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Atlantic

Atlantic Telecom Group PLC

Report and Accounts 2000

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Summary

This year has been another of immense progress for the Group, when we commenced our transformation into a leading European broadband integrated communications provider, offering customers in the UK, Germany and France a portfolio of services using the best of fibre, fixed wireless and digital subscriber line (DSL) technologies.

The transformation began in early December when we successfully completed a £150 million equity issue and were delighted to enter into a strategic partnership with Marconi plc, one of the UK's biggest companies and a leader in the development of new telecommunications technologies. Amongst other things, this partnership delivered to us the means to develop a state-of-the-art UK national fibre network and access to Marconi's expertise and resources.

The involvement of Marconi allowed us to bring our high-speed, two-way 2.4 Mbs service to market and in April this year this technology obtained all its final regulatory approvals for deployment by Atlantic anywhere within our licensed areas. Our own ISP service, atlantic-e.com, was launched alongside this high-speed service, within the timescales originally outlined. It offers portals targeted specifically towards residential and SME customers, called atlantic-live.com and atlantic-info.com respectively. The innovative bundled pricing package we have created around these products gives our customers always-on, unmetered high-speed Internet access as well as unmetered UK fixed voice calls, a first in the UK telecommunications industry.

In February this year, we also completed an important issue of high yield securities on the capital markets, raising £197 million. Atlantic, like all alternative telecommunication companies, will continue to need access to the capital markets over time in order to advance its plans. However, we are in the enviable position of having in excess of £250 million of cash at our disposal at the year-end and so will be able to expand the geographical reach of our networks without needing to return to the markets in the medium term. We will continue to ensure our

capital expenditure remains highly focused, as has been our style and a key strength in the Group's expansion to date. Along with pro-forma net assets of over £600 million, following completion of the acquisition of First Telecom, we believe we are in a very strong position going forward.

We have now completed our Scottish network build, subject only to in-filling gaps in our coverage over time and will be launching services in Manchester in July. Some aspects of the network build in Manchester have been accelerated by leasing duct space from Norweb, the regional electricity company and we were particularly delighted when we were named Communications Partner to the 2002 Commonwealth Games in Manchester, a very significant win for Atlantic which was announced on 5 April by the Prime Minister. This prestigious contract, which was won against competition from major national telecoms providers, gives us the telecommunications rights to all fixed and mobile traffic associated with the Games as well as allowing Atlantic to design and host the official web site for the Games.

Following the year-end, in late April 2000, we announced the significant acquisition of First Telecom Group plc in an all share transaction involving the issue of up to 68 million new ordinary shares in Atlantic. The transaction closed on 8 June 2000, valuing First Telecom at £350 million. First Telecom provides telephony and Internet services to over 11,000 small and medium sized businesses (SMEs) and over 290,000 residential customers in UK, Germany and France, and it will be launching directly connected services in Frankfurt during July using DSL technologies. The expertise gained from the early adoption of this technology in Germany, which is the largest telecommunications market in Europe, will stand us in good stead when other European countries, including the UK, open their local telephone networks to wider competition.

Also in April, the Group reached an in-principle agreement with Metromedia Fiber Network BV (MFN) and AboveNet UK Ltd

under which we will receive dark fibre throughout the 16 European city networks currently planned or under construction by MFN. These networks include London, Paris and Amsterdam as well as eight major cities in Germany and a number of other key European cities. In exchange the Group will provide MFN with two dedicated wavelengths of bandwidth capacity on our UK national network. The ability to gain access to metropolitan fibre, particularly in Germany, will greatly assist our ability to roll out our DSL plans.

Results

Total revenue for the Group in the year to 31 March 2000 was £21.3 million, an increase of 43% over the previous year. Revenue from telecommunications services, both direct and indirect, increased by 64% during the year as a result of the continued expansion of the business and residential customer base.

The overall gross margin for the year was 45% compared to 39% for the previous year reflecting a move to higher margin telephony business compared to the margin achieved in the cable television business.

Our operating losses widened to £28.4 million as we expanded our networks and customer base. As we continue to expand the business, our operating losses will continue to widen until we build our revenues and gross margins to levels that can sustain our operating costs. This pattern is normal and planned for in our forward projections.

Our network coverage expanded by 30% during the year and we increased our employee numbers from an average of 324 last year to 495 this year.

Our balance sheet has been transformed by the transactions completed during the financial year, particularly the Marconi partnership and fund raising. Net assets have grown from £53 million at the end of last year to £315 million at 31 March 2000. With the addition of First Telecom after the year-end, our pro-forma net assets increased to in excess of £600 million at the completion of that transaction.

First Telecom had a turnover of £59.9 million for the year ended 31 December 1999 and had an operating loss of £33.6 million for the year ended 31 December 1999.

Strategy

Atlantic's strategy remains focused on accessing a niche customer base, although this will be targeted more closely at small and medium sized business customers. This emphasis allows us to concentrate our resources to ensure that what we deliver to customers is packaged, priced and delivered in a way which satisfies their needs both today and in the future. It is only through having a direct connection from our infrastructure to the customers' premises that we are able to deliver the full service package and this direct connection can be achieved by using a last mile wireless link, by leasing the incumbent operator's infrastructure or by building underground infrastructure. Over time, SME customers will increasingly use electronic means to do business and we intend to continue to develop our systems and services to ensure that Atlantic is the company of choice in this market.

We intend to capitalise on our expertise across a number of metropolitan areas both in the United Kingdom and in Western Europe and will focus the future build of our wireless access networks, which we have successfully deployed in Scotland, on the key SME marketplaces in the UK. At the end of March, we were issued with all our wireless licences in the UK and our national network will be fully activated by November 2000. It is therefore our intention to build SME focused networks across all our licensed areas while reducing, at least in the medium term, the amount of capital that we commit to accessing the residential market. This changed emphasis will allow us to secure a meaningful and commercial first mover advantage in the niche SME market, leveraging off the additional benefits our high speed access technologies bring to SMEs, particularly in the expanding world of e-commerce.

Management Team

The increased size and scope of the Group's operations has meant we have had to significantly strengthen the management team to maintain our focus on our key existing markets while being able to exploit new ones. I am delighted that we have brought Mark W Daeche, one of the founders of the First Telecom Group, on to our main Board as an Executive Director with responsibility for special projects, particularly DSL, and Paul J Salem, a Managing Director of Providence Equity Partners Ltd, as a Non-Executive. Their knowledge of First Telecom's markets, and in particular the German DSL market, will be very valuable as we move forward. I am also delighted to announce that we have appointed John H Maxwell as Non-Executive Deputy Chairman of the Group, effective today. John has enormous experience in business including roles as Corporate Development Director of Prudential Corporation plc and as Director General of the Automobile Association and will greatly strengthen our team. At the same time, Marconi have now exercised their right to appoint a representative to the Board, and I am delighted to welcome Damian H Reid, Senior Vice-President, Corporate Finance at Marconi, as an additional Non-Executive Director. The restructuring of the Board is completed with the departure of Nicholas Berry from the Board, so that he can pursue his many other business interests. Nicholas has been a Non-Executive Director of the Group since the Company floated in January 1995 and his experience and wise words have always been appreciated. We all wish him well for the future.

Importantly, we have now completed the integration of our core management teams following the creation of the enlarged Atlantic. As from today, we have put in place a Management Board consisting of 11 members, excluding our Executive Directors, made up of six senior executives from Atlantic and five from First Telecom. Their expertise covers all the main disciplines required to build the business in the UK and Europe and control its development in the careful style

that is our strength. These vastly experienced individuals have the capabilities to build the Group into a principal supplier of telecommunication services to the SME market across Europe, and all look forward to the challenge.

Directly Connected Services

During the year, we nearly doubled our directly connected customers and lines, with our directly connected customer base at 24,394 at 31 March 2000, representing 51,959 lines. Importantly the penetration of our SME services reached 4.7% at 31 March, ahead of our expectations in this important area. We added 32 base stations during the year and with over 735,000 premises now passed by our four Scottish networks, we have completed what we set out to achieve in Scotland. Our first network in England is under construction in Manchester, where our new switch is currently being commissioned and we will launch services in parts of Manchester on schedule in July.

Our high-speed access technology is now installed on a number of base stations in Central Glasgow. The rest of the base stations in Scotland will be fitted with the technology during this financial year and all new build will incorporate the high-speed technology as a matter of course.

Our average revenues per customer continue to hold up well. In the important SME market, the average was £86.95 per month, an increase of 4.3% over the last year while our residential revenue averaged £38.44 per month an increase of 4.7% on last year. Churn also remained subdued at less than 17% per annum in both markets.

Indirectly Connected Services

Our service package which currently uses BT's access network continues to move forward. At 31 March 2000 we had 25,870 customers with 46,313 lines, an increase of 17,302 customers over last year, or over 200%, an excellent performance. The average revenues vary with mix and remain in line with our expectations. The activation of our national network in November, coupled with the

addition of First Telecom's significant indirect access base will give us enhanced margins and scale in this part of our business. We intend to enhance the service package available to the enlarged base with the addition of our existing ISP and mobile services while we will also look to resell BT's ADSL service on an indirect basis, as part of our bundled package offering.

Cable Television

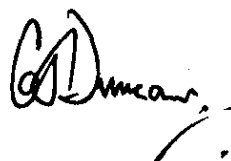
Our cable television service in the City of Aberdeen has had a difficult year, although not unexpected, in the face of significant competition from the digital services of Sky and On-Digital and ended the year with 16,074 customers, a decline of 2,145 compared to last year. The average revenue per customer has averaged £28.71 per month over the year, a marginal decline of £1.05 from last year. This part of our business, which contributed 28% to our annual turnover this year, will become relatively insignificant following the First Telecom transaction. The Board has decided it cannot economically justify the cost of upgrading the network for digital transmission, which would cost up to £15 million or nearly £1,000 for every customer on the system. We therefore plan to further integrate the analogue service into our telephone packages in Aberdeen to add value to the telephone offering.

Share Option Schemes

With a much-expanded operation in three countries following the acquisition of First Telecom, it is important to recruit and retain top quality staff who share our vision and are capable of executing on that vision. We intend to put proposals to shareholders at the EGM which will expand our limited existing share option schemes to provide incentives for all our staff, who have done so much to ensure our transformation has gone so smoothly, as well as expanded terms for more senior staff. The new schemes will, of course, comply with best practice and relevant guidelines.

