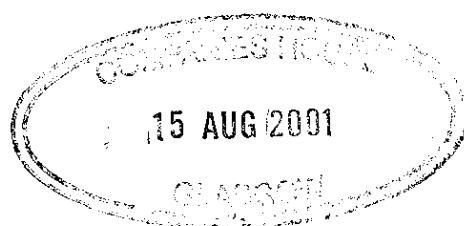


ATLANTIC TELECOM GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2001



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FORWARD-LOOKING STATEMENTS

This announcement contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act 1995 with respect to the financial condition, results of operations and business of Atlantic Telecom Group PLC and certain of its business plans and objectives. In particular, among other statements, certain statements relating to the future development of the business and trends in results of operations, including, but not limited to, contributions of various business activities to total turnover, the development of networks, the development of commercial partnerships and capital expenditure are forward-looking in nature. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in economic conditions in the United Kingdom and the European Union, levels of competition from other telecommunications companies and prices for telephony and data services in the United Kingdom, Germany and the Netherlands.

Summary

This year has been a difficult one for investors in the telecommunications industry. We have seen a complete reversal in investors' perception of the prospects for our industry both in Europe and in the United States and this has had a profound effect on share values. Despite this difficult climate, our business continues to make progress in line with, and in some cases ahead of, our plans as well as benefiting from the positive effect of reduced competition.

We have always taken a long term conservative view of the business. We have focused our capital on local access networks where competition is limited. We target a market that is large and growing and we believe strongly in the opportunities available to Atlantic, its shareholders and other stakeholders. We aim our efforts at small and medium sized businesses ("SMEs"). More than 80% of the potential customers in each of our target markets are in the hands of the incumbent operator, yet small businesses are at the heart of Western European economies.

We believe that competition can be effective and we have demonstrated this through the excellent results we have achieved in our more developed networks. Our competitive advantage lies in our bundled service approach and the simplicity of our packaging, which gives SMEs a value-based service for a single subscription. We also obtain competitive advantage through relationships with our business partners, which can add further value for our customers. Completing our networks was fundamental to our ability to compete in this market and that is why we have moved so rapidly to consolidate our position in our key markets. We now have significant local access networks in Germany, the Netherlands and parts of the UK, allowing us to maximise the opportunity.

We have built more access infrastructure this year than in the previous three years put together. Now we are focusing on exploiting our sales and distribution network to win customers in our core market place. At 31 March 2001, we had invested some £316 million in fixed assets before depreciation, and we had cash and investments of nearly £135 million including amounts in escrow of £26.6 million. Net assets were approximately £522 million. Our balance sheet debt to equity ratio at less than one means we have raised more equity than debt in the capital markets and are therefore much less geared than many of our competitors. However our equity market capitalisation is today approximately £30 million and the market value of the Company's high yield debt securities is approximately £35 million. Your Board is acutely aware of the need to remove these enormous discounts and deliver value to shareholders and holders of our high yield debt securities. We are taking a proactive approach to this important issue and are leading discussions with certain of our stakeholders. As part of this process the Group's financial advisers, Close Brothers, are considering ways in which we might close the significant gap between the value of Atlantic, as ascribed by the market, and the value of the investment we have made in our infrastructure and customers.

Results

Against a backdrop of market turbulence, the results for the year are positive and ahead of expectations. Turnover for the year was £77.0 million, compared to £21.3 million last year, helped by the First Telecom acquisition. Significantly, the loss at the EBITDA level was £61.3 million, well within expectations, compared to £20.8 million last year when the Group was solely a UK operator. The Group operating loss for the year was £109.4 million and the loss for the year after all costs was £135.7 million, including £8.7 million in exceptional costs, the majority of the exceptional caused by the restructuring of our UK operations.

We are completely focused in ensuring that we reach a positive EBITDA position as quickly as possible. This means ensuring that our customers can produce positive operating cash flows over time and our capital investments remain targeted to achieve this. Our EBITDA losses in the fourth quarter are 35% lower than in the third quarter, and the steps we have taken to refocus the business are now beginning to bear fruit.

The results for the year are more fully covered in the Operating and Financial review set out on pages 5 to 14.

Our Strategy

Although we operate in a fast moving marketplace, our core values and strategic direction have remained broadly unchanged over the last five years. Our aim continues to be, to deliver a bundled package of services, through a direct connection, to the small business customer and the higher spending residential customer using appropriate technologies. This year we have de-emphasised our residential focus, and have increased our focus on the small business, where we achieve the best returns for our shareholders. Our operating and financial results provide tangible evidence that our long-term strategy of focusing on the SME market is the right one.

In June 2000 we acquired First Telecom Group plc which gave us an important position in Germany, a fast growing market and the largest telecommunications market in Europe. In September we moved into the Netherlands through the acquisition of 65% of Telepartner-Plus, a start up with important assets in its telecommunication and digital subscriber line ('DSL') licenses. We have moved quickly in both Germany and the Netherlands to build out our assets, and have 612 telephone exchanges equipped with our DSL technologies at 31 March 2001. This rapid progress would have been impossible to achieve in the UK due to the delayed unbundling process. Had we focused only on the UK it would have given us a significantly reduced addressable market compared to that which we now have, given the same capital spend.

Funding

This time last year my statement said "Atlantic, like all alternative telecommunications companies, will continue to need access to the capital markets over time in order to advance its plans." Faced with the fact that this was not achievable in the current climate, your Board had to make some difficult decisions.

In late 1999 and early 2000, we raised approximately £360 million in new capital, of which approximately £200 million was in high-yield debt. Our business plan, however, provided for a significant expansion of our services in Europe, focused on the small business. In the light of the changed environment in the capital markets, we acted prudently to reduce the scope of the plan. We pulled out of France and in the UK, where the unbundling process has not progressed with the speed we have seen in other markets, we took the decision to concentrate our DSL buildout solely on the Manchester area. Having advanced the network build in Germany and the Netherlands well ahead of schedule, and to a large target market, we were able to limit future network builds in those areas, steps which have allowed us to reduce our capital spend even further.

SME is the market with the greatest growth potential and higher yields and consequently, we announced in January that we would no longer actively target the residential market. This move allowed us to save approximately £30 million per annum and caused us to release 350 people in the UK. We have continued this process by announcing in early June 2001 that we were in negotiations to sell our indirect residential business, which had largely resulted from our acquisition of First Telecom last year. We remain in negotiations with a single party to sell this business. As a result of the move to exit the indirect residential business, we will make up to 300 further redundancies in the UK, largely in residential support, saving a further £35 million annually, bringing the total annualised savings, since the beginning of this calendar year, to over £65 million.

Cash-Flow

Over the last twelve months there has been much discussion about the negative cash flows of alternative telecommunications operators, but to predict Atlantic's future cash flows based on historic ones would be grossly misleading.

The significant reduction in our staff and overhead costs coupled with material capital reductions as the network build comes to an end will positively impact future cash flow. Already, we are seeing the first signs of our actions, with EBITDA losses in the fourth quarter falling from £20.4 million in quarter three to £13.2 million in quarter four, a reduction of 35%. We will see the full benefit within the current year. We have implemented a far-reaching programme to manage down our costs and we will remain vigilant to monitor our actual performance and to take whatever steps are necessary to ensure that we can reach positive EBITDA within available resources. As the customer base builds, further capital will be required in the future to maintain customer growth, as has always been the case.

Vendor Finance

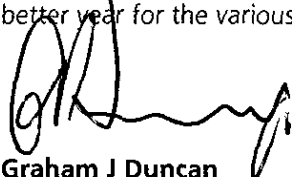
In late 1999, we secured an important facility from Marconi of up to £50 million, and at 31 March 2001 the facility remained unused. Concluding a review of the terms and conditions attached to such finance, your Board has concluded that it makes sense to acquire capital equipment from our partner Marconi, and therefore we expect to take advantage of this facility in the current financial year. In view of the fact that our DSL builds are substantially complete, and paid out of existing cash resources, the need to take up meaningful finance from Nokia is reduced in the short term. We continue to work with Nokia in a number of technical areas, particularly the development of voice over DSL which we believe will have profound implications on the cost of telecommunication services to the SME market. We hope to be able to bring voice services onto the DSL unbundled line within the current financial year.

Current Trading

Broadband access will succeed because of the strength of the business case combined with market forces. The number of competitors we see in this market is much less than it was a year ago which is already having a very positive impact on pricing as we now see little, if any, price erosion for our services. These factors can only be to our advantage. Our challenge is to recognise the dynamics of the market in which we operate, be quick to change and ensure we manage the risk so that we emerge as one of the winners in this market.

Since the year-end, we have continued to make progress in all our markets, particularly in Germany. We announced in early June that we had secured a framework agreement in Germany with Energis allowing us to provide DSL connectivity to their customers. We are working to close the sale of our residential indirect business in the UK and we hope to be able to announce the details during July. Furthermore, as we approach the end of our next quarter, a review of our progress shows that we have had a strong quarter and we have increased our direct business lines in all areas. This is especially true in Europe where 35 ISPs and carriers have signed framework agreements for over 9,300 lines, compared to 29 ISPs with 8,650 lines at 31 March. We also expect to triple the number of retail DSL SME lines this quarter in Germany, as compared against the figure at 31 March, as we begin to establish a foothold in this important market.

There remains a healthy demand for our services in Europe and the UK, as SMEs want to have choice. My team and I believe that we can make a difference. We remain upbeat about our prospects and the prospects for our industry. We look forward to advancing the business in the current financial year, which we all hope will be a better year for the various stakeholders in our business.



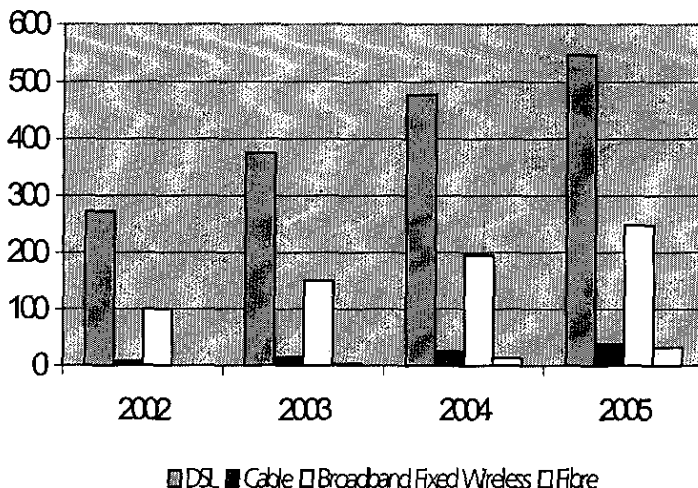
Graham J Duncan
Executive Chairman
26 June 2001

The past year has been one of significant achievement for Atlantic. We are progressing well with our stated aim: to be one of the leading providers of broadband connectivity and integrated services to the SME market.

To address the SME market for high-speed services, we are rolling out Symmetrical DSL (SDSL) in Germany and the Netherlands. SDSL allows the same downstream and upstream transmission speeds of up to 2.3 Mbs whereas Asymmetric DSL (ADSL) only provides high speed in downstream transmission. This feature makes SDSL technology better suited to business applications such as video conferencing, web hosting and corporate intranets and will therefore be attractive to businesses in the SME market.

The Group is now seeing the benefit of its rapid network rollout, particularly in Germany, Europe's largest telecommunications market, where early signs of take up for products based on our high-speed SDSL services are encouraging. It is notable that DSL, which has been launched with varying degrees of success in the United States, represents a far more attractive technology for service delivery in Germany, where the last mile infrastructure is more robust, and the competing threats from other technologies is much more distant. The potential is illustrated in the chart below.

**German Business Broadband Access
Forecast Revenues by Technology
2002-2005 (£million)**



Source: IDC, May 2001

Our network builds were virtually complete at 31 March 2001. In less than 12 months we have installed DSL equipment in 558 exchanges, or 'co-locations' in Germany, giving us an addressable market of approximately 1,000,000 SMEs in ten metropolitan areas. We have seen an equally rapid rollout in the Netherlands, where 54 co-locations have been installed, and services launched in Rotterdam and Amsterdam. Our ultimate total of 105 co-locations in the Netherlands will enable us to launch services in Utrecht and The Hague, providing an addressable footprint of 225,000 SMEs.

In the UK, where we directly connect customers using fixed radio access (FRA), our networks are nearly complete. As at the year-end, we had 148 radio base stations serving customers in Glasgow, Edinburgh, Dundee, Aberdeen and Manchester. Our national fibre network which covers 2,300 route kilometres links our local networks and provides long haul capacity to 51 points of presence (POPs) throughout the UK including most major metropolitan areas. In addition, this network allows us to deliver customised data, voice and internet services to our target customers. Our network infrastructure is particularly strong in Manchester, where our FRA network is complemented by a fibre ring which links to our national fibre network. Atlantic is supporting the communication needs of the Commonwealth Games in Manchester as a key official sponsor. This project, as well as providing the company with the potential for an unprecedented level of publicity and opportunity, will mean that we are ideally positioned to target customers in Manchester, which has the UK's largest concentration of SMEs outside London.

During the past year we have seen good growth in our business customer base in the UK, with penetration in our fixed radio access (FRA) networks reaching 6.9%, up from 6% at the half year. Atlantic is now providing business telecommunication services to over 15,000 customers in the UK and Germany, with 88,252 lines connected or pending installation.

Directly connected business customers as at 31 March 2001
(extracted from operating statistics press release, 27 April 2001)

	30 September 2000	31 December 2000	31 March 2001
Business Customer Data (UK)			
Estimated business premises passed	42,224	43,213	45,103
Business customers	2,533	3,042	3,100
Business customer lines	8,564	9,734	10,677
Penetration rate of estimated business premises passed	6.0%	7.0%	6.9%
Average lines per business customer	3.38	3.20	3.44
Business customer churn	18.95%	18.65%	14.56%
Business Customer Data (Germany and the Netherlands)			
Estimated business premises passed	N/A	N/A	301,800
Business DSL retail lines	N/A	N/A	107
Business DSL wholesale lines	N/A	N/A	282
Penetration rate of estimated business premises passed	N/A	N/A	0.13%
DSL wholesale customer lines	4,300	4,500	8,650
TOTAL DIRECTLY CONNECTED BUSINESS LINES	8,564	9,734	11,066

Our average monthly revenue per line for business FRA customers in the UK increased from £23.41 in 2000 to £25.01 in 2001. The number of lines per customer declined marginally from 3.71 in 2000 to 3.44 in 2001 resulting in a slight reduction in the average revenue per month per customer from £86.85 in 2000 to £86.13 in 2001.

Average monthly revenue per residential FRA customer in the UK was £35.46 in 2001 as compared to £38.44 in 2000 and average monthly revenue per indirect residential customer was £10.06 compared with £10.54 in 2000. These declines are due to increased competition in the residential market, particularly from resellers, and we have taken steps to downscale much of this business.

Our average monthly revenue per indirect business customer in the UK was £293.98 per customer in 2001 as compared to £552.30 in 2000. This decline is primarily due to the effect of the acquisition of First Telecom Group plc, which caused a change in customer mix. The number of indirect business customers increased significantly during the current financial year, mainly as a result of this acquisition from 1,054 customers in 2000 to 5,346 customers in 2001.

In Germany, we offer wholesale connectivity to carriers and ISPs under framework agreements that allow them to connect directly to their customers over our infrastructure. We also provide a retail focused service to SMEs where we can bundle and package the services ourselves to gain competitive advantage. We are seeing materially higher revenues from our retail SME services caused by these customers taking a higher speed data service, as compared to the wholesale customer. This is reflected in the average revenues per line. Average revenues in Germany in DSL to date have been extremely encouraging with average revenues of approximately £93 per wholesale line and £334 per retail line per month. Compared against our direct FRA service in the UK, wholesale revenues per line are more than three times that achieved from FRA with retail SME DSL revenues per line being in excess of 13 times that of an FRA business line. Total revenue from DSL was not significant during the current financial year as the services in Germany and the Netherlands were launched late in the year.

As indicated in the Chairman's report, indications of SME customer numbers in the period since the year-end have also been extremely encouraging, and full details of these will be made available after the quarter ending 30 June.

In all of our operational areas, we are focused on translating our technological advantage into customer advantage; our customers buy services, not technology, and our aim is to develop a leading position by offering integrated and innovative voice, data and internet bundled services.

Market Focused Structure

The structure of the group now reflects this focus, with our operations in each country headed up by a Managing Director. We are investing in new sales structures and support processes, and are also implementing new back office procedures to ensure that service remains a high priority.

Our wholesale teams focus on selling to carriers and ISP partners a range of products based on our network assets (network carriage, switch capacity), or our access capability in SDSL. The wholesale teams sell direct, and we use a range of marketing tools including our status as a Gold Patron member of ECTA (European Competitive Telecommunications Association), and appearances at trade shows, such as Berlin's Internet World.

Our retail approach is different. We use a number of different channels including agents and resellers, outbound telemarketing, direct marketing and web based programmes. The main route to market is through our sales teams targeting companies directly as well as potential partners/system integrators to create a joint sales approach. In the UK and Germany we now have established regional teams with responsibility for all retail channels within their region. In Germany we operate out of regional sales offices in Berlin, Munich, Dusseldorf, Cologne and Frankfurt.

Market Opportunity

Small to medium sized businesses have always been a core target for Atlantic. The SME sector remains poorly served by the market, with 80% of SME companies in our target markets still using services provided by BT, Deutsche Telekom or KPN.

The direct access technologies we use are crucial. They enable us to control the link to the customer in the local loop which is still the place to be to retain a sizeable and sustainable margin. Such technologies are extremely well suited to targeting areas with a high density of potential customers.

The opportunity is significant, with massive growth forecast over the next few years in data and Internet usage, transactional e-commerce, and the outsourcing of hosted applications.

