Scotland, limited to certain densely populated regions in other parts of the UK. The Company was issued with a national PTO licence by the DTI in December 1997 and is working with the RA on the procedures required for applications to be made for the necessary further regional licences under the Wireless Telegraphy Act to enable it to extend its fixed radio access networks into targeted urban areas in the rest of the UK.

The most appropriate funding to enable the Group to build networks outside Scotland will be determined by the Board at the time, although it is the Directors' current expectation that this phase of the Company's development should be funded principally through the debt markets.

Background to the Placing

On 20th February, 1998, the Company announced its intention to raise gross proceeds of up to £95 million through a private offering of senior discount notes in order to fund the Scottish build plan. However, conditions in the market for such issues deteriorated and, as a result, on 13th March, 1998 the Board announced that it had decided to postpone the issue rather than subject the Company to interest rates which would have been unacceptably high and not in the best interests of Shareholders.

The Directors believe that the terms on which the Company is able to access the market for such issues remain unfavourable and, whilst it is their intention to revisit the opportunity to raise such funding once conditions improve, the Group requires additional financing in the short term in order to continue to

develop the business. As set out below under "Current trading and prospects", the Group continues to perform strongly and it is partly the strength of this performance which has led to the immediate requirement to obtain additional capital.

Details of the Placing

The Placing is being effected on a non-pre-emptive basis, that is to say the New Ordinary Shares are being placed directly with institutional investors and are not first being offered for subscription by existing shareholders.

A non-pre-emptive placing has been chosen after taking into account the size of the issue relative to the Company's existing capitalisation, the limited financial capacity of certain existing shareholders (notably the Directors who, together, hold approximately 31.9 per cent. of the existing issued share capital) to support the issue and, therefore, the need to encourage the participation of new investors.

Because the Placing is on a non-pre-emptive basis, it will require, *inter alia*, the approval by Shareholders of a special resolution to disapply their statutory pre-emption rights. Such a resolution will be proposed at the Extraordinary General Meeting, details of which are set out below.

Pending application of the net proceeds from the Placing to finance the Scottish build plan, the net proceeds will be placed on interest bearing deposit.

Further details of the Placing are contained in paragraph 10.3 of Part VII of this document.

The Warrants

Of the original Warrants issued by the Company on 10th January, 1995, 5,050,161 Warrants remain outstanding. These Warrants are currently exercisable at a price of 133p per Ordinary Share during the period of 30 days commencing tomorrow and ending on 15th August, 1998. In the light of the Placing, the Directors consider that it is appropriate to make a number of amendments to the terms of the Warrants, in particular, to extend the period for exercise of the Warrants and correspondingly to increase the price at which the Warrants can be exercised. The changes are proposed principally to increase the level and certainty of proceeds available to the Company and to enable the Company potentially to access further equity funding through the exercise of the Warrants at a later date at a premium to the Placing Price. Consequently, the Company has today issued a circular to the Warrant holders convening a general meeting of the Warrant holders to approve the proposed changes. These changes involve the extension of the period of exercise of the Warrants to 30th September, 1999 and the increase in the exercise price of each Warrant from 133p per Ordinary Share to 160p per Ordinary Share.

Senior Debt Facility

The Company has entered into the Facility Agreement with ABN AMRO and British Linen Bank under which these banks have agreed to provide the Group with a new Senior Debt Facility totalling up to £60 million, conditional upon the Placing being completed. The drawdown of the Senior Debt Facility is conditional on the achievement of certain targets set out in the Facility Agreement. A further condition of the Senior Debt Facility is that the Company should have, in effect, spent a minimum of approximately £37 million of the gross proceeds of the Placing prior to the initial drawdown. Further particulars of the Facility Agreement are set out in paragraph 9 of Part VII of this document.

Current trading and prospects

The Company has today announced its unaudited preliminary results for the year to 31st March, 1998. The full text of the announcement of preliminary results, together with my Chairman's Statement, is set out in Part II of this document.

The year to 31st March, 1998 has again been one of significant progress. During the year, the Company concentrated on expanding the network and increasing the capacity of the network in line with demand which has been running at encouraging levels.

Looking forward, the Directors remain highly confident that, with the benefit of the proceeds from the Placing and the Senior Debt Facility, the Company can continue to develop and build on what it has already achieved. So far this year the Company has continued to expand its line base at an encouraging rate

and at 30th June, 1998 the Company's line base had increased to 35,321 from 31,083 at 31st March, 1998, which the Directors believe is an encouraging start to the current financial year. The first of the base stations for the rest of Greater Glasgow has been installed and is now operational. The FRA network in Aberdeen is in the process of construction with the switch already installed and fully commissioned.

Extraordinary General Meeting

You will find at the end of this document a notice convening an Extraordinary General Meeting of the Company to be held on 10th August, 1998, at which the Resolution will be proposed to increase the share capital of the Company, authorise the Directors to allot the New Ordinary Shares and to disapply statutory pre-emption rights in relation to the Placing.

Action to be taken

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 Bank of Scotland Registrar Services, Apex House, 9 Haddington Place, Edinburgh EH7 4AL as soon as possible but in any event so as to arrive no later than 2.30 p.m. on 8th August, 1998.

By completing and returning the form of proxy, you will not affect your right to attend and vote at the 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 and in particular to the Risk Factors set out in Part VI of this document.

Working capital

The Directors are of the opinion that, following the Placing and having regard to the bank facilities available to it, the Group has sufficient working capital for its present requirements.

The Placing has been underwritten by Close Brothers and Hoare Govett and is subject to Shareholder approval. The Senior Debt Facility, which is conditional upon the Placing, has been underwritten by ABN AMRO and British Linen Bank. However, in the event that the Placing does not complete, the Directors would have to give urgent consideration to the options available to secure adequate finance for the Company's business. In such circumstances, the Directors believe that the terms on which any finance may be available would be materially less favourable to Shareholders than the terms of the Placing and that, if finance were not available, there would be significantly adverse consequences for Shareholders.

Recommendation

Your Board, which has received financial advice from Close Brothers, considers the Placing to be in the best interests of the Company and its Shareholders as a whole. In providing advice to the Board, Close Brothers has placed reliance upon the Directors' assessment of the Group's commercial prospects and funding requirements.

Accordingly, your Board unanimously recommends that Shareholders vote in favour of the Resolution to be proposed at the Extraordinary General Meeting, as your Directors intend to do in respect of their own beneficial holdings, which amount to 16,162,190 Ordinary Shares, representing approximately 31.5 per cent. of the current issued share capital of the Company.

Yours faithfully

Graham J Duncan
Executive Chairman

PART II

Preliminary announcement of unaudited results for the Group for the year ended 31st March, 1998

Set out below is the full text of the preliminary announcement of unaudited results for the Group for the year ended 31st March, 1998, which were announced today.

“Chairman’s Statement

Summary

This year has again been one of significant progress. This time last year the Group had commenced telecommunications service in the City of Glasgow using fixed radio access rather than wires to connect the customer. This year the Group has built on this by concentrating on expanding the network and increasing the capacity of the network in line with demand which has been running at encouraging levels.

In the early part of the year the Group received a new telecommunications licence for substantially the rest of Scotland, expanding on the Strathclyde Region licence which it already held. Later in the year, we received the radio licence required to enable us to deliver our fixed radio access service throughout substantially the whole of Scotland. In September 1997, we launched a service aimed at customers who were unable to gain access to our fixed radio access network. This was stimulated by demand that we received from people in areas that we could not serve. The indirectly accessed service, which we have called Crest, utilises a small routing box that the customer plugs in to British Telecom’s network and the calls are then billed by Atlantic. The Group was delighted to receive a national public telecommunications licence in December 1997 to allow us to deliver telecommunications services throughout the whole of the United Kingdom. This licence enables us to install switching facilities anywhere in the UK and enables us to provide our indirect services, and certain other services, throughout the UK, although we are not able to expand our fixed radio access service into England and Wales without further radio licences. We continue to work to achieve our objective of expanding this service. The national licence also allows us to build wire-based networks and, in principle, enables us to utilise point to point microwave links anywhere in the UK, subject to suitable link licences. We believe that this gives us a great deal of flexibility to use appropriate technologies that match the customers’ needs and greatly expand the area in which the Group can profitably provide a number of its services.

During the year we exited completely from our narrowband cable networks which, for ten years, had been a cornerstone of our business. These networks had been losing customers for many years as their capacity is very limited and satellite dish systems, able to deliver much wider choice, were making inroads into the customer base. The Directors were pleased to be able to sell most of the systems, thereby largely preserving employment for the workforce, by concluding the sale of the main company, Broadcast Satellite Television Ltd, on 31st July, 1997. We closed down our last remaining operational narrowband network in Hull on 31st March, 1998. The Directors regard our sole remaining broadband cable network in Aberdeen as complementary to the delivery of telephone services in the city as our network strategy focuses our fixed radio access build on the main Scottish cities. The Directors have plans in place to upgrade the Aberdeen cable network for the delivery of digital services once they are satisfied with the general demand for digital services in the UK.

Our telecom management and least cost routing company, Logically Telecommunications Limited (“Logically”), has had an outstanding year and the Directors believe that it is now recognised as a leader in the provision of these types of services. Operating across the whole of the UK, Logically can now count a number of blue chip clients on its customer base including Clarks Shoes, HSBC Gibbs and Prudential Assurance.

The loss before taxation of £9,540,000 is in line with market expectations and reflects the activities of Atlantic Telecommunications Limited for a full year compared to a period of five months last year as it did not start to trade until it launched its FRA service in Glasgow on 30 October, 1996. Increasing customers requires investment and the Group will continue to invest in subscriber acquisition while at the same time ensuring that its costs are reasonable in relation to the size of the business opportunity. During the year the

Company incurred certain costs on an aborted issue of senior discount notes and included in the loss before taxation is a provision of £325,000 for certain out of pocket and other irrecoverable costs. The majority of the expenditure incurred has, however, been carried forward as a prepaid expense as it is the Directors' belief, having taken suitable advice, that an issue of senior discount notes can be completed in the current financial year.

Fixed radio access

During the year we have expanded the network to 42 operational base stations (from 30 operational base stations at 31st March, 1997), and have concentrated a significant amount of activity in expanding the capacity of the network in line with a growing demand for our services. We have now substantially completed the network build in the City of Glasgow and will now embark on taking the network build into the rest of Greater Glasgow as well as the expansion into the three other Scottish cities, namely Aberdeen, Dundee and Edinburgh. The Group has developed a network architecture that has been designed in a modular way to allow capacity to be built into the network as demand dictates. The Directors have made a deliberate decision to focus on the need to ensure that network capacity is available to connect customers when required, rather than to expand the network without sufficient capacity to connect customers. We are pleased to have taken penetration of customers on the network to 3 per cent. of homes and businesses passed at 31st March, 1998, after just 17 months of operations, in half the time that the Directors originally estimated.

Least cost routing and managed services

During the year we also concentrated on building up our business designed for larger companies by expanding the activities of Logically, our least cost routing and telecom management company, which has experienced record growth. At 31st March, 1998, Logically had increased its line base to nearly 13,500 lines. The Directors expect, subject to completing the funding arrangements announced today, to be able to continue to expand Logically's activities in the current year and are working at providing switch based facilities and value added services for this company.

Cable television

On 31st July, 1997, we sold the majority of our older narrowband cable networks with the sale of Broadcast Satellite Television Ltd ("BSTV") for £400,000. At that time we retained our interest in Hull Cablevision Ltd ("Hull"), one of the larger narrowband networks in the UK. On 31st March, 1998, we closed that system down and our cable interests are now limited to Atlantic Cable (Aberdeen Cable Services Ltd), which is the franchised broadband operator for the City of Aberdeen where our operational headquarters are based. The sale of BSTV coupled with the closure of Hull has required us to write off a further £670,000 to reflect the terms of the sale and closure. Atlantic Cable has had a disappointing year with its customer base reducing from 17,392 at 31st March, 1997, to 15,420 at 31st March, 1998. The Directors believe that this can be explained by an aggressive push by BSkyB to capture customers ahead of the roll out of digital services resulting in a substantial fall in the price of satellite dish systems which became very competitive against the price of our service. On the positive side, the average revenue per customer in Aberdeen remains more than 40 per cent. higher than the UK average and the system has the highest pay-to-basic ratio, at 261 per cent., of any UK network.

The Directors believe that the introduction of the Group's fixed radio access telephone service in Aberdeen, coupled ultimately with a digital upgrade of the network, will enable Atlantic Cable to maintain and build on its customer base. In the short to medium term this is likely to be at reduced average revenues per customer as prices are realigned to be more competitive. The Group's indirect telephone service, Crest, has been specifically targeted at the Aberdeen market and has been successful at capturing customers ahead of the direct FRA service with over 2,300 Crest customers in Aberdeen at 31st March, 1998.