Outlook

The telecommunications world is characterised by change. Our focus is now to serve an SME customer base over a wide geographic area using state-of-the art technologies. Consolidating the First Telecom results for the year ended 31 December 1999 with Atlantic's for the year to 31 March 2000, gives us pro-forma consolidated historical revenues of £81 million, and pro-forma consolidated net assets of over £600 million, as detailed in note 27 to the financial statements. This is a fundamentally changed position compared to last year and one which gives us an excellent platform to take the Group further. We look forward to expanding our network reach both in the UK and Europe during this financial year and intend to deliver the very best portfolio of services to our expanding customer base whether they be SMEs or residential customers. As always, we will remain opportunistic in this highly dynamic industry in order to continue to deliver excellent shareholder value.



Graham J Duncan

Executive Chairman

13 June 2000

Operating Review

In the year to 31 March 2000, the Group continued the expansion of its directly connected customer base in the four main cities in Scotland. The network build in Scotland was largely completed by the year end when a total of 133 base stations were in service covering in excess of 735,000 premises. The planning for the launch phase of our network build in Manchester is at an advanced stage with services scheduled to be launched in July. The "lighting" of the fibre on the national network, acquired from Marconi in December 1999, has been planned and will take place over the remainder of the 2000 calendar year.

The performance during the year in terms of customer growth, average revenues and churn, as detailed in the Chairman's Statement, was very encouraging. *Directly connected customers almost doubled during the year and indirectly connected customers increased by more than 200%. Average revenue per customer increased during the year at a time when revenue per minute has been falling and churn levels, the measure of disconnects, remained within expected levels.*

The Group has continued the development of the Atlantic brand in Scotland which has been important in a market in which our target customers tend to buy based on brand values. Recent research has shown that the prompted awareness of the Atlantic brand, in existing markets, is second only to BT in terms of telecommunications operators.

The Group issues quarterly operating statistics to the London Stock Exchange, which allows investors, potential investors and other interested parties to follow its progress. The table below sets forth certain operating data concerning the Group's operations as of and for the years ended 31 March 2000 and 31 March 1999.

Operating Review (continued)

Certain Operating Data

	Note	2000	1999
Direct Telecommunications			
Business Customer Data			
Estimated business premises passed	1	41,921	32,390
Business customers	2	1,959	1,324
Business customer lines	2	7,276	4,231
Penetration rate of estimated business premises passed	3	4.7%	4.1%
Average lines per business customer	4	3.71	3.20
Business customer churn	5	16.87%	14.99%
Average monthly revenue per business customer	6	£86.85	£83.35
Residential Customer Data			
Estimated residential homes passed	1	693,804	533,323
Residential customers	2	22,435	11,154
Residential customer lines	2	44,683	21,773
Penetration rate of estimated residential homes passed	3	3.2%	2.1%
Average lines per residential customer	4	1.99	1.95
Residential customer churn	5	16.77%	13.50%
Average monthly revenue per residential customer	6	£38.44	£36.71
Network Data			
Number of active base stations		133	101
Indirect Telecommunications			
Business customers	2	1,054	638
Business customer lines	2	21,360	17,905
Average lines per business customer	4	20.27	28.06
Average revenue per business customer	6	£552.30	£827.61
Residential customers	2	24,816	7,930
Residential customer lines	2	24,953	8,303
Average lines per residential customer	4	1.01	1.05
Average revenue per residential customer	6	£10.54	£12.40
TOTAL TELECOMMUNICATIONS LINES		98,272	52,212
Cable Television			
Homes passed	1	97,875	97,629
Cable television customers	2	16,074	18,219
Penetration rate of cable homes passed	3	16.42%	18.66%
Customer churn	5	30.70%	20.38%
Average monthly revenue per cable TV customer	6	£28.71	£29.76
Pay to basic ratio	7	236%	286%
TOTAL CUSTOMERS	8	66,338	39,265

Operating Review (continued)

1. Estimated business premises passed or estimated homes passed is the Company's estimate of the business premises or residential homes seen by the direct networks which are capable of connection to a base station or to a fibre network excluding certain multiple dwelling units which the Company does not presently serve. Homes passed is the actual number of addresses passed by the cable television network.
2. Business or residential customers or business or residential customer lines represent the number of customers or lines which are connected and in service, the number of customers or lines for which customers, where applicable, have contracted for service are not yet connected and the number of customers or lines where the service has been suspended but the customers or lines have not yet been disconnected.
3. Penetration rate of estimated business premises or estimated homes passed is calculated by dividing the number of business customers or residential customers on the given date by the estimated business premises or estimated homes passed as of such date, expressed as a percentage.
4. The average lines per customer is calculated by dividing the number of lines on a given date by the number of customers on that date.
5. Churn is calculated by dividing net disconnections (total disconnections less the number of disconnected accounts for which service is later restored and disconnections for customers moving premises and reconnecting at their new premises) in a period by the average number of customers in the period (calculated as the simple average of the number of customers at the end of each month during the period). Churn is expressed on a rolling twelve-month basis, meaning that the churn is calculated over the twelve months ended 31 March 2000 and 31 March 1999.
6. The average monthly revenue per telecommunications customer is calculated by dividing (a) line and equipment rental, outgoing call charges and incoming call charges from active customers for the period by (b) the average number of active customers (calculated as a simple average of the number of 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. The average monthly revenue per cable television subscriber is calculated by dividing the total cable subscriber revenues (excluding installation and other non recurring revenues) for the period by the average number of subscribers (calculated as the simple average of the number of basic service subscribers at the beginning and end of each period) and dividing that amount by the number of months in the period covered.
7. The pay to basic ratio is calculated by taking the number of premium services for which customers subscribe and dividing the resulting number by the number of customers subscribing to the basic cable service, expressed as a percentage.
8. The total number of customers is calculated by adding the number of subscribers to our telecommunications services to the number of our cable subscribers. Consequently, customers who subscribe to both services will be counted twice.

Financial Review

As described in the Chairman's Statement, the year to 31 March 2000 was a significant year for the Group. The networks in Scotland were substantially completed and the number of telecommunications lines installed and pending installation increased to over 98,000. In the second half of the year, two separate capital raising exercises were undertaken resulting in over £350 million of cash being raised to expand the operations of the Group. This has put the Group in a very strong position for the future and will enable the Group to expand its activities throughout its licensed areas.

Operating Results

Total revenue for the Group in the year to 31 March 2000 was £21.3 million, an increase of 43 % over the previous year. Revenue from telecommunications services, both direct and indirect, increased by 64% during the year as a result of the continued expansion of the business and residential customer base.

The overall gross margin (turnover less telephony and programming expenses expressed as a percentage of turnover) for the year was 45% compared to 39% for the previous year as a result of the increased level of higher margin direct telephony customers added during the year.

Operating costs for the Group increased from £30.8 million in 1999 to £49.8 million in 2000 reflecting a full year of operations in the four main city markets in Scotland.

Net Interest Payable and Similar Charges

Net interest payable and similar charges for the Group increased to £4.9 million from £0.4 million in 1999. The expense included interest on the senior notes issued in February 2000, increased finance lease costs and the expensing of fees of £1.76 million on a senior debt facility which was repaid and cancelled in December 1999. Interest payable and similar charges for the year amounted to £8.6 million in total which was offset by almost £3.7 million of interest receivable on deposits as a result of the equity raised and the issue of senior notes.

Balance Sheet

The Group Balance Sheet was strengthened enormously during the year, providing a platform from which the business can be expanded in the coming years. Shareholders' funds at 31 March 2000 were £314.8 million compared with £53.1 million at 31 March 1999. During the year the Group completed two very successful capital raising exercises on the public equity market and high yield debt market aimed at providing the Group with the finance to expand and accelerate the roll-out of its direct networks into England.

In December 1999, the Group successfully raised £159 million of new equity on the London equity market and at the same time it entered into a strategic partnership with Marconi plc resulting in the acquisition of a UK national fibre network with in excess of 2,300 route kilometres across the UK. The value of this acquisition was £122 million for which the Group issued shares to Marconi. In addition, as part of the above equity issue, Marconi subscribed for £60.4 million of shares. Following this transaction, Marconi held 27.9% of the Group's then issued share capital. This has reduced to 19.15% following the acquisition of First Telecom.

In February 2000, the Group issued £197 million of high yield securities. The issue was in two tranches, £75 million in Sterling securities and warrants and £122 million equivalent in Euro denominated securities and warrants, each with a ten year maturity.

Part of the capital raised was used to repay a senior debt facility which has now been cancelled.

At 31 March 2000, the Group had approximately £263 million of cash at its disposal which will be used to build out its fixed wireless networks in the UK and, following the acquisition of First Telecom, its DSL networks in Germany, as well as providing working capital.

Tangible fixed assets increased during the year from £56 million at 1999 to £203 million at 31 March 2000. The main addition during the year was the national fibre network.

The following are the directors of Atlantic Telecom Group PLC:

Graham J Duncan, aged 49, is a Chartered Accountant and 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 1991 he set up Devanha Group plc, of which he was Chairman. He has been Executive Chairman of Atlantic since 10 January 1995. Mr Duncan is responsible for the overall strategy and development of the Group.

Gordon B Sleigh, aged 52, is Group Managing Director. Mr Sleigh has worked in the cable and telecommunications industry for over 25 years with early experience gained in narrowband systems with Rediffusion Consumer Electronics Limited. He joined Aberdeen Cable Services Ltd in 1984 and was appointed Sales and Marketing Director of Aberdeen Cable in 1988. 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 38, 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 with responsibility for finance. In September 1991 he was appointed Group Finance Director.

Martin L Beard, aged 37, is Group Commercial 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 commercial, sales and marketing activities.

Edward J Hornsby, aged 53, is Group Technical Director. Mr Hornsby was one of the founders of Atlantic Telecommunications Ltd.

and has worked in the telecommunications industry for a number of 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.

