

ANNUAL REPORT & ACCOUNTS

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CHAIRMAN'S REPORT

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 (FRA) throughout substantially the whole of Scotland. In September 1997, we launched a service aimed at customers who are 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 wired 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 our 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 31 July 1997. We closed down our last remaining operational narrowband network in Hull on 31 March 1998. The directors regard our sole remaining broadband cable network in Aberdeen as complimentary to the delivery of telephone services in the city as our city 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 Ltd ('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.

FIXED RADIO ACCESS

During the year we have expanded the network to 42 operational base stations (from 30 operational base stations at 31 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 in taking the network build into the rest of Greater Glasgow as well as the expansion into 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 expand the network without sufficient capacity to connect customers. We are pleased to have taken penetration of customers on the network to 3% of homes and businesses passed at 31 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 31 March 1998 Logically had increased its line base to nearly 13,500 lines. The directors expect 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 31 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 31 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 31 March 1997 to 15,420 at 31 March 1998.

The directors believe that this can be explained by an aggressive push by BSkyB to capture customers ahead of the rollout 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% higher than the UK average and the system has the highest pay-to-basic ratio, at 261%, of any UK network.

"This year has again been one of significant progress."



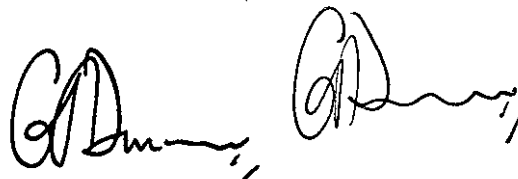
The directors believe that the introduction of the Group's fixed radio access telephone service in Aberdeen, coupled ultimately with a digital upgrade of the network, will enable Atlantic Cable to maintain and build on its customer base. In the short to medium term this is likely to be at reduced average 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 31 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 30 June, 1998 the Group's line base had increased to 35,321 from 31,083 at 31 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. During the year the board has been considering various sources of finance in order to fulfil its business plan. On 11 August 1998 the shareholders approved a placing of 33,333,333 New Ordinary Shares raising £50M, prior to issue expenses. This, together with a Senior Debt Facility of up to £60M, will provide the Group with the funding required to finance fully the Scottish build plan. I am pleased that we will be moving forward with an enhanced capital base in order to build on what already has been achieved.



GRAHAM J DUNCAN

Executive Chairman, 11 August 1998

"...there is great opportunity for the business to grow in a sector that is fast expanding"



June 1997, Atlantic Telecom gains
Scottish licence for its fixed radio
access service. A National
Telecommunications Licence
followed in December 1997.



OPERATING AND FINANCIAL REVIEW

OPERATING REVIEW

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

The Group 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 Group 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 Group 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 during the year to 31 March 1998 including the following:

- The Group has substantially completed its network build in the City of Glasgow so that by 31 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 Group first launched the service.
- The Group'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 31 March 1998, the Group had an average revenue per residential FRA telephony customer of £36 per month. At 31 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 31 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 Group 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 31 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 Group significantly to increase its customer base without capacity constraints.
- The network has performed to a very high standard. In the year ended 31 March 1998 it has performed to an availability in excess of 99.99 per cent.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

OPERATING REVIEW (continued)

- When the Group first launched commercial service over its FRA network its operations were restricted by licence to the Strathclyde Region of Scotland. Since then the Group has obtained further licences which permit it to operate across substantially the rest of Scotland.
- In December 1997 the DTI issued Atlantic Telecommunications Limited 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 Radiocommunications Agency on the procedures for further licensing in the next few months.
- In September 1997, using indirect access technologies, the Group introduced its Crest service for residential customers. Crest has succeeded in capturing customers in Scotland ahead of the directors' planned expansion of the Group'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 Logica 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 Logica's blend of telecommunications management services and least-cost routing capability.
- The Group issues quarterly operating statistics to the Stock Exchange which allows investors, potential investors and other interested parties to follow its progress. The table overleaf sets forth certain data concerning the Group's telecommunication operations as of and for the year ended 31 March 1998.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

OPERATING REVIEW (continued)

Operating Statistics

	March 31 1998
Direct Telecommunications (Atlantic Telecom FRA Service)	
<i>Residential Customer Data</i>	
Estimated residential homes passed (1)	200,000
Residential customers.....	5,684
Residential customer lines (2).....	10,637
Penetration rate of estimated residential homes passed (3).....	2.8%
Average lines per residential customer (4).....	1.87
Average monthly revenue per residential customer (5).....	£35.60
Residential customer churn (8).....	16.99%
<i>Business Customer Data</i>	
Estimated business premises passed (1).....	21,000
Business customers.....	951
Business customer lines (2).....	2,945
Penetration rate of estimated business premises passed (3).....	4.5%
Average lines per business customer (4).....	3.10
Average monthly revenue per business customer (6).....	£89.63
Business customer churn (8).....	9.82%
<i>Network Data</i>	
Number of base stations.....	42
Excess base station capacity (7).....	47.9%
Indirect Telecommunications (Atlantic Telecom Crest Service)	
Residential customers.....	3,922
Residential customer lines (2).....	4,030
Average lines per residential customer (4).....	1.03
Average monthly revenue per customer (5).....	£11.59
Least-Cost Routing (Atlantic Logical)	
Business customers.....	393
Business customer lines (2).....	13,471
Average lines per business customer (4).....	34.3
Average monthly revenue per business customer (6).....	£955.35
Average monthly revenue per business line (6).....	£37.72
Total Telecommunications Lines.....	31,083

- (1) Estimated homes passed or estimated business premises passed is the Group's estimate of the residential homes or business premises seen by the FRA network which are capable of connection to a base station excluding certain multiple dwelling units which the Group does not presently serve.
- (2) Residential or business customer lines represent the number of lines which are connected and in service, and the number of lines for which customers, where applicable, have paid for service in advance but are not yet connected.
- (3) Penetration rate of estimated homes or estimated business premises passed is calculated by dividing the number of residential customers or business customers on the given date by the estimated homes or estimated business premises passed as of such date, expressed as a percentage.
- (4) The average lines per customer is calculated by dividing the number of lines on a given date by the number of customers on that date.
- (5) The average monthly revenue per residential customer is calculated by dividing (a) line and equipment rental, outgoing call charges and incoming call charges for the period by (b) the average number of active customers (calculated as a simple average of the number of active customers at the beginning and end of each month during the period) and dividing that amount by the number of months in the period covered.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