Strategy and outlook

The focus and strategy of the Group is to provide, wherever possible, directly connected services in the local loop using appropriate technologies. We accomplish this with a radio connection using point to multipoint technologies for the residential market and for small business customers and certain other

technologies, particularly indirect access, for customers outside our network areas. The Directors believe that this mix of access technologies gives the Group flexibility to target customers with advanced and innovative service packages and that it is the service packages that create customer demand and not the technology that delivers them.

Looking forward, the Directors are very optimistic that the Group can continue to develop and build on what it has already achieved. So far this year the Group has continued to expand its telecommunications line base at an encouraging rate and at 30th June, 1998, the Group's line base had increased to 35,321 from 31,083 at 31st March, 1998, which the Directors believe is an encouraging start to the current financial year. For companies such as Atlantic that are focused on specific markets, the Directors believe there is great opportunity for the business to grow in a sector that is fast expanding. Growth cannot be achieved without capital, particularly in the telecommunications industry, and I am pleased that, subject to the necessary shareholder approvals, we will be moving forward with an enhanced capital base and importantly, a fully funded business plan, in order to build on what has already been achieved.

Graham J Duncan
Executive Chairman

16th July, 1998

Consolidated unaudited profit and loss account
for the year ended 31st March, 1998

	1997 £'000	1998 £'000
Turnover		
Continuing operations	6,713	10,595
Discontinued operations	2,180	795
	<u>8,893</u>	<u>11,390</u>
Cost of sales	(5,598)	(7,953)
Gross profit	<u>3,295</u>	<u>3,437</u>
Other operating charges		
ongoing	(5,801)	(12,007)
exceptional	—	(325)
	<u>(5,801)</u>	<u>(12,332)</u>
Operating loss		
Continuing operations	(2,180)	(8,733)
Discontinued operations	(326)	(162)
	<u>(2,506)</u>	<u>(8,895)</u>
Exceptional items		
Continuing operations:		
Provision for operations to be discontinued	(1,028)	—
Discontinued operations:		
Profit/(loss) on sale of discontinued operations	3,779	(1,698)
Less provision at 31st March, 1997	—	1,028
Less reinstatement of goodwill previously written off	(3,238)	—
	<u>(487)</u>	<u>(670)</u>
Loss on ordinary activities before interest	(2,993)	(9,565)
Net interest received	145	25
Loss on ordinary activities before taxation	(2,848)	(9,540)
Tax on loss on ordinary activities	—	—
Retained loss for the financial year	<u>(2,848)</u>	<u>(9,540)</u>
Loss per share	<u>(7.35)p</u>	<u>(18.86)p</u>

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

Consolidated unaudited balance sheet

As at 31st March, 1998

	<i>1997</i> <i>£'000</i>	<i>1998</i> <i>£'000</i>
Fixed assets		
Intangible assets	4,048	3,883
Tangible assets	<u>13,297</u>	<u>29,709</u>
	<u>17,345</u>	<u>33,592</u>
Current assets		
Stocks	1,049	715
Debtors: amounts falling due after more than one year	5,366	6,776
Debtors: amounts falling due within one year	2,246	4,046
Cash at bank and in hand	<u>17,475</u>	<u>57</u>
	26,136	11,594
Creditors: amounts falling due within one year	<u>6,946</u>	<u>15,517</u>
Net current assets/(liabilities)	<u>19,190</u>	<u>(3,923)</u>
Total assets less current liabilities	36,535	29,669
Creditors: amounts falling due after more than one year	<u>4,946</u>	<u>7,598</u>
	<u>31,589</u>	<u>22,071</u>
Capital and reserves		
Called up share capital	12,639	12,644
Share premium account	22,822	22,839
Profit and loss account	<u>(3,872)</u>	<u>(13,412)</u>
Shareholders' funds	<u>31,589</u>	<u>22,071</u>

Consolidated unaudited cashflow statement

for the year ended 31st March, 1998

	1997 £'000	1998 £'000
Reconciliation of operating loss to net cash outflow from operating activities		
Operating loss from continuing activities	(2,180)	(8,733)
Depreciation and amortisation	758	2,312
Amortisation of lease prepayment	164	164
Network lease prepayments	(1,625)	(1,875)
(Increase)/decrease in stock	(978)	305
Increase in debtors	(986)	(1,748)
(Decrease)/increase in creditors	(1,595)	6,349
Gain on disposal of fixed assets	(12)	(14)
Net cash outflow from continuing operating activities	(6,454)	(3,240)
Net cash inflow/(outflow) from discontinued operations	204	(562)
Net cash outflow from operating activities	(6,250)	(3,802)
Cashflow Statement		
Net cash outflow from operating activities	(6,250)	(3,802)
Returns on investments and servicing of finance	183	(15)
Capital expenditure	(7,704)	(13,709)
Acquisitions and disposals	6,818	420
Management of liquid resources	(16,000)	16,000
Financing	24,922	(1,984)
Increase/(decrease) in cash	1,969	(3,090)

Notes**1. Financial information**

The figures shown above do not constitute the Group's statutory accounts for the year ended 31st March, 1998 which have not yet been reported upon by the auditors or delivered to the Registrar of Companies. The Group's statutory accounts for the year ended 31st March, 1997 received an unqualified audit report and did not include a statement under sections 237(2) or (3) of the Companies Act 1985 and have been filed with the Registrar of Companies.

2. Discontinued operations

Discontinued operations represent the results of Broadcast Satellite Television Limited which was disposed of in July 1997 and Hull Cablevision Limited which was closed on 31st March, 1998.

Discontinued operations for the year ended 31st March, 1997 also includes the results of Coventry Cable Limited which was disposed of in April 1996.

3. Loss per share

The calculation of loss per share is based on the loss for the financial year of £9,540,000 (1997: £2,848,000) and on the weighted average number of ordinary shares of 25p each in issue during the year which was 50,574,520 (1997: 38,750,906).

4. Dividend

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

PART III

Financial information on Atlantic

A. Nature of financial information

The following 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 31st March, 1997. The information set out in this Part III has been extracted from previously published sources and does not constitute statutory accounts within the meaning of the Act. Audited statutory accounts have been delivered to the Registrar of Companies for each of the three years ended 31st March, 1997. Unqualified audit reports in accordance with the requirements of the Act for each of the three years ended 31st March, 1997 have been given by Grant Thornton, Chartered Accountants and Registered Auditors, being the auditors of Atlantic for the relevant financial periods.

The following financial information for the year ended 31st March, 1997 has been extracted from the audited financial statements for that year. The 31st March, 1997 figures contained in Part II have been restated to include the results of Logically Telecommunications Limited within ongoing operations and to include the results of Broadcast Satellite Television Limited and Hull Cablevision Limited within discontinued operations.

B. Consolidated profit and loss account

	Note	1995 £'000	1996 £'000	1997 £'000
Turnover	2			
Continuing operations:				
ongoing		1,551	7,302	7,690
acquisitions	1	—	—	950
		1,551	7,302	8,640
Discontinued operations	1	679	3,208	253
		2,230	10,510	8,893
Cost of sales	3	(1,274)	(6,162)	(5,598)
Gross profit		956	4,348	3,295
Other income		138	—	—
Other operating charges	3	(1,247)	(5,066)	(5,801)
Operating profit/(loss)				
Continuing operations:				
ongoing		26	(247)	(2,277)
acquisitions		—	—	(172)
		26	(247)	(2,449)
Discontinued operations		(179)	(471)	(57)
		(153)	(718)	(2,506)
Exceptional items				
Continuing operations:				
Provision for operations to be discontinued	4	—	—	(1,028)
Discontinued operations:	1			
Profit on sale of investments		—	107	—
Profit on sale of discontinued operations		—	—	3,779
Less reinstatement of goodwill previously written off		—	—	(3,238)
		—	107	(487)
Loss on ordinary activities before interest		(153)	(611)	(2,993)
Net interest	5	(15)	(201)	145
Loss on ordinary activities before taxation		(168)	(812)	(2,848)
Tax on loss on ordinary activities	7	(15)	5	—
Retained loss for the financial year	20	(183)	(807)	(2,848)
Loss per share	8	(1.60)p	(2.69)p	(7.35)p

C. Consolidated balance sheet

	<i>Note</i>	<i>1995</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>	<i>1997</i> <i>£'000</i>
Fixed assets				
Intangible assets	9	1,016	2,033	4,048
Tangible assets	10	5,681	6,948	13,297
Investments	11	497	—	—
		<u>7,194</u>	<u>8,981</u>	<u>17,345</u>
Current assets				
Stocks	12	104	126	1,049
Debtors: amounts falling due after more than one year	13	4,462	6,813	5,366
Debtors: amounts falling due within one year	14	1,211	1,209	2,246
Cash at bank and in hand		2,599	50	17,475
		<u>8,376</u>	<u>8,198</u>	<u>26,136</u>
Creditors: amounts falling due within one year	15	<u>6,330</u>	<u>8,001</u>	<u>6,946</u>
Net current assets		<u>2,046</u>	<u>197</u>	<u>19,190</u>
Total assets less current liabilities		<u>9,240</u>	<u>9,178</u>	<u>36,535</u>
Creditors: amounts falling due after more than one year	16	<u>93</u>	<u>868</u>	<u>4,946</u>
		<u>9,147</u>	<u>8,310</u>	<u>31,589</u>
Capital and reserves				
Called up share capital	19	7,420	7,550	12,639
Share premium account	20	3,864	4,454	22,822
Contingent allotment of share capital		750	—	—
Other reserves	20	(2,790)	(2,683)	—
Profit and loss account	20	(97)	(1,011)	(3,872)
Shareholders' funds	21	<u>9,147</u>	<u>8,310</u>	<u>31,589</u>

D. Consolidated cash flow statement

	<i>Note</i>	<i>1995</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>	<i>1997</i> <i>£'000</i>
Reconciliation of operating loss to net cash outflow from operating activities				
Operating profit/(loss) from continuing activities		26	(247)	(2,449)
Depreciation and amortisation		114	534	952
Amortisation of lease prepayment		28	128	164
Network lease prepayments		(375)	(1,375)	(1,625)
Decrease/(increase) in stock		8	(8)	(977)
Increase in debtors		(73)	(14)	(900)
Decrease in creditors		(354)	(927)	(1,591)
Gain on disposal of fixed assets		—	—	(11)
Net cash outflow from continuing operating activities		(626)	(1,909)	(6,437)
Net cash (outflow)/inflow from discontinued operations		(173)	415	187
Net cash outflow from operating activities		(799)	(1,494)	(6,250)
Cash flow statement				
Net cash outflow from operating activities		(799)	(1,494)	(6,250)
Returns on investments and servicing of finance	22	(46)	(201)	183
Corporation tax recovered		—	5	—
Capital expenditure and financial investment	22	4,328	(2,028)	(7,704)
Acquisitions and disposals	22	2,824	—	6,818
Management of liquid resources	22	—	—	(16,000)
Financing	22	(4,612)	703	24,922
Increase/(decrease) in cash	23	1,695	(3,015)	1,969

E. Accounting policies

The financial statements have 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 and are set out below.

(a) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and of its subsidiary undertakings (see note 11).

(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

Depending on the circumstances of each acquisition, consolidation goodwill is either set off directly against reserves or 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	-	10-60 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 leases 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 scheme in respect of the accounting period.

F. Notes to the financial statements

1. Discontinued operations/acquisitions

Discontinued operations represent the results of Coventry Cable Limited which was disposed of in April 1996 and in 1995 the former investment trust activities of the Company.

Acquisitions represent the results of Logically Telecommunications Limited which was acquired in September 1996.

2. Turnover and loss on ordinary activities

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:

	1995 £'000	1996 £'000	1997 £'000
Broadband cable networks	1,659	7,983	5,878
Narrowband cable networks	571	2,527	1,927
Telecommunications services	—	—	1,088
	<u>2,230</u>	<u>10,510</u>	<u>8,893</u>

The loss on ordinary activities is stated after:

	1995 £'000	1996 £'000	1997 £'000
Auditors' remuneration – audit services	18	53	60
– non-audit services	—	35	86
Hire of plant and machinery	50	238	144
Other operating lease rentals – land and buildings	42	194	221
Depreciation	116	650	895
Depreciation capitalised on development assets	23	23	85
Permanent diminution of fixed assets	—	—	913
Amortisation of network lease prepayment	62	274	176
Amortisation of intangibles	—	—	69
	<u>—</u>	<u>—</u>	<u>69</u>

In addition to the above the auditors received remuneration for non-audit services of £69,000 which was charged to the share premium account in the year ended 31st March, 1997.