Mark W Daeche, aged 36, was appointed as Group Special Projects Director on 7 June 2000. Mr Daeche was a co-founder of First Telecom and has spent his career in software design and in the development of advanced telecommunications billing and database software. He was Managing Director of the European division of Fox Software International Inc. from 1989 to 1992. In 1992 he formed Xitech Inc., a software consultancy company which was engaged in the development of telecommunications billing and database software.

John H Maxwell, aged 55, was appointed Non Executive Deputy Chairman of Atlantic on 13 June 2000. Mr Maxwell was Director General of the Automobile Association from 1996 to 2000, having previously held Board positions with Prudential Corporation plc, BPB Industries plc and Provincial Group plc, and senior positions with Grand Metropolitan plc and Xerox Corporation. He is a non executive director of Provident Financial plc and Wellington Underwriting plc.

Andrew A Laing, aged 47, is a non executive director of Atlantic. Mr Laing is Chief Operating Officer of Aberdeen Asset Management PLC, a listed investment management company based in Aberdeen.

Damian H Reid, aged 37, was appointed a non executive director of Atlantic on 13 June 2000. Mr Reid is Senior Vice-President, Corporate Finance at Marconi plc and is responsible for the group's corporate finance activity. Prior to joining Marconi, he was an Executive Director of SBC Warburg Dillon Read (now UBS Warburg) and prior to that he qualified as a chartered accountant with Arthur Andersen.

Paul J Salem, aged 36, was appointed a non executive director of Atlantic on 7 June 2000. Mr Salem is currently a Managing Director of Providence Equity Partners Inc. and the head

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

Nicholas Berry, aged 57, was a non executive director of Atlantic until 13 June 2000. 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.

Board of Directors	Graham J Duncan Gordon B Sleight Alisdair D McKenzie Martin L Beard Edward J Hornsby Mark W Daeche John H Maxwell Andrew A Laing Paul J Salem Damian H Reid Nicholas Berry	Executive Chairman Group Managing Director Group Finance Director Group Commercial Director Group Technical Director Group Special Projects Director (appointed 07/06/00) Non-Executive Deputy Chairman (appointed 13/06/00) Non-Executive Non-Executive (appointed 07/06/00) Non-Executive (appointed 13/06/00) Non-Executive (resigned 13/06/00)
Audit Committee	Andrew A Laing John H Maxwell Damian H Reid Nicholas Berry Alisdair D McKenzie	Chairman (appointed 13/06/00) (appointed 13/06/00) (resigned 13/06/00) (resigned 13/06/00)
Remuneration Committee	John H Maxwell Andrew A Laing Paul J Salem Nicholas Berry Graham J Duncan	Chairman (appointed 13/06/00) (appointed 13/06/00) (resigned 13/06/00) (resigned 13/06/00)
Secretary	Philip N Allenby	
Registered office	Atlantic House, 475-485 Union Street, Aberdeen, AB11 6DB	
Merchant Bankers	Close Brothers Corporate Finance Limited, 10 Crown Place Clifton Street London, EC2A 4FT	
Stockbrokers	Hoare Govett Corporate Finance 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	Lloyds TSB Registrars Scotland Ltd 117 Dundas Street, Edinburgh, EH3 5ED	
Bankers	Bank of Scotland, 53 Castle Street, Aberdeen, AB11 9AJ	

www.atlantic-e.com

The directors present their report together with financial statements for the year ended 31 March 2000.

Review of Business Activities

The Group is principally engaged in the development and operation of telecommunications systems and services and the operation of a cable and satellite network. 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 5 to 8.

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 Event

On 27 April 2000 the Board announced that it had agreed terms for the acquisition of First Telecom Group plc (First Telecom). This transaction was approved at the Extraordinary General Meeting on 7 June 2000. The Company issued up to 67,973,856 new ordinary shares (representing 29.7% of the fully-diluted share capital of the Company) in consideration for 100% of the share capital of First Telecom. A pro forma statement of combined net assets is set out in note 27.

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	
	31.3.00	1.4.99	31.3.00	1.4.99	31.3.00	1.4.99
Graham J Duncan	8,000,999	8,000,999	—	1,736,126	—	—
Gordon B Sleigh	407,337	414,337	—	82,867	108,253	235,426
Alisdair D McKenzie	2,500	2,500	—	—	179,795	179,795
Edward J Hornsby	227,584	227,584	—	—	177,571	177,571
Martin L Beard	3,750	3,000	—	—	177,571	177,571
Nicholas Berry	2,303,267	7,416,270	—	1,479,519	—	—
Andrew A Laing	6,250	—	—	—	—	—

Further information with regard to warrants and options is contained in note 18 to the financial statements.

In the period between 31 March 2000 and 13 June 2000, there were no changes in these holdings.

On 7 June 2000, following the acquisition of First Telecom, Mark W Daeche and Paul J Salem, formerly Vice Chairman and Executive Director, and Non-Executive Director of First Telecom respectively, were appointed to the Board. Mark W Daeche has taken up the role of Group Special Projects Director and Paul J Salem was appointed a Non-Executive Director of the Company. Mark W Daeche acquired 12,272,427 shares in the Company in consideration for his shares in First Telecom, some of which have yet to be issued. The Company has an obligation to issue such shares on 29 June 2001.

On 13 June 2000 Nicholas Berry resigned from the Board to pursue other business interests. On the same date, John H Maxwell and Damian H Reid were appointed to the Board as Non-Executive Deputy Chairman and Non-Executive Director of the Company, respectively.

The appointments of Mark W Daeche, Paul J Salem, John H Maxwell and Damian H Reid fall due to be confirmed at the forthcoming AGM. Mark W Daeche has a rolling one year service contract. Paul J Salem, John H Maxwell and Damian H Reid do not have contracts of service.

John H Maxwell, Alisdair D McKenzie, Paul J Salem and Mark W Daeche retire by rotation and, being eligible, offer themselves for re-election. Alisdair D McKenzie and Mark W Daeche have rolling one year service contracts.

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 results 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.

Substantial Interests

In addition to the directors above, at 13 June 2000 the Company had been notified of the following interests in 3% or more of the share capital of the Company:

Name	Number	% (2)
Marconi plc	41,454,561	19.15
Morgan Stanley Capital Partners III.L.P (1)	17,743,244	8.20
Providence Equity Partners III.L.P (1)	16,161,849	7.47
Marcus Citron (1)	12,272,428	5.67
RSTSB Nominees	8,461,770	3.91
NY Nominees	8,010,049	3.70

- 1) The interests notified to the Company by these shareholders include shares yet to be issued to them in connection with the Company's acquisition of First Telecom. The company has an obligation to issue such shares on 29 June 2001.
- 2) The percentage of the Company's share capital provided assumes that all of the shares to be issued in connection with the Company's acquisition of First Telecom have been issued.

Corporate Governance

The Company is committed to applying the highest principles of corporate governance commensurate with its size.

Compliance

The Company has complied throughout the year with the Code provisions as set out in section 1 of the Combined Code except that during the year, the Board of the Company included only two non-executive directors and the Audit Committee and Remuneration Committee did not consist entirely of non-executive directors. The Company therefore did not comply with paragraphs A.3.1, B.2.2 and D.3.1 of the Combined Code. Subsequent to the year end, John H Maxwell, was appointed Non Executive Deputy Chairman, and Paul J Salem and Damian H Reid were appointed as non-executive directors. Further details of changes to committees are detailed in the relevant paragraphs below.

In complying with the Code provision D.2.1 on internal control, the Company has adopted the transitional approach of reporting on internal financial control allowed by the Stock Exchange in its letter of 27th September 1999.

Application of Principles

The Company has applied the principles of good governance contained in the Combined Code appended to the Listing Rules of the Financial Services Authority.

Corporate Governance (continued)

Directors

The Company supports the concept of an effective Board leading and controlling the Company. The Board is responsible for approving Group policy and strategy. It meets monthly and has a schedule of matters specifically reserved to it for decision. Management supply the Board with appropriate and timely information and the directors are free to seek any further information they consider necessary. All directors have access to advice from the Company Secretary and independent professionals at the Group's expense. The Board now consists of six executive directors, who hold key operational positions in the Group and four non-executive directors, who bring a breadth of knowledge and experience. John H Maxwell and Andrew A Laing are independent of management and any business or other relationship which could interfere with the exercise of their independent judgement. The Chairman and Chief Executive is Graham J Duncan. The Non Executive Deputy Chairman and senior independent Director is John H Maxwell. The Board believes that its current composition is suitable for the size of the Group.

Nominations for appointment to the Board are considered by the full Board of the Company.

Directors' Remuneration

The members of the remuneration committee are detailed on page 10.

During the year, the Board contained two non-executive directors and it was therefore considered appropriate that the Executive Chairman should be a member of this committee until such time as a further non-executive director was elected to the Board. Subsequent to the year end, John H Maxwell, Non Executive Deputy Chairman, and Paul J Salem, a non executive director, were appointed to the Remuneration Committee and Nicholas Berry and Graham J Duncan resigned from that committee. As well as considering conditions in the group as a whole the Committee takes into account the position of the Company relative to other companies and is aware of what these companies are paying though comparisons are treated with caution to avoid an upward ratchet in remuneration. The Committee has access to professional advice.

The Company recognises that directors' remuneration is of legitimate concern to the shareholders and is committed to following current best practice. The policy of the Company is to provide sufficient levels of remuneration to attract, retain and motivate executive directors, but to avoid paying more than is necessary for this purpose.

The remuneration packages of individual directors are structured so that performance related elements form a significant proportion of the total and are designed to align their interests with those of the shareholders. Share options are designed so that they are phased and recognise the long-term growth of the company.

The remuneration of non-executive directors' is determined by a sub-committee of the Board comprising the Executive Chairman, Managing Director and the Group Finance Director.

The Board's report on remuneration is on pages 15 and 16. It sets out the company's policy in detail and full details of all elements in the remuneration package of each individual director.

Relations with Shareholders

The Company values the views of its shareholders and recognises their interest in the company's strategy and performance, Board membership and quality of management. It has regular contact with its institutional shareholders to discuss objectives. The Executive Chairman maintains contact with principal shareholders.