OPERATING REVIEW (continued)

- (6) The average monthly revenue per business customer or per business customer line is calculated by dividing (a) line and equipment rental, outgoing call charges and incoming call charges for the period by (b) the average number of active business customers or lines (calculated as a simple average of the number of active customers or lines at the beginning and end of each month during the period) and dividing that amount by the number of months in the period covered.
- (7) Excess base station capacity means the theoretical installed capacity of the network base stations in excess of the number of installed lines ignoring any limitations inherent in the backhaul network, expressed as a percentage.
- (8) Churn is calculated by dividing net disconnections (total disconnections less the number of disconnected accounts for which service is later restored and disconnections for customers moving premises and reconnecting at their new premises) in a period by the average number of customers in the period (calculated as the simple average of the number of customers at the end of each month during the period).

FINANCIAL REVIEW

Group turnover for the year increased from £8.9M to £11.4M. Significantly, revenues from telecommunications activities increased from £1.1M to £4.7M.

The operating loss for the Group of £8.9M compared with £2.5M in the previous year reflects the increased operational costs of Atlantic Telecommunications Limited. The year to 31 March 1997 represented only a five month trading period for Atlantic Telecommunications Limited as it launched its service on 30 October 1996. Payroll costs increased by £1.5M as the Group's staffing built up with the growth in the subscriber base. Selling and distribution costs were £3.3M compared with £1.1M in 1997. This reflects the continuing sales and marketing activity to raise brand awareness of "Atlantic Telecom".

As noted in the Chairman's report in July 1997, the Group sold Broadcast Satellite Television Limited which held the majority of the Group's narrowband cable networks and closed its last remaining operational narrowband network in Hull on 31 March 1998, realising a loss of £670,000.

Net interest received for the year was £25,000 compared with £145,000 in 1997. Interest received on deposits following the fund raising in October 1996 is included in the 1997 figure.

The Group utilised £19.0M of cash resources during the year as it continued the expansion of its telecommunications activities. During the year capital expenditure amounted to £13.7M excluding assets funded by leasing, the cash outflow from operating activities was £3.8M and repayment of borrowings amounted to £2.0M.

Subsequent to the year end the Group secured a funding package of £110M comprising £50M of new equity, prior to issue expenses, from a successful placing of 33,333,333 shares at 150 pence per share and a £60M debt package jointly underwritten by ABN AMRO Bank NV and British Linen Bank. The net proceeds from this funding will fully fund the build out of Atlantic's FRA network in the major cities in Scotland, enable the Group to upgrade its Aberdeen Cable television network with digital technology and continue the expansion of the indirect Crest service and the Logica! least-cost routing business.

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 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 financial advice, that an issue of senior discount notes can be completed in the current financial year.



Atlantic Telecom signs a three year sponsorship deal for the Glasgow International Jazz Festival, the UK's premier event of its type.

DIRECTORS' PROFILES

The following are the directors of Atlantic Telecom Group PLC:

Graham J Duncan, aged 47, is a Chartered Accountant and an Executive Chairman and founder of the Group. He was a co-founder of Aberdeen Cable Services Ltd in 1983 and in 1984 he joined that company and was its Finance Director from 1984 to 1986 and Managing Director from 1986 to 1988. In 1989 he founded Broadcast Satellite Television Ltd ("BSTV") and in 1991 set up Devanha Group plc, to which he was Chairman. He has been Executive Chairman of Atlantic since 10 January 1995. He is a member, and past Chairman, of the Board of the Cable Communications Association, which is the cable industry trade association in the UK. Mr Duncan is responsible for the overall strategy and development of the Group.

Gordon B Sleigh, aged 50, is Group Managing Director of Atlantic. Mr Sleigh has worked in the cable industry for over 25 years with early experience gained in narrowband systems with Rediffusion. He joined Aberdeen Cable Services Ltd in 1984 and was appointed Sales and Marketing Director of Aberdeen Cable in 1988 and Managing Director of BSTV in 1989. Mr Sleigh was appointed Group Managing Director in September 1991. He is responsible for the overall operational running of the various operating companies which comprise Atlantic Telecom Group PLC.

Alisdair D McKenzie, aged 36, is Group Finance Director. Mr McKenzie qualified as a Chartered Accountant in 1985. In 1988 he joined Aberdeen Cable Services Ltd as Finance Manager. In 1990 he was appointed Commercial Manager of Aberdeen Cable and BSTV with responsibility for finance. In September 1991 he was appointed Group Finance Director.

Martin L Beard, aged 36, is Group Sales and Marketing Director. Mr Beard has worked in sales and marketing areas of the cable and telecommunications industry since 1985. He joined Coventry Cable (then owned by the Group) as General Manager in January 1992 and was appointed to the board of Atlantic on 10 January 1995. Mr Beard is responsible for overseeing the Group's sales and marketing activities.

Edward J Hornsby, aged 51, is Group Technical Director. Mr Hornsby was one of the founders of Atlantic Telecommunications Ltd. and has worked in the telecommunications industry for many years both in the UK and overseas. Mr Hornsby was appointed to the board of Atlantic in August 1996. Mr Hornsby is responsible for the technical activities of the Group.

Nicholas Berry, aged 55, is a non executive director of Atlantic. Mr Berry is an investor and publisher. He was appointed to the board of Atlantic in January 1995. Mr Berry and his family control Stancroft Trust Limited, which together with its associates, is a significant shareholder in a number of public and private companies.

Andrew A Laing, aged 45, is a non executive director of Atlantic. Mr Laing is Managing Director of Aberdeen Asset Management PLC, a listed financial services company based in Aberdeen.

Aberdeen Cable becomes Atlantic Cable in late November 1997, operating alongside Atlantic Telecom in Aberdeen under the generic Atlantic brand.