Independent Research on Market Growth

The SME market in Germany, the Netherlands and the UK is estimated at £14.8 billion, rising to £17.5 billion by 2005

(source: IDC, April 2001)

Datamonitor forecasts that the number of SME internet accounts will increase by 84% in Germany, 89% in the Netherlands and 83% in the UK over the next five years

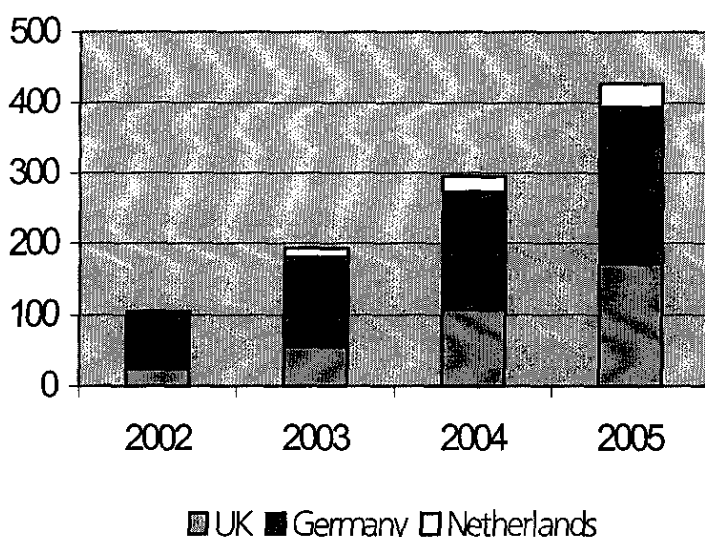
(source: Datamonitor, April 2000)

Analysis predict that the steady growth in the deployment of transactional (e-commerce enabled) sites in Western Europe will level-off at approximately 1.2 million, 13% of SMEs, in 2005

(source: Analysis, 2000)

The market is also looking forward to voice and data integration; the majority of SME customers would prefer to have voice and data from a single supplier. Atlantic has been offering voice services for six years and is ideally placed to offer packages of solutions to a market group for whom voice services are currently as important as data. Our commercial teams are therefore focusing on the development of products and services including voice over DSL (VoDSL) that will give Atlantic a competitive advantage.

Growth of Voice over DSL Lines (000s)



Source Ovum, March 2001

In general, use of internet and data services amongst SMEs is still relatively basic. Their primary requirements are the ability to:

- Connect to suppliers and customers
- Search for information on the internet
- Advertise and promote their company on their website
- Exploit additional sales channels

However, the emerging needs of this market relate very much to the changing business environment, which is becoming increasingly competitive as geographical barriers come down. They also have to change their business processes in response to pressure from customers and suppliers. In the SME market businesses who have adopted internet and data services at an early stage are now seeking:

- Fast, 'always-on' access to the internet
- Assurances that data transmission is secure
- The ability to outsource hosting of software applications, websites and IT support
- Transactional and e-commerce-enabled websites
- A means to communicate securely between multiple sites, partners, and suppliers
- Services that streamline and simplify internal processes, so that resources are focused on their core business.

Our national network in the UK and SDSL networks in Germany and the Netherlands put us in a strong position to take advantage of this market potential.

Competitive Advantage

Our competitive advantage lies in an innovative approach to the market, our focus on providing a package of services to the customer, and an entrepreneurial attitude. We have a history of packaging services in innovative ways – of ‘seeing it differently’. As a Group we have led the way in terms of offering innovative bundles of services to customers. Just one example is a package of unlimited high-speed data, and all national fixed line calls for one regular fee each month. In the UK, we add in mobile services and are able to include all costs on one bill. Although we ensure that we are competitive on price, we don’t trade on cost alone, but on providing value-added services. This not only attracts customers, but also generates a longer-term relationship, minimising churn.

Partnerships

The right partnerships deliver strength and scale while endorsing Atlantic’s approach to business. This can clearly be seen from our strategic partnership with **Marconi** in 1999, which provided us with a state-of-the-art national broadband fibre network. Over the course of the last year, the Group has concentrated on building other partnerships and alliances, which have enabled us to grow while making best possible use of our available funds:

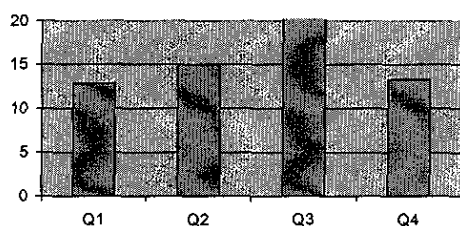
- Our £350 million acquisition of **First Telecom Group** in June 2000 gave us a significant foothold in Germany, and the potential for growth using DSL technology. Atlantic is now one of the leading DSL providers in Europe’s largest telecommunications market. First Telecom also gave us a significant indirectly connected business customer base which we continue to service prior to moving as much as possible on to direct connection supported by our national network
- In September 2000 we acquired 65% of **TelePartner Plus** in the Netherlands via a €15 million injection, giving Atlantic the potential to install DSL equipment in 105 co-locations with an addressable market of 225,000 SMEs.
- In January 2001 we agreed a fibre capacity exchange with **Carrier1**, a pan European network operator, which gave us access to 2.5 Gbs of capacity on a completed German national network. This network, coupled with the similar deal with **Metromedia Fibre Networks** (April 2000), has given Atlantic an excellent national and local fibre presence in Germany.
- A £2.5 million investment in **Host Europe plc** in February is allowing us to develop advanced webhosting solutions for our customers. Under the arrangement, Atlantic became preferred supplier to Host Europe’s 22,000 SME business customers in the UK and Germany.
- Throughout the year we have worked closely with **Nokia** to roll out DSL in Germany and the Netherlands, and we will be working with them on further technical projects during the current year.
- We have signed framework agreements with **Sonera** in the Netherlands and, since the year-end, **Energis** in Germany. Instead of building out their own networks, these major carriers will use Atlantic’s network to offer DSL services to their SME customers.
- As well as carriers, Atlantic partners with ISPs. At 31 March 2001, Atlantic had signed up 29 **partner ISPs** in Germany and the Netherlands.

Introduction

The financial results for the year ended 31 March 2001 reflect the acquisition of First Telecom Group plc on 7 June 2000. The results of First Telecom Group plc are consolidated from the date of acquisition.

During the year to 31 March 2001, the Group increased its focus on its core small and medium sized enterprise 'SME' market where it can achieve the best returns on capital. Due to this development, the Group restructured its operations resulting in an exceptional charge to the profit and loss account of £4.7 million. The benefits of cost savings which will be achieved by this restructure have started to flow through with EBITDA losses falling from £20.4 million in the third quarter of the year ended 31 March 2001 to £13.2 million in the fourth quarter. The full benefit of these savings will be reflected in the results for the financial year ending 31 March 2002.

Quarterly EBITDA losses (£million)

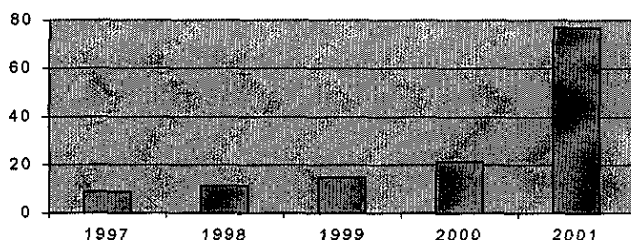


Review of Operations – Year Ended 31 March 2001 compared to Year Ended 31 March 2000

Turnover

Total Group turnover increased from £21.3 million in 2000 to £77.0 million in 2001. This increase was principally due to the acquisition of First Telecom Group plc which contributed £55.2 million to total turnover.

Total Annual Turnover Year ended 31 March (£million)

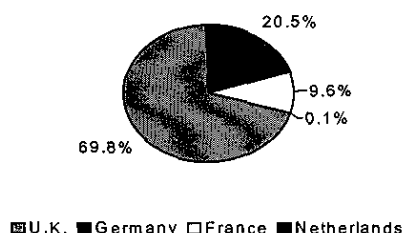


Turnover from continuing operations increased from £21.3 million to £21.8 million. This comprises revenues from telecommunications services which increased from £15.2 million in 2000 to £17.3 million in 2001 and revenues from the Group's broadband cable network which decreased from £6.1 million in 2000 to £4.5 million in 2001. The increase in revenues from telecommunications services was a result of the increase in the average number of customers directly connected to our fixed radio access networks in Scotland and Manchester and an increase in our indirect customer base. Revenues from directly connected customers increased from £7.0 million in 2000 to £8.6 million in 2001. The decrease in revenues from our broadband cable network were as a result of a decline in customer numbers from 16,074 at 31 March 2000 to 13,920 at 31 March 2001 combined with a reduction in the average revenue per customer from £28.71 in 2000 to £24.97 in 2001. This was due to increasing competition from digital packages which the Group does not provide.

Revenues from discontinued operations relate to Atlantic Telecom SA which the Group disposed of in March 2001. Atlantic Telecom SA represented the Group's interests in France and resulted from the Group's acquisition of First Telecom Group plc.

Turnover is reported by geographical segments for the year ended 31 March 2001. Prior to the acquisition of First Telecom in June 2000, the Group's entire turnover was generated within the United Kingdom. First Telecom provided telephony and internet services to SMEs, Small office, Home office customers (SoHos), and residential customers in the United Kingdom, Germany and France and was developing DSL services in Germany. The Group also invested in Telepartner Plus BV, a company developing DSL services in the Netherlands in September 2000. Turnover was generated by geographical segment as follows: £53.7 million in the United Kingdom, £15.8 million in Germany, £7.4 million in France and the balance of £0.04 million in the Netherlands.

Geographical breakdown of 2001 turnover



Operating Costs

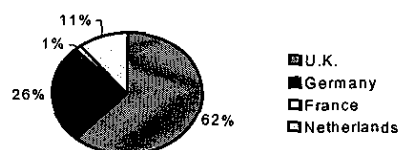
Operating costs increased from £49.7 million in 2000 to £186.5 million in 2001. This increase reflects the following movements:

- an increase in telephony expenses, mainly interconnect costs, from £7.7 million in 2000 to £53.2 million in 2001. This reflects the increase in interconnect costs primarily due to the increase in turnover associated with the Group's acquisition of First Telecom Group plc;
- a reduction in programming expenses from £4.0 million in 2000 to £3.3 million in 2001 due to the decline in the number of customers on the Group's broadband cable service;
- an increase in administrative expenses from £23.6 million in 2000 to £64.5 million in 2001, of which £23.6 million was due to the acquisition of First Telecom Group plc and the balance due to organic growth in the Group's support functions;
- selling and distribution expenses increased from £7.0 million in 2000 to £17.6 million in 2001. This was largely due to the expansion of the Group into the North of England and the re-branding of First Telecom services in the UK, Germany and France. The increased charge reflects the cost associated with the introduction of the 'atlantic' brand in these new markets.
- depreciation and amortisation increased from £7.4 million in 2000 to £48.1 million in 2001, £15.6 million of this increase relates to the amortisation of goodwill on the acquisition of First Telecom Group plc and £2.7 million relates to the depreciation of tangible fixed assets acquired. Amortisation of the network lease prepayment relating to the Group's broadband cable network lease increased by £2.7 million due to the Board's decision to reduce the estimated useful life of the network. A charge of £8.6 million resulted from the change in estimated useful life of certain tangible fixed assets and the balance of the increase in the charge relates to the increased asset base of the Group.

Capital Expenditures

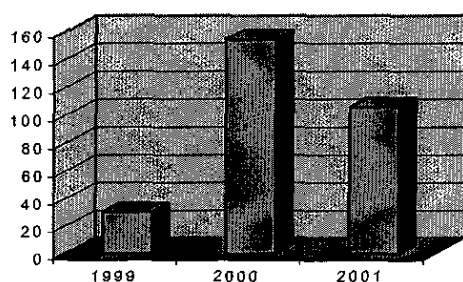
Capital expenditures funded from the Group's cash resources increased by £70.6 million from £17.8 million in 2000 to £90.6 million in 2001. The expenditure in the year to 31 March 2001 principally relates to the rollout of fixed radio access services in Manchester, equipment for the national network in the United Kingdom and DSL services in Germany and the Netherlands. The breakdown of capital expenditure by geographical segment is as follows:

United Kingdom	- £55.9 million
Germany	- £23.6 million
France	- £1.2 million
Netherlands	- £9.9 million

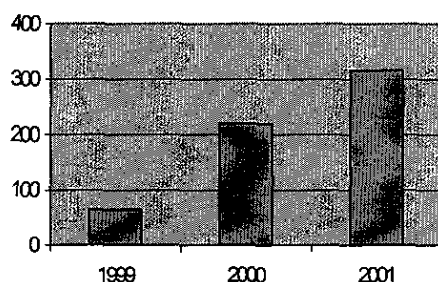
Geographical Split of Capital Expenditure

The Group also purchased £17.5 million of tangible fixed assets as part of the acquisition of subsidiary undertakings, £13.2 million in the United Kingdom, £0.7 million in Germany, £1.5 million in France and £2.1 million in the Netherlands.

A substantial proportion of capital expenditure during the year ended 31 March 2000 was financed by the issue of shares, and the use of finance leases. Gross capital expenditure for the year ended 31 March 2000 was £154.5 million, of which £118.0 million was in respect of the acquisition of the national network from Marconi and was financed by the issue of shares. Capital expenditure amounting to £19.0 million in 2000 was funded by finance leases, as compared to only £0.7 million in 2001.

**Gross Capital Expenditure
Year ended 31 March (£million)**

The Group has invested approximately £316 million in tangible fixed assets to date funded by a combination of cash, shares and finance leases.

**Cumulative Gross Capital Expenditure
Year ended 31 March (£million)****Exceptional Items**

The group had exceptional charges, after operating loss, amounting to £8.7 million. These were as follows:

- provision of £1.2 million against the Group's investment in Skyline SA following the failure to obtain licences to provide wireless local loop connectivity in France;
- provision of £4.7 million in respect of the Group's restructuring referred to above; and
- loss on disposal relating to the sale of our French operation, Atlantic Telecom SA, amounting to £2.8 million.

Net Interest Payable and Similar Charges

Net interest payable and similar charges increased from £4.9 million in 2000 to £17.5 million in 2001. This increase is principally due to the interest on senior notes increasing from £4.1 million in 2000 to £25.8 million in 2001, 2001 being their first full year in issue. This was partially offset by an increase in interest receivable and similar income from £3.7 million in 2000 to £12.4 million in 2001 as a result of the Group's increased average cash balance during the year.

Exchange Loss

The Group's exchange loss on foreign currency borrowings and deposits increased from £38,000 in 2000 to £373,000 in 2001 principally as a result of the weakness of the Euro against Sterling. The Group does not hedge against movement in the Euro exchange rate as an increasing proportion of the Group's activities are within Euro-zone countries giving the Group a natural hedge.

Review of Operations – Year Ended 31 March 2000 compared to Year Ended 31 March 1999**Turnover**

Total turnover increased from £14.9 million in 1999 to £21.3 million in 2000. This increase was a result of the expanded area of operations primarily due to the expansion of telecommunications activities into three new markets between 1999 and 2000.

Telecommunications revenues increased from £9.3 million in 1999 to £15.2 million in 2000. This increase was due to the increase in customers of the four city based networks in operation during 2000 and the expansion of our indirect customer base. Turnover from directly connected customers increased from £3.6 million in 1999 to £7.0 million in 2000.

Revenues from Cable operations increased by 8% from £5.6 million in 1999 to £6.1 million in 2000. This was due to an increase in the average customer base in 2000 as compared to 1999.

Operating Costs

Operating costs increased from £30.8 million in 1999 to £49.8 million in 2000. This increase reflects the following:

- an increase in telephony expenses from £5.7 million in 1999 to £7.7 million in 2000. This increase was a result of the expanded activities in each of the four direct markets in 2000;
- an increase in programming expenses relating to the Group's broadband cable network from £3.4 million in 1999 to £4.0 million in 2000 in line with the increased average customer base over this period;
- an increase in administrative expenses from £13.6 million in 1999 to £23.6 million in 2000 due to the expanded activities of the Group which entered three new markets during the year ended 31 March 1999. The year ended 31 March 2000 reflects a full year of operations in the four direct markets. Our indirect business also expanded over this period resulting in additional expenses being incurred;
- selling and distribution activities increased from £3.5 million to £7.0 million as a result of the factors mentioned above;
- depreciation and amortisation increased from £4.5 million in 1999 to £7.4 million in 2000 as a consequence of the increased asset base of the Group.

Interest

Net interest payable and similar charges increased from £0.4 million in 1999 to £4.9 million in 2000. This increase is principally due to the interest of £4.1 million on senior notes which were issued in February 2000, £1.8 million of finance costs relating to the cancellation of a senior debt facility and an increase in finance charges in respect of finance leases of £1 million. These increases were partially offset by an increase in interest receivable and similar income from £0.9 million in 1999 to £3.7 million in 2001 as a result of the Group's increased average cash balance during the year.

Capital Expenditures

Capital expenditures financed out of the Group's cash resources decreased by £8.1 million from £25.9 million in 1999 to £17.8 million in 2000. This was due to a substantial proportion of capital expenditure being financed by the issue of shares as noted below, and the use of finance leases during this period.

Gross capital expenditure increased from £30.5 million in 1999 to £154.5 million in 2000 principally due to the acquisition of the national network for £118.0 million, which was financed by the issue of shares as part of our strategic partnership with Marconi.

Liquidity and Capital Resources

The Group has generated operating and net losses for each of the three years ended 31 March 1999, 2000 and 2001. These losses have been attributable to the start up costs associated with the development of our telecommunications business, the rollout of our networks required to commence service in our current markets and the operating costs of the business. The cash needs have been funded through internally generated funds, public equity offerings, bank debt, finance leases, vendor financing and an offering of senior notes.

The Group generated negative cash flows before management of liquid resources of £180.4 million in 2001 compared to positive cash flows before management of liquid resources of £305.6 million in 2000 and £7.0 million in 1999. Negative cash flows from operating activities were £60.8 million in 2001 and £20.1 million in 2000 and £9.7 million in 1999.

