

Registered number: 02954343

**EASYNET LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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## **EASYNET LIMITED**

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**EASYNET LIMITED**

**COMPANY INFORMATION**

<b>Directors</b>	C Birkett Y Jaffer P Grannum G J Williams
<b>Registered number</b>	02954343
<b>Registered office</b>	31st Floor 25 Canada Square London E14 5LQ
<b>Independent auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Cornwall Court 19 Cornwall Street Birmingham B3 2DT

## **EASYNET LIMITED**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors present the strategic report for Easynet Limited (the "Company") for the year ended 31 December 2016.

#### **Principal activities**

The Company is a provider of next generation network services. It offers a range of communication services to business customers and other carriers. The principal activities of the Company are the provision of managed network and hosting services in the United Kingdom. These key areas of expertise are further strengthened by a wide range of value added integration services such as video conferencing, managed telephony, security and unified communications.

#### **Review of business**

The Company is managed as part of a group of companies whose parent undertaking is Interoute Communications Holdings S.A. (together with its subsidiary undertakings 'Interoute' or 'the Group'). The principal risks and uncertainties of the Company are integrated with the principal risks and uncertainties of the Group and are not managed separately. For this reason, the Company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance and position of the Company.

The Group operates a Next Generation Network covering the majority of the European Union, from London to Warsaw, from Stockholm to Sicily and beyond into the emerging economies of South Eastern Europe. The network is linked to North America's major telecoms hub through our transatlantic capacity and serves as a bridge between the Middle East, North Africa and the West, with a fully operational Point of Presence in the Arab world's most dynamic international hub, Dubai. The Group is key to Europe's digital supply chain, serving over 9,000 customers including all the major incumbent operators. Interoute supports the e-Commerce activities of many major European businesses through its data centres and handles mission critical network and communications needs for governments, banks, media and manufacturing companies.

#### **Future developments**

The directors do not envisage any significant change in the activities of the Company in the forthcoming year. Management are currently looking into a possible merger of group entities in the near future but no decisions have been made at this stage. This possible merger of entities is not expected to have any significant impact on the activities of the Company.

#### **Principal risks and uncertainties**

The management of the company and the execution of its strategy are subject to a number of risks which are set out below. The management team reviews the risks the company faces during its weekly meetings. These risks are also discussed at length during the Group's monthly management meetings.

##### **(a) Market and economic conditions**

Should the current economic trading conditions worsen in any of the countries in which Interoute operates, this could have an adverse effect. Such economic conditions may cause existing and potential customers to delay or avoid the purchase of the Group's products, or may lead to consolidation of customers or increased bad debt. Reduced revenues and cash inflows can also lead to an increased risk of asset impairment. However, the Group's products are often business critical rather than a discretionary purchase which will assist in reducing the impact of a deterioration in the macro economic environment. Furthermore, such a deterioration may also increase opportunities as Interoute's customers seek to reduce costs through investment in technology.

## **EASYNET LIMITED**

### **STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **Principal risks and uncertainties (continued)**

##### **(b) Pricing pressures**

The company is exposed to price risk as a result of downward pressure on prices in the telecommunications market. The company mitigates this risk in several ways:

- all contracts not strictly adhering to the company's standard prices are subject to approval by an independent team before they can be closed by the sales force thus ensuring a base level of margins is attained;
- by structuring the sales force's incentive plan such that higher commissions are earned on higher margin products.

##### **(c) Employee retention**

A highly stable management team has contributed to the company's singularity of focus and purpose. In order to maintain such stability the Group has introduced a number of schemes aimed at retaining individuals:

- a focus on training and development. As a leader in telecommunications technology, Interoute can provide unique opportunities for individuals interested in advancing in the telecommunications industry;
- bonus and incentive plans to reward performance against well-defined objectives. The company is an organisation managed by objectives, and each employee has developed with their line manager a set of individual objectives to support the business' key goals as listed above.