The AGM is used to communicate with private investors and they are encouraged to participate. The Chairmen of the Audit and Remuneration Committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the annual report and accounts. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

Corporate Governance (continued)

Accountability and Audit

The Board presents a balanced and understandable assessment of the Group's position and prospects in all interim and price-sensitive reports and reports to regulators as well as the information required to be presented by statutory requirements. The responsibilities of the directors as regards the accounts are described on page 12, and that of the auditors on page 18. A statement of going concern is set out below.

During the year, the Audit Committee comprised Andrew A Laing and Nicholas Berry who are non-executive directors and Alisdair D McKenzie who is Group Finance Director. Subsequent to the year end Nicholas Berry and Alisdair D McKenzie resigned from the committee and John H Maxwell, Non Executive Deputy Chairman, and Damian H Reid, a non executive director, were appointed. The terms of reference of the Committee include keeping under review the scope and results of the audit and its cost effectiveness. The Committee reviews the independence and objectivity of the auditors. This includes reviewing the nature and extent of non-audit services supplied by the auditors to the Group, seeking to balance objectivity and value for money.

Internal Control

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets. The Group has adopted the transitional approach permitted by the Stock Exchange in its letter to listed companies of 27 September 1999 for accounting periods ending prior to 23 December 2000 in respect of the application of Code principle D.2.1.

The Board has reviewed its risk management and identified areas where procedures need to be changed or installed. The group is currently establishing the procedures necessary to implement the guidance, "Internal Control: Guidance for Directors' on the Combined Code". It expects to have completed the process by 31 December 2000, by which time all relevant employees will be trained in the new procedures. The Board will undertake a full risk and control assessment before reporting on the year ending 31 March 2001.

The Board has 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. The directors are responsible for the Group's system of internal financial control and reviewing its effectiveness.

The Board receives regular reports on all financial and operational matters. The operation of the systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material misstatement 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 on Remuneration

The current members of the remuneration committee are John H Maxwell, Andrew A Laing and Paul J Salem.

The purpose of the Remuneration Committee is to monitor, review and determine on behalf of the Board remuneration packages for the directors.

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
- performance related bonuses
- benefits in kind
- pension provision
- share option scheme (also open to certain senior executives)

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.

Performance Related Bonuses

The Remuneration Committee establishes the objectives that must be met for bonuses to be paid. The Committee believes that the award of bonuses should be tied to the interests of the Company's shareholders and that the principal measure of these interests is shareholder value. Account is also taken of the relative success of the different parts of the business for which the executive directors are responsible.

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. (Refer to note 18)

Directors' Pension Arrangements

Executive directors are members of the Company pension scheme. Pension contributions are based on basic annual salary. Their dependants are eligible for death in service benefits. The scheme is a money purchase scheme and there are no outstanding payments to the scheme.

Report on Remuneration (continued)

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.

Details of Directors Remuneration

This report should be read in conjunction with notes 4 and 18 to the financial statements which also form part of this report.

Year 2000 Compliance

The Group reviewed its computer systems for the impact of the Year 2000 date change, prepared an action plan to address the issue and carried out all necessary measures. All systems have continued to operate properly over the Year 2000 date change and through any roll over procedures that occurred at a later date.

The issue is complex, and no business can guarantee that there will be no Year 2000 problems. As all businesses are dependant on the compliance of their major customers, suppliers and other trading partners, any impact that has occurred on their systems may affect the Group's business to a greater or lesser extent.

Employee Involvement

The Group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Group.

This is achieved through the Company intranet, newsletters and staff briefings.

Disabled Employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company may continue.

It is the policy of the Company that training, career development and promotion opportunities should be available to all employees.

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 42 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.

Annual General Meeting

The Companies Act 1985 as amended provides that, in general:

- the directors may not allot shares unless they have been authorised to do so by the Company in general meeting or by the articles of association of the Company; and
- when shares are being issued for cash they must first be offered to existing shareholders, unless the directors have been given power by special resolution to allot shares for cash without regard to that requirement.

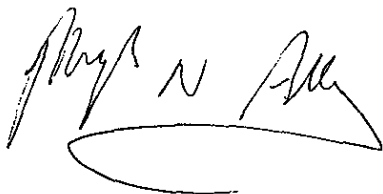
At the forthcoming Annual General Meeting on 30 August 2000 the shareholders will be invited to grant the Board authority to allot shares up to a maximum nominal value of £23,126,188, representing 30% of the authorised share capital of the Company at the date of this notice.

Save in respect of any shares which may be issued pursuant to any employee share scheme, the directors have no present intention of exercising this authority. This authority will expire at the fifth anniversary of the passing of the relevant resolution.

In addition, a special resolution will be proposed to empower the Board to disapply statutory pre-emption rights and allot shares 1) for issues by way of rights or other pre-emptive offers and 2) for up to an aggregate nominal amount equal to 5% of the total ordinary share capital of the Company in issue at the date of this notice, without first offering such shares to existing shareholders. The special resolution will also enable the Company to overcome certain practical difficulties which may arise in connection with fractional entitlements or in respect of overseas shareholders as a result of local laws and which prevent shares from being issued pro rata.

Finally, in accordance with the Combined Code, four directors will retire by rotation and offer themselves for re-election.

By order of the Board



Philip N Allenby

Secretary

13 June 2000

We have audited the financial statements on pages 19 to 46 which have been prepared under the accounting policies set out on pages 19 and 20.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report. As described on page 12, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on page 12 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

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 the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, 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 2000 and of the results 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
13 June 2000

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 9). The financial statements of each company in the Group have been prepared to 31 March 2000. Profits or losses on intra-group transactions are eliminated in full. The results of subsidiary undertakings disposed of are included to the date of disposal. The results of subsidiary undertakings acquired are included from the date of acquisition. On acquisition of a subsidiary undertaking, all of the subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

b) Turnover

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

c) Goodwill

Goodwill arising on consolidation representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired is capitalised and is amortised on a straight line basis over its estimated useful economic life as shown in note 7.

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

Assets are depreciated from the date on which they are brought into use. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets in equal annual instalments over the shorter of their expected useful lives or the unexpired portion of any finance leases.

The periods generally applicable are:

Networks	– 10-40 years
Leasehold improvements	– 5-15 years
Plant and equipment	– 3-15 years
Office equipment	– 5 years

f) Investments

Fixed asset investments are shown at cost less amounts provided for diminution in value. Current asset investments are stated at cost or modified cost, as appropriate. Cost is modified where investments are purchased at a price which is different to their final redemption value. The difference between cost and redemption value is amortised over the period to redemption. The modified cost of current asset investments denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date.

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. Monetary assets and liabilities 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.

This accounting policy is as prescribed by Statement of Standard Accounting Practice 20. It may involve reporting unrealised exchange gains on unsettled long-term monetary items as part of the profit or loss for the year. This policy represents a departure from statutory accounting principles, which only allow profits realised at the balance sheet date to be included in the profit and loss account. The directors consider that this policy is necessary in order that the financial statements may give a true and fair view. Deferral of exchange gains whilst recognising exchange losses would inhibit the fair measure of the performance of the Group in the year.

j) Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

k) Debt and debt finance costs

Debt is initially stated at the amount of the net proceeds after deduction of issue costs and any value attributable to share instruments. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount including any discount attributable to warrants on issue.

l) Contributions to defined contribution pension funds

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

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- 23 Consolidated Balance Sheet
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For the year ended 31 March 2000

	Note	2000 £'000	1999 £'000
Turnover	1	<u>21,307</u>	<u>14,924</u>
Operating costs			
ongoing	2	(49,753)	(29,647)
exceptional	2	<u>—</u>	<u>(1,121)</u>
		<u>(49,753)</u>	<u>(30,768)</u>
Operating Loss	1	(28,446)	(15,844)
Net interest payable and similar charges	3	<u>(4,931)</u>	<u>(419)</u>
Loss on ordinary activities before taxation		(33,377)	(16,263)
Tax on loss on ordinary activities	5	<u>—</u>	<u>—</u>
Retained loss for the financial year	19	<u>(33,377)</u>	<u>(16,263)</u>
Loss per share – basic and diluted	6	<u>(31.32)p</u>	<u>(22.50)p</u>

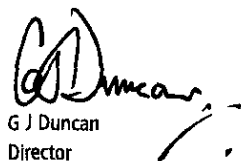
There were no recognised gains or losses other than the loss for the financial year.

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

As at 31 March 2000

	Note	2000 £'000	1999 £'000
Fixed assets			
Intangible assets	7	3,754	3,718
Tangible assets	8	203,101	56,022
Investments	9	855	—
		<u>207,710</u>	<u>59,740</u>
Current assets			
Stocks	10	4,139	6,183
Debtors: amounts falling due after more than one year	11	10,435	8,600
Debtors: amounts falling due within one year	12	13,472	6,286
Investments	13	48,701	—
Cash at bank and in hand		<u>263,226</u>	<u>5,680</u>
		339,973	26,749
Creditors: amounts falling due within one year	14	<u>(35,070)</u>	<u>(25,006)</u>
Net current assets		<u>304,903</u>	<u>1,743</u>
Total assets less current liabilities		512,613	61,483
Creditors: amounts falling due after more than one year	15	<u>(197,772)</u>	<u>(8,389)</u>
		<u>314,841</u>	<u>53,094</u>
Capital and reserves			
Called up share capital	18	38,430	21,150
Share premium account	19	328,639	61,619
Other reserve	19	10,690	—
Profit and loss account	19	<u>(62,918)</u>	<u>(29,675)</u>
Shareholders' funds	20	<u>314,841</u>	<u>53,094</u>

The financial statements were approved by the Board of Directors on 13 June 2000.