The negative cash flow before management of liquid resources in 2001 was due to:

- operating losses;
- returns on investment and servicing of finance amounting to £15.6 million;
- capital expenditure and financial investment of £90.6 million relating to the rollout of fixed radio access services in Manchester and SDSL services in Germany and the Netherlands; and
- financing costs of £13.4 million, principally relating to the repayment of borrowings and finance leases.

The positive cash flows before management of liquid resources in 2000 and 1999 were as a result of:

- operating losses;
- returns on investment and servicing of finance amounting to £9.1 million in 2000 and £0.4 million in 1999;
- capital expenditure and financial investment of £17.8 million in 2000 and £25.9 million in 1999;
- financing cash inflows of £353.0 million in 2000, principally relating to issue of shares (£162.4 million net of expenses), the issue of senior notes and warrants (£196.1 million) and the repayment of finance leases;
- financing cash inflows of £43.0 million in 1999, primarily due to an issue of shares of £46.9 million, net of expenses, and repayments in respect of finance leases.

At 31 March 2001 the Group was contractually committed to make capital expenditures of £30.3 million mainly in relation to the Group's rollout of SDSL services in Germany and the Netherlands and the national network in the United Kingdom. The Group expects to have significant capital requirements for the foreseeable future. Such requirements may vary significantly and in particular will depend on our customer penetration rate, the speed and scope of our network rollout and the cost of network and customer equipment.

Borrowings as at 31 March 2001 totalled £217.0 million, (2000 - £213.0 million) of which £190.0 million relates to the senior notes which mature in 2010.

Under the terms of its high yield bonds, the Group has covenanted that not more than 25% of its total debt will be secured debt, such as lease finance and vendor finance facilities. The Group currently has an undrawn vendor finance facility of £50 million from Marconi under a framework agreement entered into at the end of 1999. The maximum amount the Group could draw under its bond covenants, together with its cash resources provide the Group with sufficient working capital to meet its present needs.

ATLANTIC TELECOM GROUP PLC

BOARD OF DIRECTORS

Graham J Duncan

Executive Chairman

Graham J Duncan (50) is the founder of Atlantic Telecom Group PLC and as Executive Chairman, a position he has held since January 1995, is responsible for the Group's overall strategy and development.

A qualified Chartered Accountant, Mr Duncan was Finance Director and co-founder of Aberdeen Cable Services Limited, one of the first broadband Cable TV companies in the UK. In 1991 he founded Devanha Group plc, a holding company for a number of UK Cable TV interests and was that company's Chairman. The Group refocused its interests on telecommunications during 1995, and was renamed Atlantic Telecom Group PLC in August 1996.

Mr Duncan is Non-Executive Chairman of Host Europe plc, a company in which Atlantic has a 6.4% stake.

Gordon B Sleigh

Group Managing Director

Group Managing Director, Gordon B Sleigh (53), has responsibility for the implementation of the policy and strategy of the Group. He has worked in the cable and telecommunications industry for over 25 years with early experience gained in narrowband systems with Rediffusion Consumer Electronics Ltd. He joined Aberdeen Cable Services Ltd in 1984 and was appointed Sales and Marketing Director in 1988, before being appointed Group Managing Director in 1991.

Alisdair D McKenzie

Group Finance Director

As Group Finance Director Alisdair D McKenzie (39) has responsibility for Group finance, support services, legal & regulatory affairs and IT. He qualified as a Chartered Accountant in 1985 and in 1988 joined Aberdeen Cable Services Ltd as Finance Manager. He became Commercial Manager with responsibility for Finance in 1990 and in September 1991 was appointed Group Finance Director.

Martin L Beard

Chief Operating Officer

Martin L Beard (38), has been on Atlantic's board since 1995 and was appointed Chief Operating Officer in January 2001, with overall responsibility for all Group operating companies in the UK, Germany and the Netherlands. He has worked in the sales and marketing areas of the cable and telecommunications industry since 1985, joining Coventry Cable (then owned by the Group) as general manager in January 1992. His previous positions on Atlantic's board have been Group Sales and Marketing Director and Group Commercial Director.

Edward J Hornsby

Group Technical Director

Edward J Hornsby (54), was one of the founders of Atlantic Telecommunications Ltd, and has worked in the telecommunications industry for over 30 years, both in the UK and overseas. Mr Hornsby was appointed to the board of Atlantic in August 1996. He has responsibility for network development, network construction and special projects requiring technical solutions such as Atlantic's position as Official Communications Sponsor for the 2002 Commonwealth Games.

ATLANTIC TELECOM GROUP PLC

BOARD OF DIRECTORS

John H Maxwell

Non Executive Deputy Chairman

John Maxwell (56), was appointed Non-Executive Deputy Chairman of Atlantic on 13 June 2000. Mr Maxwell has been Director General of the Automobile Association since 1996, 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 the Chairman of Wellington Underwriting plc.

Andrew A Laing

Non Executive Director

Andrew A Laing (48) was appointed a Non-Executive Director in December 1994. Mr Laing is Chief Operating Officer of Aberdeen Asset Management PLC, a listed investment management company based in Aberdeen. He joined Aberdeen Asset Management in 1986, after working for Hodgson Martin in Edinburgh and previously practising law in Glasgow.

Damian H Reid

Non Executive Director

Damian Reid (38) 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 Marconi'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.

Board of Directors

Executive Directors

Graham J Duncan	Executive Chairman
Gordon B Sleigh	Group Managing Director
Alisdair D McKenzie	Group Finance Director
Martin L Beard	Chief Operating Officer
Edward J Hornsby	Group Technical Director

Non-Executive Directors

John H Maxwell	Non-Executive Deputy Chairman
Andrew A Laing	Non-Executive Director
Damian H Reid	Non-Executive Director

Audit Committee

John H Maxwell	Chairman
Andrew A Laing	
Damian H Reid	

Remuneration Committee

John H Maxwell	Chairman
Andrew A Laing	
Damian H Reid	

Nomination Committee

Damian H Reid	Chairman
John H Maxwell	
Andrew A Laing	

Company Secretary

Philip N Allenby

The directors present their report together with financial statements for the year ended 31 March 2001.

Review of Business Activities

The Group is principally engaged in the development and operation of telecommunications systems and services in the United Kingdom, Germany and the Netherlands and the operation of a cable network in Aberdeen. 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 Review and Financial Review on pages 5 to 14.

Results and Dividends

The results for the Group for the year are shown in the Profit and Loss Account on page 33. In view of the deficit on reserves the directors cannot recommend the payment of a dividend.

Directors

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

	Ordinary Shares		Ordinary Share Options	
	31.03.01	01.04.00*	31.03.01	01.04.00*
Graham J Duncan	8,000,999	8,000,999	578,430	-
Gordon B Sleigh	409,337	409,337	474,373	108,253
Alisdair D McKenzie	2,500	2,500	473,611	179,795
Edward J Hornsby	227,584	227,584	466,786	177,571
Martin L Beard	18,750	3,750	469,692	177,571
Andrew A Laing	10,000	6,250	-	-
John H Maxwell	15,000	-	-	-
Damian Reid	10,000	-	-	-

* as at 01.04.00 or date of appointment if later.

Further information with regard to options is contained within the Report on Remuneration on page 25.

In the period between 31 March 2001 and 25 June 2001, there were no changes in these holdings.

On 7 June 2000, Mark W Daeche and Paul J Salem were appointed to the Board. On 22 January 2001, Paul J Salem resigned from the Board and on 16 February 2001, Mark W Daeche resigned from the Board.

On 13 June 2000 Nicholas Berry resigned from the Board. 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. All directors are subject to re-election at least once every three years in accordance with the Company's Articles of Association and the recommendations of the Combined Code.

Gordon B Sleigh, Martin L Beard, and Damian H Reid retire by rotation and, being eligible, offer themselves for re-election. Gordon B Sleigh and Martin L Beard have one year rolling service contracts. Further information on Directors can be found on pages 15 and 16.

Statement of Directors' Responsibilities

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

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

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

Substantial Interests

In addition to the directors holdings, at 25 June 2001 the Company had been notified of the following interests in 3% or more of the share capital of the Company:

Name	Number	%
Marconi Corporation plc	41,454,561	19.43
Morgan Stanley Capital Partners III Inc.	10,190,038	4.78
The Prudential Assurance Company Ltd	6,569,110	3.07

Corporate Governance

The Company is committed to applying the highest principles of Corporate Governance.

Compliance

The Company has complied throughout the year with the Code provisions as set out in section 1 of the Combined Code except that until 13 June 2000, 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.2.1, B.2.2 and D.3.1 of the Combined Code. On 13 June 2000, John H Maxwell, was appointed Non Executive Deputy Chairman, and Paul J Salem and Damian H Reid were appointed as non-executive directors. Paul J Salem subsequently resigned on 22 January 2001. All committees now consist entirely of non-executive directors, the majority of whom are independent. Under provision B.2.1 of the Combined Code, the Remuneration Committee should consist entirely of independent non-executive directors. Although this committee consists entirely of non-executive directors, Damian H Reid is not considered to be independent therefore the company does not comply with this provision.

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.

Directors and Board Balance

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, which is reviewed annually. Amongst the matters reserved to the Board for decision are: strategic policy, acquisitions and disposals, approval of budgets, investments or capital projects above a defined limit, new Group borrowing facilities and significant changes to employee benefit schemes. Management supply the Board with appropriate and timely information and the directors are free to seek any further information they consider necessary.

The Board now consists of five executive directors, who hold key operational positions in the Group and three non-executive directors, who bring a breadth of knowledge and experience to the Group.

Graham J Duncan, Executive Chairman, is responsible for the effective operation of the Board and for working with the executive team to develop the overall strategy of the Group. He also maintains close links with major shareholders and financial institutions. Gordon B Sleigh, Group Managing Director, is primarily responsible for the implementation of the policy and strategy agreed by the Board. Martin L Beard, Chief Operating Officer, Alisdair D McKenzie, Group Finance Director and Edward J Hornsby, Group Technical Director are responsible for the operational management, financial management and technical development of the Group, respectively.

Of the three non-executive directors, John H Maxwell and Andrew A Laing are considered by the Board to be independent. Although the executive directors include the Chairman, the appointment of John H Maxwell as Non-Executive Deputy Chairman and Senior Independent Director provides a strong and independent presence on the Board, which ensures a balance of power and authority. There is an established procedure whereby any director wishing to do so, in the furtherance of his duties, may take independent professional advice at the Company's expense. All directors also have direct access to the advice and services of the Company Secretary.

Directors' Interests in Significant Contracts

Damian H Reid has declared to the Board that he is to be regarded as interested in any contract which the Company, or any of its subsidiaries, has entered or will enter into with Marconi Corporation plc or any of its subsidiaries. *No other 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.* All contracts with Marconi Corporation plc are negotiated on an arms length basis.

Board Committees

The Board has established three committees comprising exclusively the non-executive directors John H Maxwell, Andrew A Laing and Damian H Reid.

Audit Committee

The Audit Committee, of which John H Maxwell is Chairman, has written terms of reference which deal with its authority and duties. Its duties include reviewing the systems of internal control including scope and work of internal audit and financial reporting, accounts and interim reports. It also reviews the relationship with external auditors including the consideration of its independence, objectivity, quality, scope and cost effectiveness. 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. It also provides a forum through which both internal and external auditors report to the Board. The Audit Committee meets not less than four times a year.

Nomination Committee

This committee has been established to regularly review the Board structure, size and composition and makes recommendations to the Board on all new appointments. Damian H Reid is Chairman of the Nomination Committee.

Remuneration Committee

The Remuneration Committee, of which John H Maxwell is Chairman, reviews and makes recommendations on matters relating to the remuneration of executive directors. It is also responsible for approving the grant of share options under the Group's various share option schemes.

Directors Remuneration

The members of the Remuneration Committee are detailed on page 17.

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. 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 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, Group Managing Director and Group Finance Director.

The Board's Report on Remuneration is on pages 23 to 26. 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 maintains an active dialogue with institutional shareholders *through individual meetings with senior management and in participation in conference calls* relating to press releases and results announcements.

The AGM is used to communicate with private investors and they are encouraged to participate. In addition, press releases, including the release of quarterly financial information, and the Group's website are used as other means of communication with shareholders. The Chairman of the Audit and Remuneration Committees is 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.

Shareview

Our registrars, Lloyds TSB Registrars Scotland, have introduced a service to provide shareholders with online internet access to details of their shareholdings, including recent movements in the number of shares held.

The service is

- ◆ Secure - data transferred to shareholders is encrypted and other internet users cannot gain access to shareholders account without their personal user identification (ID) and personal identification number (PIN);
- ◆ Free - as long as shareholders have a computer and access to the internet;
- ◆ Easy to use – shareholders just need a user ID and PIN to log on.

To register for the service please go to www.shareview.co.uk

Shareholders will need their shareholder reference, which can be found on their share certificate (if not please phone our registrar on 0870 601 5366) and they will be asked to select a PIN. A user ID will then be posted out.

A visit to www.shareview.co.uk will also provide shareholders with more details of the service, practical help and extensive information on other share registration matters.

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 19, and that of the auditors on page 29.

Going Concern

After making inquiries, the directors confirm that, having reviewed the Group's budget and forecasts for 2001 and 2002, they consider that the Group has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Internal Control and Risk Management

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

Following publication of guidance for directors on internal control *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance), the Board has established a formal process for identifying, evaluating and managing the significant risks faced by the Group. This process was fully implemented in March 2001 and remained in place up to the date of approval of the annual report.

The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and formalised the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. The Company operates a management structure with clear delegated authority levels and clear functional reporting lines and accountability. An internal audit function has been established to objectively examine, evaluate and report on the adequacy and effectiveness of the internal control environment. The Audit Committee considers reports from internal and external audit on the system of internal control and discusses with management the actions taken on areas for improvement identified in these reports.

Internal Control and Risk Management continued

The directors are responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks were formally identified and assessed as part of a high-level business risk assessment. Executive directors and senior managers representing all areas of the business participated in risk identification interviews and workshops facilitated by internal audit and senior management with the assistance of external consultants. There is an ongoing process to improve the extent to which internal control and risk management is embedded into the day to day operations of the business. Plans are in place to implement a process of control self-assessment and hierarchical reporting throughout the organisation to provide for a documented and auditable trail of accountability. These procedures will be rolled out across Group operations and provide for successive assurances to be given at increasingly higher levels of management and, finally, to the Board. This process will be facilitated by internal audit and senior management, which will also provide a degree of assurance as to the operation and validity of the system of internal control. Planned corrective actions will be independently monitored for timely completion.

The processes used by the Board to review the effectiveness of the system of internal control include the following:

- The Board reviews risks on a regular basis. This is formalised in a Group risk register which documents the key risks to the business, the controls in place to manage these risks and an assessment of the effectiveness of these controls and actions to improve controls where necessary.
- The Audit Committee reviews the effectiveness of the risk management process. The Company has an internal audit function and its scope of work, authority and resources are reviewed by the Audit Committee.
- The Board receives regular reports on all financial and operational matters. The effectiveness of these reports is continually monitored and improved to meet business needs.

Report on Remuneration

The current members of the remuneration committee are John H Maxwell (Chairman), Andrew A Laing and Damian H Reid.

The Remuneration Committee has written terms of reference in accordance with which it monitors, reviews and determines on behalf of the Board remuneration packages for the executive 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 (including benefits in kind);
- performance related bonuses;
- pension provision;
- share option schemes;
- long term incentive scheme.

Basic annual salary (including benefits in kind)

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. The benefits in kind represent car, telephone and healthcare benefits.

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. Performance related bonuses are linked to share price performance. Account is also taken of the relative success of the different parts of the business for which the executive directors are responsible. No such bonuses have been awarded during the year.

Directors' pension arrangements

Executive directors are members of the Company pension scheme which is a defined contribution scheme. Pension contributions are based on basic annual salary. Their dependants are eligible for death in service benefits. There are no outstanding payments to the scheme.

Share Option Schemes

The Remuneration Committee is responsible for supervising all of the share option schemes and the grant of options under those schemes.

Details of the directors share options are:

		At 1 April 2000	Granted during the year	At 31 March 2001
	Scheme			
Graham J Duncan	C	-	321,350	321,350
	D	-	227,080	227,080
	E	-	30,000	30,000
		-	578,430	578,430
Gordon B Sleigh	B	108,253	-	108,253
	C	-	200,844	200,844
	D	-	130,675	130,675
	E	-	30,000	30,000
	F	-	4,601	4,601
		108,253	366,120	474,373
Alisdair D McKenzie	A	95,652	-	95,652
	B	84,143	-	84,143
	C	-	160,675	160,675
	D	-	128,540	128,540
	F	-	4,601	4,601
		179,795	293,816	473,611
Martin L Beard	A	86,956	-	86,956
	B	90,615	-	90,615
	C	-	160,675	160,675
	D	-	128,540	128,540
	F	-	2,906	2,906
		177,571	292,121	469,692
Edward J Hornsby	A	86,956	-	86,956
	B	90,615	-	90,615
	C	-	160,675	160,675
	D	-	128,540	128,540
		177,571	289,215	466,786

Schemes	Exercise Price	Exercise Period
A – Executive Share Option Scheme 1995 (first grant)	115p	30 March 1998 - 30 March 2005
B – Executive Share Option Scheme 1995 (second grant)	154.5p	28 February 2000 - 28 February 2007
C – Long Term Incentive Scheme (LTIS)	1p	1 December 2003 - 30 November 2010
D – Company Share Option Plan (CSOP) (unapproved)	100p	1 December 2003 - 30 November 2010
E – Company Share Option Plan (CSOP) (approved)	100p	1 December 2003 - 1 December 2010
F – Save As You Earn (SAYE)	80p	1 February 2004 - 1 August 2004

Share Option Schemes continued

Exercise of options granted under the Executive Share Option Scheme 1995 (first grant) is subject to the share price exceeding 135p.