##### **(d) Network downtime and Data Centre Infrastructure**

The performance of the network and Data Centres is an important factor in Interoute's ability to attract new customers and to retain existing customers.

To mitigate the risk of customer loss, the performance of the network and Data Centres is constantly monitored. Any faults are discussed in detail to consider how they can be prevented in the future. The company aims for its customers to experience minimal disruption to service from either planned or unplanned network outages.

##### **(e) Fundamental technology change**

Technological changes may impact the way in which telecommunications and media services are delivered in the future. A key strategic advantage of the Interoute network is that it was built to allow new technologies to be added to the network at limited additional cost. There is a second duct throughout Interoute's Western European footprint thus allowing additional fibre or new technology to be deployed without rebuilding the routes.

The company is at the forefront of technological advances and is able to adapt its approach as technology advances. Recent examples of this include the deployment of Cloud services, as well as dramatic increases in bandwidth enabled by introduction of new and better equipment to the network. Unlike some of the company's competitors, Interoute does not have legacy data or voice revenues to protect. The oldest technology that the company uses is for many operators their newest technology.

**EASYNET LIMITED**

**STRATEGIC REPORT (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**Financial risk management**

The company's operations expose it to a variety of financial risks that include credit risk and liquidity risk.

**(a) Credit risk**

The company has implemented policies that require appropriate credit checks on potential customers before sales are made.

**(b) Liquidity risk**

Liquidity risk is that the company does not have sufficient liquid assets to meet its obligations as they fall due. Liquidity is maintained at a prudent level and the company ensures there is an adequate liquidity buffer to cover contingencies. The company maintains sufficient cash and open committed credit lines from credit institutions to meet its funding requirements and monitors cash flow as part of its day to day control procedures.

This report was approved by the board and signed on its behalf by:



C Birkett  
Director

Date: 07/07/17

## **EASYNET LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors present their annual report and the audited financial statements for the Company for the year ended 31 December 2016.

The financial statements have been prepared in Pounds Sterling, the functional currency of the company.

#### **Results and dividends**

The profit for the financial year amounted to £245,000 (2015: £3,962,000).

The directors do not recommend the payment of a dividend (2015: £nil).

#### **Principal activities**

The company's principal activity is the provision of managed, secure, resilient wide area networks and related internet and technology services to businesses.

It forms part of the Interoute Group, the UK's largest independent provider of managed network and hosting services. This independence facilitates its exceptional service and commitment to innovation which in turn enables it to provide the best possible range of services to customers.

#### **Directors**

The directors who served during the year and up to the date of signing the financial statements unless otherwise stated were:

C Birkett  
Y Jaffer  
J A Shearing (resigned 15 November 2016)  
P Grannum (appointed 15 November 2016)  
G J Williams

#### **Directors' Indemnities**

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

#### **Future developments**

Please see the Strategic report, where these have been discussed.

#### **Financial risk management**

Please see the Strategic report, where these risks have been discussed.

#### **Political contributions**

During the year the Company made no donations (2015: £nil) to any political party.

## **EASYNET LIMITED**

### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **Going concern**

The Company is dependent for its working capital on funds provided to it by Interoute Communications Limited, its intermediate parent undertaking. Interoute Communications Limited has indicated that it will continue to provide financial support by not seeking repayment of any balance due unless it is agreed by both parties and that the Company has sufficient funds to make the repayment and the Company has no reason to expect that making the repayment will cause it not to be able to pay all its other debts as they fall due for the foreseeable future.

As at the date of approval of these financial statements, the directors of the Company have no reason to believe this financial support will not be forthcoming in the event that it is required. The Company directors have a reasonable expectation that the Company will be able to continue in existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing these financial statements.

#### **Directors' responsibilities statement**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Disclosure of information to auditors**

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.



**EASYNET LIMITED**

**DIRECTORS' REPORT (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**Independent auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution concerning their reappointment will be proposed at the Annual General Meeting.