3. Cost of sales and other operating charges

	1995		
	Ongoing £'000	Discontinued £'000	Total £'000
Cost of sales	<u>830</u>	<u>444</u>	<u>1,274</u>
Other operating charges:			
Administrative expenses	386	343	729
Selling and distribution expenses	167	150	317
Depreciation and amortisation	142	59	201
	<u>695</u>	<u>552</u>	<u>1,247</u>
	1996		
	Ongoing £'000	Discontinued £'000	Total £'000
Cost of sales	<u>4,085</u>	<u>2,077</u>	<u>6,162</u>
Other operating charges:			
Administrative expenses	2,420	1,045	3,465
Selling and distribution expenses	406	271	677
Depreciation and amortisation	638	286	924
	<u>3,464</u>	<u>1,602</u>	<u>5,066</u>

	1997			
	<i>Ongoing</i>	<i>Acquisitions</i>	<i>Discontinued</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost of sales	<u>4,589</u>	<u>817</u>	<u>192</u>	<u>5,598</u>
Other operating charges:				
Administrative expenses	3,318	206	79	3,603
Selling and distribution expenses	986	57	15	1,058
Depreciation and amortisation	<u>1,074</u>	<u>42</u>	<u>24</u>	<u>1,140</u>
	<u>5,378</u>	<u>305</u>	<u>118</u>	<u>5,801</u>

4. Provision for operations to be discontinued

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Provision for permanent diminution in value of fixed assets	—	—	913
Provision for closure costs	<u>—</u>	<u>—</u>	<u>115</u>
	<u>—</u>	<u>—</u>	<u>1,028</u>

5. Net interest

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
On bank loans and overdrafts	1	17	60
Finance charges in respect of finance leases	11	26	334
Other interest payable and similar charges	<u>44</u>	<u>202</u>	<u>60</u>
	56	245	454
Other interest receivable and similar income	<u>(41)</u>	<u>(44)</u>	<u>(599)</u>
	<u>15</u>	<u>201</u>	<u>(145)</u>

6. Directors and employees

The average number of employees of the group during the year and their aggregate emoluments are shown below:

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Wages and salaries	436	2,224	2,781
Social security	43	215	270
Pension costs	<u>17</u>	<u>87</u>	<u>107</u>
	496	2,526	3,158
Less: amounts capitalised	<u>—</u>	<u>(168)</u>	<u>(524)</u>
	<u>496</u>	<u>2,358</u>	<u>2,634</u>

The average number of employees of the group during the year was as shown in the following categories:

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Administration	67	76	75
Engineering	52	66	64
Sales and marketing	<u>13</u>	<u>14</u>	<u>17</u>
	<u>132</u>	<u>156</u>	<u>156</u>

Remuneration in respect of directors was:

	<i>Total</i>			<i>Pension contributions</i>		
	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Executive directors						
G J Duncan (Highest paid director)	43	192	211	5	23	23
G B Sleigh	24	109	114	2	8	8
A D McKenzie	12	56	62	1	4	4
M L Beard	10	54	70	1	2	4
E J Hornsby	—	—	59	—	—	4
Non-executive directors						
N Berry	—	10	10	—	—	—
A A Laing	—	15	15	—	—	—
	<u>89</u>	<u>436</u>	<u>541</u>	<u>9</u>	<u>37</u>	<u>43</u>

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

7. Tax on loss on ordinary activities

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Tax on franked investment income	(14)	5	—
Overseas tax paid	<u>(1)</u>	<u>—</u>	<u>—</u>
Total	<u>(15)</u>	<u>5</u>	<u>—</u>

8. Loss per share

The calculation of loss per share is based on the loss for the financial year and on the weighted average number of ordinary shares of 25p each in issue during the year. The 1995 and 1996 weighted average is calculated following adjustment to reflect the consolidation in share capital which took place in October 1996 as explained in note 19.

9. Intangible fixed assets

	<i>Goodwill</i>	<i>Development costs</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost			
At 1st April, 1995	441	575	1,016
Additions during the year	<u>3</u>	<u>1,014</u>	<u>1,017</u>
At 1st April, 1996	444	1,589	2,033
Additions during the year	<u>—</u>	<u>2,084</u>	<u>2,084</u>
At 31st March, 1997	<u>444</u>	<u>3,673</u>	<u>4,117</u>
Amortisation			
At 1st April, 1995	—	—	—
Provided in the year	<u>—</u>	<u>—</u>	<u>—</u>
At 1st April, 1996	—	—	—
Provided in the year	<u>8</u>	<u>61</u>	<u>69</u>
At 31st March, 1997	<u>8</u>	<u>61</u>	<u>69</u>
Net book value			
At 31st March 1995	<u>441</u>	<u>575</u>	<u>1,016</u>
At 31st March, 1996	<u>444</u>	<u>1,589</u>	<u>2,033</u>
At 31st March, 1997	<u>436</u>	<u>3,612</u>	<u>4,048</u>

10. Tangible fixed assets

	<i>Networks</i> <i>£'000</i>	<i>Leasehold improve- ments</i> <i>£'000</i>	<i>Plant and equipment</i> <i>£'000</i>	<i>Office equipment</i> <i>£'000</i>	<i>Total</i> <i>£'000</i>
Cost					
At 1st April, 1995	4,645	374	3,081	282	8,382
Reclassification	142	(23)	(143)	24	—
Additions	450	40	1,489	40	2,019
Disposals	—	—	(212)	(9)	(221)
At 1st April, 1996	5,237	391	4,215	337	10,180
Additions	5,856	100	3,393	218	9,567
Disposals	(12)	—	(135)	(14)	(161)
Addition of subsidiary undertaking	22	—	92	3	117
Disposal of subsidiary undertaking	(909)	—	(1,130)	(139)	(2,178)
At 31st March, 1997	<u>10,194</u>	<u>491</u>	<u>6,435</u>	<u>405</u>	<u>17,525</u>
Depreciation					
At 1st April, 1995	739	283	1,444	235	2,701
Reclassification	81	(5)	(129)	53	—
Provided in the year	193	31	436	13	673
Disposals	—	—	(133)	(9)	(142)
At 1st April, 1996	1,013	309	1,618	292	3,232
Charge for year	311	38	588	43	980
Provision for permanent diminution	913	—	—	—	913
Disposals	—	—	(82)	(8)	(90)
Disposal of subsidiary undertaking	(54)	—	(616)	(137)	(807)
At 31st March, 1997	<u>2,183</u>	<u>347</u>	<u>1,508</u>	<u>190</u>	<u>4,228</u>
Net book value					
At 31st March, 1995	<u>3,906</u>	<u>91</u>	<u>1,637</u>	<u>47</u>	<u>5,681</u>
At 31st March, 1996	<u>4,224</u>	<u>82</u>	<u>2,597</u>	<u>45</u>	<u>6,948</u>
At 31st March, 1997	<u>8,011</u>	<u>144</u>	<u>4,927</u>	<u>215</u>	<u>13,297</u>

11. Fixed asset investments

Investment at net book value include:

	<i>1995</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>	<i>1997</i> <i>£'000</i>
Investments listed on the London Stock Exchange	32	—	—
Unlisted investments	465	—	—
	<u>497</u>	<u>—</u>	<u>—</u>

At 31st March, 1997, the Group held 100 per cent. of the equity of the following trading companies, all of which are registered and operate in Great Britain.

<i>Name of Company</i>	<i>Class of Share Capital Held</i>	<i>Proportion Held</i>		<i>Nature of Business</i>
		<i>By Parent undertaking</i>	<i>By subsidiary undertaking</i>	
Devanha Group plc	Ordinary Shares	100%	—	Holding Company
Atlantic Telecommunications Limited	Ordinary Shares	100%	—	Telecommunications
Logically Telecommunications Limited	Ordinary Shares	100%	—	Telecommunications
Aberdeen Cable Services Limited	Ordinary Shares	—	100%	Operation of cable TV networks
Broadcast Satellite Television Limited	Ordinary Shares	—	100%	Operation of cable TV networks
Cable Television Projects Limited	Ordinary Shares	—	100%	Operation of cable TV networks

12. Stocks

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Consumable stores	104	126	194
Network equipment	—	—	855
	<u>104</u>	<u>126</u>	<u>1,049</u>

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

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Network lease prepayments	4,462	6,813	5,055
Other debtors	—	—	311
	<u>4,462</u>	<u>6,813</u>	<u>5,366</u>

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 29).

14. Debtors: amounts falling due within one year

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Trade debtors	585	769	582
Other debtors	257	89	1,046
Prepayments	304	247	609
Other taxes	65	104	9
	<u>1,211</u>	<u>1,209</u>	<u>2,246</u>

15. Creditors: amounts falling due within one year

	1995 £'000	1996 £'000	1997 £'000
Unsecured loan notes	—	—	200
Bank term loan	—	—	400
Bank overdrafts	772	1,238	694
Trade creditors	2,856	2,812	2,026
Social security and other taxes	309	500	210
Other creditors	159	146	132
Accruals and deferred income	2,124	2,912	2,124
Amounts due under finance leases	110	393	1,160
	<u>6,330</u>	<u>8,001</u>	<u>6,946</u>

The Group bank overdrafts and loans are secured by bonds and floating charges over all the assets of the Group companies. The company's bank overdraft is secured by cross guarantees which are in place between the company and its subsidiaries.

The unsecured loan notes carry interest at 6.25 per cent. until 8th September, 1998 and 8 per cent. thereafter. They are repayable, at par, on either 31st March, or 30th September between 31st March, 1998 and 8th September, 2001 on not less than one month's notice from the note holder.

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

	1995 £'000	1996 £'000	1997 £'000
Bank term loan	—	—	1,500
Amounts due under finance leases	93	868	3,446
	<u>93</u>	<u>868</u>	<u>4,946</u>

17. Borrowings

Borrowings are repayable as follows:

	1995 £'000	1996 £'000	1997 £'000
Within one year			
Unsecured loan notes	—	—	200
Bank borrowings	772	1,238	1,094
Finance leases	110	393	1,160
After one and within two years			
Bank borrowings	—	—	400
Finance leases	93	348	1,278
After two and within five years			
Bank borrowings	—	—	1,100
Finance leases	—	520	2,168
	<u>975</u>	<u>2,499</u>	<u>7,400</u>

18. Provisions for liabilities and charges

Deferred taxation

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

	<i>Accelerated Capital Allowances</i> £'000	<i>Other Timing Differences</i> £'000	<i>Trading Losses</i> £'000	<i>Total</i> £'000
At 1st April, 1995	453	2	(455)	—
Provided during the year	58	53	(111)	—
At 1st April, 1996	511	55	(566)	—
Provided during the year	23	(20)	(3)	—
At 31st March, 1997	<u>534</u>	<u>35</u>	<u>(569)</u>	<u>—</u>

19. Share capital

	<i>1995</i> £'000	<i>1996</i> £'000	<i>1997</i> £'000
Authorised			
80,000,000 ordinary shares of 25p each (1996: 241,900,000; 1995: 241,900,000 ordinary shares of 5p each)	<u>12,095</u>	<u>12,095</u>	<u>20,000</u>
Allotted, called up and full paid			
50,554,673 ordinary shares of 25p each (1996: 150,991,505; 1995: 148,405,299 ordinary shares of 5p each)	<u>7,420</u>	<u>7,550</u>	<u>12,639</u>

On 12th July, 1995 the Company made an allotment of 2,586,205 ordinary shares of 5p each at £0.29 per share in consideration for the remaining 49 per cent. of the share capital of Atlantic Telecommunications Ltd.

On 28th October, 1996 the Company passed a resolution to consolidate the then existing ordinary shares of 5p each into Ordinary Shares and to increase the authorised share capital to £20,000,000.

On 28th October, 1996 the Company made an allotment of 20,132,200 Ordinary Shares at a price of 125p per share by way of a placing and open offer. The difference between the total consideration of £25,165,000 less the expenses of issue, and the total nominal value of £5,033,000 has been credited to the share premium account.

As a result of the consolidation of the share capital and placing and open offer, warrants and share options in place at that time were adjusted. Prior to consolidation, every warrant carried the entitlement to subscribe for one ordinary share of 5p at a price of 27p. This was adjusted to become one warrant being entitled to subscribe for one Ordinary Share at the adjusted subscription price of 133p.

The existing share options were also adjusted so that every five options to subscribe for ordinary shares of 5p at a price of 23p became an option to subscribe for one Ordinary Share at an exercise price of 115p.

On 17th March, 1997 the Company allotted 8,913 Ordinary Shares at a price of 115p by way of an exercise of options. The difference between the total consideration of £10,000 and the total nominal value of £2k has been credited to the share premium account. The 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 in April 1996.