Performance criteria in relation to the Long Term Incentive Scheme and both the CSOP's specify that total shareholder return of the company must better the percentage change in the FTSE All-Share Telecommunications Services total return index over the 3 year period following the grant of the awards. In addition, the company's total shareholder return over the performance period must be such as would place it no lower than the median point of the FTSE mid-250 index.

Further details of the different share option schemes including prices and exercise periods can be found in note 19 to the financial statements.

The middle market price of the shares at 31 March 2001 was 33p. The highest price during the year was 951p and the lowest price during the year was 31p.

Directors' contracts

The executive directors have service contracts which are one year rolling contracts. This type of contract is considered best practice and is in accordance with the recommendations of the Combined Code.

Non-Executive Directors

The remuneration of the Company's non-executive directors is determined by a sub-committee of the Board comprising the Executive Chairman, Group Managing Director and Group Finance Director. Non-executive directors cannot participate in the share option schemes, are not eligible to join the pension scheme.

Details of directors remuneration

Remuneration in respect of directors was:

	Salaries and fees	Perfor- mance Related Bonuses	Benefits	Total		Pension contributions	
	2001 £'000	2001 £'000	2001 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Executive directors							
Graham J Duncan	269	-	39	308	341	35	27
Gordon B Sleigh (Highest paid director 2000) *	168	-	24	192	1,293	15	10
Alisdair D McKenzie	135	-	19	154	174	12	8
Martin L Beard	135	-	17	152	167	12	8
Edward J Hornsby	135	-	16	151	168	12	8
Mark W Daeche (Highest paid director 2001)**	381	-	18	399	-	-	-
Non-executive directors							
Nicholas Berry	-	-	-	-	30	-	-
Andrew A Laing	28	-	-	28	20	-	-
Paul J Salem	20	-	-	20	-	-	-
Damian H Reid	24	-	-	24	-	-	-
John H Maxwell	32	-	-	32	-	-	-
	1,327	-	133	1,460	2,193	86	61

* During the previous year, Gordon B Sleigh exercised 127,713 share options at an exercise price of 115p per share. The gain on exercise of share options was £1,075,000 and is included in total remuneration in that year.

** Includes a payment of £200,000 in lieu of notice under the terms of his service contract.

Environmental and Social Responsibility

The Group acknowledges the importance of its environmental and social responsibility and this area is the responsibility of Gordon B Sleigh, Group Managing Director.

The Group is introducing a number of policies and initiatives to manage its impact on the environment, in order to minimise its risk and liabilities and improve performance.

The Group intends to take part in the Department of Environment, Trade and the Regions initiative 'Making a Corporate Commitment' (MACC2), providing annual reporting on certain environmental issues.

In order to reduce levels of energy consumption associated with staff travel, the Group promotes the use of electronic communication and video conferencing amongst its offices. To reduce waste levels, the Group has also implemented recycling schemes at a number of its locations.

Wherever possible, the Group tries to locate its network equipment out of sight of residential areas using industrial sites or tall buildings and only uses masts in residential areas when other options, including site sharing, have been exhausted.

The Group continues to look at the design of the network infrastructure with a view to reducing its impact on the environment. The Group always provides notification of installations to planning authorities, and has a policy of landscaping around its installations wherever necessary within a realistic period. For example, trees are transplanted out of the growing season.

The Group believes strongly in establishing strong ties with the communities within which it operates. Atlantic will use its position as Official Communications Sponsor for the 2002 Manchester Commonwealth Games to bring the spirit of the event to communities across the UK, through a number of roadshows and community initiatives.

Localised sponsorships are also undertaken by the Group in some of its network areas, such as the recent award-winning sponsorship of the Community & Education Programme at one of Scotland's flagship arts organisations, Dundee Contemporary Arts, and the sponsorship of a children's educational club at Dynamic Earth in Edinburgh where visitors are taken on a journey through the various stages of the Earth's development. In Germany, Atlantic has also provided funding for educational charitable initiatives.

The Group also uses its sponsorship activity to support the development of SME business. An example is the support of an awards scheme for start up businesses in the Grampian region, in association with Scottish Enterprise Grampian and the local Enterprise Trusts.

Employees

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 Group intranet, newsletters and staff briefings.

The Group Savings Related Share Option Scheme (Sharesave) was launched in December 2000 and more than 35% of employees participated in the Scheme.

The Group's policies for recruitment, training, career development and promotion of employees are based on the suitability of the individual. Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. Should employees become disabled, every effort would be made to retrain them.

It is the policy of the Group 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 51 days of average supplies for the year.

Auditors

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

Share Capital

It is normal Company practice to renew annually the Board's authority to allot shares in addition to those already issued, the forthcoming Annual General Meeting on 15 August 2001 will invite shareholders to grant the Board such authority, in respect of shares up to a maximum nominal value of £19,775,205. The authority will expire on the fifth anniversary of the passing of the relevant resolution and, save in respect of any shares which may be issued pursuant to:

- the acquisition of First Telecom in June 2000 and warranties pertaining thereto; and
- any employee share scheme

directors have no intention at present of exercising this authority.

Also, in accordance with normal Company practice, a special resolution will be proposed to empower the Board to disapply statutory pre-emption rights. This simply means that the Board is allowed to allot shares 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 them to existing shareholders. It also enables 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, which prevent shares from being issued pro rata.

In addition, a special resolution will be proposed to allow the Articles of Association to be updated. The Company joined CREST (a system to facilitate the settlement of securities in uncertificated form) in February 1997, pursuant to a directors' resolution passed on 17 December 1996, and the Board considers it appropriate to update the Articles of Association in line with best practice guidelines laid down by the Institute of Chartered Secretaries and Administrators.

Finally, in accordance with the Combined Code and the Company's Articles of Association, three directors will retire by rotation and offer themselves for re-election.

For the Board

Allenby
Company Secretary

2001

We have audited the financial statements on pages 30 to 72, which have been prepared under the accounting policies set out on pages 30 to 32.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report. As described on page 19, 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 United Kingdom 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 Corporate Governance statement on page 19 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 misstatements or material inconsistencies with the financial statements.

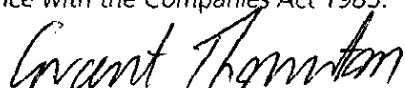
Basis of Opinion

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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2001 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
Edinburgh
26 June 2001

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Having reviewed the Group's budget and forecasts for 2001 and 2002, the directors consider that the Group has adequate resources to continue in existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

The financial statements include a reconciliation to United States Generally Accepted Accounting Principles as required under the terms of the indentures governing the Group's senior notes.

All 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. The financial statements of each company in the Group have been prepared to 31 March 2001. 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) 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.

c) 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.

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 useful economic life, whichever is the shorter. All other development costs are written off in the year of expenditure.

e) Tangible Fixed Assets and 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 their expected useful economic lives.

The periods generally applicable are:

Networks	- 5 - 20 years
Leasehold improvements	- life of the lease
Plant and equipment	- 3 - 10 years

During the year the directors revised the remaining useful life of certain tangible fixed assets. This resulted in an additional charge of £8.6 million to the current year profit and loss account, of which £2.2 million related to networks and £6.4 million related to plant and equipment.

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

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. The effect of this departure is a net charge of £373,000 to the profit and loss account as shown in note 25.

The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are dealt with through reserves.

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.

ATLANTIC TELECOM GROUP PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2001

	Note	2001 £'000	2000 £'000	1999 £'000
Turnover: continuing operations		21,840	21,307	14,924
acquisitions		<u>47,779</u>	<u>-</u>	<u>-</u>
		69,619	21,307	14,924
discontinued operation		<u>7,398</u>	<u>-</u>	<u>-</u>
Total Turnover	1	77,017	21,307	14,924
Operating costs				
Ongoing	2	(186,486)	(49,753)	(29,647)
Exceptional	2	<u>-</u>	<u>-</u>	<u>(1,121)</u>
		<u>(186,486)</u>	<u>(49,753)</u>	<u>(30,768)</u>
Operating Loss: continuing operations		(72,070)	(28,446)	(15,844)
acquisitions		<u>(32,052)</u>	<u>-</u>	<u>-</u>
		(104,122)	(28,446)	(15,844)
discontinued operation		<u>(5,347)</u>	<u>-</u>	<u>-</u>
Group Operating Loss	1	(109,469)	(28,446)	(15,844)
Exceptional Items:				
Provision for diminution in value of investment	9	(1,265)	-	-
Provision for cost of fundamental restructuring	18	(4,672)	-	-
Loss on disposal of discontinued operation	27	<u>(2,784)</u>	<u>-</u>	<u>-</u>
Total exceptional items		(8,721)	-	-
Net interest payable and similar charges	3	<u>(17,523)</u>	<u>(4,931)</u>	<u>(419)</u>
Loss on ordinary activities before taxation		(135,713)	(33,377)	(16,263)
Tax on loss on ordinary activities	5	<u>-</u>	<u>-</u>	<u>-</u>
Retained loss for the financial year	20	<u>(135,713)</u>	<u>(33,377)</u>	<u>(16,263)</u>
Loss per share	6	<u>(65.63)p</u>	<u>(31.32)p</u>	<u>(22.50)p</u>

ATLANTIC TELECOM GROUP PLC**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the year ended 31 March 2001

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

	2001 £'000	2000 £'000	1999 £'000
Retained loss for the financial year	(135,713)	(33,377)	(16,263)
Exceptional items	8,721	-	-
Depreciation and amortisation of goodwill	48,134	7,604	4,474
Net interest payable and similar charges	17,523	4,931	419
EBITDA	<u>(61,335)</u> =====	<u>(20,842)</u> =====	<u>(11,370)</u> =====

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

ATLANTIC TELECOM GROUP PLC

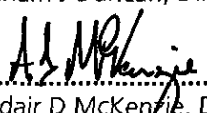
CONSOLIDATED BALANCE SHEET

As at 31 March 2001

	Note	2001 £'000	2000 £'000
Fixed assets			
Intangible assets	7	359,214	3,754
Tangible assets	8	275,986	203,101
Investments	9	2,500	855
		<u>637,700</u>	<u>207,710</u>
Current assets			
Stocks	10	9,879	4,139
Debtors: amounts falling due after more than one year	11	8,597	10,435
Debtors: amounts falling due within one year	12	31,412	13,472
Restricted Investments	13	25,207	48,701
Restricted cash deposits	13	1,366	-
Cash at bank and in hand		108,003	263,226
		<u>184,464</u>	<u>339,973</u>
Creditors: amounts falling due within one year	14	<u>(98,306)</u>	<u>(35,070)</u>
Net current assets		<u>86,158</u>	<u>304,903</u>
Total assets less current liabilities		<u>723,858</u>	<u>512,613</u>
Creditors: amounts falling due after more than one year	15	<u>(197,708)</u>	<u>(197,772)</u>
Provisions for liabilities and charges	18	<u>(4,672)</u>	<u>-</u>
Equity Minority Interest	9	<u>325</u>	<u>-</u>
		<u>521,803</u>	<u>314,841</u>
Capital and reserves			
Called up share capital	19	53,322	38,430
Share premium account	20	340,724	328,639
Reserve for shares to be issued	20	31,431	-
Merger reserve	20	261,726	-
Other reserves	20	16,663	10,690
Profit and loss account	20	<u>(182,063)</u>	<u>(62,918)</u>
Shareholders' funds	21	<u>521,803</u>	<u>314,841</u>

The financial statements were approved by the Board of Directors on 26 June 2001.


.....
Graham J Duncan, Director


.....
Alisdair D McKenzie, Director

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

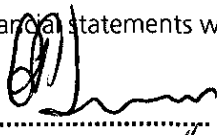
ATLANTIC TELECOM GROUP PLC

COMPANY BALANCE SHEET

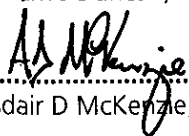
As at 31 March 2001

	Note	2001 £'000	2000 £'000
Fixed assets			
Tangible assets	8	28	63
Investments	9	682,534	205,310
		<u>682,562</u>	<u>205,373</u>
Current assets			
Debtors	12	81,555	54,650
Restricted Investments	13	25,207	48,701
Restricted cash deposits	13	1,366	-
Cash at bank and in hand		99,470	263,149
		<u>207,598</u>	<u>366,500</u>
Creditors: amounts falling due within one year	14	<u>(6,224)</u>	<u>(5,834)</u>
Net current assets		<u>201,374</u>	<u>360,666</u>
Total assets less current liabilities		883,936	566,039
Creditors: amounts falling due after more than one year	15	<u>(181,407)</u>	<u>(178,999)</u>
		<u>702,529</u>	<u>387,040</u>
Capital and reserves			
Called up share capital	19	53,322	38,430
Share premium account	20	340,724	328,639
Reserve for shares to be issued	20	31,431	-
Merger reserve	20	294,717	17,412
Other reserves	20	16,663	10,690
Profit and loss account	20	(34,328)	(8,131)
Shareholders' funds		<u>702,529</u>	<u>387,040</u>

The financial statements were approved by the Board of Directors on 26 June 2001.



.....
Graham J Duncan, Director



.....
Alisdair D McKenzie, Director

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

ATLANTIC TELECOM GROUP PLC**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended 31 March 2001

		2001	2000	1999
		£'000	£'000	£'000
Net cash outflow from operating activities	23	(60,766)	(20,103)	(9,694)
Returns on investments and servicing of finance	22	(15,571)	(9,146)	(419)
Capital expenditure and financial investment	22	(90,629)	(17,818)	(25,904)
Acquisitions	22	16	(283)	-
Management of liquid resources	22	(8,463)	(103,885)	-
Financing	22	<u>(13,404)</u>	<u>352,965</u>	<u>43,019</u>
(Decrease)/increase in cash	24	<u>(188,817)</u>	<u>201,730</u>	<u>7,002</u>

Statement of Total Recognised Gains and Losses

For the year ended 31 March 2001

	2001	2000	1999
	£'000	£'000	£'000
Loss for the financial year	(135,713)	(33,377)	(16,623)
Currency translation differences on foreign subsidiaries' assets and liabilities	91	-	-
Total recognised gains and losses relating to the year	<u>(135,622)</u>	<u>(33,377)</u>	<u>(16,623)</u>

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

For the year ended 31 March 2001

1. Analysis of Turnover, Operating Loss and Net Assets

Turnover 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 split by class of business is shown.

Turnover comprised the following:

	2001 £'000	2000 £'000	1999 £'000
Telecommunications services	72,524	15,224	9,308
Broadband cable network	4,493	6,083	5,616
	<u>77,017</u>	<u>21,307</u>	<u>14,924</u>

Activity disclosed within acquisitions relates to Telepartner Plus BV acquired on 22 September 2000 and First Telecom Group acquired on 7 June 2000, with the exception of Atlantic Telecom SA (formerly First Telecom SA, a subsidiary of First Telecom Group plc). Atlantic Telecom SA was sold during March 2001 and its activity is disclosed under discontinued operation.

Operations disclosed under acquisitions and discontinued all relate to telecommunications services.

Geographical segments

Turnover by Origin	United Kingdom Continuing £'000	United Kingdom Acquisition £'000	Germany Acquisition £'000	The Netherlands Acquisition £'000	France Discontinued £'000	Group Total £'000
Sales to third parties	21,840	31,907	15,830	42	7,398	77,017
Segment operating (loss)/profit	(72,070)	(24,408)	(7,733)	89	(5,347)	(109,469)
Segment operating assets/(liabilities)	595,370*	-*	11,254	(2,423)	-	604,201
Net (debt)/funds	(90,534)*	-*	2,501	5,635	-	(82,398)
Net assets	504,836*	-*	13,755	3,212	-	521,803

* In the United Kingdom the trade and assets and liabilities of the acquired companies were transferred into Atlantic Telecommunications Limited on 31 December 2000. Therefore the assets and liabilities of those entities cannot be determined separately at the end of the year.

Prior to the acquisition of First Telecom Group plc on 7 June 2000, the Group's turnover originated in the United Kingdom. There is no material difference between turnover by origin and turnover by destination.

1. Analysis of Turnover, Operating Loss and Net Assets continued

The loss on ordinary activities before taxation is stated after charging/(crediting):

	2001 £'000	2000 £'000	1999 £'000
Auditors' remuneration: Audit services	279	113	63
Non-audit services	234	25	245
Hire of plant and machinery	1,290	525	307
Other operating rentals - land and buildings	2,012	866	528
Depreciation of tangible fixed assets	29,379	7,274	4,144
Amortisation of network lease prepayment	2,838	165	165
Amortisation of intangible fixed assets	15,917	165	165
(Gain)/loss on disposal of tangible fixed assets	(28)	27	41
Exchange differences on foreign currency borrowings and deposits	373	38	-

In addition to the charges for non-audit services during the year ended 31 March 2001 above, the Group was charged £230,000 in relation to acquisitions and £228,000 (2000: £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.

2. Operating Costs

	Contin- uing £'000	2001 Discon- tinued £'000	Total £'000	2000 Total £'000	1999 Total £'000
Operating costs:					
Telephony expenses	47,258	5,914	53,172	7,680	5,748
Programming expenses	3,262	-	3,262	4,010	3,367
Administrative expenses	59,864	4,455	64,319	23,618	13,640
Selling and distribution expenses	15,874	1,725	17,599	7,006	3,539
Depreciation and amortisation	47,483	651	48,134	7,439	4,474
	<u>173,741</u>	<u>12,745</u>	<u>186,486</u>	<u>49,753</u>	<u>30,768</u>

The total figures for continuing operations in 2001 include the following amounts relating to acquisitions: telephony expenses £34,258,000, administrative expenses £23,648,000, selling and distribution expenses £3,742,000, depreciation and amortisation £18,397,000.

The total figures shown above for 2000 and 1999 relate to continuing operations.