This report was approved by the board and signed on its behalf by:



C Birkett  
Director

Date: 07/07/17

## **EASYNET LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EASYNET LIMITED**

#### **Report on the financial statements**

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##### **Our opinion**

In our opinion Easynet Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
  - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
  - have been prepared in accordance with the requirements of the Companies Act 2006.
- 

##### **What we have audited**

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

##### **Opinions on other matter prescribed by the Companies Act 2006**

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In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

##### **Other matters on which we are required to report by exception**

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###### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
  - adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
  - the financial statements are not in agreement with the accounting records and returns. We have no exceptions to report arising from this responsibility.
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## **EASYNET LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EASYNET LIMITED (continued)**

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#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

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### **Responsibilities for the financial statements and the audit**

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#### **Our responsibilities and those of the directors**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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#### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Matt Palmer (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham

Date: 13 July 2017

**EASYNET LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016**

		<b>Year ended 31 December 2016 £000</b>	<b>13 months ended 31 December 2015 £000</b>
	<b>Note</b>		
Revenue	5	16,119	21,176
Cost of sales		(17,389)	(11,113)
<b>Gross (loss)/profit</b>		<b>(1,270)</b>	<b>10,063</b>
Administrative income/(expenses)		1,515	(5,838)
<b>Operating profit</b>	6	<b>245</b>	<b>4,225</b>
Finance expense	7	-	(263)
<b>Profit before tax</b>		<b>245</b>	<b>3,962</b>
Income tax expense	11	-	-
<b>Profit for the financial year / period</b>		<b>245</b>	<b>3,962</b>
<b>Total comprehensive income for the year / period</b>		<b>245</b>	<b>3,962</b>

There is no comprehensive income other than that from continuing operations.

**EASYNET LIMITED****REGISTERED NUMBER: 02954343****STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2016**

	Note	2016 £000	2015 £000
<b>Fixed assets</b>			
Property, plant and equipment	12	71	159
Investments	13	1,756	1,756
		<u>1,827</u>	<u>1,915</u>
<b>Current assets</b>			
Trade and other receivables	14	40,493	22,552
Cash and cash equivalents		526	929
		<u>41,019</u>	<u>23,481</u>
Payables: amounts falling due within one year	15	(28,124)	(11,018)
<b>Net current assets</b>		<u>12,895</u>	<u>12,463</u>
<b>Total assets less current liabilities</b>		<u>14,722</u>	<u>14,378</u>
Payables: amounts falling due after more than one year	16	(294)	(195)
<b>Net assets</b>		<u>14,428</u>	<u>14,183</u>
<b>Capital and reserves</b>			
Called up share capital	18	317	317
Share premium		18	18
Retained earnings		14,093	13,848
<b>Total shareholders' funds</b>		<u>14,428</u>	<u>14,183</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

C Birkett  
Director  
Date:

07/07/17

The notes on pages 13 to 28 form part of these financial statements.

**EASYNET LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<b>Called up share capital</b>	<b>Share premium</b>	<b>Retained earnings</b>	<b>Total shareholders' funds</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 January 2016	317	18	13,848	14,183
<b>Comprehensive income for the year</b>				
Profit for the financial year	-	-	245	245
<b>Total comprehensive income for the year</b>	-	-	245	245
<b>At 31 December 2016</b>	<b>317</b>	<b>18</b>	<b>14,093</b>	<b>14,428</b>

**FOR THE 13 MONTH PERIOD ENDED 31 DECEMBER 2015**

	<b>Called up share capital</b>	<b>Share premium</b>	<b>Retained earnings</b>	<b>Total shareholders' funds</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 December 2014	317	18	9,886	10,221
<b>Comprehensive income for the period</b>				
Profit for the financial period	-	-	3,962	3,962
<b>Total comprehensive income for the period</b>	-	-	3,962	3,962
<b>At 31 December 2015</b>	<b>317</b>	<b>18</b>	<b>13,848</b>	<b>14,183</b>

## **EASYNET LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **1. General information**

The Company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is 31<sup>st</sup> Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ.

The Company's financial statements are presented in Pound Sterling and all values are rounded to the nearest thousand Pounds (£000) except when otherwise indicated.