On 27th March, 1997 the Company allotted 215,259 Ordinary Shares at a price of 133p per share in respect of 215,259 warrants exercised. The difference between the total consideration of £287,000 and the total nominal value of £54,000 has been credited to the share premium account. In addition to the future periods of exercise noted below, warrants were exercisable during the same periods in 1995 and 1996.

Contingent rights to the allotment of shares

The Company issued warrants on 10th January, 1995 to all Shareholders at that date to subscribe for 29,681,059 ordinary shares of 5p each in the capital of the Company at 27p per share. (Adjusted to 5,936,211 Ordinary Shares at an exercise price of 133p following the consolidation of share capital and placing and open offer described above).

Warrants are exercisable with effect from the first London Stock Exchange dealing day after the last day of 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 31st March, 1998. Subject to the approval of Warrant holders it is proposed to extend the period of exercise to 30th September, 1999 at an exercise price of 160p per Ordinary Share.

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

<i>Date option granted</i>	<i>Option price per share</i>	<i>Period of exercise</i>	<i>Conditions of Exercise</i>	<i>Number of shares</i>	
				<i>Total</i>	<i>Directors</i>
30th March, 1995	115p	30th March, 1998 –29th March, 2005	Share price exceeds 135p	587,822	396,737
4th February, 1997	154½p	4th February, 2000 –3rd February, 2007	Annual operating profit exceeds £2m	682,365	373,626

Ordinary share options have been granted to directors as follows:

	<i>Options Held</i>		<i>Date Options granted</i>	
	<i>31.3.97</i>	<i>1.4.96</i>	<i>4.2.97</i>	<i>30.3.95</i>
Gordon B Sleigh	235,426	127,173	108,253	127,173
Alisdair D. McKenzie	179,795	95,652	84,143	95,652
Martin L. Beard	177,571	86,956	90,615	86,956
Edward J. Hornsby	177,571	86,956*	90,615	86,956

*at date of appointment

20. Share premium account and reserves

	<i>Share Premium Account £'000</i>	<i>Merger Reserve £'000</i>	<i>Profit & Loss Account £'000</i>
At 1st April, 1995	3,864	(2,790)	(97)
Premium on shares issued during the year	620	—	—
Costs relating to issue	(30)	—	—
Retained loss for the year	—	—	(807)
Transfer of profit on sale of investments to merger reserve	—	107	(107)
At 1st April, 1996	4,454	(2,683)	(1,011)
Premium on shares issued during the year (see note 19)	20,373	—	—
Costs relating to issue	(2,005)	—	—
Retained loss for the year	—	—	(2,848)
Goodwill reinstatement on disposal of subsidiary	—	3,238	—
Goodwill written off on acquisition of subsidiary	—	(568)	—
Other transfers	—	13	(13)
At 31st March, 1997	<u>22,822</u>	<u>—</u>	<u>(3,872)</u>

The cumulative amount of goodwill arising from acquisitions which has been written off to group reserves to 31st March, 1997 is £17,425,000 (1996: £20,095,000; 1995: £20,095,000).

The group loss for the year includes a profit of £223,000 which is dealt with in the financial statements of the company (1996 loss: £264,000; 1995 loss: £5,000).

21. Reconciliation of movements in shareholders' funds

	1995 £'000	1996 £'000	1997 £'000
Loss for the financial year	(183)	(807)	(2,848)
Other recognised gains and losses	(1,370)	—	—
Issue of shares net of expenses	22,956	(30)	23,457
Reinstated goodwill on disposal of subsidiary	—	—	3,238
Contingent allotment of share capital	750	—	—
Goodwill written off to reserves on acquisition of subsidiary	(20,095)	—	(568)
Net increase/(decrease) in shareholders' funds	2,058	(837)	23,279
Opening shareholders' funds	7,089	9,147	8,310
Closing shareholders' funds	<u>9,147</u>	<u>8,310</u>	<u>31,589</u>

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

	1995 £'000	1996 £'000	1997 £'000
Returns on investments and servicing of finance			
Interest received	41	44	471
Interest paid	(56)	(245)	(288)
Dividends paid	(31)	—	—
Net cash inflow/(outflow) from returns on investments and servicing of finance	<u>(46)</u>	<u>(201)</u>	<u>183</u>
Capital expenditure and financial investment			
Purchase of intangible fixed assets	—	(1,017)	(1,999)
Purchase of tangible fixed assets	(646)	(1,694)	(5,787)
Purchase of investments	(2,908)	—	—
Sale of tangible fixed assets	—	79	82
Sale of investments	8,033	604	—
Management fees charged to capital	(151)	—	—
Net cash inflow/(outflow) from capital expenditure and financial investment	<u>4,328</u>	<u>(2,028)</u>	<u>(7,704)</u>
Acquisitions and disposals			
Acquisition of subsidiary undertaking (see note 26)	2,824	—	(117)
Loan repaid on purchase of subsidiary	—	—	(85)
Sale of subsidiary undertaking (see note 27)	—	—	1,980
Receipt of inter-company debtor on disposal of subsidiary	—	—	5,040
Expenses related to sale of subsidiary undertaking	—	—	—
Net cash inflow from acquisitions and disposals	<u>2,824</u>	<u>—</u>	<u>6,818</u>
Management of liquid resources			
Cash placed on short term deposit	—	—	(16,000)
Financing			
Issue of shares	—	—	25,462
Receipt from borrowing	—	1,194	2,000
Repayment of borrowings	(3,554)	—	(100)
Capital element of finance lease rentals	(15)	(461)	(435)
Expenses paid in connection with share issue	(1,043)	(30)	(2,005)
Net cash inflow from financing	<u>(4,612)</u>	<u>703</u>	<u>24,922</u>

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

	1995 £'000	1996 £'000	1997 £'000
Increase/(decrease) in cash in the period	1,695	(3,015)	1,969
Cash (inflow)/outflow from increase in liquid resources	—	—	16,000
Cash outflow/(inflow) from increase in debt	—	—	(1,900)
Cash outflow from lease financing	116	461	435
Change in net funds/(debts) resulting from cash flows	1,811	(2,554)	16,504
Inception of finance leases	(319)	(1,519)	(3,780)
Issue of loan notes	—	—	(200)
Movement in net funds/(debt) in the year	1,492	(4,073)	12,524
Opening net funds/(debt)	132	1,624	(2,449)
Closing net funds/(debt)	<u>1,624</u>	<u>(2,449)</u>	<u>10,075</u>

24. Analysis of net funds/(debt)

	At 1st April, 1995 £'000	Cash Flow £'000	Non-cash items £'000	At 1st April, 1996 £'000	Cash Flow £'000	Non-cash items £'000	At 31st March, 1997 £'000
Cash	2,599	(2,549)	—	50	17,425	—	17,475
Less cash on deposit	—	—	—	—	(16,000)	—	(16,000)
	<u>2,599</u>	<u>(2,549)</u>	<u>—</u>	<u>50</u>	<u>1,425</u>	<u>—</u>	<u>1,475</u>
Bank overdraft	(772)	(466)	—	(1,238)	544	—	(694)
	<u>1,827</u>	<u>(3,015)</u>	<u>—</u>	<u>(1,188)</u>	<u>1,969</u>	<u>—</u>	<u>781</u>
Liquid resources							
Cash on short term deposit	—	—	—	—	16,000	—	16,000
	<u>1,827</u>	<u>(3,015)</u>	<u>—</u>	<u>(1,188)</u>	<u>17,969</u>	<u>—</u>	<u>16,781</u>
Debt due after one year	—	—	—	—	(1,500)	—	(1,500)
Debt due within one year	—	—	—	—	(400)	(200)	(600)
Finance leases	(203)	461	(1,519)	(1,261)	435	(3,780)	(4,606)
	<u>(203)</u>	<u>461</u>	<u>(1,519)</u>	<u>(1,261)</u>	<u>(1,465)</u>	<u>(3,980)</u>	<u>(6,706)</u>
Net funds/(debt)	<u>1,624</u>	<u>(2,554)</u>	<u>(1,519)</u>	<u>(2,449)</u>	<u>16,504</u>	<u>(3,980)</u>	<u>10,075</u>

25. Major non-cash transactions

During 1997 the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £3,780,000 (1996: £1,519,000; 1995: £319,000).

Part of the consideration for the purchase of subsidiary undertakings comprised loan notes. Further details of this acquisition are given in note 26 below.

26. Acquisition of subsidiary undertaking

The cash inflow in respect of 1995 is as a result of the cash at the completion of the acquisition of Devanha Group plc which was acquired on 10th January, 1995. On 9th September, 1996 the company acquired the whole of the share capital of Logically Telecommunications Ltd ("Logically") for a consideration of £350,000, satisfied by the issue of £200,000 of loan notes and £150,000 in cash. Goodwill arising on the acquisition of Logically has been written off to reserves. The purchase of Logically has been accounted for by the acquisition method of accounting.

The loss after taxation of Logically for the period from 1st July, 1996, the beginning of the subsidiary's financial year, to the date of acquisition was £26,000. The loss after taxation for the year ended 30th June, 1996 was £164,000.

	<i>Accounting</i>		
	<i>Book</i>	<i>Policy</i>	<i>Adjusted</i>
	<i>value</i>	<i>Adjustments</i>	<i>Value</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Fixed assets	29	88	117
Stock	5	—	5
Debtors	173	—	173
Cash at bank	33	—	33
Creditors	(461)	—	(461)
Loans	(85)	—	(85)
	<u>(306)</u>	<u>88</u>	<u>(218)</u>
Goodwill			568
Purchase consideration			<u>350</u>
			<i>£'000</i>
The purchase consideration was satisfied by:			
Cash			150
Loan notes			<u>200</u>
			<u>350</u>
Analysis of net cash outflow in respect of acquisition of subsidiary undertaking			
Cash			150
Cash acquired			<u>(33)</u>
			<u>117</u>

The policy with regard to the accounting for customer installation costs was changed following acquisition. These costs, which were previously written off, are now capitalised and written off over three years. This resulted in an adjustment to fixed assets of £88,000 as noted above.

27. Sale of subsidiary undertaking

During the year ended 31st March, 1997 the Company disposed of its interest in Coventry Cable Ltd. The Group loss for the year ended 31st March, 1997 includes a loss of £57,000 up to the date of its disposal on 29th April, 1996.

	£'000
Net assets disposed of:	
Fixed assets	1,371
Stock	66
Debtors due after more than one year	3,206
Debtors due within one year	541
Cash at bank	87
Creditors	(6,383)
	(1,112)
Gain on sale	3,779
	<u>2,667</u>
Satisfied by:	
Cash	2,067
Deferred consideration	600
	<u>2,667</u>
Analysis of cash flow in respect of disposal of subsidiary undertaking	
Cash	2,067
Less cash in subsidiary on disposal	(87)
	<u>1,980</u>

28. Capital commitments

At 31st March, 1997 the Group had contracted for £4,159,000 (1996: £800,000; 1995: £585,000) of capital expenditure not provided for in these financial statements.

29. Leasing commitments

(a) Cable Network Lease

The lease for the cable network operated by Aberdeen Cable Services Ltd. 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 of finance equally over the term of the lease (see note 13). 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 that the advance payment option in respect of secondary rentals for approximately £3,300,000 is exercised in 2001. 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 rising 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 £1,875,000 (1996: £3,125,000; 1995: £2,625,000).

- (b) At 31st March, 1997, the Group had commitments under non-cancellable operating leases to pay the following amounts in the year to 31st March, 1998:

	1995		1996		1997	
	<i>Land and Buildings</i>	<i>Other</i>	<i>Land and Buildings</i>	<i>Other</i>	<i>Land and Buildings</i>	<i>Other</i>
	£'000	£'000	£'000	£'000	£'000	£'000
Expiring within one year	22	48	19	98	66	20
Expiring between two and five years	84	148	84	118	147	97
Expiring in five years or more	82	—	238	—	229	—
	<u>188</u>	<u>196</u>	<u>341</u>	<u>216</u>	<u>442</u>	<u>117</u>

30. Contingent liabilities

In addition to the disclosure in note 15 the holding company had provided guarantees in respect of subsidiary company borrowings amounting to £3,400,000 at 31st March, 1997 (1996: £Nil; 1995: £Nil) and in 1996 had a contingent liability of £300,000 for equipment under loan.

31. Pension commitments

The Group operates a defined contribution pension scheme for directors and certain employees. The assets of the 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 was £107,000 (1996: £87,000; 1995: £17,000).

32. Transactions with directors

Mr Berry, a non-executive director of the Company, agreed to participate as a placee and underwriter in the placing and open offer in October 1996. Mr Berry received commission of £25,000 from the Company.

PART IV

Pro forma statement of net assets of the Group following the Placing

The pro forma statement of net assets of the Group following the Placing as set out below has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Group. It is based on the unaudited consolidated balance sheet of the Group as at 31st March, 1998, which has been extracted, without adjustment, from the preliminary announcement of unaudited results for the year to 31st March, 1998 set out in Part II of this document and has been adjusted as referred to in the notes below.