Administration expenses incurred in 1999 include exceptional expenses relating to professional fees amounting to £1,121,000 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

	2001 £'000	2000 £'000	1999 £'000
Other bank loans and overdrafts	41	772	650
Finance charges in respect of finance leases	2,166	1,650	678
Finance costs of senior notes	1,988	310	-
Interest on senior notes	25,757	4,057	-
Other interest payable and similar charges	9	1,830	11
	<u>29,961</u>	<u>8,619</u>	<u>1,339</u>
Other interest receivable and similar income	<u>(12,438)</u>	<u>(3,688)</u>	<u>(920)</u>
	<u>17,523</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 14 December 1999 are included within "other interest payable and similar charges" in 2000.

4. Information regarding Directors and Employees

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

	2001 £'000	2000 £'000	1999 £'000
Wages and salaries	26,319	10,350	6,309
Social security costs	3,654	1,043	472
Pension costs	387	231	144
	<u>30,360</u>	<u>11,624</u>	<u>6,925</u>
Less: amounts capitalised in respect of network build	<u>(3,159)</u>	<u>(1,626)</u>	<u>(1,127)</u>
	<u>27,201</u>	<u>9,998</u>	<u>5,798</u>

The average number of employees of the Group during the year in the following categories was:

	2001 No.	2000 No.	1999 No.
Administration	324	190	128
Engineering	355	199	112
Sales, marketing and customer support	467	106	84
	<u>1,146</u>	<u>495</u>	<u>324</u>

Details of directors' remuneration can be found in the Report on Remuneration within the Report of the Directors on page 26.

5. Tax on Loss on Ordinary Activities

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

Unrelieved tax losses of £201 million (2000: £55 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 £135,713,000 (31 March 2000 – £33,377,000; 31 March 1999 - £16,263,000) and on weighted average number of Ordinary Shares in issue during the period of 206,793,433 (31 March 2000 – 106,559,708; 31 March 1999 – 72,273,690).

As shown in note 19, at 31 March 2001 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 reduce loss per share.

7. Intangible Fixed Assets**The Group**

	Goodwill £'000	Development Costs £'000	Licences £'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
Additions	369,549	497	163	370,209
Acquisition of subsidiary undertakings	-	-	1,256	1,256
Disposals	-	-	(102)	(102)
Exchange difference	-	-	6	6
At 31 March 2001	370,194	4,170	1,323	375,687
Amortisation				
At 1 April 1999	44	355	-	399
Provided in the year	18	147	-	165
At 31 March 2000	62	502	-	564
Provided in the year	15,664	147	106	15,917
Disposals	-	-	(8)	(8)
At 31 March 2001	15,726	649	98	16,473
Net book value at 31 March 2001	354,468	3,521	1,225	359,214
Net book value at 31 March 2000	583	3,171	-	3,754

7. Intangible Fixed Assets continued

Goodwill included above relates to the following:

	Date of acquisition	Period of amortisation	Goodwill at original cost £'000
Acquired during the year:			
First Telecom Group plc	7 June 2000	20 years	369,549
Previous acquisitions:			
Collie Communications Ltd	3 February 2000	3 years	201
Atlantic Telecommunications Ltd	31 March 1995	25 years	444
			<u>370,194</u>

Development costs carried forward from previous years 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.

Additions to development costs during the year relate to the development of the DSL networks in Germany and the Netherlands. Development costs and licences relating to DSL networks in Germany and the Netherlands and goodwill attributable to the acquisition of First Telecom Group plc are being amortised over 20 years. These assets are attributable to the market position and development of the DSL networks and reflect the period during which the directors estimate the value of the underlying business will exceed the value of the underlying assets.

8. Tangible Fixed Assets

	The Group			The Company
	Networks	Leasehold improvements, plant & equipment	Total	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 1999	47,562	16,595	64,157	268
Additions	147,711	6,765	154,476	-
Disposals	(817)	(188)	(1,005)	(12)
Transfers to subsidiary undertakings	-	-	-	(119)
Acquisition of subsidiary undertakings	-	53	53	-
At 31 March 2000	194,456	23,225	217,681	137
Additions	64,677	23,592	88,269	4
Disposals	(2,493)	(5,286)	(7,779)	(33)
Transfers	(2,737)	2,737	-	-
Acquisition of subsidiary undertakings	2,297	15,187	17,484	-
Exchange differences	305	(20)	285	-
At 31 March 2001	256,505	59,435	315,940	108
Depreciation				
At 1 April 1999	4,340	3,795	8,135	134
Charge for the year	4,703	2,571	7,274	40
Disposals	(641)	(224)	(865)	(11)
Transfers to subsidiary undertakings	-	-	-	(89)
Acquisition of subsidiary undertakings	-	36	36	-
At 31 March 2000	8,402	6,178	14,580	74
Charge for year	19,320	10,059	29,379	29
Disposals	(2,462)	(1,543)	(4,005)	(23)
Transfers	(582)	582	-	-
At 31 March 2001	24,678	15,276	39,954	80
Net book value at 31 March 2001	231,827	44,159	275,986	28
Net book value at 31 March 2000	186,054	17,047	203,101	63

8. Tangible Fixed Assets continued

Included within networks is £153 million (2000 - £118 million) relating to assets under construction which include the construction of the national network in the United Kingdom and the DSL networks in Germany and the Netherlands. These are expected to be completed within the next financial year.

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:

		The Group		The
		Leasehold		Company
	Networks	improvements,	Total	Total
	£'000	plant &	£'000	£'000
		equipment		
		£'000		
Net book value at				
31 March 2001	<u>15,600</u>	<u>6,008</u>	<u>21,608</u>	<u>7</u>
Net book value at				
31 March 2000	<u>19,448</u>	<u>7,840</u>	<u>27,288</u>	<u>31</u>
Depreciation charge for the				
year	<u>3,848</u>	<u>3,362</u>	<u>7,210</u>	<u>24</u>

9. Fixed Asset Investments**The Group**

	Other Investments £'000
Cost	
At 1 April 1999	-
Additions	<u>855</u>
At 31 March 2000	855
Additions	<u>2,910</u>
At 31 March 2001	<u>3,765</u>
Provisions	
At 1 April 1999 and 1 April 2000	-
Provided in year	<u>(1,265)</u>
At 31 March 2001	<u>(1,265)</u>
Net book value at 31 March 2001	<u>2,500</u>
Net book value at 31 March 2000	<u>855</u>

The Company

	Investment in Group Undertakings £'000	Other Investments £'000	Total £'000
Cost			
At 1 April 1999	51,434	-	51,434
Additions	<u>153,271</u>	<u>855</u>	<u>154,126</u>
At 31 March 2000	204,705	855	205,560
Additions	<u>501,129</u>	<u>2,910</u>	<u>504,039</u>
At 31 March 2001	<u>705,834</u>	<u>3,765</u>	<u>709,599</u>
Provisions			
At 1 April 1999 and 1 April 2000	(250)	-	(250)
Provided in year	<u>(25,550)</u>	<u>(1,265)</u>	<u>(26,815)</u>
At 31 March 2001	<u>(25,800)</u>	<u>(1,265)</u>	<u>(27,065)</u>
Net book value at 31 March 2001	<u>680,034</u>	<u>2,500</u>	<u>682,534</u>
Net book value at 31 March 2000	<u>204,455</u>	<u>855</u>	<u>205,310</u>

9. Fixed Asset Investments continued

Additions to investment in Group undertakings for the year ended 31 March 2001 relate to the acquisition of First Telecom Group plc and as a result of capitalisation of inter-company debts with subsidiary undertakings the investment in Atlantic Telecommunications Limited has increased.

During the year ended 31 March 2001, the entire trade and assets of the subsidiary undertakings of First Telecom Group plc were transferred to Atlantic Telecommunications Limited at their book value. Both companies are ultimately wholly owned subsidiary undertakings of Atlantic Telecom Group PLC. No adjustment has been made to the carrying value of the Company's investment in individual subsidiary companies. This represents a departure from accounting principles, which require assets to be written down to the lower of cost and net realisable value. If an adjustment had been made, it would require a write-off in relation to First Telecom Group plc through the Company profit and loss account. As there has been no overall loss to the Group because the trade and assets are retained in another subsidiary that is wholly owned by the company, the directors consider that this policy is necessary in order that the financial statements may give a true and fair view.

Additions to investment in Group undertakings for the year ended 31 March 2000 relate to the following:

	£'000
Faststill (Jersey) Ltd	122,040
Collie Communications Ltd	231
Increase in Share Capital in Atlantic Telecom Holdings Ltd	31,000
	<u>153,271</u>

During the year ended 31 March 2000, the Group formed a strategic partnership with Marconi Corporation plc. The strategic partnership included the provision to the Group of a 20 year agreement for the exclusive use and maintenance of a dedicated pair of fibres over a broadband fibre optic network together with the benefit of contractual arrangements for the provision of the associated equipment and software to enable the fibre to be "lit". Faststill (Jersey) Ltd was the vehicle through which the assets were transferred. The assets were subsequently assigned from Faststill (Jersey) Ltd to Atlantic Telecommunications Ltd. Faststill (Jersey) Ltd is now dormant.

Share capital of Atlantic Telecom Holdings Limited was increased as a result of the capitalisation of inter-company debts with subsidiary undertakings.

The Group also acquired a 65% interest in Telepartner Plus BV for a consideration of £9,142,000 through First Telecom BV, a company registered in the Netherlands and a subsidiary of Atlantic Telecom Group PLC. The minority interest of £325,000 in the balance sheet relates to Telepartner Plus BV.

The Group disposed of its French operations through the sale of Atlantic Telecom SA. The shares in Atlantic Telecom SA were also held directly by First Telecom BV.

Other investments represent a 6.4% interest in Host Europe plc and a 15% shareholding in Skyline SA. The Group acquired the interest in Host Europe plc for a consideration of £2,500,000 in cash and increased its holding in Skyline SA from 10%, which was acquired during the year ended 31 March 2000 (£440,000 in cash and £415,000 in kind) to 15% for a consideration of £410,000 in cash. The investment in Skyline was fully provided for during the year following the failure to obtain licences to provide wireless local loop connectivity in France.

Full details of all Group companies and their countries of incorporation are set out on page 78.

ATLANTIC TELECOM GROUP PLC**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2001

10. Stocks

	The Group 2001 £'000	The Group 2000 £'000
Consumable stores	511	613
Network equipment	<u>9,368</u>	<u>3,526</u>
	<u>9,879</u>	<u>4,139</u>

11. Debtors: Amounts falling due after more than one year

	The Group 2001 £'000	The Group 2000 £'000
Network lease prepayment	<u>8,597</u>	<u>10,435</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 its estimated remaining useful economic life of four years (see note 32).

12. Debtors: Amounts falling due within one year

	The Group 2001 £'000	The Group 2000 £'000	The Company 2001 £'000	The Company 2000 £'000
Trade debtors	10,322	2,484	-	-
Amounts due from subsidiary undertakings	-	-	80,258	53,534
Other debtors	7,744	3,170	756	293
Prepayments and accrued income	<u>13,346</u>	<u>7,818</u>	<u>541</u>	<u>823</u>
	<u>31,412</u>	<u>13,472</u>	<u>81,555</u>	<u>54,650</u>

13. Current Asset Investments

	The Group	The Group	The	The
	2001	2000	Company	Company
	£'000	£'000	2001	2000
			£'000	£'000
Restricted investments – Sterling	9,612	18,690	9,612	18,690
Restricted investments – Euro	<u>15,595</u>	<u>30,011</u>	<u>15,595</u>	<u>30,011</u>
	<u>25,207</u>	<u>48,701</u>	<u>25,207</u>	<u>48,701</u>

Restricted investments and restricted cash are held in escrow by Bankers Trust Company, an independent agent, to meet interest payments which fall due in July 2001 and January 2002 on the unsecured senior notes. The investments comprise UK and European Listed Government Bonds.

The investments mature as follows:

	Sterling	Euro	Total
	Investments	Investments	£'000
	£'000	£'000	
June 2001	4,892	7,839	12,731
December 2001	<u>4,720</u>	<u>7,756</u>	<u>12,476</u>
	<u>9,612</u>	<u>15,595</u>	<u>25,207</u>

14. Creditors: Amounts falling due within one year

	The Group	The Group	The	The
	2001	2000	Company	Company
	£'000	£'000	2001	2000
			£'000	£'000
Unsecured loan notes	-	22	-	22
Bank term loan – unsecured	-	400	-	400
Other term loan – unsecured	520	-	-	-
Bank overdrafts – unsecured	600	856	-	-
Trade creditors	34,262	12,650	222	671
Social security and other taxes	1,315	328	46	41
Other creditors	28,435	5,646	13	-
Accruals and deferred income	23,294	9,132	5,931	4,686
Amounts due under finance leases	9,880	6,036	12	14
	<u>98,306</u>	<u>35,070</u>	<u>6,224</u>	<u>5,834</u>

Amounts due under finance leases are secured on the assets to which they relate.

Amounts due under extended credit terms with suppliers are included in other creditors.

The bank term loan and the unsecured loan notes were repaid during the year.

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

	The Group	The Group	The	The
	2001	2000	Company	Company
	£'000	£'000	2001	2000
			£'000	£'000
Unsecured senior notes due 2010	189,673	186,585	189,673	186,585
Less: deferred arrangement costs	(8,266)	(7,907)	(8,266)	(7,907)
	<u>181,407</u>	<u>178,678</u>	<u>181,407</u>	<u>178,678</u>
Bank term loan	-	300	-	300
Other term loan	3,080	-	-	-
Amounts due under finance leases	<u>13,221</u>	<u>18,794</u>	<u>-</u>	<u>21</u>
	<u>197,708</u>	<u>197,772</u>	<u>181,407</u>	<u>178,999</u>

Unsecured Senior Notes due 2010

The Group has 75,000 Sterling Notes and 200,000 Euro Notes in issue. Each Sterling Note consists of £1,000 principal amount with a yield to maturity of 13.25%. Each Euro Note consists of €1,000 principal amount with a yield to maturity of 13%. The unsecured senior notes mature on 15 January 2010. Interest accrues bi-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.

The Group issued 75,000 Sterling Units consisting of one Sterling Note and one Sterling Warrant and 200,000 Euro Units consisting of one Euro Note and one Euro Warrant. Further details of the warrants are disclosed in note 19. On 29 January 2000, the notes and warrants became separately transferable. The notes and warrants are listed on the Luxembourg Stock Exchange. 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.

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.

The interest rate exposure of the financial assets of the Group as at 31 March 2001 was: -

	Interest Rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
2001				
Sterling financial assets	42,530	7,772	9,612	59,914
Euro financial assets	62,905	6,153	-	69,058
Deutschemark financial assets	307	2,194	-	2,501
Dutch Guilder financial assets	-	3,103	-	3,103
	<u>105,742</u>	<u>19,222</u>	<u>9,612</u>	<u>134,576</u>
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>

	Fixed Rate Financial Assets	
Currency	Weighted Average Fixed Interest Rate %	Weighted Average Period for which Rate is Fixed
2001		
Sterling financial assets	6.1	3 months
Euro financial assets	4.8	3 months
Deutschemark financial assets	3.1	1 month
2000		
Sterling financial assets	6.1	1 month
Euro financial assets	6.1	1 year

16. Financial Instruments continued

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 six months (2000: one year).

The interest rate exposure of the financial liabilities of the Group as at 31 March 2001 was: -

	Fixed £'000	Interest Rate Floating £'000	Total £'000
2001			
Sterling financial liabilities	92,392	4,200	96,592
US Dollar financial liabilities	-	280	280
Euro financial liabilities	117,964	-	117,964
Deutschemark financial liabilities	-	1,164	1,164
French Franc financial liabilities	-	974	974
	<u>210,356</u>	<u>6,618</u>	<u>216,974</u>
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>

Currency	Fixed Rate Financial Liabilities	
	Weighted Average Fixed Interest Rate %	Weighted Average Period for which Rate is Fixed in Years
2001		
Sterling financial liabilities	12.1	8 years
Euro financial liabilities	13.0	9 years
2000		
Sterling financial liabilities	11.9	9 years
Euro financial liabilities	13.0	10 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. In order to mitigate any liquidity risk that it may face, it is the Group's policy to maintain sufficient committed facilities to meet its foreseeable needs. The Group currently has an undrawn vendor finance facility of £50 million from Marconi under a framework agreement entered into at the end of 1999.

16. Financial Instruments continued**Maturity of Financial Liabilities**

The Group's financial liabilities analysis at 31 March 2001 is set out below:

	The Group	The Group	The	The
	2001	2000	Company	Company
	£'000	£'000	2001	2000
			£'000	£'000
Within one year:				
Unsecured loan notes	-	22	-	22
Bank overdraft	600	856	-	-
Bank term loan	-	400	-	400
Other Term loan	520	-	-	-
Finance leases	9,880	6,036	12	14
After one and within two years:				
Bank term loan	-	300	-	300
Other Term loan	853	-	-	-
Finance leases	5,608	5,944	-	21
After two and within five years:				
Other Term loan	2,227	-	-	-
Finance leases	7,613	12,462	-	-
After five years:				
Senior Notes	189,673	186,585	189,673	186,585
Finance leases	-	388	-	-
	<u>216,974</u>	<u>212,993</u>	<u>189,685</u>	<u>187,342</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.

The following table shows the Group's net currency exposure that give rise to those exchange gains and losses, which are taken to the profit and loss account. Such exposure comprises the monetary assets and monetary liabilities of the Group that are not denominated in the operating or functional currency of the operating company involved.