#### **2. Statement of compliance**

The individual financial statements of Easynet Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 101, "Reduced Disclosure Framework" ("FRS 101") and the Companies Act 2006.

#### **3. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has adopted FRS 101 in these financial statements.

##### **3.1 Basis of preparation**

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value through profit or loss.

These financial statements are the first financial statements of Easynet Limited prepared in accordance with FRS 101. The financial statements of Easynet Limited for the period ended 31 December 2015 were prepared in accordance with IFRS.

No adjustments were required at the date of transition or to the statement of comprehensive income for the period ended 31 December 2015, on adoption of FRS 101 and therefore no separate transition to FRS 101 note has been prepared.

Some of the FRS 101 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous IFRS. Consequently, the directors have amended certain accounting policies to comply with FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4. These financial statements are prepared on the going concern basis under the historical cost convention, in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principle accounting policies, which have been applied consistently throughout the period, are set out below.

## **EASYNET LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **3. Summary of significant accounting policies (continued)**

##### **3.2 Going concern**

The Company is dependent for its working capital on funds provided to it by Interoute Communications Limited, its intermediate parent undertaking. Interoute Communications Limited has indicated that it will continue to provide financial support by not seeking repayment of any balance due unless it is agreed by both parties and that the Company has sufficient funds to make the repayment and the Company has no reason to expect that making the repayment will cause it not to be able to pay all its other debts as they fall due for the foreseeable future.

As at the date of approval of these financial statements, the directors of the Company have no reason to believe this financial support will not be forthcoming in the event that it is required. The Company directors have a reasonable expectation that the Company will be able to continue in existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing these financial statements. The company therefore continues to adopt the going concern basis in preparing the financial statements.

##### **3.3 Exemptions for qualifying entities under FRS 101**

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- b) IFRS 7, 'Financial Instruments: Disclosures'.
- c) Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
  - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period);
- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), (statement of cash flows)
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38 B-D (additional comparative information),
  - 111 (cash flow statement information), and
  - 134-136 (Information on an entity's objectives, policies and processes for managing capital (qualitative and quantitative))
- f) IAS 7, 'Statement of cash flows'
- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- h) Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- i) The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.



## EASYNET LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

#### 3. Summary of significant accounting policies (continued)

##### 3.4 New standards, amendments and IFRIC interpretations

The following standards have been issued and are effective for accounting periods beginning on or after 1 January 2018 and are expected to have an impact on the Company's financial statements:

*IFRS 15 "Revenue from contracts with customers"*

IFRS 15 sets out the requirements for accounting for revenue from contracts with customers. The standard requires entities to apportion revenue earned from contracts to individual performance obligations based on a relative stand-alone selling price basis. The Company is still in the process of assessing and quantifying the impact of IFRS 15

*IFRS 9 "Financial instruments"*

IFRS 9 comes into effect from 1 January 2018 and deals with the classification, measurement, recognition and derecognition of financial assets and liabilities. There are also changes to the method of calculating impairment losses on financial assets and in hedge documentation requirements. IFRS 9 is not expected to have a material impact on the Company's financial statements.

There are no other new or amended standards which are not yet effective and which are expected to have a significant impact on the Company's financial statements.

##### 3.5 Consolidation

The Company is a wholly owned subsidiary of MDNX Group Holdings Limited and of its ultimate parent, Interoute Communications Holdings SA. It is included in the consolidated financial statements of Interoute Communications Holdings SA which are publicly available. The address of the ultimate parent's registered office is 2-8 Avenue Charles De Gaulle, L-1653, Luxembourg. These financial statements are separate financial statements.

##### 3.6 Foreign currency

(i) Functional and presentation currency

The Company's functional and presentation currency is the Pound Sterling.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency at the rates ruling at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'Finance expense' or 'Finance income'. All other foreign exchange gains and losses are presented in the income statement within 'Administrative expenses'.