	<i>As at</i> <i>31st March,</i> <i>1998</i> <i>£'000</i>	<i>Adjustments</i> <i>£'000</i>	<i>Pro forma</i> <i>net assets</i> <i>£'000</i>
Fixed assets			
Intangible assets	3,883		3,883
Tangible assets	29,709		29,709
	<u>33,592</u>		<u>33,592</u>
Current assets			
Stocks	715		715
Debtors: amounts falling due after more than one year	6,776		6,776
Debtors: amounts falling due within one year	4,046		4,046
Cash at bank and in hand (Notes 1 and 2)	57	42,634	42,691
	<u>11,594</u>	<u>42,634</u>	<u>54,228</u>
Creditors: amounts falling due within one year (Note 2)	<u>15,517</u>	<u>2,366</u>	<u>13,151</u>
Net current (liabilities)/assets	<u>(3,923)</u>	<u>45,000</u>	<u>41,077</u>
Total assets less current liabilities	29,669	45,000	74,669
Creditors: amounts falling due after more than one year	7,598		7,598
	<u>22,071</u>	<u>45,000</u>	<u>67,071</u>

Notes:

1. The adjustments reflect the receipt of cash proceeds, net of expenses, from the Placing amounting to £45 million.
2. Part of the net proceeds of the Placing will be applied to the repayment of overdrafts. The balance will go into cash at bank and in hand.
3. The pro forma statement of net assets does not reflect the drawdown of any loan funding under the Facility Agreement as such drawdown will not take place until the proceeds of the Placing have been utilised.
4. The pro forma statement of net assets does not take into account the trading results or changes in working capital of the Group since 31st March, 1998.

The Directors
Atlantic Telecom Group PLC
100 Union Street
Aberdeen
AB10 1QR

and

The Directors
Close Brothers Corporate Finance Limited
12 Appold Street
London
EC2A 2AA

16th July, 1998

Dear Sirs

Atlantic Telecom Group PLC ("the Company") and its subsidiary undertakings ("the Group") – Proposed Placing

We refer to the "Pro forma statement of net assets of the Group following the Placing" set out in Part IV of the listing particulars ("the Listing Particulars") issued by the Company and dated 16th July, 1998 in connection with the proposed Placing. The "Pro forma statement of net assets of the Group following the Placing" has been prepared for illustrative purposes only.

1. We have carried out a review of the "Pro forma statement of net assets of the Group following the Placing" set out in Part IV of the Listing Particulars. Our review does not constitute an audit in accordance with the requirements of the Companies Act 1985 or Auditing Standards.
2. The "Pro forma statement of net assets of the Group following the Placing" set out in Part IV of the Listing Particulars:
 - (i) is based on the unaudited consolidated balance sheet of the Group extracted without adjustment from the Company's preliminary announcement for the year ended 31st March, 1998 as set out in Part II of the Listing Particulars
 - (ii) takes account of the proceeds and estimated expenses of the proposed Placing
 - (iii) has not been adjusted to reflect changes in the trading results or changes in working capital of the Group since 31st March, 1998.
3. In our opinion:
 - (i) the "Pro forma statement of net assets of the Group following the Placing" has been properly compiled on the basis stated
 - (ii) the basis of preparation is consistent with the accounting policies of the Group
 - (iii) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 12.29 of the Listing Rules of the London Stock Exchange Limited.

Yours faithfully

Grant Thornton

PART V

Accountants' letter relating to operating statistics

Grant Thornton 

The Directors
Atlantic Telecom Group PLC
100 Union Street
Aberdeen
AB10 1QR

The Directors
Close Brothers Corporate Finance Limited
12 Appold Street
London
EC2A 2AA

16th July, 1998

Dear Sirs

Atlantic Telecom Group PLC ("the Company")

Close Brothers (the "Sponsor") is appointed to fulfil the obligations imposed by Chapter 2 of the Listing Rules of the London Stock Exchange. The Listing Rules are made under powers conferred by section 142 of the Financial Services Act 1986. By virtue of the Listing Rules, the London Stock Exchange requires the Sponsor to instruct accountants to carry out certain procedures in respect of "specified data" set out on certain pages of the listing particulars dated 16th July, 1998 of the Company ("the Listing Particulars"). This letter sets out the procedures agreed upon and our findings in relation thereto.

We refer to the following specified data contained in the Listing Particulars. The page numbers refer to page numbers in the Listing Particulars:

- "penetration rate of the homes and businesses passed of 3 per cent. after just 17 months of operation" (see page 7)
- "average revenue per residential customer of £36 per month" (see page 7)
- "approximately 22 per cent. of directly connected lines were business lines" (see page 7)
- "average revenues per business customer were £89 per month" (see page 7)
- "business churn has averaged 10 per cent. per annum" (see page 7)
- "residential churn has averaged 17 per cent. per annum" (see page 7)
- "excess capacity of approximately 48 per cent." (see page 7)
- "availability in excess of 99.99 per cent." (see page 7)
- "following the acquisition of Logically in September 1996, this company's line base has increased by over six times" (see page 7)
- "line base had increased to 35,321 from 31,083 at 31st March, 1998" (see pages 10 and 13)
- "at 31st March, 1998, Logically had increased its line base to nearly 13,500 lines" (see page 12)
- "42 operational base stations (from 30 operational base stations at 31st March, 1997)" (see page 12)
- "customer base reducing from 17,392 at 31st March, 1997 to 15,420 at 31st March, 1998" (see page 12)
- "over 2,300 Crest customers in Aberdeen at 31st March, 1998" (see page 12)
- "pay-to-basic ratio, at 261 per cent." (see page 12)

We have compared the specified data with those financial and management information records of the Company in which the relevant information is contained (the "Records"), and we confirm that the numbers stated have been accurately extracted or derived from the Records.

We have carried out no work to verify the accuracy of the information shown by the Records and accordingly, in setting out our findings above, we express no opinion beyond those findings. The sole responsibility under section 152 of the Financial Services Act 1986 for the specified data lies with the Company and its Directors.

Yours faithfully

Grant Thornton

PART VI

RISK FACTORS

Prospective investors should carefully review the following factors together with the other information set out in this document before making an investment decision.

Availability of Senior Debt Facilities and operating losses

Since the launch of its commercial telecommunications activities in September 1996, the Group has had a negative cashflow from operating activities and has incurred operating losses. While the Group's business plan shows that it will be in a position to meet the availability tests for the Senior Debt Facility and to comply with the financial covenants necessary to maintain this facility, failure to do so could result in the Group being unable to access the facility and, to the extent drawn, the facility becoming repayable which could therefore, have a material adverse effect upon the Company.

Because of the brought forward losses and the expected ongoing operating losses the Directors do not expect the Company to pay dividends on the Ordinary Shares for some considerable time and payment of dividends is restricted by the Senior Debt Facility.

Uncertainty of market acceptance of FRA Technology

The provision of telecommunication services by a fixed radio access network is a relatively new concept both in the United Kingdom and the rest of the world. While the take up of the Company's FRA services since launch in October 1996 has been encouraging and the rate of churn has been satisfactory, the future level of take up of the service and churn rate will be of critical importance to the success of the Company as it completes the build out of its FRA networks in Scotland.

Competition

To date the Company has been successful in achieving penetration rates beyond the Directors' original expectations, in competition with its competitors. However, the future success of the Company does depend on its continuing ability to compete effectively with present and future competitors. At the present time, the principal competitor is BT, which has an established market presence, fully built networks and financial and other resources which are substantially greater than those available to the Company. The Company also competes with the two significant cable companies in Scotland, NTL Incorporated and Telewest Communications plc, which provide cable telephony and other telecommunications services in all the principal markets of the Company except Aberdeen. The rate of cable telephony penetration by these companies is, the Directors believe, in excess of 20 per cent. Scottish Power Telecommunications Limited ("Scottish Telecom"), a wholly owned subsidiary of Scottish Power plc (a large multi-utility group with substantially greater resources at its disposal than the Company), is also a competitor. Scottish Telecom holds the Scottish rights to Ionica Group plc's FRA technology and operates a commercial FRA service in the City of Edinburgh and certain other areas. It also offers an indirect access service through an extensive fibre-optic cable network which connects all the major cities in Scotland. Furthermore, a substantial number of telecommunications licences have been granted to other PTOs that are potential competitors of the Company, including Cable & Wireless Communications plc, AT&T Communications (UK) Limited, Racal Telecom Limited and Energis plc, any of which could elect to build or expand local access networks in the locations in which the Company operates. Further licences could be granted by the Government in relation to multi-media and other services delivered by radio which may include the right to deliver voice telephony services.

Dependence on key suppliers

The Company has no proprietary rights to the FRA technology it employs and is critically dependent on Tadiran for its FRA network access equipment, including the customer premises equipment and the controlling computer software. In the event that Tadiran is unwilling or unable to meet the Company's needs as the Company realises its business plan, or ceases for any reason to serve as a supplier to the Company, there can be no certainty that satisfactory alternative sources of supply exist that would provide equipment that would be capable of working alongside the Company's existing installed equipment or that such alternative equipment would obtain the necessary regulatory type approvals. In addition, Tadiran manufactures its wireless access products in Israel, which is subject to the risks inherent in operating a business in the Middle East.

Risk of technological obsolescence and spectrum interference

The telecommunications industry has been characterised by rapid and significant changes in technology. Future technological advances could outdate the Company's technology or result in more effective service offerings from the Company's competitors.

As a provider of public services in the 2.40 GHz band (the band in which the Company's FRA system operates) the Company is licensed by the RA. This band is, however, a shared band. Other users in the 2.40 GHz band not involved in the provision of a public service, do not require a telecommunications licence and may operate in a deregulated manner. If, over time, unregulated usage of the 2.40 GHz band increases to such an extent so as to interfere with the Company's FRA service, this may result in a negative impact on customer satisfaction and public perceptions of the Company's FRA business.

UK Government regulations

The licensing, construction and operation of telecommunications and broadband cable systems and services in the United Kingdom are regulated and supervised by various governmental authorities and the European Commission as well as general competition authorities. Changes in existing or future laws or regulations (or the interpretations of such laws or regulations) or government telecommunications policy affecting the Company's activities, including, but not limited to, licensing requirements, retail price regulation, licence fees, interconnection arrangements and planning regulations, could have a material adverse effect on the Company.

Consents

Base stations comprised in the Company's FRA networks are typically installed on rooftops and other structures, which are often owned by local authorities. Such installations will require consent from the owner of the relevant building or structure and in some cases, a planning consent. While the Company has obtained all the local authority consents necessary for the FRA networks in the cities of Glasgow and Aberdeen and most of such consents in the Greater Glasgow area, no consents have yet been obtained for the FRA networks proposed for Edinburgh or Dundee. Failure to obtain or delay in obtaining the necessary consents could adversely affect the timely roll-out of the Company's FRA networks and the ability of the Company to satisfy the availability tests and covenants in the Facility Agreement.

Exchange rate fluctuations

The Company is exposed to certain currency transaction risks. The Company's equipment supply agreement with Tadiran provides that all payments for purchased FRA equipment by the Company be made in US dollars. The cost of FRA equipment, which the Company purchases exclusively from Tadiran, constitutes and will continue to constitute the largest single component of capital expenditure and use of cash. Fluctuations in the US dollar exchange rate against the British pound could have a materially adverse impact on the Company's EBITDA and cash flow.

Information systems — year 2000

The Company is actively reviewing its information systems in light of year 2000 information processing requirements. Although the Company intends to ensure that all of its systems will be year 2000 compliant, it is generally reliant on third party suppliers for delivery of appropriate system solutions. Significant year 2000 information processing problems encountered by the Company or certain of its customers or suppliers could have an adverse effect on the Company. In addition, calls originating on the Company's networks that terminate on other networks may experience problems unless the other networks' systems are year 2000 compliant. This could result in adverse customer reaction and could be detrimental to the Company's business.

PART VII

Additional information

1. Responsibility

The Directors, whose names appear below, accept responsibility for the information contained in these listing particulars. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in these listing particulars 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 (*Executive Chairman*)
Gordon Bruce Sleigh (*Managing Director*)
Alisdair Douglas McKenzie (*Finance Director*)
Martin Leslie Beard (*Sales and Marketing Director*)
Edward Joseph Hornsby (*Technical Director*)
Nicholas William Berry (*Non-Executive Director*)
Andrew Arthur Laing (*Non-Executive Director*)

The business address for all of the Directors is 303 King Street, Aberdeen AB24 5AP, the head office of the Company.

