

DELIVERY OF ADVANCED NETWORK TECHNOLOGY TO EUROPE LIMITED
("DANTE")

Report and Financial statements

31 December 2004

DANTE

Registered No. 2806796

DIRECTORS

J Boland
J Gruntorad
E Valente
D Vandromme

SECRETARY

M J Scott

AUDITORS

Ernst & Young LLP
Compass House
80 Newmarket Road
Cambridge
CB5 8DZ

BANKERS

Barclays Bank plc
Bene't Street Branch
P.O. Box 2
Cambridge
CB2 3PZ

SOLICITORS

Manches
3 Worcester Street
Oxford
OX1 2PZ

REGISTERED OFFICE

3 Worcester Street
Oxford
OX1 2PZ

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2004.

RESULTS AND DIVIDENDS

The surplus of income over expenditure for the year, before taxation amounted to €6,000 (2003: €174,000). The surplus on ordinary activities after taxation amounted to €200,000 (2003: €16,000) which has been transferred to reserves. The Articles of Association of the company do not permit the payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity is the research into, and the development and provision of, advanced electronic international telecommunication facilities, primarily for the research, academic and educational community in Europe.

FUTURE DEVELOPMENTS

The main activity for 2005 is to finalise the procurement and implementation of the next generation of Pan European network, GEANT2. This new network will increase the capability and reach of the network and represents a significant step forward in the development of Pan European networking. In addition DANTE will continue the ongoing development of the regional networking activities covering the south and eastern Mediterranean, Latin America and South East Asia.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

R Arak (retired 26 July 2004)
J Boland
J Gruntorad
E Valente
D Vandromme

The Articles of Association do not permit directors to hold any interests in the share capital of the company.

AUDITORS

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board



M J Scott

Secretary

19 May 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 of the profit or loss of the company for that period. In preparing those 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; 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DELIVERY OF ADVANCED NETWORK TECHNOLOGY TO EUROPE LIMITED

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Income and Expenditure Account, Balance Sheet, Statement of Cash Flows and the related notes 1 to 16. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. 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 regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

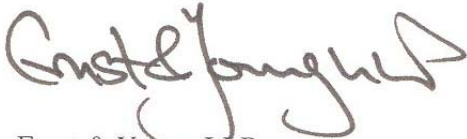
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 company'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 as at 31 December 2004 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A large, stylized handwritten signature in black ink, appearing to read 'Ernst & Young'.

Ernst & Young LLP
Registered Auditor
Cambridge

19 May 2005

DANTE

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 December 2004

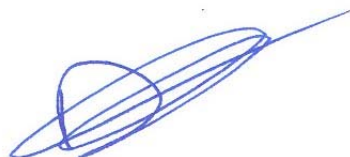
| | <i>Notes</i> | <i>2004</i> €'000 | <i>2003</i> €'000 |
|---|--------------|----------------------|----------------------|
| TURNOVER | 2 | 48,968 | 48,511 |
| Cost of sales | | 45,421 | 45,747 |
| | | <hr/> | <hr/> |
| GROSS SURPLUS | | 3,547 | 2,764 |
| Administrative expenses | 3 | (3,758) | (2,747) |
| Foreign exchange (loss)/profit | | (1) | 17 |
| | | <hr/> | <hr/> |
| OPERATING (LOSS)/PROFIT | 4 | (212) | 34 |
| Interest receivable | | 218 | 140 |
| | | <hr/> | <hr/> |
| SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION | | 6 | 174 |
| Tax on surplus on ordinary activities | 6 | 194 | (58) |
| | | <hr/> | <hr/> |
| SURPLUS ON ORDINARY ACTIVITIES AFTER TAXATION | 13 | 200 | 116 |
| | | <hr/> <hr/> | <hr/> <hr/> |

There are no recognised gains or losses which have not been reflected in the above results for the current or prior period.

DANTE

BALANCE SHEET as at 31 December 2004

| | <i>Notes</i> | <i>2004</i> €'000 | <i>2003</i> €'000 |
|---|--------------|----------------------|----------------------|
| FIXED ASSETS | | | |
| Tangible assets | 7 | 2,668 | 5,365 |
| CURRENT ASSETS | | | |
| Debtors | 8 | 30,670 | 18,258 |
| Cash at bank and in hand | 9 | 42,469 | 17,099 |
| | | 73,138 | 35,357 |
| CREDITORS: amounts falling due within one year | 10 | 68,900 | 34,015 |
| NET CURRENT ASSETS | | 4,239 | 1,342 |
| TOTAL ASSETS | | 6,907 | 6,707 |
| | | 6,907 | 6,707 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 12 | 1,576 | 1,576 |
| Capital contributions | 13 | 35 | 35 |
| Income and expenditure account | 13 | 5,296 | 5,096 |
| TOTAL SHAREHOLDERS' FUNDS - EQUITY | | 6,907 | 6,707 |