## **EASYNET LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **3. Summary of significant accounting policies (continued)**

##### **3.7 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for services rendered, net of returns, discounts and rebates allowed by the Company and value added taxes.

###### **(i) Provision of telecommunication services**

Revenue from the provision of telecommunication services is recognised rateably over the period in which the service is provided. Amounts invoiced in advance are shown as deferred income and recognised as revenue in the period in which the service is provided. Amounts invoiced in arrears are shown as accrued income and recognised as revenue in the period in which the service is provided.

###### **(ii) Connection fees**

Connection fees are recognised as revenue over the expected customer relationship period. For the majority of services the directors have estimated the expected customer relationship period to be three years.

##### **3.8 Taxation**

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

###### **(i) Current tax**

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

###### **(ii) Deferred tax**

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**EASYNET LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**3. Summary of significant accounting policies (continued)**

**3.9 Investments**

Investments in subsidiaries are held at cost less accumulated impairment losses.

**3.10 Property, plant and equipment**

Property, plant and equipment are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, together with labour and other associated costs which are directly attributable to the construction. Capitalised labour corresponds to those labour costs incurred by the Company for its own purposes in the installation of property, plant and equipment.

Following the integration with Interoute and review of property, plant and equipment, it has been deemed more appropriate to present all property, plant and equipment within the same category of plant and machinery, in line with Interoute policy

**(i) Plant and machinery**

Plant and machinery are stated at cost less accumulated depreciation and accumulated impairment losses.

**(ii) Depreciation and residual values**

Depreciation on assets is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

- Plant and machinery      3-5 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

**(iii) Derecognition**

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in Administrative expenses'.

**EASYNET LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**3. Summary of significant accounting policies (continued)**

**3.11 Impairment of non-financial assets**

At each balance sheet date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication, the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income statement.

**3.12 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

## **EASYNET LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **3. Summary of significant accounting policies (continued)**

##### **3.13 Financial instruments**

###### **(i) Financial assets**

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

###### **(ii) Financial liabilities**

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

###### **(iii) Offsetting**

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### **3.14 Share capital**

Ordinary shares are classified as equity.

## EASYNET LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

#### 4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### (a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

##### (i) Impairment of receivables

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the current credit rating of the debtor, the ageing profile of receivables and historical experience. See note 14 for the net carrying amount of the receivables and associated impairment provision.

##### (ii) Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. Historical differences between forecast and actual taxable profits have not resulted in material adjustments to the recognition of deferred tax assets (note 11).

#### 5. Revenue

An analysis of revenue by class of business is as follows:

	<b>Year ended 31 December 2016 £000</b>	<b>13 months ended 31 December 2015 £000</b>
Services	<b>16,119</b>	<b>21,176</b>

Analysis of revenue by country of destination:

	<b>Year ended 31 December 2016 £000</b>	<b>13 months ended 31 December 2015 £000</b>
United Kingdom	<b>15,984</b>	<b>20,923</b>
Rest of Europe	<b>118</b>	<b>162</b>
Rest of World	<b>17</b>	<b>91</b>
	<b>16,119</b>	<b>21,176</b>

**EASYNET LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016****6. Operating profit**

The operating profit is stated after charging:

	<b>Year ended 31 December 2016 £000</b>	<b>13 months ended 31 December 2015 £000</b>
Depreciation of property, plant and equipment (note 12)	<b>88</b>	<b>188</b>
Impairment of trade receivables	<b>(1,089)</b>	<b>127</b>
Foreign exchange (gains)/losses	<b>(492)</b>	<b>220</b>
Amortisation of intangible assets	<b>-</b>	<b>22</b>

**7. Finance expense**

	<b>Year ended 31 December 2016 £000</b>	<b>13 months ended 31 December 2015 £000</b>
Net foreign exchange loss on cash and loans	<b>-</b>	<b>(263)</b>

**8. Auditors' remuneration**

Auditors' remuneration fees of £61,000 (2015: £15,000) have been paid by another group company, Interoute Communications Limited and are not recharged.