3. Incorporation and status of the Company

The Company was incorporated as a limited company in Scotland on 4th July, 1938 under the Companies Act 1929 with registered number 20509. It was re-registered as a public limited company on 23rd 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 10th January, 1995. The Company changed its name to Atlantic Telecom Group PLC on 13th 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 19 below.
- 4.2 The articles of association ("the Articles") of the Company, which are available for inspection at the address specified in paragraph 19 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 ("a 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 thereby required, then the directors may in their absolute discretion at any time thereafter, by notice (a "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, unless the share is fully paid, by or on behalf of the transferee. The transferor 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 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 or 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 shares. 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 moneys 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 ("the Statutes") purchase all or any of its own shares or reduce its share capital of any capital redemption reserve, share premium account or other undistributable reserve in any manner with, the 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.

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 it 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 director 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) with 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 VI 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 or 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 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.

(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 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 moneys 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, exceed a sum equal to the greater of £200 million and four times the Adjusted Total of Capital and Reserves (as defined in the Articles). 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 "moneys borrowed" for the computation of moneys 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 moneys 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 15th July, 1998 (being the latest practicable date prior to the publication of this document) is set out in the table below:

<i>Ordinary Shares</i>	<i>Issued and Authorised fully paid up</i>	
	<i>£20,000,000</i>	<i>£12,810,753</i>
Nominal value		
Number	80,000,000	51,243,011

- 5.2 The authorised and issued and fully paid up share capital of Atlantic as it will be following the Placing is set out in the table below, assuming that there are no further issues of share capital other than pursuant to the Placing.

<i>Ordinary Shares</i>	<i>Issued and Authorised fully paid up</i>	
Nominal value	£30,000,000	£21,144,086
Number	120,000,000	84,576,344

- 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 12th July, 1995, 2,586,205 ordinary shares of 5p each in the capital of the Company were issued in consideration for the acquisition by the Company of the remaining 49 per cent. of the share capital of ATL.
- (b) By virtue of a special resolution passed on 28th October, 1996:
 - (i) every five ordinary shares of 5p each in the capital of the Company were consolidated into one Ordinary Share; and
 - (ii) the authorised share capital was increased from £12,095,000 to £20,000,000 by the creation of 31,620,000 Ordinary Shares.
- (c) On 31st October, 1996, 20,132,200 Ordinary Shares were issued in connection with the placing and open offer referred to in the prospectus of the Company dated 4th October, 1996.
- (d) On 27th March, 1997, 31st July, 1997 and 29th January, 1998 respectively, 215,259 Ordinary Shares, 4,657 Ordinary Shares and 854 Ordinary Shares were issued pursuant to the exercise of Warrants.
- (e) On 17th March, 1997, 18th April, 1997 and 25th April, 1997 respectively, 8,913 Ordinary Shares, 8,913 Ordinary Shares and 8,695 Ordinary Shares were issued pursuant to the exercise of options under the Share Option Scheme.
- (f) On 13th July, 1997, 665,219 Ordinary Shares were issued pursuant to the exercise of Warrants.

- 5.4 An Extraordinary General Meeting of the Company will be held on 10th August, 1998 at which the Resolution will be proposed conditional upon Admission becoming effective:

- (a) to increase the authorised share capital of the Company from £20,000,000 to £30,000,000 by the creation of an additional 40,000,000 Ordinary Shares;
- (b) to authorise the Directors for the purposes of section 80 of the Act to allot to such persons, at such times and on such terms as the Directors might determine, up to an aggregate nominal amount of £15,381,362 during the period commencing on the date of the passing of the Resolution and expiring on the fifth anniversary thereof, such authority revoking and replacing the previous authority conferred at the last Annual General Meeting of the Company; and
- (c) to disapply section 89 of the Act pursuant to section 95 of the Act so as to allow the Directors to allot new Ordinary Shares pursuant to the authority referred to in paragraph (b) above and during the period commencing on the date of the passing of the Resolution and expiring on the fifth anniversary of the passing of the Resolution as if section 89(1) of the Act did not apply to any such allotment, but only in respect of (aa) the allotment of 33,333,333 new Ordinary Shares; (bb) the allotment of equity securities in connection with a rights issue (as defined in the Resolution); and (cc) (otherwise than pursuant to (aa) and (bb) above) equity securities up to an aggregate nominal value of £1,057,204.

- 5.5 Apart from in connection with the Placing, the exercise of options under the Share Option Scheme and the exercise of Warrants, 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 reason for the disapplication of section 89 of the Act is to permit the issue of new Ordinary Shares pursuant to the Placing and to re-establish in accordance with the recommendations of the Investor Protection Committees the Directors' authority to allot equity securities by reference to the share capital of the Company following the Placing. Save in connection with the Placing, the disapplication is not intended to benefit specific persons.
- 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 is summarised in paragraph 11 below, or in connection with the Warrants.
- 5.8 Save as disclosed in paragraph 5.3 above, 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 (and persons connected with them within the meaning of section 346 of the Act), all of which are beneficial, in the Ordinary Shares as at 15th July, 1998 (being the latest practicable date prior to the publication of this document) which have been notified to the Company pursuant to sections 324 or 328 of the Act and entered in the register maintained under section 325 of the Act are as follows:

<i>Name</i>	<i>Ordinary Shares</i>	
	<i>Number</i>	<i>Per cent.</i>
Graham J. Duncan	8,000,999	15.6
Gordon B. Sleight	414,337	0.8
Alisdair D. McKenzie	—	—
Martin L. Beard	3,000	0.0
Edward J. Hornsby	227,584	0.4
Nicholas W. Berry	7,516,270	14.7
Andrew A. Laing	—	—

- 6.2 In addition, the Directors have the following interests in the share capital of the Company:

- (a) Under the Share Option Scheme, certain Directors have been granted for no consideration options to subscribe for the following Ordinary Shares:

<i>Name</i>	<i>First Series</i>			<i>Second Series</i>		
	<i>Number of Ordinary Shares</i>	<i>Date of grant</i>	<i>Exercise price per Ordinary Share</i>	<i>Number of Ordinary Shares</i>	<i>Date of grant</i>	<i>Exercise price per Ordinary Share</i>
Gordon B. Sleight	127,173	30/03/95	115p	108,253	04/02/97	154½p
Alisdair D. McKenzie	95,652	30/03/95	115p	84,143	04/02/97	154½p
Martin L. Beard	86,956	30/03/95	115p	90,615	04/02/97	154½p
Edward J. Hornsby	86,956	30/03/95	115p	90,615	04/02/97	154½p

First Series Options are exercisable at any time between 30th March, 1998 and 29th March, 2005 at the holder's option provided the market price of the Ordinary Shares, at the date the option is exercised, is at least 135 pence per share. Second Series Options are exercisable at any time between 4th February, 2000 and 3rd February, 2007 provided the Company has published annual accounts disclosing EBITDA of at least £2m. The Placing has no effect on the Share Option Scheme.

- (b) As at the date of this document, the Directors have the following interests in Warrants to subscribe for Ordinary Shares:

<i>Name</i>	<i>Warrants</i>	
	<i>Number</i>	<i>Per cent.</i>
Graham J. Duncan	1,736,126	34.4
Gordon B. Sleigh	82,867	1.6
Alisdair D. McKenzie	—	—
Martin L. Beard	—	—
Edward J. Hornsby	—	—
Nicholas W. Berry	1,479,519	29.3
Andrew A. Laing	—	—

- 6.3 Save as disclosed above, no holding, or beneficial or non-beneficial interest, direct or indirect, in Ordinary Shares or Warrants 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 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 section 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 19 below):

- (a) Graham J. Duncan's service contract is dated 19th February, 1998 and is for a period to 8th 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 £200,000 per annum which shall be reviewed on 1st February, 1999 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 19th February, 1998 and is for a period to 8th 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 £125,000 per annum which will be reviewed on 1st February, 1999 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 19th February, 1998 and is for a period to 8th January, 1999 on the same terms as that of Gordon B. Sleigh except that he is paid an annual salary of £100,000.

- (d) Martin L. Beard's service contract is dated 19th February, 1998 and is for a period to 8th January, 1999 on the same terms as that of Gordon B. Sleight except that he is paid an annual salary of £100,000.
- (e) Edward J. Hornsby's service contract is dated 19th February, 1998 and is for a period to 8th January 1999, on the same terms as that of Gordon B. Sleight except that he is paid an annual salary of £100,000.
- 6.5 Each of the non-executive Directors is appointed under the terms of a letter of appointment dated 14th 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 £15,000 each.
- 6.6 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.
- 6.7 As at 15th July, 1998 (being the latest practicable date prior to the publication of this document) apart from the interests shown in paragraph 6.1 above, in so far 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:

<i>Name</i>	<i>Ordinary Shares</i>	
	<i>Number</i>	<i>%</i>
UKAV Continuation Fund Inc.	2,740,000	5.35
Guardian Royal Exchange plc	2,232,233	4.36
The Equitable Life Assurance Society	2,104,166	4.11
Canada Life Group	1,723,726	3.36
Prudential Corporation Group of Companies	1,669,924	3.26

- 6.8 Save as mentioned in paragraphs 6.1 and 6.7 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.
- 6.9 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.
- 6.10 Apart from Graham J. Duncan's non-executive directorship of the Cable Communications Association and executive directorship of Duncan Ventures Limited, the executive Directors have no business interests outside the Group.
- 6.11 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 31st March, 1998 was £631,551. The aggregate of the remuneration payable (excluding benefits in kind) to the Directors by members of the Group in respect of the year ending 31st March, 1999 under the arrangements in force at the date of this document, is expected to amount to approximately £650,000.
- 6.12 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.
- 6.13 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.

<i>Name</i>	<i>Proportion held</i>		<i>Nature of business</i>	<i>Registered offices</i>
	<i>By the Company</i>	<i>By subsidiary undertaking</i>		
Aberdeen Cable Services Limited	—	100%	Operation of cable television networks	100 Union Street Aberdeen AB10 1QR
Cable Television Projects Limited	—	100%	Investment holding company	„
Caledonian Media Communications Limited	100%	—	Dormant	„
Caledonian Media Limited	100%	—	Dormant	„
Caledonian Telecommunications Limited	100%	—	Dormant	„
Caledonian Media	100%	—	Dormant	„
CFW Securities Limited	100%	—	Dormant	„
Devanha Group plc	100%	—	Holding company	„
ATG Holdings Limited	100%	—	Holding company	„
Worth Investment Trust Limited	100%	—	Dormant	„
Atlantic Broadcasting Limited	—	100%	Dormant	Willoughby House 20 Low Pavement Nottingham NG1 7DL
Atlantic Cable Limited	—	100%	Dormant	„
Atlantic Cablecom Limited	—	100%	Dormant	„
Atlantic Logically Limited	—	100%	Dormant	„
Atlantic Mobile Communications Limited	—	100%	Dormant	„
Atlantic Networks Limited	—	100%	Dormant	„
Atlantic Online Limited	—	100%	Dormant	„
Atlantic Technologies Limited	—	100%	Dormant	„
Atlantic Telecommunications Limited	—	100%	Telecommunications	„
Logicall Limited	100%	—	Dormant	„
Logicall Telecommunications Limited	—	100%	Telecommunications	„
Telecom Atlantic Limited	—	100%	Dormant	„
Hull Cablevision Limited	—	100%	Operation of cable television networks	„

8. Premises

The Company's principal place of business is 303 King Street, Aberdeen AB24 5AP. The premises occupied by the Group are:

<i>Property</i>	<i>Tenure and annual rental (exclusive of VAT)</i>	<i>Area</i>
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
Premises on east side of Reservoir Road, Kingston upon Hull	Three year lease from 29 September, 1993, £12,000	3,550 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, £45,370 in respect of Floor 17, £1 in respect of Rooftop site £1,500 × 3 car parking spaces	4,537 sq ft in respect of Floor 17, three car parking spaces and use of roof top for aerial
Floor 16 and car park spaces, St Andrew House, 141 West Nile Street, Glasgow	Lease from 1 July, 1996 to 2nd February, 2021, £45,370 and £1,500 × 3 for car parking spaces	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 1st July, 1997, £45,370 and £1,500 × 3 for car parking spaces	4,537 sq ft in respect of Floor 14 and 3 car parking spaces
Unit 1 (7 Sandpiper Way), Birchwood Courtyards, Strathclyde Business Park, Bellshill, Lanarkshire	Five year lease from 9 August, 1996, £32,567	6,889 sq ft
50 St Vincent Street, Glasgow	15 year lease from 20 September, 1996, £32,500	1,200 sq ft
Unit 13 Bon Accord Centre, Aberdeen	25 year lease from 6 October, 1995 £55,000 rising to £56,000 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
Holburn House, 475/485 Union Street, Aberdeen	25 year lease from 21st March, 1998 £279,400	21,078 sq ft
Head end building, Charlotte Place, Aberdeen AB25 1LX	99 year lease from 13 September, 1990, £1	1,628 sq ft

Atlantic currently operates 42 radio base stations in the City of Glasgow. Formal documentation of the property rights for most of these base stations (by way of lease or licence) has not yet been completed but is at a comparatively advanced stage. This is not an unusual situation in the U.K. telecommunications industry, and given the Company's statutory protective powers, it is not regarded by the Company as being a potential threat to the buildout of its network.