ADVISORS AND COMMITTEES

Board of Directors	Graham J Duncan Gordon B Sleigh Alisdair D McKenzie Martin L Beard Edward J Hornsby Nicholas Berry Andrew A Laing	Executive Chairman Managing Director Finance Director Sales and Marketing Director Technical Director Non-executive Non-executive
Audit Committee	Nicholas Berry Andrew A Laing Alisdair D McKenzie	Chairman
Remuneration Committee	Nicholas Berry Andrew A Laing Graham J Duncan	Chairman
Secretaries and registered office	Peterkins, Solicitors, 100 Union Street Aberdeen, AB10 1QR	
Merchant Bankers	Close Brothers Corporate Finance Limited, 12 Appold Street, London, EC2A 2AA	
Stockbrokers	Hoare Govett Limited 4 Broadgate London, EC2M 7LE	Bell Lawrie White & Co., 48 St Vincent Street, Glasgow, G2 5TS
Solicitors	Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London, EC2A 2HA	Peterkins, 100 Union Street, Aberdeen, AB10 1QR
Auditors	Grant Thornton, Chartered Accountants and Registered Auditors, P O Box 151, 114 West George Street, Glasgow, G2 1QF	
Registrars	Bank of Scotland, Registrar Department, Apex House, 9 Haddington Place, Edinburgh, EH7 4AL	
Bankers	Bank of Scotland, 53 Castle Street, Aberdeen, AB11 9AJ	

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 31 March 1998.

REVIEW OF BUSINESS ACTIVITIES

The Group is principally engaged in the development and operation of telecommunications systems and services and the operation of cable and satellite networks. The principal activity of the Company is that of a holding company.

A review of the business during the year together with the directors' opinion regarding future developments is included in the Chairman's Report on pages 2 to 4 and the Operating and Financial Review on pages 6 to 9.

RESULTS AND DIVIDENDS

The results for the Group for the year are shown in the Profit and Loss Account on page 22. In view of the deficit on reserves the directors cannot recommend the payment of a dividend.

POST BALANCE SHEET EVENTS

Subsequent to the year end, the Company secured a funding package of £110M. Further information is contained in the Financial Review and note 27 to the financial statements.

DIRECTORS

The directors in office during the year and their beneficial interests in the shares of the Company are listed below:

	Ordinary Shares		Warrants		Ordinary Shares Options	
	31.3.98	31.3.97	31.3.98	31.3.97	31.3.98	31.3.97
Graham J Duncan	8,000,999	7,999,999	1,736,126	1,735,126	-	-
Gordon B Sleight	414,337	414,337	82,867	82,867	235,426	235,426
Alisdair D McKenzie	-	-	-	-	179,795	179,795
Martin L Beard	3,000	2,000	-	-	177,571	177,571
Edward J Hornsby	227,584	227,584	-	-	177,571	177,571
Nicholas Berry	7,516,270	7,516,270	1,479,519	988,410	-	-
Andrew A Laing	-	-	-	-	-	-

Further information with regard to warrants and options is contained in note 19 to the financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

SUBSTANTIAL INTERESTS

In addition to the directors above, at 11 August 1998 the Company had been notified of the following interests in 3% or more of the share capital of the Company:

NAME	Number	%
UKAV Continuation Fund Inc	2,740,000	3.24%
Guardian Royal Exchange plc	2,900,728	3.43%

These substantial interests take account of the placing on 11 August 1998 which increased the shares in issue to 84,576,344.

CORPORATE GOVERNANCE

The Group has complied throughout the year with the provisions of the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance ("the Cadbury Code"), except that the board of the Group includes only two non-executive directors who also serve on the audit committee. The Group therefore does not comply with paragraph 4.3 of the Cadbury Code. The board believes that its current composition is suitable for the size of the Group and is in line with the recommendations of The City Group for Smaller Companies for groups of a similar size.

Internal Financial Control

The directors have overall responsibility for the Group's system of internal financial control and for monitoring its effectiveness.

The board receives regular reports on all financial and operational matters. The operation of the systems of internal financial control is designed to provide reasonable, but not absolute, assurance against material mis-statement or loss. They include:

- annual budgets approved by the board
- regular consideration by the board of actual results compared with budget
- board approval for major capital expenditure
- regular reports concerning operational and legal matters

The operation of the system of internal financial control is delegated to the executive directors and it is monitored and supported by the finance function. The auditors review and test the system of internal financial control and the information contained in the annual report to the extent necessary for expressing their audit opinion.

The board have reviewed the operation and effectiveness of the Group's system of internal financial control for the financial year and the period up to the date of approval of the financial statements.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. The directors accordingly continue to adopt the going concern basis in preparing the consolidated financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

CORPORATE GOVERNANCE

Reporting

The auditors have confirmed that, in their opinion, with respect to the directors' statements on internal financial control and going concern above, the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' other statements above appropriately reflect the Group's compliance with the other aspects of the Cadbury Code specified for their review by Listing Rule 12.43(j). They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group to continue in operational existence.

YEAR 2000 COMPLIANCE

Many computer systems which express dates using only the last two digits of the year may malfunction due to the date change of the Year 2000. The risk to the business relates not only to the Group's computer systems, but also to some degree on those of our customers and suppliers.

The Group has reviewed its computer systems for the impact of the Year 2000 date change. An impact analysis has been prepared to identify the major risks, and action plans have been developed to address these in advance of critical dates. The plans give priority to the systems which could have significant financial or legal impact if they were to fail.

The mains systems affected are:

- the billing system which will be Year 2000 compliant by December 1998.
- the Group's switching systems which are being upgraded.
- the accounting and management information system, which is being replaced.

The Company has requested from major customers, suppliers and other trading partners with whom information is exchanged electronically, confirmation that their relevant systems are Year 2000 compliant.

The issue is complex, and no business can guarantee that there will be no Year 2000 problems. However, the board believes that its plans and resources allocated are appropriate and adequate to address the issue.

External costs to address the issue are not expected to exceed £300,000, of which £150,000 has already been committed. Of the total amount, £150,000 is expenditure on replacing systems which had already been planned.

REPORT OF THE DIRECTORS (CONTINUED)**PAYMENT POLICY**

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them. Trade creditors at the year end amount to 36 days of average supplies for the year.

DIRECTORS' INTERESTS IN SIGNIFICANT CONTRACTS

No director had during, or at the end of the year, a material interest in any contract which was significant in relation to the Group's business.

AUDITORS

A resolution to re-appoint Grant Thornton as auditors of the company and authorising the directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board


Peterkins

Secretaries
11 August 1998

REPORT OF THE REMUNERATION COMMITTEE

The members of the Remuneration Committee are detailed on page 12.