## **EASYNET LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **9. Employees**

The Company does not employ any staff directly, as this is handled by other group companies. The Company is not recharged for these costs.

#### **10. Directors' emoluments**

Directors emoluments are borne by another group undertaking, Interoute Communications Limited and are not recharged to the Company. Prior to the Interoute acquisition in 2015 the director's emoluments of the Easynet Group were paid by MDNX Group Holdings and no recharge was made to the Company.

Total emoluments of £1,220,000 and aggregate amounts receivable excluding shares under long term incentive schemes of £25,000 in relation to the directors were borne by another group company. These costs were not recharged to the Company.

These include amounts in respect of the highest paid director, with emoluments of £578,000 (2015: £532,000) and contributions to the Group defined contribution pension scheme of £14,000 (2015: £11,000), which are also borne by another group company.

During the year 3 directors received shares in Interoute Communications Holdings S.A ("ICHSA") in respect of qualifying services (2015: none).



**EASYNET LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**11. Income tax expense**

	<b>Year ended 31 December 2016</b>	<b>13 months ended 31 December 2015</b>
	<b>£000</b>	<b>£000</b>
<b>(a) Tax expense included in profit or loss</b>		
Current tax on profit for the year / period	-	-
<b>Tax on profit on ordinary activities</b>	-	-

**(b) Reconciliation of tax charge**

The tax assessed for the year is lower than (2015: lower than) the standard rate of corporation tax in the UK of 20.00% (2015: 20.31%). The differences are explained below:

	<b>Year ended 31 December 2016</b>	<b>13 months ended 31 December 2015</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before tax	245	3,962
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015: 20.31%)	49	805
<b>Effects of:</b>		
Expenses not deductible for tax purposes	51	43
Group relief received for nil payment	(100)	(848)
<b>Tax on profit on ordinary activities</b>	-	-

**EASYNET LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016****11. Income tax expense (continued)****(c) Deferred taxation**

Deferred tax has been calculated at a rate of 17% (2015: 18%). A deferred tax asset has not been recognised in respect of losses carried forward, fixed assets and short term timing differences as there is insufficient evidence that it will be recovered. The amount of the net asset not recognised is £650k (2015: £836k). The asset would be recovered if the Company makes sufficient taxable profits against which it could be offset.

**(d) Factors that may affect future tax charges**

From 1 April 2015, the UK taxation rate has been 20%. Legislation to reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020 was enacted in October 2015. A further reduction to 17% from 1 April 2020 was enacted in September 2016.

**12. Property, plant and equipment**

	<b>Plant and machinery</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>
<b>Cost</b>		
At 1 January 2016 and at 31 December 2016	<u>3,563</u>	<u>3,563</u>
<b>Accumulated depreciation</b>		
At 1 January 2016	3,404	3,404
Charge for the year	<u>88</u>	<u>88</u>
At 31 December 2016	<u>3,492</u>	<u>3,492</u>
<b>Net book value</b>		
At 31 December 2016	<u>71</u>	<u>71</u>
At 31 December 2015	<u>159</u>	<u>159</u>

Following the integration with Interoute and review of property, plant and equipment, it has been deemed more appropriate to present all property, plant and equipment within the same category of plant and machinery, in line with Interoute's policy.

**EASYNET LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016****13. Investment in subsidiary**

The movement in the year was as follows:

	Shares in subsidiaries £'000
<b>Cost</b>	
At 1 January 2016 and 31 December 2016	1,823
<b>Provision</b>	
At 1 January 2016 and 31 December 2016	(67)
<b>Net book value</b>	
At 1 January 2016 and 31 December 2016	1,756

The investment in subsidiaries shown above represents the cost of the shares of the wholly-owned subsidiary undertakings.

The provision relates to impairment in the investment of Hong Kong Easynet Technology Co. Ltd in a prior period. There were no provisions for impairment in value in December 2015 or December 2016.