G J Duncan
Director

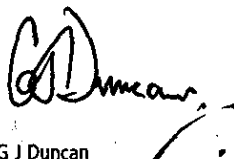

A D McKenzie
Director

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

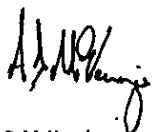
As at 31 March 2000

	Note	2000 £'000	1999 £'000
Fixed assets			
Tangible assets	8	63	134
Investments	9	<u>205,310</u>	<u>51,184</u>
		<u>205,373</u>	<u>51,318</u>
Current assets			
Debtors	12	54,650	41,107
Investments	13	48,701	—
Cash at bank		<u>263,149</u>	<u>5,575</u>
		366,500	46,682
Creditors: amounts falling due within one year	14	<u>(5,834)</u>	<u>(1,012)</u>
Net current assets		<u>360,666</u>	<u>45,670</u>
Total assets less current liabilities		566,039	96,988
Creditors: amounts falling due after more than one year	15	<u>(178,999)</u>	<u>(741)</u>
		<u>387,040</u>	<u>96,247</u>
Capital and reserves			
Called up share capital	18	38,430	21,150
Share premium account	19	328,639	61,619
Merger reserve	19	17,412	17,412
Other reserve	19	10,690	—
Profit and loss account	19	<u>(8,131)</u>	<u>(3,934)</u>
Shareholders' funds		<u>387,040</u>	<u>96,247</u>

The financial statements were approved by the Board of Directors on 13 June 2000.



G J Duncan
Director



A D McKenzie
Director

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

For the year ended 31 March 2000

	Note	2000 £'000	1999 £'000
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss from continuing activities		(28,446)	(15,844)
Depreciation and amortisation		7,439	4,309
Amortisation of lease prepayment		165	165
Exchange loss	23	38	—
Network lease prepayments	28	(2,000)	(2,000)
Decrease/(increase) in stock		2,094	(5,468)
Increase in debtors		(1,935)	(961)
Increase in creditors		2,984	10,146
Non-cash consideration for consultancy	9	(415)	—
Gain on disposal of tangible fixed assets		(27)	(41)
Net cash outflow from operating activities		(20,103)	(9,694)
Cash Flow Statement			
Net cash outflow from operating activities		(20,103)	(9,694)
Returns on investments and servicing of finance	21	(9,146)	(419)
Capital expenditure and financial investment	21	(17,818)	(25,904)
Acquisitions	21, 24	(283)	—
Management of liquid resources	21	(103,885)	—
Financing	21	352,965	43,019
Increase in cash	22	201,730	7,002

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

For the year ended 31 March 2000

1. **TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

Turnover, which was all generated within the United Kingdom, can be analysed between telecommunications services and the operation of a broadband cable network. 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:

	2000 £'000	1999 £'000
Telecommunications services	15,224	9,308
Broadband cable network	<u>6,083</u>	<u>5,616</u>
	<u>21,307</u>	<u>14,924</u>

The loss on ordinary activities before taxation is stated after:

	2000 £'000	1999 £'000
Auditors' remuneration: Audit services	113	63
Non-audit services	25	245
Hire of plant and machinery	525	307
Other operating rentals – land and buildings	866	528
Depreciation of tangible fixed assets	7,274	4,144
Amortisation of network lease prepayment	165	165
Amortisation of intangible fixed assets	165	165
Gain on disposal of tangible fixed assets	27	41
Exchange differences on foreign currency borrowings & deposits	<u>38</u>	<u>–</u>

In addition to the charges for non-audit services during the year ended 31 March 2000 above, the Group was charged £354,000 in relation to fundraising transactions which will be amortised over the life of the instruments or has been taken to the share premium account as appropriate (1999 – £115,000).

For the year ended 31 March 2000

2. OPERATING COSTS

	2000 Total £'000	1999 Total £'000
Operating costs:		
Telephony expenses	7,680	5,748
Programming expenses	4,010	3,367
Administrative expenses	23,618	13,640
Selling and distribution expenses	7,006	3,539
Depreciation and amortisation	7,439	4,474
	<u>49,753</u>	<u>30,768</u>
Administrative expenses:		
Ongoing	23,618	12,519
Exceptional	—	1,121
	<u>23,618</u>	<u>13,640</u>

Exceptional administrative expenses incurred in 1999 relate to professional fees incurred in relation to an issue of senior discount notes, which was withdrawn, and certain due diligence exercises.

Given the nature of the Group's business, an analysis of operating costs in the manner prescribed by the Companies Act 1985 is not considered appropriate. The directors have, as required by paragraph 3(3) of Schedule 4 of the Companies Act 1985, adapted the prescribed format to the requirements of the Group's business.

3. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £'000	1999 £'000
Other bank loans and overdrafts	772	650
Finance charges in respect of finance leases	1,650	678
Finance costs of senior notes	4,367	—
Other interest payable and similar charges	<u>1,830</u>	<u>11</u>
	8,619	1,339
Other interest receivable and similar income	<u>(3,688)</u>	<u>(920)</u>
	<u>4,931</u>	<u>419</u>

Finance costs of £1,760,000 relating to a senior debt facility which was repaid and cancelled on 14th December 1999 are included within other interest payable and similar charges.

For the year ended 31 March 2000

4. DIRECTORS AND EMPLOYEES

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

	2000 £'000	1999 £'000
Wages and salaries	10,350	6,309
Social security	1,043	472
Pension costs	231	144
	<u>11,624</u>	<u>6,925</u>
Less: amounts capitalised in respect of network build	<u>(1,626)</u>	<u>(1,127)</u>
	<u>9,998</u>	<u>5,798</u>

The average number of employees of the Group during the year was 495 (1999: 324) in the following categories:

	2000 Number	1999 Number
Administration	190	128
Engineering	199	112
Sales and marketing	106	84
	<u>495</u>	<u>324</u>

Remuneration in respect of directors was:

	Salaries and fees 2000 £'000	Performance Related Bonuses 2000 £'000	Gain on Exercise of Share Options 2000 £'000	Benefits 2000 £'000	Total 2000 £'000	Total 1999 £'000	Pension contributions 2000 £'000	Pension contributions 1999 £'000
Executive directors								
G J Duncan (Highest paid director 1999)	209	104	—	28	341	301	27	26
G B Sleigh (Highest paid director 2000)	130	65	1,075	23	1,293	193	10	9
A D McKenzie	104	52	—	18	174	149	8	9
M L Beard	104	52	—	11	167	147	8	7
E J Hornsby	104	52	—	12	168	142	8	8
Non-executive directors								
N Berry	30	—	—	—	30	19	—	—
A A Laing	20	—	—	—	20	19	—	—
	<u>701</u>	<u>325</u>	<u>1,075</u>	<u>92</u>	<u>2,193</u>	<u>970</u>	<u>61</u>	<u>59</u>

During the year Gordon B Sleigh exercised 127,173 share options at an exercise price of 115p per share. The gain on exercise of share options was £1,075,000.

The pension contributions in respect of directors are to a defined contribution scheme. The benefits in kind represent car and healthcare benefits.

For the year ended 31 March 2000

5. TAX ON LOSS ON ORDINARY ACTIVITIES

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

Unrelieved tax losses of £55 million (1999: £27 million) remain available to offset against future taxable trading profits.

6. LOSS PER SHARE

The loss per share is based on the loss attributable to the Ordinary Shareholders of £33,377,000 (31 March 1999 – £16,263,000) and on weighted average number of Ordinary Shares in issue during the period of 106,559,708 (31 March 1999 – 72,273,690).

As shown in note 18, at 31 March 2000 outstanding warrants and share options were in existence. The shares that would be issued in respect of these warrants are anti-dilutive as their issue would decrease loss per share.

7. INTANGIBLE FIXED ASSETS

The Group

	Goodwill £'000	Development Costs £'000	Total £'000
Cost			
At 1 April 1999	444	3,673	4,117
Additions	201	—	201
At 31 March 2000	645	3,673	4,318
Amortisation			
At 1 April 1999	44	355	399
Provided in the year	18	147	165
At 31 March 2000	62	502	564
Net book value at 31 March 2000	583	3,171	3,754
Net book value at 31 March 1999	400	3,318	3,718

Goodwill included above relates to the following:

	Date of acquisition	Period of amortisation	Goodwill at original cost £'000
Acquired during the year:			
Collie Communications Ltd	3 February 2000	3 years	201
Previous acquisitions:			
Atlantic Telecommunications Ltd	31 March 1995	25 years	444
			645

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.

For the year ended 31 March 2000

8. TANGIBLE FIXED ASSETS

	Networks £'000	Leasehold Improvements £'000	Plant & Equipment £'000	Office Equipment £'000	Group Total £'000	Company Total £'000
Cost						
At 1 April 1999	47,562	1,875	12,990	1,730	64,157	268
Additions	147,711	—	6,261	504	154,476	—
Disposals	(817)	—	(188)	—	(1,005)	(12)
Reclassifications	—	—	(100)	100	—	—
Transfers to subsidiary undertakings	—	—	—	—	—	(119)
Acquisition of subsidiary undertaking	—	—	36	17	53	—
At 31 March 2000	<u>194,456</u>	<u>1,875</u>	<u>18,999</u>	<u>2,351</u>	<u>217,681</u>	<u>137</u>
Depreciation						
At 1 April 1999	4,340	130	3,131	534	8,135	134
Charge for year	4,703	135	1,854	582	7,274	40
Disposals	(641)	—	(224)	—	(865)	(11)
Reclassifications	—	—	(72)	72	—	—
Transfers to subsidiary undertakings	—	—	—	—	—	(89)
Acquisition of subsidiary undertaking	—	—	21	15	36	—
At 31 March 2000	<u>8,402</u>	<u>265</u>	<u>4,710</u>	<u>1,203</u>	<u>14,580</u>	<u>74</u>
Net book value at 31 March 2000	<u>186,054</u>	<u>1,610</u>	<u>14,289</u>	<u>1,148</u>	<u>203,101</u>	<u>63</u>
Net book value at 31 March 1999	<u>43,222</u>	<u>1,745</u>	<u>9,859</u>	<u>1,196</u>	<u>56,022</u>	<u>134</u>

Included within additions to network is £118 million relating to assets under construction. Construction is due to be completed by December 2000.