STATEMENT OF COMPLIANCE

The Company has complied throughout the year with Section A of the Best Practice Provisions for remuneration committees as annexed to the Listing Rules except that the remuneration committee does not consist exclusively of non-executive directors. The board contains two non-executive directors and it is therefore considered appropriate that the Executive Chairman should be a member of this committee until such time as a further non-executive director is elected to the board.

REMUNERATION POLICY

The purpose of the Remuneration Committee is to monitor, review and determine on behalf of the board remuneration packages for the directors. The remuneration of the Chairman is monitored and determined by the two non-executive directors on the committee.

In framing its remuneration policy the committee has given full consideration to the provisions of Section B of the Best Practice provisions annexed to the Listing Rules.

Remuneration packages are designed to attract, motivate and retain directors of the calibre necessary to develop the Group's activities and to reward for enhancing shareholder value.

The remuneration package contains the following elements:

- basic annual salary and benefits in kind
- pension provision
- share option scheme (also open to certain senior executives)
- bonus provision, at the discretion of the remuneration committee

Each executive director's basic salary is reviewed annually by the committee. In deciding upon appropriate levels of remuneration the committee has regard to rates of pay for similar jobs in comparable companies as well as internal factors such as performance.

SHARE OPTIONS

The Remuneration Committee is responsible for supervising the share option scheme and the grant of options under its terms. Options can be exercised after they have been held for a minimum period of three years, subject to achievement of the performance criteria set by the Remuneration Committee. Conditions of exercise are outlined in note 19 to the financial statements.

DIRECTORS' PENSION ARRANGEMENTS

Executive directors are members of the company pension scheme. Their dependants are eligible for death in service benefits. The current scheme is a money purchase scheme and there are no outstanding payments to the scheme.

DIRECTORS' CONTRACTS

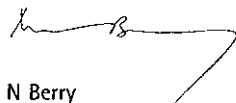
The executive directors have service contracts which are rolling one year contracts. This type of contract is considered appropriate for the company and is in line with service contracts within the telecommunications industry.

NON-EXECUTIVE DIRECTORS

The remuneration of the Company's non-executive directors is determined by the board. Non-executive directors cannot participate in the share option scheme, are not eligible to join the pension scheme and do not have a contract of service.

Nicholas Berry retires by rotation and, being eligible, offers himself for re-election.

This report should be read in conjunction with notes 6 and 19 to the financial statements which also form part of this report. Full details of all elements of the remuneration package of each director are given in note 6 to the financial statements. Details of directors share options are given in note 19 to the financial statements.



N Berry
Chairman of the Remuneration Committee
11 August 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group and of the result of the Group for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF ATLANTIC TELECOM GROUP PLC

We have audited the financial statements on pages 20 to 41 which have been prepared under the accounting policies set out on pages 20 and 21.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 31 March 1998 and of the result of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Grant Thornton
Registered Auditors
Chartered Accountants
Glasgow
11 August 1998



Logicall experiences record growth throughout the year, building on a blue-chip client base.



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 from the previous year 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). The financial statements of each company in the Group have been prepared to 31 March 1998. The results of a subsidiary undertaking disposed of during the year have been included to the date of disposal.

B) TURNOVER

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

C) GOODWILL

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

ACCOUNTING POLICIES (CONTINUED)

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.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1998

	Note	£'000	1998 £'000	1997 £'000
TURNOVER				
Continuing operations:	2			
ongoing		10,595		6,713
Discontinued operations		795		2,180
			11,390	8,893
Cost of Sales	3		(7,953)	(5,598)
Gross Profit			3,437	3,295
Other operating charges:	3			
ongoing		(12,007)		(5,801)
exceptional		(325)		-
			(12,332)	(5,801)
OPERATING LOSS				
Continuing operations:				
ongoing		(8,733)		(2,180)
Discontinued operations		(162)		(326)
			(8,895)	(2,506)
Exceptional items				
Continuing operations				
Provision for operations to be discontinued	4		-	(1,028)
Discontinued operations:				
(Loss) / Profit on sale of discontinued operations		(1,698)		3,779
Less provision at 31 March 1997		1,028		-
Less reinstatement of goodwill previously written off		-		(3,238)
			(670)	541
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST			(9,565)	(2,993)
Net interest	5		25	145
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			(9,540)	(2,848)
Tax on loss on ordinary activities	7		-	-
RETAINED LOSS FOR THE FINANCIAL YEAR	20		(9,540)	(2,848)
Loss per share	8		(18.86)p	(7.35)p

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

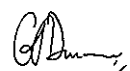
The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

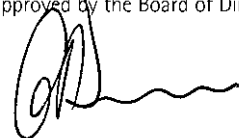
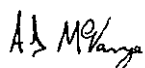
As at 31 March 1998

	Note	1998 £'000	1998 £'000	1997 £'000	1997 £'000
FIXED ASSETS					
Intangible assets	9	3,883		4,048	
Tangible assets	10	29,709		13,297	
			33,592		17,345
CURRENT ASSETS					
Stocks	12	715		1,049	
Debtors: amounts falling due after more than one year	13	6,776		5,366	
Debtors: amounts falling due within one year	14	4,046		2,246	
Cash at bank and in hand		57		17,475	
		11,594		26,136	
Creditors: amounts falling due within one year	15	15,517		6,946	
			(3,923)		19,190
NET CURRENT (LIABILITIES) / ASSETS					
TOTAL ASSETS LESS CURRENT LIABILITIES					
			29,669		36,535
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
	16		7,598		4,946
			22,071		31,589
CAPITAL AND RESERVES					
Called up share capital	19		12,644		12,639
Share premium account	20		22,839		22,822
Profit and loss account	20		(13,412)		(3,872)
SHAREHOLDERS' FUNDS					
	21		22,071		31,589

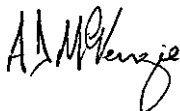
The financial statements were approved by the Board of Directors on 10 August 1998.


 G J Duncan

Director



 A D McKenzie

Director



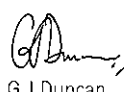
The accompanying accounting policies and notes form an integral part of these financial statements.