The followings investments were held as at 31 December 2016:

<b>Name</b>	<b>Country of incorporation and the place of business</b>	<b>Description and proportion of shares held (%)</b>	<b>Principle activity</b>	<b>Registered office address</b>
<b>Direct Holdings</b>				
Hong Kong Easynet Technology Co. Ltd	Hong Kong	100% Ordinary share capital	Telecommunications	9 <sup>th</sup> Floor, 3 Exchange Square, Central, Hong Kong
Easynet AG	Switzerland	100% Ordinary share capital	Telecommunications	Interoute Managed Services Switzerland Sàrl, Josefstrasse 225, CH-8005 Zurich, Switzerland
Easynet Group Inc.	USA	100% Ordinary share capital	Telecommunications	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Easynet (Shanghai) Information & Technology Co. Ltd	China	100% Ordinary share capital	Telecommunications	Unit 204, Floor 2, Building B, No. 2 Chamtime Square No. 2889, Jinke Road, China (Shanghai Pilot Free Trade Zone)

**EASYNET LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016****14. Trade and other receivables**

	2016 £000	2015 £000
Trade receivables	1,973	2,065
Amounts owed by group undertakings	38,013	20,449
Other receivables	35	-
Taxation and social security	472	-
Prepayments and accrued income	-	38
	<b>40,493</b>	<b>22,552</b>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are considered repayable on demand.

Trade receivables are stated net of impairment provision of £225,000 (2015: £127,000).

**15. Payables: amounts falling due within one year**

	2016 £000	2015 £000
Amounts owed to group undertakings	24,966	5,790
Taxation and social security	-	253
Trade payables	226	1,207
Accruals and deferred income	2,932	3,768
	<b>28,124</b>	<b>11,018</b>

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Accruals and deferred income due in less than one year includes £2,932,000 (2015: £3,768,000) in respect of amounts invoiced to customers which will be recognised as revenue within the next 12 months (note 17).

**EASYNET LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016****16. Payables: amounts falling due after more than one year**

	<b>2016 £000</b>	<b>2015 £000</b>
Accruals and deferred income	<b>294</b>	<b>195</b>

Accruals and deferred income due after more than one year includes £294,000 (2015: £195,000) in respect of amounts invoiced to customers which will be recognised as revenue over the period which telecommunications services are provided to customers (note 17).

**17. Maturity profile of deferred income**

Deferred income falls due as follows:

	<b>2016 £000</b>	<b>2015 £000</b>
Within one year	<b>2,932</b>	<b>3,768</b>
Between one and five years	<b>294</b>	<b>195</b>
	<b>3,226</b>	<b>3,963</b>

**18. Called up share capital**

	<b>2016 £000</b>	<b>2015 £000</b>
<b>Allotted and called up</b>		
316,603 (2015:316,603) ordinary shares of £1 (2015: £1) each	<b>317</b>	<b>317</b>

**19. Reserves****Retained earnings**

The retained earnings represents the accumulated profits, losses and distributions of the Company.

**Share premium account**

The share premium account represents the consideration received on the issue of shares in the Company in excess of the nominal value of those shares, net of share issue costs, bonus issues of shares and any subsequent capital reductions.

## **EASYNET LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **20. Contingent liabilities**

##### *Securities*

Bank loans and facilities elsewhere in the group are secured by debentures which include the assets of the Company. In particular, this includes the €350m fixed rate notes issued by Interoute Finco Plc and the €275m Term loan B held by Interoute Communications Limited.

#### **21. Ultimate parent undertaking and controlling party**

The directors consider the Company's immediate parent undertaking to be MDNX Group Holdings Limited, a company incorporated in the United Kingdom.

Consolidated financial statements of Interoute Communications Holdings S.A., the intermediate parent undertaking of Interoute Communications Limited, can be obtained from the Company Secretary at 2-8 Avenue Charles De Gaulle, L-1653 Luxembourg. Interoute Communications Holdings S.A. is the parent of the smallest and largest group to consolidate these financial statements.

The directors consider the Company's ultimate parent undertaking and controlling party to be Emasan AG, a company incorporated in Switzerland.