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 2000	<u>19,448</u>	<u>—</u>	<u>7,621</u>	<u>219</u>	<u>27,288</u>	<u>31</u>
Net book value at 31 March 1999	<u>6,830</u>	<u>—</u>	<u>5,816</u>	<u>328</u>	<u>12,974</u>	<u>89</u>
Depreciation charge for the year	<u>1,603</u>	<u>—</u>	<u>894</u>	<u>93</u>	<u>2,590</u>	<u>16</u>

For the year ended 31 March 2000

13. CURRENT ASSET INVESTMENTS

	The Group 2000 £'000	The Group 1999 £'000	The Company 2000 £'000	The Company 1999 £'000
Restricted investments – Sterling	18,690	–	18,690	–
Restricted investments – Euro	<u>30,011</u>	<u>–</u>	<u>30,011</u>	<u>–</u>
	<u>48,701</u>	<u>–</u>	<u>48,701</u>	<u>–</u>

Restricted investments are held in escrow by Bankers Trust Company, an independent agent, to meet the first four interest payments on the unsecured senior notes issued on 3 February 2000. Bankers Trust Company will hold the investments to maturity when they will distribute the interest payment to the bond holders. The investments comprise UK and European Listed Government Bonds.

The investments mature as follows:

	Sterling Investments £'000	Euro Investments £'000	Total £'000
June 2000	4,895	7,334	12,229
December 2000	4,740	7,307	12,047
June 2001	4,600	7,740	12,340
December 2001	<u>4,455</u>	<u>7,630</u>	<u>12,085</u>
	<u>18,690</u>	<u>30,011</u>	<u>48,701</u>

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2000 £'000	The Group 1999 £'000	The Company 2000 £'000	The Company 1999 £'000
Unsecured loan notes	22	122	22	122
Bank term loan – unsecured	400	400	400	400
Bank overdrafts – unsecured	856	987	–	–
Trade creditors	12,650	3,526	671	73
Social security and other taxes	328	241	41	29
Other creditors	5,646	13,331	–	–
Accruals and deferred income	9,132	3,193	4,686	335
Amounts due under finance leases	<u>6,036</u>	<u>3,206</u>	<u>14</u>	<u>53</u>
	<u>35,070</u>	<u>25,006</u>	<u>5,834</u>	<u>1,012</u>

Amounts under finance leases are secured on the assets to which they relate. The unsecured loan notes carry interest at 8%. They are repayable, at par, on either 31 March or 30 September between 31 March 1999 and 8 September 2001 on not less than one month's notice from the note holder. Amounts due under extended credit terms with suppliers are included in other creditors. The bank term loan and the unsecured loan notes were repaid subsequent to the year end.

For the year ended 31 March 2000

9. FIXED ASSET INVESTMENTS (continued)

At 31 March 2000 the Group held 100% of the equity of the following trading companies, all of which operate in Great Britain.

Name of Company	Class of Share Capital Held	Proportion held		Nature of Business
		By parent undertaking	By subsidiary undertaking	
Atlantic Telecom Holdings Ltd	Ordinary Shares	100%	—	Holding Company
ATG Holdings Ltd	Ordinary Shares	—	100%	Holding Company
Devanha Group plc	Ordinary Shares	—	100%	Holding Company
Atlantic Telecommunications Ltd	Ordinary Shares	—	100%	Telecommunications
Logically Telecommunications Ltd	Ordinary Shares	—	100%	Telecommunications
Collie Communications Ltd	Ordinary Shares	—	100%	Telecommunications
Aberdeen Cable Services Ltd	Ordinary Shares	—	100%	Operation of cable TV network

10. STOCKS

	The Group 2000 £'000	The Group 1999 £'000
Consumable stores	613	518
Network equipment	3,526	5,665
	<u>4,139</u>	<u>6,183</u>

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

	The Group 2000 £'000	The Group 1999 £'000
Network lease prepayment	<u>10,435</u>	<u>8,600</u>

The network lease prepayment represents 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 of 99 years (see note 28).

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2000 £'000	The Group 1999 £'000	The Company 2000 £'000	The Company 1999 £'000
Trade debtors	2,484	1,483	—	—
Amounts due from subsidiary undertakings	—	—	53,534	39,654
Other debtors	3,170	1,619	293	15
Prepayments and accrued income	<u>7,818</u>	<u>3,184</u>	<u>823</u>	<u>1,438</u>
	<u>13,472</u>	<u>6,286</u>	<u>54,650</u>	<u>41,107</u>

For the year ended 31 March 2000

13. CURRENT ASSET INVESTMENTS

	The Group 2000 £'000	The Group 1999 £'000	The Company 2000 £'000	The Company 1999 £'000
Restricted investments – Sterling	18,690	–	18,690	–
Restricted investments – Euro	30,011	–	30,011	–
	<u>48,701</u>	<u>–</u>	<u>48,701</u>	<u>–</u>

Restricted investments are held in escrow by Bankers Trust Company, an independent agent, to meet the first four interest payments on the unsecured senior notes issued on 3 February 2000. Bankers Trust Company will hold the investments to maturity when they will distribute the interest payment to the bond holders. The investments comprise UK and European Listed Government Bonds.

The investments mature as follows:

	Sterling Investments £'000	Euro Investments £'000	Total £'000
June 2000	4,895	7,334	12,229
December 2000	4,740	7,307	12,047
June 2001	4,600	7,740	12,340
December 2001	4,455	7,630	12,085
	<u>18,690</u>	<u>30,011</u>	<u>48,701</u>

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2000 £'000	The Group 1999 £'000	The Company 2000 £'000	The Company 1999 £'000
Unsecured loan notes	22	122	22	122
Bank term loan – unsecured	400	400	400	400
Bank overdrafts – unsecured	856	987	–	–
Trade creditors	12,650	3,526	671	73
Social security and other taxes	328	241	41	29
Other creditors	5,646	13,331	–	–
Accruals and deferred income	9,132	3,193	4,686	335
Amounts due under finance leases	6,036	3,206	14	53
	<u>35,070</u>	<u>25,006</u>	<u>5,834</u>	<u>1,012</u>

Amounts under finance leases are secured on the assets to which they relate. The unsecured loan notes carry interest at 8%. They are repayable, at par, on either 31 March or 30 September between 31 March 1999 and 8 September 2001 on not less than one month's notice from the note holder. Amounts due under extended credit terms with suppliers are included in other creditors. The bank term loan and the unsecured loan notes were repaid subsequent to the year end.

For the year ended 31 March 2000

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

	The Group 2000 £'000	The Group 1999 £'000	The Company 2000 £'000	The Company 1999 £'000
Unsecured senior notes due 2010	186,585	—	186,585	—
Less: deferred arrangement costs	(7,907)	—	(7,907)	—
	<u>178,678</u>	<u>—</u>	<u>178,678</u>	<u>—</u>
Bank term loan	300	700	300	700
Amounts due under finance leases	<u>18,794</u>	<u>7,689</u>	<u>21</u>	<u>41</u>
	<u>197,772</u>	<u>8,389</u>	<u>178,999</u>	<u>741</u>

Unsecured senior notes due 2010

The Group has issued 75,000 Sterling Units and 200,000 Euro Units. Each Sterling Unit consists of £1,000 principal amount with a yield to maturity of 13.25% and one Sterling Warrant. Each Euro Unit consists of €1,000 principal amount with a yield to maturity of 13% and one Euro Warrant. The unsecured senior notes mature on 15 January 2010. Interest accrues semi-annually and is payable in arrears. The senior notes are redeemable at par, in whole or in part, at the option of the Group only, at any time on or after 15 January 2005.

5.45% of the principal amount of the unsecured senior notes is attributable to the warrants and this proportion of the net proceeds has been credited to a non-distributable reserve. This discount on issue represents a finance cost on the debt which will be charged through the profit and loss account over the period to redemption of the senior notes. Further details of the warrants are disclosed in note 18.

16. FINANCIAL INSTRUMENTS

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

The Group is exposed to various market risks, including changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices such as foreign currency exchange and interest rates. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Short term debtors and creditors

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

Interest rate risk

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

For the year ended 31 March 2000

16. FINANCIAL INSTRUMENTS (continued)

The interest rate exposure of the financial assets of the Group as at 31 March 2000 was:

Currency	Interest Rate			Total £'000
	Fixed £'000	Floating £'000	Zero £'000	
2000				
Sterling financial assets	55,266	120,011	18,690	193,967
Euro financial assets	30,011	87,949	—	117,960
	<u>85,277</u>	<u>207,960</u>	<u>18,690</u>	<u>311,927</u>
1999				
Sterling financial assets	—	5,680	—	—

**Fixed Rate
Financial Assets**

Currency	Weighted Average Fixed Interest Rate %	Weighted average period for which rate is fixed
2000		
Sterling financial assets	6.1	1 month
Euro financial assets	6.1	1 year

The floating rate assets bear interest at rates based on Euro and UK bank base rates. The weighted average period to maturity of zero coupon financial assets is one year.

The interest rate exposure of the financial liabilities of the Group as at 31 March 2000 was:

Currency	Interest Rate		Total £'000
	Fixed £'000	Floating £'000	
2000			
Sterling financial liabilities	95,228	1,556	96,784
US Dollar financial liabilities	—	560	560
Euro financial liabilities	115,649	—	115,649
	<u>210,877</u>	<u>2,116</u>	<u>212,993</u>
1999			
Sterling financial liabilities	9,942	2,087	12,029
US Dollar financial liabilities	—	1,075	1,075
	<u>9,942</u>	<u>3,162</u>	<u>13,104</u>

For the year ended 31 March 2000

16. FINANCIAL INSTRUMENTS (continued)

Currency	Fixed Rate Financial Liabilities	
	Weighted Average Fixed Interest Rate %	Weighted average period for which rate is fixed
2000		
Sterling financial liabilities	11.9	9 years
Euro financial liabilities	13.0	10 years
1999		
Sterling financial liabilities	7.9	5 years

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

Liquidity risk

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

Maturity of financial liabilities

The Group's financial liabilities analysis at 31 March 2000 is set out below:

	The Group 2000 £'000	The Group 1999 £'000	The Company 2000 £'000	The Company 1999 £'000
Within one year:				
Unsecured loan notes	22	122	22	122
Bank borrowings	1,256	1,387	400	400
Finance leases	6,036	3,206	14	53
After one and within two years:				
Bank borrowings	300	400	300	400
Finance leases	5,944	2,977	21	29
After two and within five years:				
Bank borrowings	—	300	—	300
Finance leases	12,462	3,832	—	12
After five years:				
Senior Notes	186,585	—	186,585	—
Finance leases	388	880	—	—
	<u>212,993</u>	<u>13,104</u>	<u>187,342</u>	<u>1,316</u>

Currency risk

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

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

For the year ended 31. March 2000

16. FINANCIAL INSTRUMENTS (continued)

Fair values of financial instruments

The following assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

Cash at bank and in hand: The carrying value reported in the consolidated balance sheets represents fair value.