COMPANY BALANCE SHEET

As at 31 March 1998

	Note	1998 £'000	1998 £'000	1997 £'000	1997 £'000
FIXED ASSETS					
Tangible assets	10	234		144	
Investments	11	51,184		25,277	
			51,418		25,421
CURRENT ASSETS					
Debtors	14	5,604		12,422	
Cash at Bank		1		17,434	
		5,605		29,856	
Creditors: amounts falling due within one year	15	4,137		883	
			1,468		28,973
NET CURRENT ASSETS					
TOTAL ASSETS LESS CURRENT LIABILITIES					
			52,886		54,394
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
	16		1,165		1,588
			51,721		52,806
CAPITAL AND RESERVES					
Called up share capital	19		12,644		12,639
Share premium account	20		22,839		22,822
Other reserves	20		17,412		17,412
Profit and loss account	20		(1,174)		(67)
SHAREHOLDERS' FUNDS					
			51,721		52,806

The financial statements were approved by the Board of Directors on 10 August 1998.

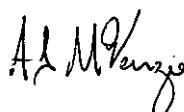

 G J Duncan

Director



 A D McKenzie

Director



The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

As at 31 March 1998

	Note	1998 £'000	1997 £'000
RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES			
Operating loss from continuing activities		(8,733)	(2,180)
Depreciation and amortisation		2,312	758
Amortisation of lease prepayment		164	164
Network lease prepayments		(1,875)	(1,625)
Decrease/(increase) in stock		305	(978)
Increase in debtors		(1,748)	(986)
Increase/(decrease) in creditors		6,349	(1,595)
Gain on disposal of fixed assets		(14)	(12)
		<hr/>	<hr/>
Net cash outflow from continuing operating activities		(3,240)	(6,454)
Net cash (outflow)/inflow from discontinued operations		(562)	204
		<hr/>	<hr/>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(3,802)	(6,250)
		<hr/>	<hr/>
CASH FLOW STATEMENT			
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(3,802)	(6,250)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	22	(15)	183
CAPITAL EXPENDITURE	22	(13,709)	(7,704)
ACQUISITIONS AND DISPOSALS	22	420	6,818
MANAGEMENT OF LIQUID RESOURCES	22	16,000	(16,000)
FINANCING	22	(1,984)	24,922
		<hr/>	<hr/>
(DECREASE)/INCREASE IN CASH	23	(3,090)	1,969
		<hr/>	<hr/>

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1998

1. 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 31 March 1998.

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

2. TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

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:

	1998 £'000	1997 £'000
Broadband cable networks	5,897	5,878
Narrowband cable networks	795	1,927
Telecommunications services	4,698	1,088
	<hr/>	<hr/>
	11,390	8,893

The loss on ordinary activities before taxation is stated after:

	1998 £'000	1997 £'000
Auditors' remuneration - audit services	60	60
- non-audit services	42	86
Hire of plant and machinery	227	144
Other operating lease rentals - land and buildings	328	221
Depreciation	2,199	895
Depreciation capitalised on development assets	-	85
Permanent diminution in value of fixed assets	121	913
Amortisation of network lease prepayment	164	176
Amortisation of intangibles	165	69
	<hr/>	<hr/>

In addition to the charges for non-audit services during the year ended 31 March 1998 above, the Group has carried forward as a prepaid expense £98,000 in relation to the aborted issue of senior discount notes as discussed in the Financial Review.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

3. COST OF SALES AND OTHER OPERATING CHARGES

	1998			1997		
	Ongoing £'000	Discontinued £'000	Total £'000	Ongoing £'000	Discontinued £'000	Total £'000
Cost of sales	7,463	490	7,953	4,398	1,200	5,598
Other operating charges:						
Administrative expenses						
ongoing	5,768	390	6,158	2,575	1,028	3,603
exceptional	325	-	325	-	-	-
Selling and distribution						
expenses	3,320	1	3,321	1,010	48	1,058
Depreciation and amortisation	2,452	76	2,528	910	230	1,140
	<u>11,865</u>	<u>467</u>	<u>12,332</u>	<u>4,495</u>	<u>1,306</u>	<u>5,801</u>

4. PROVISION FOR OPERATIONS TO BE DISCONTINUED

	1998 £'000	1997 £'000
Provision for permanent diminution in value of fixed assets	-	913
Provision for closure costs	-	115
	<u>-</u>	<u>1,028</u>

5. NET INTEREST

	1998 £'000	1997 £'000
On bank loans and overdrafts	161	60
Finance charges in respect of finance leases	415	334
Other interest payable and similar charges	12	60
	<u>588</u>	<u>454</u>
Other interest receivable and similar income	(613)	(599)
	<u>(25)</u>	<u>(145)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

6. DIRECTORS AND EMPLOYEES

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

	1998 £'000	1997 £'000
Wages and salaries	4,151	2,781
Social security	391	270
Pension costs	146	107
	<hr/>	<hr/>
Less: amounts capitalised	4,688 (771)	3,158 (524)
	<hr/>	<hr/>
	3,917	2,634
	<hr/>	<hr/>

The average number of employees of the Group during the year was 223 (1997: 156) in the following categories:

	1998 Number	1997 Number
Administration	88	75
Engineering	90	64
Sales and marketing	45	17
	<hr/>	<hr/>
	223	156
	<hr/>	<hr/>

Remuneration in respect of directors was:

	Salaries and fees 1998 £'000	Benefits 1998 £'000	Total 1998 £'000	Total 1997 £'000	Pension contributions 1998 £'000	Pension contributions 1997 £'000
Executive directors						
G J Duncan (Highest paid director)	195	18	213	211	25	23
G B Sleigh	111	10	121	114	8	8
A D McKenzie	72	9	81	62	5	4
M L Beard	78	8	86	70	5	4
E J Hornsby	94	10	104	59	7	4
Non-executive directors						
N Berry	11	-	11	10	-	-
A A Laing	15	-	15	15	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	576	55	631	541	50	43
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

7. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no tax charge for the year due to trading losses.

Unrelieved tax losses of £13.5M remain available to offset against future taxable trading profits.