9. Facility Agreement

Facility

An agreement dated 16th July, 1998 between (1) the Company (2) a subsidiary of the Company as borrower (the "Borrower"), (3) the other subsidiaries of the Company as guarantors together with the Company, (the "Guarantors"), (4) ABN AMRO and others as arrangers (5) ABN AMRO, as agent and trustee for the Banks and (6) certain financial institutions set out therein as lenders (the "Banks") pursuant to which the Banks have granted to the Borrower a secured facility of up to £60,000,000 (the "Facility").

The Facility replaces the existing Bank of Scotland revolving facility and is available in two tranches: Tranche A, of £20 million, available for draw down until 30th September, 2000; and Tranche B, of £60 million, available for draw down until 31st March, 2002. Aggregate outstandings under the two Tranches cannot exceed £60 million. The final maturity date of the Facility is 31st December, 2005.

The Facility will be secured by guarantee from (and secured on all the assets of) the Company's main subsidiaries.

Conditions Precedent

The conditions precedent to initial drawings under the Facility Agreement include;

- (a) in relation to both Tranches, (i) the achievement of an Adjusted Customer Base (as defined in the Facility Agreement) of 28,575 by 31st December, 1998 and (ii) cash equity (being the aggregate of called up share capital and share premium balances before the deductions of fees and expenses, together with subordinated debt) of £75 million having being raised (if not already available) and spent (of which approximately £38 million will have been raised and spent at the date of this document); and
- (b) in relation to Tranche B only, the achievement of overall positive Net Operating Cash Flow (as defined in the Facility Agreement) over a period of the preceding six months.

The maximum amount that can be drawn down under Tranche B at any time is determined by reference to Annualised Consolidated Net Operating Cash Flow (as defined in the Facility Agreement) multiplied by the then applicable leverage ratio.

Margin and Fees

The rate of interest for Tranche A is LIBOR plus 2.75 per cent. per annum and mandatory liquid asset costs. The rate of interest for Tranche B is LIBOR plus a margin which is dependent of the applicable leverage ratio plus mandatory liquid asset costs. The Tranche B margin ranges between 2.25 per cent. per annum and 0.75 per cent. per annum.

A commitment fee of 0.75 per cent. per annum or, if lower, half of the applicable Tranche B margin is payable in relation to any undrawn and uncanceled amounts prior to 31st March, 2002.

Repayment and Prepayment

Tranche A is to be repaid out of drawings made under Tranche B, subject to Tranche A being fully repaid in this manner by September, 2000. Tranche B is to be repaid in accordance with a repayment profile which commences in March, 2003 and ends in December, 2005.

Mandatory prepayments are required to be made equal to 50 per cent. of excess cash flow less £5,000,000. Voluntary prepayments are also permitted.

Financial Covenants

The Borrower and the Guarantors have given certain financial covenants to the Banks, including covenants relating to future revenues and operating cash flows, number of future customers, future network coverage and future cash interest cover. The Borrower and the Guarantors have also covenanted not to exceed agreed leverage, fixed charge cover and debt/equity ratios. Failure to comply with any of these undertakings will be an Event of Default (as defined in the Facility Agreement), entitling the Banks to take any of the actions referred to below.

Other covenants and undertakings

These include maintaining and complying with relevant licences, authorisations and consents, a prohibition on further indebtedness (subject to certain exceptions), a prohibition on the creation of further security (subject to certain exceptions) and a prohibition on the payment of dividends. Failure to comply with any of these undertakings will be an Event of Default, entitling the Banks to take any of the actions referred to below.

Events of Default

The occurrence of any Event of Default will entitle the Banks to cancel the Facility in whole or in part and/or declare the Facility to be immediately due and payable and/ or put the Facility on an on-demand basis and/or to enforce its security.

The Events of Default include:

- (a) failure to pay when due any amounts under the Facility Agreement;
- (b) default in the performance or observance of any material covenants;
- (c) material misrepresentations or non disclosures;
- (d) the occurrence of a default under any other facility for financial indebtedness provided to any Group member;
- (e) insolvency of any Group member;
- (f) failure to maintain or comply with all relevant licences, authorisations and consents required to carry on the Group's business;
- (g) litigation which would have a material adverse effect on the Group; and
- (h) any other material adverse change

generally, in each case, subject to grace periods and materiality tests.

10. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business), which are or might be material, have been entered into by a member of the Group within the two year period immediately preceding the date of this document:

- 10.1 A placing agreement entered into on 4th October 1996 between the Company and Close Brothers referred to in the prospectus produced by the Company dated 4th October, 1996.
- 10.2 An agreement dated 29th July, 1997 between Devanha Group plc and CDA Media Limited for the sale and purchase of the entire issued share capital of Broadcast Satellite Television Limited for a consideration of £400,000.
- 10.3 The Placing Agreement entered into on 16th July, 1998 between the Company, Close Brothers and Hoare Govett pursuant to which Close Brothers and Hoare Govett have conditionally agreed, as agents for the Company, to procure placees at the Placing Price for the New Ordinary Shares. Any of the New Ordinary Shares for which Placees have not been procured pursuant to the Placing will be subscribed for by Close Brothers (as agent for Close Brothers Limited) and Hoare Govett at the Placing Price. The Placing Agreement contains certain warranties from the Company in favour of Close Brothers and Hoare Govett and an indemnity from the Company in favour of Close Brothers and Hoare Govett.

The obligations of Close Brothers and Hoare Govett under the Placing Agreement are conditional, *inter alia*, upon the Placing Agreement not being terminated in accordance with its terms before admission and Admission becoming effective in accordance with the Listing Rules by not later than 8.30 a.m. on 11th August, 1998 or such later date and time as Close Brothers and Hoare Govett may agree, being not later than 8.30 a.m. on 18th August, 1998.

In consideration of their services under the Placing Agreement the Company will pay to Close Brothers and Hoare Govett (together with VAT where applicable) a commission of ½ per cent. on the aggregate value at the Placing Price of the New Ordinary Shares payable as to ¼ per cent. to each of Close Brothers and Hoare Govett.

The Company will also pay fees for advice provided by Close Brothers and Hoare Govett in connection with the Placing and will reimburse their reasonable legal and out of pocket expenses incurred pursuant to the Placing Agreement.

11. The Share Option Scheme

11.1 Summary of the Scheme

(a) Introduction

In respect of the grant of options to eligible directors and employees up to the £30,000 limit which now applies, 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 of any participating subsidiary to acquire by subscription or purchase options over shares in the ordinary share capital of the Company ("Scheme Shares").

The Scheme is administered by a committee ("the 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 will select those persons who will be granted options.

(c) Eligibility

Only directors of the Company who work at least 25 hours each week and employees of the Company or a participating subsidiary who work at least 20 hours each week will be 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 be granted at any time within the period of 42 days commencing on:

- (i) the date of formal Inland Revenue approval of the Scheme; and thereafter
- (ii) at any time within the period of six weeks immediately following the announcement to the London Stock Exchange of the interim or final results of the Group; or
- (iii) In respect of the grant of options to eligible directors and employees up to the £30,000 limit which now applies, at any other time if the Committee considers that exceptional circumstances exist to justify the grant of an option. No option may be granted after the tenth anniversary of the adoption date.

(e) Option Price

The price ("the 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 a Scheme Share (as defined in sub-paragraph (o) below).

The Option Price may be less than the Market Value of a Scheme Share (but shall not be less than 85 per cent. of the Market Value (or such other percentage as may be permitted from time to time by the relevant legislation)) if at the date on which the option is granted the Company has established an approved savings-related share option scheme and/or an approved profit sharing scheme and has, in the 12 months preceding the date on which the option is granted, informed every employee eligible to participate in such schemes of the existence of the relevant approved scheme. The Committee will have regard to the guidelines from time to time of the Investment Committees of the Association of British Insurers and the National Association of Pension Funds in determining the Option Price and the Committee currently has no intention of granting options under the Scheme at a discount.

(f) *Individual limits*

No person may at any time hold options over Scheme Shares if the aggregate market value of those Scheme Shares taken at the date of grant ("the Appropriation Value") and the aggregate Appropriation Value of shares subject to options granted to him and which remain unexercised under the Scheme and any other Inland Revenue approved share options schemes of the Company (other than Inland Revenue approved savings-related share option schemes) exceeds four times his relevant emoluments. Normally no person may at any time hold options over Scheme Shares if the aggregate Appropriation Value of those Scheme Shares, when aggregated with the aggregate Appropriation Value of all shares over which rights have been granted to or conferred on him with the previous ten years (but after 10th 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 the higher of that person's annual remuneration as at the date immediately prior to the date of grant of the option and the remuneration payable to that person in the 12 months ended on the last day of the month immediately preceding the month in which the date of grant falls.

(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 exercise of the option. Unless the option holder dies, an option may not be exercised after 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 which require to be issued pursuant to options granted under the Scheme or under any other share option scheme of the Company adopted after 10th January, 1995 in which participation is solely at the discretion of the directors involving the issue of shares during the previous ten years 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.

(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 which require to be issued pursuant to options granted under the Scheme or any other employee share scheme of the Company adopted after 10th January, 1995 involving the issue of shares during the previous three years would exceed three 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.

(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 Scheme Shares issued or which require to be issued pursuant to options granted under the Scheme or under any other share option scheme adopted after 10th January, 1995 involving the issue of shares during the previous five years, 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 required to be issued pursuant to options granted under the Scheme or any other employee share scheme of the Company adopted after 10th January, 1995 involving the issue of shares during the preceding ten years, 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) *Shares to be disregarded*

For the purpose of the limits set out in sub paragraphs (h) to (k) above no account shall be taken of, and there shall be disregarded in calculating the nominal value of the Scheme Shares which have been or are required to be issued upon the exercise of any option, any Scheme Share which would have been required to be issued pursuant to any option which has lapsed or been surrendered.

(m) *Performance criterion*

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

When an option is granted under the Scheme the option certificate will contain details of any specified condition and of any additional performance or other conditions applicable in relation to such option.

(n) *Option consideration*

No amount is payable for the grant of any option granted pursuant to the Scheme.

(o) *Market Value of a Scheme Share*

For the purposes of the Scheme references to "Market Value" of a Scheme Share means either:

- (i) if and so long as the Scheme Shares are listed on the London Stock Exchange its middle market quotation (as derived from the Daily Official List of the London Stock Exchange); or
- (ii) where an option is granted at any other time, the market value of a Scheme Share as agreed with the Inland Revenue.

(p) *Change of control*

In the event that a company ("the Acquiring Company") (aa) 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 (bb) serves a notice or notices on the shareholders of the Company under section 429 of the Act, each holder of an option may (subject to the rules of the Scheme) exercise all or any of his options in whole or in part; and to the extent that an option is not or has not been exercised, execute, with the consent of the Acquiring Company, a release of such option in exchange for the grant to him of an equivalent option to acquire shares in the Acquiring Company.

(q) *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).

11.2 Grant of options by the Company

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

As at 15th July, 1998, (being the latest practicable date prior to the publication of this document), there were outstanding options over a total of 1,177,078 Ordinary Shares representing approximately 2.30 per cent. of the issued ordinary share capital of the Company on the same date.

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

<i>Ordinary Shares</i>	<i>Date of grant</i>	<i>Price per Ordinary Share (p)</i>	<i>Exercise period</i>
543,527	30th March, 1995	115p	30th March, 1998 – 29th March, 2005
633,821	4th February, 1997	154.5p	4th February, 2000 – 3rd February, 2007

The above options were granted for nil consideration.

12. Licences

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

12.1 Broadband licences

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

<i>Franchise area</i>	<i>Licensee</i>	<i>Commencement date</i>	<i>Expiry date</i>
Aberdeen	Aberdeen Cable and Broadband Ventures Ltd	28th May, 1985	27th May, 2000

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

<i>Franchise area</i>	<i>Licensee</i>	<i>Commencement date</i>	<i>Expiry date</i>
Aberdeen	Aberdeen Cable	30th June, 1992	3rd May, 2000

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

- (c) Licence to provide a licensable programme service under Part 1 of the Broadcasting Act issued by the ITC.