Unsecured senior notes: The fair value is based on the quoted market price as set out below.

Other financial assets and liabilities: The book values of the Group's other financial assets and liabilities approximate their fair values.

The carrying amounts and fair values of the unsecured senior notes are as follows:

	Carrying Amount £'000	Fair Value £'000
2000		
Unsecured senior notes – Sterling	71,047	72,000
Unsecured senior notes – Euro	115,538	117,213
	<u>186,585</u>	<u>189,213</u>

17. PROVISIONS FOR LIABILITIES AND CHARGES

The Group

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 1999	2,709	1,028	(3,737)	–
Provided during the year	<u>(2,479)</u>	<u>(77)</u>	<u>2,556</u>	<u>–</u>
At 31 March 2000	<u>230</u>	<u>951</u>	<u>(1,181)</u>	<u>–</u>

18. SHARE CAPITAL

	2000 £'000	1999 £'000
Authorised		
205,852,784 ordinary shares of 25p each (1999: 120,000,000 ordinary shares of 25p each)	<u>51,463</u>	<u>30,000</u>
Allotted, called up and fully paid		
153,721,177 ordinary shares of 25p each (1999: 84,601,363 ordinary shares of 25p each)	<u>38,430</u>	<u>21,150</u>

For the year ended 31 March 2000

18. SHARE CAPITAL (continued)

Allotments during the year

During the year the Company issued 211,841 Ordinary Shares pursuant to the exercise of options at a price of 115p under the Share Option Scheme. The difference between the total consideration of £244,000 and the total nominal value of £53,000 has been credited to the share premium account. Pursuant to the exercise of warrants 5,037,242 Ordinary Shares were issued at a price of 160p. The difference between the total consideration of £8,060,000 and the total nominal value of £1,259,000 has been credited to the share premium account.

On 10 December 1999 22,416,170 Ordinary Shares were issued at a price of 440p in connection with a placing and open offer and on the same date 41,454,561 Ordinary Shares were issued to Marconi at a price of 440p in connection with its strategic partnership with the Group. The difference between the total consideration of £281 million and the total nominal value of £16 million, net of expenses, has been credited to the share premium account.

Contingent Rights to the Allotment of Shares

Warrants	Warrants Number	Sterling Warrants Number	Euro Warrants Number
Warrants in issue at 31 March 1999	5,037,242	—	—
Exercised	(5,037,242)	—	—
Issued	—	75,000	200,000
Warrants in issue at 31 March 2000	—	75,000	200,000

During the year the Company issued warrants to the purchasers of senior notes as disclosed in note 15. Each Sterling warrant gives the holder the right to purchase 31.375 ordinary shares at an exercise price of £9.80 per share. In aggregate the Sterling warrants give holders the right to purchase 2,353,117 ordinary shares. Each Euro warrant gives the holder the right to purchase 19.174 ordinary shares at an exercise price of £9.80 per share. In aggregate the Euro warrants give holders the right to purchase 3,834,741 ordinary shares. The warrants will be exercisable from 3 February 2001 and will expire on 3 February 2010.

Share Options

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

	Date option granted	Exercise price per share	Period of exercise	Conditions of exercise
First Series	30 March 1995	115p	30 March 1998 -30 March 2005	Share price exceeds 135p
Second Series	28 February 1997	154 1/2p	28 February 2000 -28 February 2007	Annual operating profit exceeds £2 million

For the year ended 31 March 2000

18. SHARE CAPITAL (continued)

Share Options

		At 1 April 1999	Exercised	Lapsed	At 31 March 2000
Gordon B Sleigh	First Series	127,173	(127,173)	—	—
	Second Series	108,253	—	—	108,253
Alisdair D McKenzie	First Series	95,652	—	—	95,652
	Second Series	84,143	—	—	84,143
Martin L Beard	First Series	86,956	—	—	86,956
	Second Series	90,615	—	—	90,615
Edward J Hornsby	First Series	86,956	—	—	86,956
	Second Series	90,615	—	—	90,615
Total directors' options	First Series	396,737	(127,173)	—	269,564
	Second Series	373,626	—	—	373,626
Employee options	First Series	134,420	(84,668)	—	49,752
	Second Series	260,195	—	(51,780)	208,415
Total options	First Series	531,157	(211,841)	—	319,316
	Second Series	633,821	—	(51,780)	582,041
		<u>1,164,978</u>	<u>(211,841)</u>	<u>(51,780)</u>	<u>901,357</u>

The middle market price of the shares at 31 March 2000 was 975p. The highest price during the year was 1190p and the lowest price during the year was 234.5p.

19. SHARE PREMIUM ACCOUNT AND RESERVES

The Group

	Share Premium Account £'000	Other Reserve £'000	Profit & Loss Account £'000
At 1 April 1999	61,619	—	(29,675)
Premium on shares issued during the year (See Note 18)	272,054	—	—
Costs relating to issue	(4,900)	—	—
Issue of warrants	—	10,690	—
Retained loss for the year	—	—	(33,377)
Transfer	(134)	—	134
	<u>328,639</u>	<u>10,690</u>	<u>(62,918)</u>

The Other Reserve arose on the issue of warrants as disclosed in note 18. The transfer relates to issue costs which it is permissible to deduct from the share premium account.

For the year ended 31 March 2000

19. SHARE PREMIUM ACCOUNT AND RESERVES (continued)

The cumulative amount of goodwill arising from acquisitions which has been written off to Group reserves to date is £17,425,000 (1999: £17,425,000).

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 £4,331,000 which is dealt with in the financial statements of the company.

The Company

	Share Premium Account £'000	Merger Reserve £'000	Other Reserve £'000	Profit & Loss Account £'000
At 1 April 1999	61,619	17,412	—	(3,934)
Premium on shares issued during the year (see Note 18)	272,054	—	—	—
Costs relating to issue	(4,900)	—	—	—
Issue of warrants	—	—	10,690	—
Retained loss for the year	—	—	—	(4,331)
Transfer	(134)	—	—	134
At 31 March 2000	<u>328,639</u>	<u>17,412</u>	<u>10,690</u>	<u>(8,131)</u>
Distributable Reserves	—	(734)	—	(8,131)
Non-Distributable Reserves	<u>328,639</u>	<u>18,146</u>	<u>10,690</u>	<u>—</u>

The Other Reserve arose on the issue of warrants as disclosed in note 18. The transfer relates to issue costs which it is permissible to deduct from the share premium account.

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000 £'000	1999 £'000
Loss for the financial year	(33,377)	(16,263)
Issue of shares net of expenses	284,434	47,286
Issue of warrants	<u>10,690</u>	<u>—</u>
Net increase in shareholders' funds	261,747	31,023
Shareholders' funds at 1 April 1999	<u>53,094</u>	<u>22,071</u>
Shareholders' funds at 31 March 2000	<u>314,841</u>	<u>53,094</u>

For the year ended 31 March 2000

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

	Note	2000 £'000	1999 £'000
Returns on investments and servicing of finance			
Interest received		2,956	920
Bank interest paid		(772)	(650)
Finance lease interest paid		(1,650)	(678)
Other interest paid		(1,773)	(11)
Expenses paid in connection with senior notes		<u>(7,907)</u>	<u>—</u>
Net cash outflow from returns on investments and servicing of finance		<u>(9,146)</u>	<u>(419)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(17,545)	(26,016)
Sale of tangible fixed assets		167	112
Purchase of investments		<u>(440)</u>	<u>—</u>
Net cash outflow from capital expenditure and financial investment		<u>(17,818)</u>	<u>(25,904)</u>
Acquisitions			
Purchase of subsidiary undertaking		(218)	—
Expenses related to purchase of subsidiary undertaking		(12)	—
Net overdraft from purchase of subsidiary		<u>(53)</u>	<u>—</u>
Net cash outflow from acquisitions	24	<u>(283)</u>	<u>—</u>
Management of liquid resources			
Cash placed on short term deposit	23	(55,266)	—
Purchase of current asset investments	23	<u>(48,619)</u>	<u>—</u>
Net cash outflow from management of liquid resources		<u>(103,885)</u>	<u>—</u>
Financing			
Issue of shares		167,294	50,916
Issue of senior notes		185,449	—
Issue of warrants		10,690	—
Drawdown of borrowings		20,000	—
Repayment of borrowings		(20,500)	(478)
Capital element of finance lease rentals		(5,068)	(2,521)
Expenses paid in connection with share issues		(4,900)	(3,630)
Loan finance costs		<u>—</u>	<u>(1,268)</u>
Net cash inflow from financing		<u>352,965</u>	<u>43,019</u>

For the year ended 31 March 2000

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

	2000 £'000	1999 £'000
Increase in cash in the period	201,730	7,002
Cash outflow from movement in liquid resources	103,885	-
Cash (inflow) / outflow from movement in debt	(184,949)	478
Cash outflow from lease financing	5,068	2,521
Change in net funds resulting from cash flows	125,734	10,001
Inception of finance leases	(18,991)	(4,512)
Exchange differences	(38)	-
Acquisitions	(12)	-
Other non-cash items	(335)	-
Movement in net funds / (debt) in the year	106,358	5,489
Net debt at 1 April 1999	(7,424)	(12,913)
Net funds / (debt) at 31 March 2000	98,934	(7,424)

23. ANALYSIS OF NET FUNDS / (DEBT)

	At 1 April 1999 £'000	Cash Flow £'000	Acquisition £'000	Non cash items £'000	Exchange movement £'000	At 31 March 2000 £'000
Cash at bank and in hand	5,680	201,599	-	-	681	207,960
Bank overdrafts	(987)	131	-	-	-	(856)
	4,693	201,730	-	-	681	207,104
Short term deposits *	-	55,266	-	-	-	55,266
Restricted current asset investments	-	48,619	-	(156)	238	48,701
Debt due after one year	(700)	(185,049)	-	(179)	(957)	(186,885)
Debt due within one year	(522)	100	-	-	-	(422)
Finance leases	(10,895)	5,068	(12)	(18,991)	-	(24,830)
Net (debt) / funds	(7,424)	125,734	(12)	(19,326)	(38)	98,934

* Short term deposits are included within cash at bank and in hand in the balance sheet. At the year end, the Group was developing its treasury policy. The treasury policy was agreed subsequent to the year end. To allow the Group flexibility when the policy was agreed it had approximately £200 million on overnight deposit at the year end earning interest at rates commensurate with short term deposits.