8. LOSS PER SHARE

The calculation of loss per share is based on the loss for the financial year of £9,540k (1997: £2,848k) 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)

9. INTANGIBLE FIXED ASSETS

The Group

	Goodwill £'000	Development Costs £'000	Total £'000
Cost			
At 1 April 1997 and at 31 March 1998	444	3,673	4,117
Amortisation			
At 1 April 1997	8	61	69
Provided in the year	18	147	165
At 31 March 1998	26	208	234
Net book value at 31 March 1998	418	3,465	3,883
Net book value at 31 March 1997	436	3,612	4,048

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

10. TANGIBLE FIXED ASSETS

	Networks £'000	Leasehold Improvements £'000	Plant & Equipment £'000	Office Equipment £'000	Group Total £'000	Company Total £'000
Cost						
At 1 April 1997	10,194	491	6,435	405	17,525	205
Additions	15,514	177	3,790	245	19,726	89
Transfer from subsidiary undertaking	-	-	-	-	-	145
Disposals	-	-	(152)	(2)	(154)	(27)
Disposal of subsidiary undertaking	(2,234)	-	(296)	(25)	(2,555)	-
At 31 March 1998	23,474	668	9,777	623	34,542	412
Depreciation						
At 1 April 1997	2,183	347	1,508	190	4,228	61
Charge for year	1,113	35	952	99	2,199	87
Transfers from subsidiary undertaking	-	-	-	-	-	45
Provision for permanent diminution	121	-	-	-	121	-
Disposals	-	-	(82)	(1)	(83)	(15)
Disposal of subsidiary undertaking	(1,428)	-	(182)	(22)	(1,632)	-
At 31 March 1998	1,989	382	2,196	266	4,833	178
Net book value at 31 March 1998	21,485	286	7,581	357	29,709	234
Net book value at 31 March 1997	8,011	144	4,927	215	13,297	144

The company total is made up of assets comprising entirely of plant and equipment.

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

	Networks £'000	Leasehold Improvements £'000	Plant & Equipment £'000	Office Equipment £'000	Group Total £'000	Company Total £'000
Net book value at 31 March 1998	7,430	-	2,338	40	9,808	185
Net book value at 31 March 1997	2,418	-	2,134	95	4,647	129
Depreciation charge for the year	340	-	523	24	887	80

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

11. FIXED ASSET INVESTMENTS

Company	Shares In Group Undertakings £'000
Cost	
At 1 April 1997	25,527
Additions	25,907
	<hr/>
At 31 March 1998	51,434
	<hr/>
Amounts written off	
At 1 April 1997 and 31 March 1998	250
	<hr/>
Net book value at 31 March 1998	51,184
	<hr/>
Net book value at 31 March 1997	25,277
	<hr/>

At 31 March 1998 the Group held 100% of the equity of the following trading companies, all of which operate in Great Britain. The additions to fixed asset investments represents the capitalisation of inter-company debts with subsidiary undertakings.

Name of Company	Class of Share Capital Held	Proportion Held		Nature of Business
		By parent under -taking	By subsidiary under -taking	
Devanha Group plc	Ordinary Shares	100%	-	Holding Company
ATG Holdings Ltd	"	100%	-	Holding Company
Atlantic Telecommunications Ltd	"		100%	Telecommunications
LogicaII Telecommunications Ltd	"		100%	Telecommunications
Aberdeen Cable Services Ltd	"	-	100%	Operation of cable TV networks
Hull Cablevision Ltd	"	-	100%	Operation of cable TV networks

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

12. STOCKS

	The Group 1998 £'000	The Group 1997 £'000
Consumable stores	234	194
Network equipment	481	855
	<u>715</u>	<u>1,049</u>

13. DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group 1998 £'000	The Group 1997 £'000	The Company 1998 £'000	The Company 1997 £'000
Network lease prepayments	6,765	5,055	-	-
Other debtors	11	311	-	-
	<u>6,776</u>	<u>5,366</u>	<u>-</u>	<u>-</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

	The Group 1998 £'000	The Group 1997 £'000	The Company 1998 £'000	The Company 1997 £'000
Trade debtors	661	582	-	1
Amounts due from subsidiary undertakings	-	-	4,894	12,059
Other debtors	1,694	1,046	1	200
Prepayments and accrued income	1,691	609	709	153
Other taxes	-	9	-	9
	<u>4,046</u>	<u>2,246</u>	<u>5,604</u>	<u>12,422</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 1998 £'000	The Group 1997 £'000	The Company 1998 £'000	The Company 1997 £'000
Unsecured loan notes	200	200	200	200
Bank term loan	400	400	400	400
Bank overdrafts	2,366	694	1,532	48
Trade creditors	3,318	2,026	649	74
Social security and other taxes	189	210	89	25
Other creditors	3,901	132	-	-
Accruals and deferred income	2,737	2,124	1,132	96
Amounts due under finance leases	2,406	1,160	135	40
	<u>15,517</u>	<u>6,946</u>	<u>4,137</u>	<u>883</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% until 8 September 1998 and 8% thereafter. They are repayable, at par, on either 31 March or 30 September between 31 March 1998 and 8 September 2001 on not less than one month's notice from the note holder. The Group has negotiated extended credit terms with two of its major suppliers. Amounts due under these agreements are included within other creditors.

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group 1998 £'000	The Group 1997 £'000	The Company 1998 £'000	The Company 1997 £'000
Bank term loan	1,100	1,500	1,100	1,500
Amounts due under finance leases	6,498	3,446	65	88
	<u>7,598</u>	<u>4,946</u>	<u>1,165</u>	<u>1,588</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

17. BORROWINGS

Borrowings are repayable as follows:

	The Group 1998 £'000	The Group 1997 £'000	The Company 1998 £'000	The Company 1997 £'000
Within one year				
Unsecured loan notes	200	200	200	200
Bank borrowings	2,766	1,094	1,932	448
Finance leases	2,406	1,160	135	40
After one and within two years				
Bank borrowings	400	400	400	400
Finance leases	2,403	1,278	42	48
After two and within five years				
Bank borrowings	700	1,100	700	1,100
Finance leases	4,095	2,168	22	40
	<hr/>	<hr/>	<hr/>	<hr/>
	12,970	7,400	3,431	2,276
	<hr/>	<hr/>	<hr/>	<hr/>

18. PROVISIONS FOR LIABILITIES AND CHARGES

The Group

Deferred taxation

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

	Accelerated Capital Allowances £'000	Other Timing Differences £'000	Trading Losses £'000	Total £'000
At 1 April 1997	534	35	(569)	-
(Utilised)/provided during the year	(164)	82	82	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1998	370	117	(487)	-
	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

19. SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised		
80,000,000 ordinary shares of 25p each	20,000	20,000
Allotted, called up and fully paid		
50,577,792 ordinary shares of 25p each	12,644	12,639
(1997: 50,554,673 ordinary shares of 25p each)		

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

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

Contingent rights to the allotment of shares

The company issued warrants on 10 January 1995 to all Ordinary Shareholders at that date to subscribe for 29,681,059 of Ordinary Shares at 25p per share adjusted to 5,936,211 at an exercise price of 133p per share on the consolidation of shares on 31 October 1996.