Net Foreign Currency Monetary Assets/(Liabilities)	2001	2000
	£'000	£'000
US Dollar	(15,858)	(11,172)
Euro	(51,438)	58,537
Deutschemark	(1,164)	-
French Franc	<u>(974)</u>	<u>-</u>

16. Financial Instruments continued**Fair Values of Financial Instruments**

The following methods and 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 at 31 March 2001 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:

	2001		2000	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Unsecured senior notes – Sterling	71,709	22,500	71,047	72,000
Unsecured senior notes – Euro	117,964	37,235	115,538	117,213
	<u>189,673</u>	<u>59,735</u>	<u>186,585</u>	<u>189,213</u>

17. Deferred Taxation**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 2000	230	951	(1,181)	-
Provided during the year	<u>(48)</u>	<u>(44)</u>	<u>92</u>	<u>-</u>
At 31 March 2001	<u>182</u>	<u>907</u>	<u>(1,089)</u>	<u>-</u>

18. Provisions for Liabilities and Charges

In January 2001, the Group made an announcement in respect of the refocus of its investment on the SME market and an associated restructure of its operations primarily through the reduction of residential sales and support staff. A provision of £4,672,000 has been made in respect of the costs which are incremental and as a direct result of this restructure.

19. Share Capital

	2001 £'000	2000 £'000
Authorised		
305,045,664 ordinary shares of 25p each (2000: 205,852,784 ordinary shares of 25p each)	<u>76,261</u>	<u>51,463</u>
Allotted, called up and fully paid		
213,289,657 ordinary shares of 25p each (2000: 153,721,177 ordinary shares of 25p each)	<u>53,322</u>	<u>38,430</u>

Allotments During the Year

On 7 June 2000, the Group issued 56,592,857 new ordinary shares at a price of 515p, in relation to the acquisition of First Telecom Group plc. In addition, during the year 2,975,623 ordinary shares have been issued pursuant to the exercise of share options, which were converted from options over shares in First Telecom Group plc into options over Atlantic Telecom Group PLC shares subsequent to the acquisition of First Telecom Group plc.

Contingent Rights to the Allotment of Shares**Warrants**

	Sterling Warrants Number	Euro Warrants Number
Warrants in issue at 31 March 2000 and 31 March 2001	<u>75,000</u>	<u>200,000</u>

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 are exercisable from 3 February 2001 and will expire on 3 February 2010.

Share Options

The Group has several share option schemes. Each scheme has its own specific conditions of exercise but all are subject to the individuals remaining in the employment of the Group except for redundancy and illness.

Executive Share Option Scheme 1995 (First Grant)

On 30 March 1995, 683,691 options were granted with an exercise price of 115p. The exercise period is from 30 March 1998 to 30 March 2005 and is subject to the share price exceeding 135p.

Executive Share Option Scheme 1995 (Second Grant)

On 28 February 1997, 682,365 options were granted with an exercise price of 154.5p. The exercise period is from 28 February 2000 to 28 February 2007.

19. Share Capital continued

During the year the group introduced the following new share option schemes:

Atlantic Sharesave Scheme

The Atlantic Sharesave Scheme is savings related and the share options are normally exercisable on completion of a three or five year Save As You Earn contract.

On 28 December 2000, 794,834 options were granted under the SAYE 3 scheme with an exercise price of 80p per ordinary share. The options mature on 1 February 2004.

On 28 December 2000, 383,511 options were granted under the SAYE 5 scheme with an exercise price of 80p per ordinary share. The options mature on 1 February 2006.

Long Term Incentive Scheme (LTIS)

Awards under the Long Term Incentive Scheme were granted to directors and senior management.

Under this scheme 2,374,219 awards were granted on 1 December 2000 with an exercise price of 1p. These are exercisable between 1 December 2003 and 30 November 2010.

Exercise is subject to performance conditions which specify that total shareholder return of the Company must better the percentage change in the FTSE All-Share Telecommunications Services total return index over the three year period following the grant of the awards. In addition, the Company's total shareholder return over the performance period must be such as would place it no lower than the median point of the FTSE mid-250 index.

Company Share Option Plans (CSOP)

On 1 December 2000, 2,987,175 options were granted to directors and employees under the CSOP (Unapproved) with an exercise price of 100p. These options are exercisable from 1 December 2003 to 30 November 2010.

On 1 December 2000, 3,188,700 options were granted to directors and employees under the CSOP (Approved) with an exercise price of 100p. The options are exercisable between 1 December 2003 and 1 December 2010.

Exercise is subject to performance conditions which specify that total shareholder return of the Company must better the percentage change in the FTSE All-Share Telecommunications Services total return index over the three year period following the grant of the options. In addition, the Company's total shareholder return over the performance period must be such as would place it no lower than the median point of the FTSE mid-250 index.

19. Share Capital continued**UITF Abstract 17**

The market value of the shares on the date the share options were granted in December 2000 was 100p.

In relation to the SAYE 3 and SAYE 5 schemes the company has taken advantage of the exemption available under UITF Abstract 17 for Inland Revenue approved SAYE schemes. UITF 17 requires the amount recognised in the profit and loss account in respect of employee share schemes to be the difference between the fair value of the shares at the date of the award and the amount of consideration participants are required to pay for the shares. As the exercise price for both CSOP's are the same as the market value on the date of the grant, no profit and loss charge arises.

The exercise price for the LTIS, is 1p and therefore in accordance with the requirements under UITF 17, the difference between the exercise price and the fair value at the date of the grant will be spread evenly over the period of the performance criteria (three years).

Options which were granted, exercised and lapsed to employees under the share option schemes during the year were as follows: (Details of share options awarded under the acquisition of First Telecom Group plc are shown separately on page 58)

		At 1 April 2000	Awarded	Lapsed	At 31 March 2001
Employee options	Executive Share Option Scheme 1995				
	- (First Grant)	49,752	-	-	49,752
	- (Second Grant)	208,415	-	-	208,415
	SAYE 3	-	782,726	(58,836)	723,890
	SAYE 5	-	383,511	(11,809)	371,702
	LTIS	-	1,370,000	(290,000)	1,080,000
	CSOP (unapproved)	-	2,243,800	(214,000)	2,029,800
	CSOP (approved)	-	3,128,700	(163,100)	2,965,600
Total Employee options		258,167	7,908,737	(737,745)	7,429,159
Total Directors Options		643,190	1,819,702	-	2,462,892
Total options		901,357	9,728,439	(737,745)	9,892,051

Details of Directors' share options can be found within the Report on Remuneration in the Report of the Directors on page 25.

Mark Daeche was granted 200,000 awards under the LTIS, 30,000 options under the CSOP (approved) and 130,000 options under the CSOP (unapproved). These options and awards lapsed on 16 February 2001 when he resigned from the Board.

19. Share Capital continued

The middle market price of the shares at 31 March 2001 was 33p. The highest price during the year was 951p and the lowest price during the year was 31p.

First Telecom Group plc Share Options

Following the acquisition of First Telecom Group plc, participants in the undernoted share option plans were given the opportunity to convert their First Telecom options into options over shares in Atlantic Telecom Group PLC. Options over shares in First Telecom Group PLC were converted to Atlantic Telecom Group PLC options at a rate of 1 to 1.04567815.

Employee Participation Plan (1999)

These options were granted on 6 December 1999. The outstanding options are made up of: 76,372 options with an exercise price of 147p and 15,685 options with an exercise price of 0.96p, exercisable at any time from 7 June 2001 until 6 December 2009; 55,471 options with an exercise price of 147p and 15,685 options with an exercise price of 0.96p, which vest on 7 June 2002 and lapse on 6 December 2009, and 31,370 options with an exercise price of 147p and 31,370 options with an exercise price of 0.96p, exercisable at any time until 31 July 2001.

Discretionary Share Option Plan (DSOP)

These options were granted on 18 April 2000 with an initial vesting on 7 December 2000 of 1/6 of options granted. The remaining options are exercisable in 5 tranches every 6 months, at an exercise price of 287p and lapse on 18 April 2010.

Discretionary Share Option Plan (Individuals)

These options were granted on 18 April 2000. The outstanding options are made up of 122,002 options exercisable at 0.96p and 226,575 options exercisable at 147p and can be exercised at any time until 26 January 2002. Further outstanding options are made up of 149,419 options exercisable at 147p, 149,351 options exercisable at 239p, 83,653 options exercisable at 287p and can be exercised at any time until 31 July 2001. Further outstanding options are made up of 62,740 options exercisable at 147p with an initial vesting on 7 December 2000 of 1/6 of options granted and the remaining 5 tranches are exercisable every 6 months.

Share Option Agreements

These options were granted on 16 June 1999, 2 December 1999 and 18 April 2000 and can be exercised at any time until 31 July 2001. Outstanding options are made up of 41,659 options exercisable at 0.96p, and 358,775 options exercisable at 147p.

19. SHARE CAPITAL continued

The movements relating to the share option schemes since the purchase of First Telecom Group plc were as follows:

	Converted 7 June 2000	Exercised	Lapsed	At 31 March 2001
Executive Incentive Plan	697,429	(697,429)	-	-
Employee Incentive Plan	500,683	(500,683)	-	-
Employee Participation Plan	264,355	(264,355)	-	-
Employee Participation Plan 1999	563,122	(187,677)	(149,492)	225,953
National MD Incentive Plan	239,361	(239,361)	-	-
National MD No 2 Incentive Plan	70,762	(70,762)	-	-
DSOP	664,322	-	(286,029)	378,293
DSOP (individuals)	981,208	(119,500)	(67,968)	793,740
Share option agreements (individuals)	1,296,290	(895,856)	-	400,434
	<u>5,277,532</u>	<u>(2,975,623)</u>	<u>(503,489)</u>	<u>1,798,420</u>

20. Share Premium Account and Reserves**The Group**

	Share Premium Account £'000	Merger Reserve £'000	Reserve for Shares to be Issued £'000	Other Reserves £'000	Profit & Loss Account £'000
At 1 April 1998	22,839	-	-	-	(13,412)
Premium on shares issued	42,410	-	-	-	-
Costs relating to issue of shares	(3,630)	-	-	-	-
Retained loss for the year	-	-	-	-	(16,263)
At 31 March 1999	61,619	-	-	-	(29,675)
Premium on shares issued	272,054	-	-	-	-
Costs relating to issue of shares	(4,900)	-	-	-	-
Issue of warrants	-	-	-	10,690	-
Retained loss for the year	-	-	-	-	(33,377)
Transfer	(134)	-	-	-	134
At 31 March 2000	328,639	-	-	10,690	(62,918)
Premium on shares issued	-	277,305	-	-	-
Value of share options awarded on acquisition	-	-	-	19,969	-
Premium on share options exercised	14,585	-	-	(13,996)	-
Deferred consideration	-	-	31,431	-	-
Costs relating to issue of shares	(1,602)	-	-	-	-
Retained loss for the year	-	-	-	-	(135,713)
Exchange differences	-	-	-	-	91
Transfer	(898)	-	-	-	898
Goodwill amortisation	-	(15,579)	-	-	15,579
At 31 March 2001	340,724	261,726	31,431	16,663	(182,063)

The other reserves are made up of £10,690,000 which arose on the issue of warrants as disclosed in note 19, £19,969,000 which is the original value given to outstanding share options issued on the purchase of First Telecom Group plc and £13,996,000 which is the premium on share options which have been exercised since the acquisition date.

The merger reserve arose from the premium on shares issued in exchange for the shares in First Telecom Group plc.

The transfer relates to issue costs which it is permissible to deduct from the share premium account.

The cumulative amount of goodwill arising from acquisitions that have been written off to Group reserves prior to the implementation of FRS 10 is £17,425,000 (2000: £17,425,000).

20. Share Premium Account and Reserves *continued***The Company**

	Share Premium Account £'000	Merger Reserve £'000	Reserve for Shares to be Issued £'000	Other Reserves £'000	Profit & Loss Account £'000
At 1 April 1999	61,619	17,412	-	-	(3,934)
Premium on shares issued	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>-</u>	<u>10,690</u>	<u>(8,131)</u>
Premium on shares issued	-	277,305	-	-	-
Value of share options awarded on acquisition	-	-	-	19,969	-
Premium on share options exercised	14,585	-	-	(13,996)	-
Deferred consideration	-	-	31,431	-	-
Costs relating to issue	(1,602)	-	-	-	-
Retained loss for the year	-	-	-	-	(27,095)
Transfer	(898)	-	-	-	898
At 31 March 2001	<u>340,724</u>	<u>294,717</u>	<u>31,431</u>	<u>16,663</u>	<u>(34,328)</u>

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 financial loss for the year of the Company is £27,095,000 (2000: £4,331,000).

The other reserves are made up of £10,690,000 which arose on the issue of warrants as disclosed in note 19, £19,969,000 which is the original value given to outstanding share options issued on the purchase of First Telecom Group plc and £13,996,000 which is the premium on share options which have been exercised since the acquisition date.

Additions to the merger reserve during the year arose from the premium on shares issued in exchange for the shares in First Telecom Group plc.

The transfer relates to issue costs which it is permissible to deduct from the share premium account.

ATLANTIC TELECOM GROUP PLC**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2001

21. Reconciliation of Movements in Shareholders' Funds

	2001 £'000	2000 £'000
Loss for the financial year	(135,713)	(33,377)
Issue of shares net of expenses	291,184	284,434
Provision for shares to be issued	31,431	-
Issue of share options	19,969	-
Issue of warrants	-	10,690
Currency translation adjustments	91	-
Net increase in shareholders' funds	206,962	261,747
Shareholders' funds at 1 April 2000	314,841	53,094
Shareholders' funds at 31 March 2001	<u>521,803</u>	<u>314,841</u>

22. Analysis of Cash Flow Headings netted in the Cash Flow Statement

	Note	2001 £'000	2000 £'000	1999 £'000
Returns on investments and servicing of finance				
Interest received		12,353	2,956	920
Bank interest paid		(67)	(772)	(650)
Finance lease interest paid		(2,166)	(1,650)	(678)
Interest on senior notes		(24,425)	-	-
Other interest paid		(9)	(1,773)	(11)
Expenses paid in connection with senior notes		(1,257)	(7,907)	-
Net cash outflow from returns on investments and servicing of finance		<u>(15,571)</u>	<u>(9,146)</u>	<u>(419)</u>
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(87,059)	(17,545)	(26,016)
Sale of tangible fixed assets		-	167	112
Purchase of intangible fixed assets		(660)	-	-
Purchase of investments		(2,910)	(440)	-
Net cash outflow from capital expenditure and financial investment		<u>(90,629)</u>	<u>(17,818)</u>	<u>(25,904)</u>
Acquisitions				
Purchase of subsidiary undertakings		(9,893)	(218)	-
Expenses related to purchase of subsidiary undertakings		(7,844)	(12)	-
Net cash received/(overdraft) from purchase of subsidiary undertakings		18,051	(53)	-
Net cash disposed of with subsidiary		(298)	-	-
Net cash inflow/(outflow) from acquisitions	26	<u>16</u>	<u>(283)</u>	<u>-</u>
Management of liquid resources				
Cash placed on short term deposit	25	(32,439)	(55,266)	-
Purchase of current asset investments	25	-	(48,619)	-
Maturity of current asset investments	25	23,976	-	-
Net cash outflow from management of liquid resources		<u>(8,463)</u>	<u>(103,885)</u>	<u>-</u>
Financing				
Issue of shares		1,332	167,294	50,916
Issue of senior notes		-	185,449	-
Issue of warrants		-	10,690	-
Drawdown of borrowings		4,500	20,000	-
Repayment of borrowings		(8,622)	(20,500)	(478)
Cash paid into restricted cash deposits		(1,608)	-	-
Capital element of finance lease rentals		(7,404)	(5,068)	(2,521)
Expenses paid in connection with share issues		(1,602)	(4,900)	(3,630)
Loan finance costs		-	-	(1,268)
Net cash (outflow)/inflow from financing		<u>(13,404)</u>	<u>352,965</u>	<u>43,019</u>

23. Reconciliation of Operating Loss to Net Cash Outflow from Operating Activities

	Continuing £'000	Discontinued £'000	2001 Total £'000	2000 Total £'000	1999 Total £'000
Operating loss from operations	(104,122)	(5,347)	(109,469)	(28,446)	(15,844)
Depreciation and amortisation	44,568	728	45,296	7,439	4,309
Amortisation of lease prepayment	2,838	-	2,838	165	165
Exchange loss	1,646	(715)	931	38	-
Network lease prepayments	(1,000)	-	(1,000)	(2,000)	(2,000)
Increase in stock	(5,517)	-	(5,517)	2,094	(5,468)
Increase in debtors	(7,685)	(1,301)	(8,986)	(1,935)	(961)
Increase/(decrease) in creditors	16,061	(892)	15,169	2,984	10,146
Non- cash consideration for consultancy	-	-	-	(415)	-
Gain on disposal of tangible fixed assets	(28)	-	(28)	(27)	(41)
Net cash outflow from operating activities	(53,239)	(7,527)	(60,766)	(20,103)	(9,694)

In 1999 and 2000 net cash outflow arises from continuing operating activities.

24. Reconciliation of Net Cash Flow to Movement in Net Funds / (Debt)

	2001 £'000	2000 £'000	1999 £'000
(Decrease)/increase in cash in the period	(188,817)	201,730	7,002
Cash outflow from movement in liquid resources	8,463	103,885	-
Cash outflow from restricted deposits	1,608	-	-
Cash outflow/(inflow) from movement in debt	4,122	(184,949)	478
Cash outflow from lease financing	7,404	5,068	2,521
Change in net funds resulting from cash flows	(167,220)	125,734	10,001
Inception of finance leases	(688)	(18,991)	(4,512)
Exchange differences	(373)	(38)	-
Acquisitions	(11,987)	(12)	-
Other non-cash items	(1,064)	(335)	-
Movement in net (debt)/funds in the year	(181,332)	106,358	5,489
Net funds/(debt) at 1 April 2000	98,934	(7,424)	(12,913)
Net (debt)/funds at 31 March 2001	(82,398)	98,934	(7,424)

25. Analysis of Net Funds / (Debt)

	At 1 April 2000 £'000	Cash Flow £'000	Acquisi- tions £'000	Non- cash items £'000	Exchange movement £'000	At 31 March 2001 £'000
Cash at bank and in hand	207,960	(189,073)	-	-	(724)	18,163
Bank overdrafts	(856)	256	-	-	-	(600)
	207,104	(188,817)	-	-	(724)	17,563
Short term deposits*	55,266	32,439	-	-	2,135	89,840
Restricted cash deposits	-	1,608	-	-	(242)	1,366
Restricted current asset investments	48,701	(23,976)	-	4	478	25,207
Debt due after one year	(186,885)	(2,780)	-	(1,068)	(2,020)	(192,753)
Debt due within one year	(422)	6,902	(7,000)	-	-	(520)
Finance leases	(24,830)	7,404	(4,987)	(688)	-	(23,101)
Net funds/(debt)	98,934	(167,220)	(11,987)	(1,752)	(373)	(82,398)

* Short term deposits (held on deposit for between one and three months) are included within cash at bank and in hand in the balance sheet.