For the year ended 31. March 2000

24. ACQUISITIONS

- a) In December 1999, the Group acquired 1,000 Ordinary Shares of £1 each in Faststill (Jersey) Ltd, being 100% of its nominal share capital for a consideration of £122,040,000 satisfied by the issue of shares. As disclosed in note 9, Faststill (Jersey) Ltd was the vehicle used for the acquisition of assets from Marconi plc as part of the strategic partnership.

The assets of Faststill (Jersey) Ltd acquired were as follows:

	Book Value £'000	Fair Value £'000
Fixed assets		
Tangible	46,300	117,940
Current assets		
Debtors	<u>4,100</u>	<u>4,100</u>
Net assets	<u>50,400</u>	<u>122,040</u>
Satisfied by:		
Issue of shares		<u>122,040</u>

- b) On 3 February 2000 the Group acquired 1,000 Ordinary Shares of £1 each in Collie Communications Ltd, being 100% of its nominal share capital for a consideration of £230,000, satisfied in cash. Goodwill arising on the acquisition of Collie Communications Ltd has been capitalised. The purchase of Collie Communications Ltd has been accounted for by the acquisition method of accounting. The profit after tax of Collie Communications Ltd for the period from 1 April 1999, the beginning of the subsidiary's financial year and the date of acquisition was £4,000. The profit after taxation for the year ended 31 March 1999 was £45,000.

The assets and liabilities of Collie Communications Ltd acquired were as follows:

	Book Value £'000
Fixed assets	
Tangible	<u>17</u>
Current assets	
Stock	50
Debtors	<u>83</u>
	<u>133</u>
Current liabilities	
Bank overdraft	(52)
Trade creditors	(39)
Social security and other taxes	(6)
Accruals	(11)
Amounts due under finance leases	<u>(12)</u>
	<u>(120)</u>
Net assets	<u>30</u>

For the year ended 31 March 2000

24. ACQUISITIONS (continued)

	£'000
Net assets	30
Purchased goodwill capitalised	<u>201</u>
Purchase consideration	<u>231</u>
Satisfied by:	
Cash	<u>231</u>
Analysis of net cash outflow in respect of acquisition of subsidiary undertaking	
Cash	231
Overdraft acquired	<u>52</u>
	<u>283</u>

No fair value adjustments were required on acquisition.

The turnover and profit and loss from the date of acquisition to the 31 March 2000 have not been disclosed separately on the face of the profit and loss account as they are not material to the overall Group results. In addition, the effect on the elements of the Group cash flow following acquisition was insignificant.

25. MAJOR NON-CASH TRANSACTIONS

- a) 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 £18,991,000 (1999: £4,512,000).
- b) The Group received 5% of the share capital of Skyline S.A. in consideration for consultancy and advice given in relation to its application to the ART (French Telecommunications Regulatory Authority) for telecommunications licences as explained in note 9.
- c) The Company issued 27,736,364 ordinary shares (value £122,040,000) in consideration for 100% of the share capital of Faststill (Jersey) Ltd. As disclosed in note 24, Faststill (Jersey) Ltd was acquired as part of the formation of the Strategic Partnership with Marconi plc.

The Strategic Partnership comprises the following:

- the issue to Marconi plc of 39,100,000 ordinary shares in Atlantic Telecom Group PLC in return for the subscription by Marconi plc of £50 million in cash and the provision of assets as set out in note 9;
- the option by Marconi plc to subscribe for a further 2,354,561 ordinary shares at £4.40 per share. This additional subscription right was exercised for a total consideration of £10.4 million;
- the provision by Marconi plc of a vendor finance facility in relation to purchases by the Group of at least £50 million but up to £100 million worth of equipment from Marconi under a separate Equipment and Software Supply Agreement over the next three years;
- the contracting of maintenance services in relation to the Network equipment and software to Marconi plc on arms length terms; and
- the appointment of a Marconi plc representative to the Group Board. On 13 June 2000 Damian Reid was appointed to the Group Board as the Marconi plc representative.

For the year ended 31 March 2000

26. CAPITAL COMMITMENTS

At 31 March 2000 the Group had contracted for £30,699,000 (1999: £2,571,000) of capital expenditure not provided for in these financial statements.

27. POST BALANCE SHEET EVENTS

On 27 April 2000 the Board announced that it had agreed terms for the acquisition of First Telecom. This transaction was approved at the E.G.M on 7 June 2000. The Company issued up to 67,973,856 new ordinary shares (representing 29.7% of the fully-diluted share capital of the Company) to the Vendors, in consideration for 100% of the share capital of First Telecom Group plc. A pro forma statement of combined net assets of the enlarged group in the format included in the circular to shareholders, as updated for the final share price on acquisition is set out below.

Pro forma Statement of Net Assets

	Atlantic Telecom Group (a) £'000	First Telecom Group (b) £'000	Adjustments (c) £'000	Pro forma statement of combined net assets £'000
Investments	855	—	—	855
Intangible assets	3,754	—	342,050	345,804
Tangible assets	203,101	14,082	—	217,183
	<u>207,710</u>	<u>14,082</u>	<u>342,050</u>	<u>563,842</u>
Stocks	4,139	—	—	4,139
Debtors	23,907	9,692	—	33,599
Investments	48,701	—	—	48,701
Cash at Bank	263,226	34,413	—	297,639
	<u>339,973</u>	<u>44,105</u>	<u>—</u>	<u>384,078</u>
Creditors: amounts falling due within one year	(35,070)	(50,172)	—	(85,242)
Net current assets / (liabilities)	<u>304,903</u>	<u>(6,067)</u>	<u>—</u>	<u>298,836</u>
Total assets less current liabilities	512,613	8,015	342,050	862,678
Creditors: amounts falling due after more than one year	(197,772)	—	—	(197,772)
Total shareholders' funds	<u>314,841</u>	<u>8,015</u>	<u>342,050</u>	<u>664,906</u>

a) Atlantic Telecom Group audited net assets at 31 March 2000.

b) First Telecom Group net assets at 31 December 1999 extracted from audited financial statements. No adjustment has been made for the fair value of assets on acquisition.

c) Goodwill adjustment on consolidation of First Telecom based on the issue of 67,973,856 ordinary shares at 515p per share. This goodwill is the difference between the fair value of the consideration and the book value of First Telecom's balance sheet as at 31 December 1999. This figure will be adjusted in due course for the fair value of First Telecom's balance sheet on acquisition on 7 June 2000.

For the year ended 31 March 2000

28. LEASING COMMITMENTS

a) Cable Network Lease

The cable network is operated by Aberdeen Cable Services Ltd on a 99 year operating lease. Total payments due under the lease agreement are amortised and spread the cost equally over the term of the lease (see note 11). Under the terms of the lease there is an option, but not a requirement, for the Company to make an advance payment in respect of future rentals for primary and secondary lease payments.

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

The 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 is £1.5 million (1999: £2 million).

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

	2000		1999	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Expiring within one year	79	110	7	47
Expiring between two and five years inclusive	60	357	42	297
Expiring in five years or more	783	—	770	—
	<u>922</u>	<u>467</u>	<u>819</u>	<u>344</u>

29. CONTINGENT LIABILITIES

The holding company had provided guarantees in respect of subsidiary company borrowings amounting to £24.8 million at 31 March 2000 (1999: £9.8 million).

30. 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 £231,000 (1999: £144,000).

Notice is hereby given that the Annual General Meeting of Atlantic Telecom Group PLC (registered in Scotland number 20509, and hereinafter referred to as "the Company"), registered office Atlantic House, 475-485 Union Street, Aberdeen AB11 6DB, will be held at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA on 30 August 2000 at 12 noon.

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 John H Maxwell, Mr Alisdair D McKenzie, Mr Paul J Salem and Mr Mark W Daeche as directors.
3. To re-appoint the auditors, Grant Thornton, and to authorise the directors to fix the remuneration of the auditors.
4. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:
THAT, pursuant to and in accordance with section 80 of the Companies Act 1985 (as amended) ("the Act"), the directors be and they are hereby authorised generally and unconditionally to exercise all or any powers of the Company to allot relevant securities up to an aggregate nominal value of £23,126,188, representing 30% of the authorised share capital of the Company, to such persons at such times and on such terms or otherwise as they think proper during the period commencing on the date of the passing of this resolution and expiring at the fifth anniversary thereof save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority had not expired, and this authority shall be to the exclusion of and in substitution for all existing authorities under section 80 of the Act (other than the existing authority to make allotments of ordinary shares of 25p each in connection with or incidental to the Company's acquisition of First Telecom Group plc pursuant to resolution 1(ii) approved at the Extraordinary General Meeting of the Company on 7 June 2000).
5. Subject to the passing of resolution 4 above, to consider and, if thought fit, to pass the following resolution as a special resolution:
THAT the directors be and are hereby given power pursuant to section 95 of the Companies Act 1985 (as amended) ("the Act") to allot for cash equity securities (as defined in section 94(2) of the Act) pursuant to the authority conferred on them in resolution 4 above as if section 89(1) of the Act did not apply to such allotment, but that this power shall be limited to:
 - a) *the allotment of equity securities for cash in connection with an issue by way of rights or other pre-emptive offers 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 of the Company 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*
 - b) *the allotment (otherwise than pursuant to paragraph a) 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.

Atlantic House
475-485 Union Street
Aberdeen
AB11 6DB
4 August 2000

By order of the Board
Philip N Allenby
Secretary

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 duly certified copy of such authority, with Lloyds TSB Registrars Scotland, 117 Dundas Street, Edinburgh, EH3 5WY so as to arrive not later than 48 hours before the time fixed for the meeting.
3. To be entitled to attend and vote at the meeting (and for the purpose of determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at 1.00 p.m. on 28 August 2000 (the specified time). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.