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 31 March 1998. An extraordinary resolution of Warrant holders was passed on 4 August 1998, making the following alterations to the terms of the warrants:

Three further Subscription Periods were added as follows:

- the period of 30 days commencing on the day following publication of the interim results of the Company for the six month period ending 30 September 1998.
- the period of 30 days commencing on the day following publication of the preliminary announcement of the final results of the Company for the year ending 31 March 1999; and
- the month of September 1999.

During these additional Subscription Periods the Warrants may be exercised at an increased Subscription Price of 160p per Ordinary Share.

	1998 Number	1997 Number
Warrants in issue at 31 March 1998	5,715,441	5,720,952

Subsequent to the year end, the company issued 665,219 ordinary shares of 25p at a price of 133p per share in respect of 665,219 warrants exercised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

19. SHARE CAPITAL (continued)

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

Date option granted	Exercise price per share	Period of exercise	Conditions of Exercise	Number of shares Total	Directors
30 March 1995	115p	30 March 1998 - 30 March 2005	Share price exceeds 135p	587,822	396,737
28 February 1997	154 ¹ / ₂ p	28 February 2000 - 28 February 2007	Annual operating profit exceeds £2M	682,365	373,626

Share options have been granted to directors as follows:

	Ordinary Share Options Held		Date Options granted	
	31.3.98	31.3.97	28.2.97	30.3.95
Gordon B Sleigh	235,426	235,426	108,253	127,173
Alisdair D McKenzie	179,795	179,795	84,143	95,652
Martin L Beard	177,571	177,571	90,615	86,956
Edward J Hornsby	177,571	177,571	90,615	86,956

The middle market price of the shares at 31 March 1998 was 195p. The highest price during the year was 195p and the lowest price during the year was 122¹/₂p.

20. SHARE PREMIUM ACCOUNT AND RESERVES

The Group

	Share Premium Account £'000	Profit & Loss Account £'000
At 1 April 1997	22,822	(3,872)
Premium on shares issued during the year (See Note 19)	21	-
Costs relating to issue	(4)	-
Retained Loss for the year	-	(9,540)
	<hr/>	<hr/>
At 31 March 1998	22,839	(13,412)

The cumulative amount of goodwill arising from acquisitions which has been written off to Group reserves to date is £17,425k (1997: 17,425k).

The parent company has taken advantage of section 230 Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Group loss for the year includes a loss of £1,107k which is dealt with in the financial statements of the company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

20. SHARE PREMIUM ACCOUNT AND RESERVES (continued)

The Company

	Share Premium Account £'000	Merger Reserve £'000	Profit & Loss Account £'000	
At 1 April 1997	22,822	17,412	(67)	
Premium on shares issued during the year (see Note 19)	21	-	-	
Costs relating to issue	(4)	-	-	
Retained loss for the year	-	-	(662)	(1,107) *
	<hr/>	<hr/>	<hr/>	
At 31 March 1998	22,839	17,412	(629)	(1,174)
	<hr/>	<hr/>	<hr/>	
Distributable Reserves	-	(734)	(929)	(1,174)
Non-Distributable Reserves	22,839	18,146	-	
	<hr/>	<hr/>	<hr/>	

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £'000	1997 £'000
Loss for the financial year	(9,540)	(2,848)
Issue of shares net of expenses	22	23,457
Reinstated goodwill on disposal of subsidiary	-	3,238
Goodwill written off to reserves on acquisition of subsidiary	-	(568)
	<hr/>	<hr/>
Net (decrease)/increase in shareholders' funds	(9,518)	23,279
Shareholders' funds at 1 April 1997	31,589	8,310
	<hr/>	<hr/>
Shareholders' funds at 31 March 1998	22,071	31,589
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

22. ANALYSIS OF CASH FLOW HEADINGS NETTED IN THE CASH FLOW STATEMENT

	1998 £'000	1997 £'000
Returns on investments and servicing of finance		
Interest received	573	471
Interest paid:		
Finance lease interest	(415)	(168)
other interest paid	(173)	(120)
	<hr/>	<hr/>
Net cash (outflow)/inflow from returns on investments and servicing of finance	(15)	183
	<hr/>	<hr/>
Capital expenditure		
Purchase of intangible fixed assets	-	(1,999)
Purchase of tangible fixed assets	(13,822)	(5,787)
Sale of tangible fixed assets	113	82
	<hr/>	<hr/>
Net cash outflow from capital expenditure	(13,709)	(7,704)
	<hr/>	<hr/>
Acquisitions and disposals		
Acquisition of subsidiary undertaking	-	(117)
Loan repaid on purchase of subsidiary	-	(85)
Sale of subsidiary undertaking (see note 26)	445	1,980
Receipt of inter-company debtor on disposal of subsidiary	-	5,040
Expenses related to sale of subsidiary undertaking	(25)	-
	<hr/>	<hr/>
Net cash inflow from acquisitions and disposals	420	6,818
	<hr/>	<hr/>
Management of liquid resources		
Cash withdrawn/(placed) on short term deposit	16,000	(16,000)
	<hr/>	<hr/>
Financing		
Issue of shares	26	25,462
Receipt from borrowing	-	2,000
Repayment of borrowing	(400)	(100)
Capital element of finance lease rentals	(1,606)	(435)
Expenses paid in connection with share issue	(4)	(2,005)
	<hr/>	<hr/>
Net cash (outflow)/inflow from financing	(1,984)	24,922
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

23. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS

	1998 £'000	1997 £'000
(Decrease)/increase in cash in the period	(3,090)	1,969
Cash (inflow)/outflow from movement in liquid resources	(16,000)	16,000
Cash outflow/(inflow) from movement in debt	400	(1,900)
Cash outflow from lease financing	1,606	435
Change in net (debt)/funds resulting from cash flows	(17,084)	16,504
Inception of finance leases	(5,904)	(3,780)
Issue of loan notes	-	(200)
Movement in net (debt)/funds in the year	(22,988)	12,524
Net funds/(debt) at 1 April 1997	10,075	(2,449)
Net (debt)/funds at 31 March 1998	(12,913)	10,075

24. ANALYSIS OF NET (DEBT)/FUNDS

	At 1 April 1997 £'000	Cash Flow £'000	Non-cash items £'000	At 31 March 1998 £'000
Cash	17,475	(17,418)	-	57
Less cash on deposit	(16,000)	16,000	-	-
Bank overdraft	1,475 (694)	(1,418) (1,672)	- -	57 (2,366)
	781	(3,090)	-	(2,309)
Liquid resources				
Cash on short term deposit	16,000	(16,000)	-	-
	16,781	(19,090)	-	(2,309)
Debt due after one year	(1,500)	400	-	(1,100)
Debt due within one year	(600)	-	-	(600)
Finance leases	(4,606)	1,606	(5,904)	(8,904)
	(6,706)	2,006	(5,904)	(10,604)
Net funds/(debt)	10,075	(17,084)	(5,904)	(12,913)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

25. MAJOR NON-CASH TRANSACTIONS

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £5,904k (1997: £3,780k).

26. SALE OF SUBSIDIARY UNDERTAKING

During the year the company disposed of its interest in Broadcast Satellite Television Limited. The Group loss includes a loss of £38k up to the date of its disposal on 31 July 1997.

	£,000
Net assets disposed of	
Fixed assets	924
Loss on sale	(549)
	<hr/>
	375
	<hr/>
	£,000
Satisfied by	
Cash	145
Deferred consideration	255
	<hr/>
Expenses of sale	400
	(25)
	<hr/>
	375
	<hr/>

Analysis of cash inflow in respect of disposal of subsidiary undertaking

	£,000
Cash	145
Less expenses of sale	(25)
Deferred consideration received in respect of sale of Coventry Cable Ltd in April 1996	300
	<hr/>
	420
	<hr/>

Broadcast Satellite Television Ltd utilised £562k of net operating cash flow during the year.

27. POST BALANCE SHEET EVENTS

Subsequent to the year end the Company secured a funding package of £110M comprising £50M of new equity from a successful placing of 33,333,333 new ordinary shares at 150 pence per share and a debt package of up to £60M underwritten jointly by ABN AMRO Bank NV and British Linen Bank. The Company also altered the terms and conditions of the warrants (see note 19)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 1998

28. CAPITAL COMMITMENTS

At 31 March 1998 the Group had contracted for £6,772k (1997: £4,159k) 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 £3.3M is exercised during the financial year ending 31 March 2001. This sum has been calculated in accordance with the advance payment provisions of the lease.

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

The operating lease commitment due within one year in respect of the period prior to prepayment of the secondary lease is £2,000k (1997: £1,875k).

b) At 31 March 1998 the Group had commitments under non-cancellable operating leases to pay the following amounts in the year to 31 March 1999:

	1998		1997	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Expiring within one year	12	39	66	20
Expiring between two and five years	33	81	147	97
Expiring in five years or more	480	-	229	-
	<hr/>	<hr/>	<hr/>	<hr/>
	525	120	442	117
	<hr/>	<hr/>	<hr/>	<hr/>

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 £6.9M at 31 March 1998 (1997: £3.4M).

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 £112k (1997: £107k).



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FIVE YEAR SUMMARY OF OPERATIONS

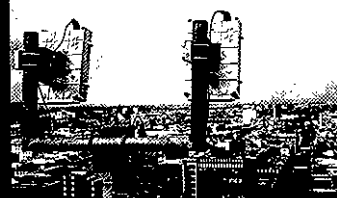
This note summarises the results of the Group's cable television and telecommunications activities for the five years ended 31 March 1998.

	1998 £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000
Turnover	11,390	8,893	10,510	9,851	9,661
Cost of sales	(7,953)	(5,598)	(6,162)	(5,447)	(4,802)
Gross profit	3,437	3,295	4,348	4,404	4,859
Operating costs	(12,332)	(5,801)	(5,066)	(4,621)	(4,604)
Operating (loss)/profit	(8,895)	(2,506)	(718)	(217)	255
Exceptional items and gain on investments	(670)	(487)	107	-	544
Net interest	(9,565) 25	(2,993) 145	(611) (201)	(217) (461)	799 (407)
(Loss)/profit on ordinary activities before taxation	(9,540)	(2,848)	(812)	(678)	392

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

	1998 £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000
Operating (loss)/profit	(8,895)	(2,506)	(718)	(217)	255
Depreciation, and amortisation of goodwill	2,364	964	650	661	671
Amortisation of network leases	164	176	274	274	274
Earnings before interest, tax, depreciation and amortisation	(6,367)	(1,366)	206	718	1,200

At March 31 1998, market penetration of the FRA network in Glasgow had reached 3%.



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Atlantic Telecom Group PLC (registered number 20509, and hereinafter referred to as "the Company"), registered office 100 Union Street, Aberdeen AB10 1QR, will be held at the offices of Citigate Communications Ltd, 26 Finsbury Square, London, EC2A 1DS on Thursday 24th September 1998 at 2.30 p.m.

The Business of the Meeting will be

1. To receive the directors' report and statement of accounts and the auditors' report thereon.
2. To re-appoint Mr Nicholas Berry as a director.
3. To re-appoint the auditors, Grant Thornton, and to authorise the directors to fix the remuneration of the auditors.

100 Union Street
Aberdeen
AB10 1QR

By order of the Board
Peterkins
Secretaries

11 August 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 Annual General Meeting. Lodgement of a form of proxy will not preclude a member from attending and voting in person at the meeting if he or she wishes to do so.
2. To be valid the enclosed form of proxy must be completed and lodged together with the power of attorney or other authority (if any) under which it is signed, or a duly certified copy of such authority, with the 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.
3. Copies of service contracts of the directors with the Company and any subsidiaries not expiring without payment of compensation within one year will be available for inspection at the registered office during normal business hours until the conclusion of the meeting.