ATLANTIC TELECOM GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

26. Acquisitions

- a) On 7 June 2000, the Group acquired 100% of the nominal share capital of First Telecom Group plc for a consideration of £350,593,000 satisfied by the issue of 56,592,857 ordinary shares, 5,277,532 share options and 6,103,114 deferred shares. The shares and deferred shares were valued at fair value and the share options were valued at fair value less the proceeds to be received from option holders on exercise of the options. The deferred shares will be issued subject to settlement of any warranty claims on 29 June 2001. The purchase of First Telecom Group plc has been accounted for by the acquisition method of accounting. The results of First Telecom Group plc from this date to 31 March 2001 have been consolidated within the Group profit and loss account.

The assets of First Telecom Group plc acquired were as follows:

	Book Value £'000
Fixed assets:	
Intangible – licences	1,256
Tangible	<u>15,454</u>
	16,710
Current assets:	
Debtors	12,138
Bank	<u>9,740</u>
	21,878
Current liabilities:	
Bank loan	(7,000)
Trade creditors	(22,809)
Accruals and deferred income	(20,534)
Lease obligations	(4,987)
Other creditors	<u>(2,214)</u>
	(57,544)
Net liabilities	<u>(18,956)</u>
Net liabilities	(18,956)
Purchased goodwill capitalised	<u>369,549</u>
	<u>350,593</u>
Satisfied by:	
Issue of shares	291,453
Issue of share options	19,969
Deferred consideration	31,431
Acquisition costs paid	<u>7,740</u>
	<u>350,593</u>

No fair value adjustments were required on acquisition.

26. Acquisitions continued

The summarised profit and loss account of First Telecom Group plc from 1 January 2000, the beginning of its financial year, to the date of acquisition was as follows:

	Period to 7 June 2000 £'000
Turnover	<u>29,181</u>
Operating loss	<u>(22,442)</u>
Loss before tax	<u>(19,901)</u>
Taxes	<u>-</u>
Loss after tax	<u>(19,901)</u>

For the twelve months ended 31 December 1999, First Telecom Group plc made losses of £34,943,000 .

- b) On 22 September 2000 the Group acquired 42,250 ordinary shares of 1 Euro each in Telepartner Plus BV, being 65% of the increased nominal share capital for a consideration of £9,142,000, satisfied in cash. The purchase of Telepartner Plus BV has been accounted for by the acquisition method of accounting. No goodwill is accounted for on acquisition as Atlantic Telecom Group plc have first claim on monies paid.

The assets of Telepartner Plus BV acquired were as follows:

	Book Value £'000
Fixed Assets	2,030
Current assets	583
Bank overdraft	(707)
Current Liabilities	(2,190)
Creditors due after one year	(95)
	<u>(379)</u>

The loss before and after tax of Telepartner Plus BV for the period from 1 January, the beginning of the subsidiary's financial year and the date of acquisition was £350,000. The loss after taxation for the year ended 31 December 1999 was £113,000.

No fair value adjustments were required on acquisition.

The businesses acquired during the year utilised £13,371,000 in respect of net operating cash flows, contributed £82,000 in respect of net returns on interest and servicing of finance and utilised £34,097,000 for capital expenditure.

ATLANTIC TELECOM GROUP PLC

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For the year ended 31 March 2001

27. Sale of Business

Net assets of subsidiary disposed of:	£'000
Fixed assets	2,802
Debtors	3,080
Bank	298
Creditors	(5,308)
	<u>872</u>
Sale proceeds	-
Loss on disposal	<u>872</u>

In addition, equipment located in Paris, which was owned by Atlantic Telecommunications Limited was transferred to the purchaser for a nominal fee. The net book value of the equipment at date of transfer was £1,912,000.

In exchange for the sale of Atlantic Telecom SA, Atlantic Telecom Group plc received a 28.5% stake in Inmetex Holdings SAL. This investment has a value of £nil in these accounts.

The business sold during the year utilised £7,527,000 in respect of net operating cash flows and utilised £1,909,000 for capital expenditure and acquisitions.

28. Purchase of Tangible Fixed Assets

During the three years ended 31 March 2001 expenditure on fixed assets consisted of:

	2001 £'000	2000 £'000	1999 £'000
Networks	64,677	147,711	24,095
Leasehold improvements, plant and equipment	<u>23,592</u>	<u>6,765</u>	<u>6,433</u>
	<u>88,269</u>	<u>154,476</u>	<u>30,528</u>

29. Major Non-Cash Transactions

- During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £688,000 (2000: £18,991,000).
- The Company issued 56,592,857 new ordinary shares with a value of £291,453,000, 5,277,532 share options with a value of £19,969,000 and 6,103,114 deferred shares with a value of £31,431,000 in consideration for 100% of the share capital of First Telecom Group plc.

30. Directors' Interests in Significant Contracts

Damian H Reid has declared to the Board that he is to be regarded as interested in any contract which the Company, or any of its subsidiaries, has entered or will enter into with Marconi Corporation plc or any of its subsidiaries. No other 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. All contracts with Marconi Corporation plc are negotiated on an arms length basis. The Group currently has contracts with Marconi Corporation plc under an Equipment and Software Supply Agreement and contracts for maintenance services in relation to national network equipment and software.

31. Capital Commitments

At 31 March 2001 the Group had contracted for £30,300,000 (2000: £30,699,000) of capital expenditure relating to network build which has not been provided for in these financial statements.

32. Leasing Commitments**a) Cable Network Lease**

The cable network is operated by Aberdeen Cable Services Ltd on a 99 year operating lease. During the year ended 31 March 2000 total payments due under the lease agreement were amortised and the cost spread equally over the term of the lease (see note 11).

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 useful economic life of the lease. During the year the directors revised the estimate of the useful economic life of the lease to four years. This revision resulted in an additional charge of £2,673,000 to the profit and loss account.

The operating lease commitment due within one year is £388,910 (2000: £1.5 million).

b) At 31 March 2001 the Group had commitments under non-cancellable operating leases to pay the following amounts in the year to 31 March 2002:

	2001		2000	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Expiring within one year	426	97	79	110
Expiring between two and five years inclusive	398	871	60	357
Expiring in five years or more	<u>1,603</u>	<u>-</u>	<u>783</u>	<u>-</u>
	<u>2,427</u>	<u>968</u>	<u>922</u>	<u>467</u>

33. Contingent Liabilities

The holding company had provided guarantees in respect of subsidiary company borrowings amounting to £23.1 million at 31 March 2001 (2000: £24.8 million).

34. 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 £387,000 (2000: £231,000).

ATLANTIC TELECOM GROUP PLC

RECONCILIATION TO UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP)

The consolidated financial statements have been prepared in accordance with UK GAAP and on the basis of presentation as set out in the accounting policies, which differ in certain respects from US GAAP. The main differences between UK GAAP and US GAAP which affect the Group's consolidated net loss and net equity are set out below.

(a) Impact on Net Loss	2001 £'000	2000 £'000	1999 £'000
Net loss per UK GAAP	(135,713)	(33,377)	(16,263)
US GAAP adjustments:			
Development expense (1)	(350)	147	147
Amortisation expense (2)	(171)	(171)	(171)
Stock-based compensation (3)	2,505	(1,680)	(253)
Net loss per US GAAP	<u>(133,729)</u>	<u>(35,081)</u>	<u>(16,540)</u>
(b) Impact on Net Equity			
Closing Shareholders' equity per UK GAAP	521,803	314,841	53,094
US GAAP adjustments:			
Goodwill (2)	4,732	4,732	4,732
Amortisation expense (2)	(1,420)	(1,250)	(1,079)
Development expense (1)	(2,946)	(2,596)	(2,743)
Difference in gain on disposal (2)	(1,483)	(1,483)	(1,483)
Closing Shareholders' equity per US GAAP	<u>520,686</u>	<u>314,244</u>	<u>52,521</u>
(c) Changes in Shareholders' Equity on a US GAAP Basis			
Shareholders' equity at beginning of period	314,244	52,521	21,522
Net loss per US GAAP	(133,729)	(35,081)	(16,540)
Stock-based compensation (3)	(2,505)	1,680	253
Foreign exchange differences	91	-	-
Issuance of shares, net of related costs	342,585	295,124	47,286
Shareholders' equity at end of period	<u>520,686</u>	<u>314,244</u>	<u>52,521</u>

The following are descriptions of US GAAP reconciling items:

- (1) Under UK GAAP, the Group capitalises development expenditures related to specific projects when recoverability can be assessed with reasonable certainty and these expenditures are amortised over the licence period of the project or its expected economic life, whichever is shorter. Under US GAAP, development expenditures are expensed in the period incurred.
- (2) In 1995 the Company completed a reverse stock take-over acquisition. Under UK GAAP, the acquirer, Worth Investment Trust PLC ("Worth") is considered the continuing entity. Under US GAAP, the Company is considered the acquirer. Accordingly, under US GAAP, the post reverse acquisition historical financial statements are those of the Company and additional goodwill is recorded in connection with the acquisition of Worth. Under UK GAAP, prior to December 23, 1998 depending on the circumstances of each acquisition, goodwill is either written off directly against reserves or amortised through the profit and loss account over the directors' estimate of its useful life (not to exceed 40 years). If a subsidiary or a 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 or loss account is taken into account in determining the profit or loss on sale or closure. For US GAAP purposes, the Company has amortised goodwill over 20 years.
- (3) Under US GAAP, the Group's Share Option Scheme results in compensation cost which is measured by the excess of the quoted market price of the shares over the option price per share to be paid by the employee. Compensation costs are charged to expense over the vesting period prior to exercise with the offsetting increase to the share premium account. Prior to 31 March 2000, under UK GAAP, no compensation expense was recognised. During the year ended 31 March 2001, the Group adopted UITF Abstract 17 which requires the difference between the fair value of the shares at the date of award and the amount of consideration employees are required to pay to be recognised through the profit and loss account over the period of the performance criteria.

Additional disclosures are as follows:

1. In June 1998 the Financial Accounting Standards Board issued SFAS 133 "Accounting for Derivative Instruments and Hedging Activities". This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognise all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Subsequent to the issuance of this statement, the Financial Accounting Standards Board issued SFAS 137 "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133 – an amendment of FASB Statement No. 133" that deferred the effective date of SFAS 133 to all fiscal quarters of all fiscal years beginning after 15 June 2000. In June 2000 Financial Accounting Standards Board issued SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133" which addresses a limited number of issues causing SFAS 133 implementation difficulties. The effective date of this statement is for all fiscal quarters of all fiscal years beginning after 15 June 2000. The Group does not use derivative instruments, and therefore these statements have no effect on the financial position or the operations of the Company.
2. The SEC staff has issued Staff Accounting Bulletin SAB 101, 'Revenue Recognition in Financial Statements', to provide registrants with the staff's position on the requirements for revenue recognition under generally accepted accounting principles (US GAAP). To recognise revenue in the financial statements, US GAAP requires that the revenue be realised or realisable and earned. That generally occurs when all of the following criteria are met: (1) persuasive evidence that an arrangement exists; (2) delivery has occurred or services have been rendered; and (3) the price is fixed or determinable. We have adopted SAB 101 which does not have a material effect on Atlantic Telecom Group PLC's financial position or results of operations.

(d) Cash Flow Statement

The Group's financial statements present cash flow statements prepared using the principles of UK Accounting standard FRS1 (Revised), "Cash Flow Statements". The statement prepared under FRS 1 (Revised) presents substantially the same information as that required under US Statement of Financial Accounting Standard No 95 (SFAS 95).

Under FRS 1 (Revised) cash flows are presented for operating activities; returns on investments and servicing of finance; taxation; capital expenditure and financial investments; acquisitions and disposals; equity dividends paid; management of liquid resources and financing. Cash equivalents under US GAAP are considered liquid resources under UK GAAP.

SFAS 95 requires presentation of cash flows from operating, investing and financing activities. The following statements summarise the statement of cash flows for the Group as if they had been presented in accordance with US GAAP.

	2001 £'000	2000 £'000	1999 £'000
Net cash outflow from operating activities	(76,837)	(29,249)	(10,113)
Net cash used in investing activities	(66,139)	(66,720)	(25,904)
Net cash (used)/provided by financing activities	(13,403)	352,965	43,019
Effects of exchange differences	<u>1,412</u>	<u>681</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents	(154,967)	257,677	7,002
Cash and cash equivalents under US GAAP at beginning of period	<u>262,370</u>	<u>4,693</u>	<u>(2,309)</u>
Differences in presentation of cash and cash equivalents under US GAAP at end of period	<u>1,366</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of period under UK GAAP	<u>108,769</u>	<u>262,370</u>	<u>4,693</u>

(e) Income Taxes

Under UK GAAP, deferred income taxes are accounted for to the extent that it is probable that a liability or asset will materialise in the foreseeable future. Under US GAAP, deferred taxes are accounted for on all temporary differences between book income and tax income and a valuation allowance is established to reduce deferred tax assets to the amount which are likely to be realised in future tax returns. The deferred tax asset can be reconciled to the US GAAP net deferred tax asset as follows:

	2001 £'000	2000 £'000
Deferred tax asset in financial statements (UK GAAP)	-	-
Tax effects of timing differences:		
Tax losses:		
United Kingdom	53,672	17,256
Germany	6,662	-
The Netherlands	-	-
Capital allowances and other timing differences	<u>9,228</u>	<u>1,801</u>
Gross deferred tax assets under US GAAP	69,562	19,057
Deferred tax valuation allowance	<u>(69,562)</u>	<u>(19,057)</u>
Net deferred tax assets under US GAAP	<u>-</u>	<u>-</u>

ATLANTIC TELECOM GROUP PLC

QUARTERLY GROUP FINANCIAL RESULTS

YEAR ENDED 31 MARCH 2001

	Q1 £'000	Q2 £'000	Q3 £'000	Q4 £'000	Total £'000
Turnover: continuing operations	5,030	5,575	5,890	5,345	21,840
acquisitions	<u>4,524</u>	<u>13,488</u>	<u>13,799</u>	<u>15,968</u>	<u>47,779</u>
	9,554	19,063	19,689	21,313	69,619
Discontinued operation	<u>900</u>	<u>2,488</u>	<u>2,377</u>	<u>1,633</u>	<u>7,398</u>
Total Turnover	10,454	21,551	22,066	22,946	77,017
Operating costs before depreciation and amortisation	(23,201)	(36,463)	(42,510)	(36,178)	(138,352)
Depreciation and amortisation	<u>(5,658)</u>	<u>(12,092)</u>	<u>(11,133)</u>	<u>(19,251)</u>	<u>(48,134)</u>
Operating costs	<u>(28,859)</u>	<u>(48,555)</u>	<u>(53,643)</u>	<u>(55,429)</u>	<u>(186,486)</u>
Operating Loss: continuing operations	(14,460)	(15,109)	(19,121)	(23,380)	(72,070)
acquisitions	<u>(3,452)</u>	<u>(10,648)</u>	<u>(9,922)</u>	<u>(8,030)</u>	<u>(32,052)</u>
	(17,912)	(25,757)	(29,043)	(31,410)	(104,122)
Discontinued operation	<u>(493)</u>	<u>(1,247)</u>	<u>(2,534)</u>	<u>(1,073)</u>	<u>(5,347)</u>
Group Operating Loss	(18,405)	(27,004)	(31,577)	(32,483)	(109,469)
Exceptional items:					
Provision for diminution in value of investment	-	(1,265)	-	-	(1,265)
Provision for cost of fundamental restructuring	-	-	-	(4,672)	(4,672)
Loss on disposal of discontinued operation	-	-	-	(2,784)	(2,784)
Total exceptional items	<u>-</u>	<u>(1,265)</u>	<u>-</u>	<u>(7,456)</u>	<u>(8,721)</u>
Net interest payable and similar charges	<u>(2,851)</u>	<u>(4,002)</u>	<u>(5,062)</u>	<u>(5,608)</u>	<u>(17,523)</u>
Loss on ordinary activities before taxation	(21,256)	(32,271)	(36,639)	(45,547)	(135,713)
Tax on loss on ordinary activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Retained loss for the period	<u>(21,256)</u>	<u>(32,271)</u>	<u>(36,639)</u>	<u>(45,547)</u>	<u>(135,713)</u>
Loss per share	<u>(11.34)p</u>	<u>(15.39)p</u>	<u>(17.33)p</u>	<u>(21.57)p</u>	<u>(65.63)p</u>
EBITDA	<u>(12,747)</u>	<u>(14,912)</u>	<u>(20,444)</u>	<u>(13,232)</u>	<u>(61,335)</u>