<i>Franchise area</i>	<i>Licensee</i>	<i>Commencement date</i>	<i>Expiry date</i>
Aberdeen	Aberdeen Cable	1st January, 1991	31st December, 2000

12.2 ATL's licences

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

<i>Licence area</i>	<i>Licensee</i>	<i>Commencement date</i>	<i>Expiry date</i>
Strathclyde region	Atlantic Telecommunications Limited	29th June, 1995	28th June, 2020
East of Scotland	Atlantic Telecommunications Limited	6th June, 1997	5th June, 2022
United Kingdom	Atlantic Telecommunications Limited	30th December, 1997	29th December, 2022

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

<i>Licence area</i>	<i>Licensee</i>	<i>Commencement date</i>	<i>Expiry date</i>
Strathclyde region and East of Scotland (point to multi-point)	Atlantic Telecommunications Limited	15th October, 1997	Until revoked by the RA
UK: the sites specified in the schedule to the licence (point to point)	Atlantic Telecommunications Limited	14th June, 1996	Until revoked by the RA

13. London Stock Exchange quotations

The table below sets out the middle market quotations of the Ordinary Shares as derived from the Official List on the first dealing day of each month from 2nd January, 1998 to 1st July, 1998 and on 15th July, 1998 (being the last practicable date prior to the publication of this document):

<i>Date</i>	<i>Price (pence)</i>
2nd February, 1998	156.0
2nd March, 1998	165.0
1st April, 1998	189.5
1st May, 1998	184.5
1st June, 1998	164.5
1st July, 1998	146.5
15th July, 1998	150.0

14. UK taxation

(a) Dividend income from Ordinary Shares

(i) before 5th April, 1999:

Under current UK tax legislation no tax should be withheld at source from dividend payments by the Company but the Company will generally have to account to the Inland Revenue for advance corporation tax ("ACT") in respect thereof (except to the extent that the dividend is franked by UK dividends received by the Company). The rate of ACT is related to the lower rate of income tax and is currently 20 per cent. of the sum of the dividend plus the ACT payable in respect of it.

Individual shareholders resident in the United Kingdom who receive a dividend paid by the Company should generally be entitled to a tax credit in respect of the dividend which they can offset against their total income tax liability (or in appropriate cases they may reclaim in cash). The value of the tax credit is equal to 20 per cent. of the sum of the dividend plus tax credit. Shareholders liable to tax at the lower and basic rates only should be subject to tax on such a dividend only at the lower rate which is currently 20 per cent. Accordingly, lower and basic rate tax payers should have no further liability to tax on dividends received. Higher rate tax payers should be liable to tax on the sum of the dividend plus the tax credit at the higher rate which is currently 40 per cent., against which liability they can offset the 20 per cent. tax credit. To the extent that a UK resident non-corporate shareholder's total tax credits exceed his overall UK tax liability he may normally (and save as mentioned below) claim to have any excess paid to him by the Inland Revenue.

A corporate shareholder resident in the United Kingdom (other than a person who is regarded as a dealer in relation to his shares) will not be liable to UK corporation tax on any dividend received from the Company as the dividend and associated tax credit will represent franked investment income. The Finance (No. 2) Act 1997 removed, with effect from 2nd July, 1997, the right of a corporate shareholder to set off losses etc. against surplus franked investment income and the same Act provides that no claim for payment of a tax credit can be made in relation to a dividend paid to a "pension fund" as defined in the Finance (No. 2) Act 1999 on or after 2nd July, 1997.

The Company may in certain circumstances elect for its dividends to be foreign income dividends ("FIDs") to which special rules apply and which, in particular, do not carry any tax credit. The Company has no present intention of paying dividends as FIDs. The rules introduced in the Finance Act 1997, under which distributions made in relation to share buy-backs or in connection with transactions in which securities are treated as FIDs, should not apply to ordinary dividends on the Ordinary Shares.

- (ii) after 6th April, 1999:

The Finance (No. 2) Act 1997 made changes to the taxation of dividends paid on or after 6th April, 1997 including, *inter alia*, a reduction in the rate of tax credits attaching to dividends paid by a UK company from the current rate of one quarter of the amount of the cash dividend paid to one ninth of the amount of the cash dividend paid. The effective tax charge imposed on an individual shareholder resident (for tax purposes) in the United Kingdom who receives a dividend from the Company will not change unless the individual shareholder's liability to income tax on the total of the dividend and the related tax credit is less than the tax credit. As from 6th April, 1999 non-corporate shareholders will not (subject to transitional relief in the case of Charities) be able to claim payment of the excess credit.

Further, as from 6th April 1999 the Company cannot elect for its dividends to be FIDs and the rules under which certain dividends may be treated as FIDs will cease to apply.

- (iii) The Finance (No. 2) Bill:

The Finance (No. 2) Bill published on 23rd March, 1998 introduced draft legislation abolishing ACT with effect from 6th April, 1999. Dividends will still carry credits, at the new rate of one ninth of the cash dividend paid from 6th April, 1999, which individual shareholders will be able to set off against their liability to tax on the dividends. The draft legislation does not affect the effective tax charge on such shareholders or enable them to recover any cash in respect of excess tax credits. Corporate shareholders resident in the United Kingdom (other than those who are regarded as dealers) will not generally have to pay corporation tax on dividends received from UK companies.

Shareholders who are resident outside the United Kingdom

- (a) Dividend income from Ordinary Shares

- (i) Before 6th April, 1999:

Commonwealth citizens, European Economic Area nationals and certain other classes of person will normally be entitled to a tax credit in respect of any dividend received from the Company which they may offset against any United Kingdom income tax liability or reclaim in cash as appropriate.

Other shareholders resident outside the United Kingdom may be entitled to a payment from the Inland Revenue in respect of part of the tax credit attached to the dividends to which they are entitled, depending on the provisions of any relevant double taxation convention or agreement. Such shareholders should consult their own tax advisers as to entitlement and procedures as well as to taxation in their own jurisdiction.

- (ii) After 6th April, 1999:

The reduction in the rate of tax credit from 6th April, 1999 to one ninth of the cash dividend paid will mean that most shareholders who are entitled to claim payment of tax credits pursuant to double taxation conventions or agreements will either cease to be able to obtain payment of tax credits or see the amount fall to less than one per cent. of the dividends to which they relate.

Commonwealth citizens, European Economic Area nationals and certain other classes of persons who are currently entitled to reclaim in cash tax credits from the Inland Revenue will not (unless they are entitled to do so under the terms of an applicable double taxation convention) be able to reclaim such amounts after 6th April, 1999.

The above comments are intended as a general guide only. Any Shareholder who is in doubt as to his tax position or who may be subject to tax in any jurisdiction other than the UK should consult an appropriate independent professional adviser without delay.

15. Indebtedness

As at the close of business on 19th June, 1998, the indebtedness of the Group was as follows:

	£'000
Bank term loan (secured)	1,400
Bank overdrafts (secured)	5,406
Obligations under finance leases	9,704
Loan notes (unsecured)	146
	<u>16,656</u>

Members of the Group have given guarantees in respect of each other's banking arrangements under the Group's composite bank facility and in respect of certain of the other's finance lease obligations.

Save as aforesaid and excluding intra-Group indebtedness, as at 19th June, 1998 the Group had no loan capital outstanding or created but unissued, nor any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, term loans, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, obligations under finance leases, guarantees or other contingent liabilities.

As at the same date the Group had cash balances of £15,000.

16. Working capital

The Directors are of the opinion that, following the Placing and having regard to the bank facilities available to it, the Group has sufficient working capital for its present requirements.

The Placing has been underwritten by Close Brothers and Hoare Govett and is subject to Shareholder approval. The Senior Debt Facility, which is conditional upon the Placing, has been underwritten by ABN AMRO and British Linen Bank. However, in the event that the Placing does not complete, the Directors would have to give urgent consideration to the options available to secure adequate finance for the Company's business. In such circumstances, the Directors believe that the terms on which any finance may be available would be materially less favourable to Shareholders than the terms of the Placing and that, if finance were not available, there would be significantly adverse consequences for Shareholders.

17. Consents

- 17.1 Close Brothers and Hoare Govett are regulated by The Securities and Futures Authority. Close Brothers and Hoare Govett have given and have not withdrawn their written consents to the issue of this document with the references to their names in the form and context in which they appear.
- 17.2 Grant Thornton has given and has not withdrawn its written consent to the inclusion herein of its letter in Part IV relating to the pro forma statement of net assets and its letter in Part V relating to operating statistics and references to its name in the form and context in which they appear and has authorised the contents of its letter included in Part IV of this document for the purposes of Section 152(1)(e) of the Financial Services Act 1986.

18. General

- 18.1 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 31st March, 1998, the end of the year to which the latest preliminary results relate.
- 18.2 The issued Ordinary Shares are, and the New Ordinary Shares will be, in registered form. No temporary document of title will be issued. The issued Ordinary Shares have been, and the New Ordinary Shares will be, admitted to the Official List and no other stock exchange.
- 18.3 The expenses relating to the Placing which are payable by the Company (including commissions as set out in paragraph 10.3 above, listing fees, printing and other expenses are estimated to amount to approximately £5.0 million (including VAT). Of this sum, approximately £3.0 million (including VAT) is payable to financial intermediaries, including the Company's financial adviser and stockbrokers.

- 18.4 The Company's registrar is Bank of Scotland Registrar Services, Apex House, 9 Haddington Place, Edinburgh EH7 4AL.
- 18.5 The registered auditor of the Company is Grant Thornton, who has audited the accounts of the Company for the three financial years ended 31 March, 1997.
- 18.6 The Placing Price of 150 pence per Ordinary Share represents a premium of 125 pence over the nominal value of 25 pence per Ordinary Share and is payable in full on application.
- 18.7 Neither the Company nor any of its subsidiaries is or has been involved in any legal or arbitration proceedings which may have or have had, during the twelve months preceding the date of this document, a significant effect on the Group's financial position, nor so far as the Company is aware are any such proceedings pending or threatened by or against any member of the Group.

19. 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 two financial years ended 31st March, 1997;
- (c) the service contracts and letters of appointment of the Directors referred to in paragraphs 6.4 and 6.5 above;
- (d) the material contracts referred to in paragraph 10 above;
- (e) the letters of consent referred to in paragraph 17 above;
- (f) the deed poll (as amended) dated 15th December, 1994 containing the terms and conditions of the Warrants;
- (g) 1991 Census, The Dun & Bradstreet report and The OFTEL report referred to in "Glossary and Data Sources"; and
- (h) the letters from Grant Thornton as set out in Parts IV and V.

16th July, 1998

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 Citigate Communications Limited, 26 Finsbury Square, London EC2A 1DS on 10th August, 1998 at 2.30 p.m. for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a special resolution:

THAT, subject to and conditional upon the admission to the Official List of the London Stock Exchange Limited of the ordinary share capital to be issued pursuant to the Placing (as defined in the listing particulars dated 16th July, 1998 (the "Listing Particulars") of the Company) becoming effective:

- (1) the authorised share capital of the Company be increased from £20,000,000 to £30,000,000 by the creation of an additional 40,000,000 ordinary shares of 25p each in the capital of the Company;
- (2) the directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("the Act") and in substitution and as a replacement for any 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 £15,381,362; provided that in the case of any allotment (other than allotments of ordinary shares of 25p each in connection with or incidental to the Placing) the authority hereby conferred 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 after this resolution becomes unconditional; 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 may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired;
- (3) the directors be and are hereby given power pursuant to section 95 of the Act to allot for cash equity securities (as defined in section 94(2) of the Act) pursuant to the authority conferred on them under paragraph (2) of this resolution as if section 89(1) of the Act did not apply to the allotment but this power shall be limited to:
 - (i) the allotment of 33,333,333 ordinary shares of 25p each;
 - (ii) the allotment of equity securities for cash in connection with a rights issue in favour of ordinary shareholders and holders of any other class of equity securities in the capital of the Company where the equity securities are proportionate (as nearly as practicable) to the respective number of ordinary shares and any other class of equity securities held by such holders but subject to such exclusions or other arrangements as the directors may deem necessary or desirable in relation to fractional entitlements or legal or practical problems arising in, or pursuant to, the laws of any territory or the requirements of any regulatory body or stock exchange in any territory; and
 - (iii) the allotment (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities for cash up to an aggregate nominal amount equal to five per cent. of the aggregate nominal amount of all ordinary shares of 25p each in the capital of the Company issued and fully paid immediately after this resolution becomes unconditional, and

provided further that such power shall expire on the fifth anniversary of the passing of this resolution but so that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

100 Union Street
Aberdeen
AB10 1QR

By Order of the Board
Peterkins
Secretaries

16th July, 1998

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 duly certified copy of such authority, with Bank of Scotland Registrar Services, Apex House, 9 Haddington Place, Edinburgh EH7 4AL so as to arrive not later than 48 hours before the time fixed for the meeting.