ATLANTIC TELECOM GROUP PLC

FIVE YEAR SUMMARY

YEARS ENDED 31 MARCH

GROUP PROFIT AND LOSS ACCOUNT

	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000
Turnover: continuing operations	21,840	21,307	14,924	10,595	6,713
acquisitions	47,779	-	-	-	-
	<u>69,619</u>	<u>21,307</u>	<u>14,924</u>	<u>10,595</u>	<u>6,713</u>
discontinued operations	7,398	-	-	795	2,180
	<u>7,398</u>	<u>-</u>	<u>-</u>	<u>795</u>	<u>2,180</u>
Total Turnover	<u>77,017</u>	<u>21,307</u>	<u>14,924</u>	<u>11,390</u>	<u>8,893</u>
Operating costs					
Ongoing	(186,486)	(49,753)	(29,647)	(19,960)	(11,399)
Exceptional	-	-	(1,121)	(325)	-
	<u>(186,486)</u>	<u>(49,753)</u>	<u>(30,768)</u>	<u>(20,285)</u>	<u>(11,399)</u>
Operating Loss: continuing operations	(72,070)	(28,446)	(15,844)	(8,733)	(2,180)
acquisitions	(32,052)	-	-	-	-
	<u>(104,122)</u>	<u>(28,446)</u>	<u>(15,844)</u>	<u>(8,733)</u>	<u>(2,180)</u>
Discontinued operations	(5,347)	-	-	(162)	(326)
	<u>(5,347)</u>	<u>-</u>	<u>-</u>	<u>(162)</u>	<u>(326)</u>
Group Operating Loss	<u>(109,469)</u>	<u>(28,446)</u>	<u>(15,844)</u>	<u>(8,895)</u>	<u>(2,506)</u>
Exceptional items:					
Provision for diminution in value of investment	(1,265)	-	-	-	-
Provision for cost of fundamental restructuring	(4,672)	-	-	-	-
Loss on disposal of discontinued operations	(2,784)	-	-	(1,698)	3,779
Less reinstatement of goodwill previously written off	-	-	-	-	(3,238)
Provision for operations to be discontinued	-	-	-	1,028	(1,028)
Total exceptional items	<u>(8,721)</u>	<u>-</u>	<u>-</u>	<u>(670)</u>	<u>(487)</u>
Net interest payable and similar charges	(17,523)	(4,931)	(419)	25	145
	<u>(17,523)</u>	<u>(4,931)</u>	<u>(419)</u>	<u>25</u>	<u>145</u>
Loss on ordinary activities before taxation	<u>(135,713)</u>	<u>(33,377)</u>	<u>(16,263)</u>	<u>(9,540)</u>	<u>(2,848)</u>
Tax on loss on ordinary activities	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Retained loss for the period	<u>(135,713)</u>	<u>(33,377)</u>	<u>(16,263)</u>	<u>(9,540)</u>	<u>(2,848)</u>
Loss per share	<u>(65.63)p</u>	<u>(31.32)p</u>	<u>(22.50)p</u>	<u>(18.86)p</u>	<u>(7.35)p</u>

ATLANTIC TELECOM GROUP PLC

FIVE YEAR SUMMARY

YEARS ENDED 31 MARCH

GROUP BALANCE SHEET

	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000
Intangible Fixed Assets	359,214	3,754	3,718	3,883	4,048
Tangible Fixed Assets	275,986	203,101	56,022	29,709	13,297
Fixed Asset Investments	2,500	855	-	-	-
Current Assets	<u>184,464</u>	<u>339,973</u>	<u>26,749</u>	<u>11,594</u>	<u>26,136</u>
Total assets	822,164	547,683	86,489	45,186	43,481
Current liabilities	<u>(98,306)</u>	<u>(35,070)</u>	<u>(25,006)</u>	<u>(15,517)</u>	<u>(6,946)</u>
Total assets less current liabilities	723,858	512,613	61,483	29,669	36,535
Creditors falling due after more than one year	(197,708)	(197,772)	(8,389)	(7,598)	(4,946)
Provisions for liabilities and charges	(4,672)	-	-	-	-
Minority Interests	<u>325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity shareholders' funds	<u>521,803</u>	<u>314,841</u>	<u>53,094</u>	<u>22,071</u>	<u>31,589</u>

Exchange Rates

Atlantic Telecom Group PLC publishes its consolidated financial statements expressed in pounds sterling. The following tables, show for the periods and dates indicated certain information regarding the exchange rates between pounds sterling, and US Dollars based on the Noon Buying Rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate).

On 25 June 2001, the most recent practicable date for this annual report, the Noon Buying Rate was US\$ 1.413 to £1.00.

Month	Months Highest Exchange Rate	Months Lowest Exchange Rate
May 2001	1.4403	1.4080
April 2001	1.4467	1.4187
March 2001	1.4698	1.4161
February 2001	1.4776	1.4423
January 2001	1.5038	1.4546
December 2000	<u>1.4965</u>	<u>1.4321</u>

Year ended 31 March	Period end rate	Average Rate	High	Low
1997	1.6448	1.5853	1.7123	1.4948
1998	1.6721	1.6424	1.7048	1.5797
1999	1.6113	1.6543	1.7115	1.5976
2000	1.5911	1.6113	1.6746	1.5485
2001	<u>1.4161</u>	<u>1.4789</u>	<u>1.5964</u>	<u>1.3977</u>

Listings

The principal trading market for the Company's ordinary shares is the London Stock Exchange. In addition the company issued unsecured senior notes which are traded on the Luxembourg Stock Exchange.

The following table shows, for the fiscal periods indicated, the reported high and low middle market quotations (which represent an average of closing bid and ask prices) for the ordinary shares on the London Stock Exchange, as derived from its Daily Official List and for the senior notes on the Luxembourg Stock Exchange from JP Morgan.

	Pence per ordinary share		Pence per senior note	
	High	Low	High	Low
Year ended 31 March				
1997	-	-	-	-
1998	195.0	122.5	-	-
1999	271.0	98.0	-	-
2000	1190.0	238.5	103.0	95.5
2001	<u>951.0</u>	<u>31.0</u>	<u>99.0</u>	<u>30.0</u>
2000				
First Quarter	280.5	238.5	-	-
Second Quarter	359.0	248.5	-	-
Third Quarter	980.0	319.0	-	-
Fourth Quarter	<u>1190.0</u>	<u>752.5</u>	<u>103.0</u>	<u>95.5</u>
2001				
First Quarter	951.0	420.0	99.0	90.0
Second Quarter	482.0	250.0	90.0	67.0
Third Quarter	256.0	95.25	67.0	35.0
Fourth Quarter	<u>116.5</u>	<u>31.0</u>	<u>56.0</u>	<u>30.0</u>
Month end				
December 2000	127.0	95.0	44.0	35.0
January 2001	116.5	90.0	56.0	42.0
February 2001	98.25	57.0	55.0	38.0
March 2001	53.0	31.0	38.0	30.0
April 2001	40.0	30.0	30.0	16.0
May 2001	36.0	25.75	20.0	17.0
Up to 25 June 2001	<u>25.0</u>	<u>13.5</u>	<u>17.0</u>	<u>13.0</u>

Exchange Controls

There are currently no government laws, decrees or regulations in the United Kingdom that restrict the export or import of capital.

ATLANTIC TELECOM GROUP PLC

SELECTED FINANCIAL INFORMATION

Subsidiary Undertakings

At 31 March 2001 the Group held a controlling interest in the following trading companies.

Name of Company	Class of Share Capital Held	Proportion Held		Nature of Business	Country of Incorporation
		By Parent Undertaking	By Subsidiary Undertaking		
Atlantic Telecom Holdings Ltd	Ordinary Shares	100%	-	Holding Company	Scotland
ATG Holdings Ltd	Ordinary Shares	-	100%	Holding Company	Scotland
Devanha Group plc	Ordinary Shares	-	100%	Holding Company	Scotland
Atlantic Telecommunications Ltd	Ordinary Shares	-	100%	Telecommunications	England
Logicall Telecommunications Ltd	Ordinary Shares	-	100%	Telecommunications	England
Collie Communications Ltd	Ordinary Shares	-	100%	Telecommunications	Scotland
Aberdeen Cable Services Ltd	Ordinary Shares	-	100%	Operation of cable TV network	Scotland
First Telecom Group plc	Ordinary Shares	100%	-	Holding Company	England
First Telecom plc	Ordinary Shares	-	100%	Telecommunications	England
First Telecom International Limited	Ordinary Shares	-	100%	Holding Company	England
Atlantic Telecom GmbH	Ordinary Shares	-	100%	Telecommunications	Germany
Cerbernet Limited	Ordinary Shares	-	100%	Internet Service Provider	England
First Telecom BV	Ordinary Shares	-	100%	Holding Company	The Netherlands
Telepartner Plus BV	Ordinary Shares	-	65%	Telecommunications	The Netherlands

ATLANTIC TELECOM GROUP PLC

OPERATING STATISTICS

	Note	2001	2000	1999
Direct Telecommunications				
Business Customer Data (UK)				
Estimated business premises passed	1	45,103	41,921	32,390
Business customers	2	3,100	1,959	1,324
Business customer lines	2	10,677	7,276	4,231
Penetration rate of estimated business premises passed	3	6.87%	4.67%	4.09%
Average lines per business customer	4	3.44	3.71	3.20
Business customer churn	5	14.56%	16.87%	14.99%
Average monthly revenue per business customer	7	£86.13	£86.85	£83.35
Business Customer Data (Germany and the Netherlands)				
Estimated business premises passed	1	301,800	N/A	N/A
Business DSL retail lines	2	107	N/A	N/A
Business DSL wholesale lines	2	282	N/A	N/A
Penetration rate of estimated business premises passed	3	0.13%	N/A	N/A
DSL wholesale customer lines	9	8,650	N/A	N/A
Average monthly revenue per retail DSL line (Germany)	7	£334	N/A	N/A
Average monthly revenue per wholesale DSL line (Germany)	7	£93	N/A	N/A
Total Directly Connected Business Lines		11,066	7,276	4,231
Residential Customer Data				
Estimated residential homes passed	1	810,107	693,804	533,323
Residential customers	2	20,545	22,435	11,154
Residential customer lines	2	41,202	44,683	21,773
Penetration rate of estimated residential homes passed	3	2.54%	3.23%	2.09%
Average lines per residential customer	4	2.00	1.99	1.95
Residential customer churn	5,8	15.92%	16.77%	13.50%
Average monthly revenue per residential customer	7	£35.46	£38.44	£36.71
Network Data				
Number of active base stations		148	133	101
Installed co-locations in Germany		558	N/A	N/A
Ready-for-service co-locations in Germany		239	N/A	N/A
Installed co-locations in the Netherlands		54	N/A	N/A
Ready-for-service co-locations in the Netherlands		6	N/A	N/A
Indirect Telecommunications				
Business customers	2	11,823	1,054	638
Business customer lines	2	77,575	21,360	17,905
Average lines per business customer	4	6.56	20.27	28.06
Average monthly revenue per business customer	7	£293.98	£552.30	£827.61
Residential customers	2	173,175	24,816	7,930
Residential customer lines	2	173,255	24,953	8,303
Average lines per residential customer	4	1.00	1.01	1.05
Average monthly revenue per residential customer	7	£10.06	£10.54	£12.40
Total Business Lines (direct and indirect)		88,641	28,636	22,136
Call by Call Telecommunications (Germany)				
Active customers	6	129,479	N/A	N/A
Cable Television				
Homes passed	1	97,875	97,875	97,629
Cable television customers	2	13,920	16,074	18,219
Penetration rate of cable homes passed	3	14.22%	16.42%	18.66%
Customer churn	5	29.50%	30.70%	20.38%
Average monthly revenue per cable TV customer	7	£24.97	£28.71	£29.76
Pay to basic ratio	10	221%	236%	286%

Notes

1. 'Estimated homes passed' or 'estimated business premises passed' is the Company's estimate of the residential homes or business premises seen by the direct networks which are capable of connection to a base station or to a fibre network. It excludes certain multiple dwelling units, which the Company does not presently serve.
2. Residential or business customers or residential or business customer lines represent the number of customers or lines which are connected and in service, the number of customers or lines for which customers, where applicable, have contracted for service but are not yet connected and the number of customers or lines where service has been suspended but the customers or lines have not yet been disconnected. Suspended customers are treated as disconnected after a maximum period of 6 months.
3. The penetration rate of estimated homes or estimated business premises passed is calculated by dividing the number of residential customers or business customers on the given date by the estimated homes or estimated business premises passed as of such date, expressed as a percentage.
4. The average number of 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 the 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 churn is calculated over the twelve months ended on 31 March 1999, 31 March 2000 and 31 March 2001.
6. Customers who use the service on an individual call basis at some point during the previous three months.
7. 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.
8. Excludes customers disconnected as a result of restructuring. Churn figures therefore represent customers who have elected to discontinue service.
9. DSL wholesale customer lines represents lines under framework agreements. Framework agreements are carrier/ISP's estimates of the take-up by customers over a given period.
10. 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.

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 6BL, will be held at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA on 15 August 2001 at 12 noon.

The Business of the Meeting will be

1. To receive the report of directors' and financial statements and report of the auditors' thereon.
2. To re-appoint Gordon B Sleigh as Executive Director.
3. To re-appoint Martin L Beard as Executive Director
4. To re-appoint Damian H Reid as Non Executive Director
5. To re-appoint the auditors, Grant Thornton, and to authorise the directors to fix the remuneration of the auditors.
6. 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 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 £19,775,205 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.

7. Subject to the passing of resolution 6 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 6 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 in favour of ordinary shareholders and holders of any other class of equity securities in the capital of the Company where the equity securities are proportionate (as nearly as practicable) to the respective number of ordinary shares and any other class of equity securities held by such holders but subject to such exclusions or other arrangements as the directors may deem necessary or desirable in relation to fractional entitlements or legal or practical problems arising in, or pursuant to, the laws of any territory or the requirements of any regulatory body or stock exchange in any territory; and
- (b) the allotment (otherwise than pursuant to paragraph (a) above) of equity securities for cash up to an aggregate nominal amount equal to 5% 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 at the conclusion of the 2002 Annual General Meeting or on 14 November 2002, whichever is the earlier, 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.

8. To consider and, if thought fit, to pass the following resolution as a special resolution:
THAT, pursuant to a directors' resolution passed on 17 December 1996, and in line with best practice guidelines laid down by the Institute of Chartered Secretaries and Administrators, in relation to the trading of securities in uncertificated form, new Article 20A as set out hereafter be added to the Company's Articles of Association.

"20A Uncertificated Shares

20A.1 Notwithstanding anything to the contrary in these Articles, but always subject to the Uncertificated Securities Regulations 1995 (the "Regulations"), the Directors may resolve that a class of the Company's shares or other securities is to become a participating security in terms of the Regulations and may at any time determine that a class of the Company's shares shall cease to be a participating security.

20A.2 Shares of a class shall not be treated as forming a separate class from other shares of that class merely because any such shares are from time to time held in uncertificated form.

20A.3 Any share of a class, which is a participating security, may be changed from an uncertificated share to a certificated share, and vice versa, in accordance with and subject to the Regulations.

20A.4 For so long as a class of shares remains a participating security, these Articles shall only apply to uncertificated shares of that class to the extent they are consistent with:

- (i) the holding of any shares in uncertificated form;
- (ii) the transfer of title to any shares by means of the CREST system; and
- (iii) any provision of the Regulations

20A.5 Where the Company is entitled under any provisions of the Statutes or the rules, procedures or practices of any relevant system or under these Articles to dispose of, forfeit, enforce a lien over, or sell or otherwise procure the sale of any shares which are held in uncertificated form, the directors shall have the power (subject to the extent permitted by the Regulations and the rules, procedures and practices of the relevant system) to take such steps as may be required, by instruction by means of a relevant system or otherwise, to effect such disposal, forfeiture, enforcement or sale and such powers shall (subject as aforesaid) include the right to;

- (i) request or require the deletion of any computer-based entries in the relevant system relating to the holding of such shares in uncertificated form;
- (ii) alter such computer-based entries so as to divest the registered holder of such shares of the power to transfer such shares to a person other than the transferee, purchaser or his nominee identified by the Company for this purpose;
- (iii) require any holder of any uncertificated shares which are the subject of any exercise by the Company of any such entitlement, by notice in writing to the holder concerned, to convert his holding of such uncertificated shares into certificated form within such period as may be specified in the notice prior to completion of any disposal, sale or transfer of such shares or direct the holder to take such steps as may be necessary to sell or transfer such shares; and/or
- (iv) appoint any person to take such steps in the name of the holder of such shares as may be required to effect the transfer of such shares and such steps shall be as effective as if they had been taken by the registered holder of the uncertificated shares concerned.

20A.6 Subject as otherwise provided in these Articles, every person (other than a recognised clearing house or a recognised investment exchange in respect of whom the Company is not by law required to complete and have for delivery a certificate) whose name is entered as a member in the register in respect of certificated shares shall be entitled, without payment, to receive within two months of lodgement a certificate representing the conversion of a share from uncertificated form into certificated form or within such other period as the terms of the issue shall provide one certificate for all his shares of any one class, or upon payment of such reasonable sum as the directors may from time to time determine, several certificates, each for one or more of his shares of any one class."

Atlantic House
475-485 Union Street
Aberdeen
AB11 6BL
26 June 2001

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 5WZ 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 12 noon on 13 August 2001 ("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.

ATLANTIC TELECOM GROUP PLC

ADVISERS

Company Secretary	Philip N Allenby St Andrew House 141 West Nile Street Glasgow G1 2RN	
Registered Office	Atlantic House 475-485 Union Street Aberdeen AB11 6BL Telephone: 01224 454000	
Financial Advisers	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, <i>Chartered Accountants and Registered Auditors</i> 1 / 4 Atholl Crescent Edinburgh EH3 8LQ	
Registrars	Lloyds TSB Registrars Scotland 117 Dundas Street, Edinburgh, EH3 5ED	
Senior Notes Trustee and Registrar	Bankers Trust Company 4 Albany Street New York New York 1006	
Senior Notes Paying Agent and Warrant Agent	Deutsche Bank Luxembourg SA 2 Boulevard Konrad Adenauer L-1511 Luxembourg	
Bankers	Bank of Scotland, 54 John Street, Aberdeen, AB25 1LL	

Documents on Display

Copies of documents referred to in this annual report and Form 20-F can be obtained from the Company's registered Head Office at Atlantic House, 475-485 Union Street, Aberdeen, AB11 6BL, SCOTLAND.