D Vandromme
Director

19 May 2005

DANTE

STATEMENT OF CASH FLOWS

For the year ended 31 December 2004

| | <i>Notes</i> | <i>2004</i> <i>€'000</i> | <i>2003</i> <i>€'000</i> |
|--|--------------|-----------------------------|-----------------------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 14(a) | 26,780 | 7,815 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | 14(b) | 218 | 140 |
| TAXATION | 14(b) | (6) | - |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | 14(b) | (1,620) | (4,431) |
| MANAGEMENT OF LIQUID RESOURCES | 14(b) | (16,612) | (2,787) |
| INCREASE IN CASH | | <u>8,760</u> | <u>737</u> |

A reconciliation of net cash flow to total changes in cash at bank and in hand and short term deposits is given in note 14(c) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

1. ACCOUNTING POLICIES***Accounting convention***

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Fixed assets

All fixed assets are recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

| | | |
|--------------------------|---|---------------------|
| Short leasehold property | - | over the lease term |
| Furniture | - | over 5 years |
| Equipment | - | over 3 years |

Foreign currencies

The company's functional currency is the Euro. Transactions in currencies other than the Euro are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the Euro are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income and expenditure account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Operating lease commitments

Rentals paid under operating leases are charged on a straight-line basis over the lease term.

2. TURNOVER

Turnover, which is stated net of value added tax and arises from one activity, represents amounts derived from the provision of services which fall within the company's principal activity.

An analysis of turnover by geographical market is given below.

| | 2004 | 2003 |
|----------------|----------------------|----------------------|
| | €'000 | €'000 |
| Europe | 48,080 | 48,511 |
| Outside Europe | 888 | - |
| | <u>48,968</u> | <u>48,511</u> |
| | <u><u>48,968</u></u> | <u><u>48,511</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

3. ADMINISTRATIVE EXPENSES

| | <i>2004</i> | <i>2003</i> |
|---------------------------------|--------------|--------------|
| | <i>€'000</i> | <i>€'000</i> |
| Wages and salaries | 1,609 | 1,409 |
| Social security costs | 281 | 205 |
| Other staff costs | 525 | 351 |
| Depreciation | 66 | 38 |
| Premises | 410 | 200 |
| Exceptional relocation expenses | 323 | - |
| Professional services | 201 | 240 |
| Financial charges | 22 | 13 |
| Other administrative expenses | 321 | 291 |
| | <u>3,758</u> | <u>2,747</u> |

The average weekly number of employees during the year was as follows:

| | <i>2004</i> | <i>2003</i> |
|----------------|-------------|-------------|
| | <i>No.</i> | <i>No.</i> |
| Administration | 30 | 27 |

4. OPERATING (LOSS)/PROFIT

| | <i>2004</i> | <i>2003</i> |
|--|-------------------|-------------------|
| | <i>€'000</i> | <i>€'000</i> |
| This is stated after charging/(crediting): | | |
| Auditors' remuneration -audit services | 22 | 18 |
| -non audit services | 32 | 8 |
| Operating lease costs for buildings | 323 | 163 |
| Foreign exchange loss/(profit) | 1 | (17) |
| Depreciation of owned fixed assets | 3,694 | 3,864 |
| | <u> </u> | <u> </u> |

5. DIRECTORS' REMUNERATION

No director received any remuneration from the company during the year (2003: €0).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

6. TAX ON SURPLUS ON ORDINARY ACTIVITIES

| | <i>2004</i> | <i>2003</i> |
|--|-------------------|-------------------|
| | <i>€'000</i> | <i>€'000</i> |
| Current tax: | | |
| UK corporation tax | 542 | 490 |
| Tax overprovided in prior periods | (252) | - |
| | <u>290</u> | <u>490</u> |
| Total current tax | | |
| Deferred taxation (note 11) | (484) | (432) |
| | <u>(194)</u> | <u>58</u> |
| | <u><u>290</u></u> | <u><u>490</u></u> |
| Factors affecting the tax charge for the period: | | |
| | <i>2004</i> | <i>2003</i> |
| | <i>€'000</i> | <i>€'000</i> |
| Surplus on ordinary activities before taxation | 6 | 174 |
| | <u>6</u> | <u>174</u> |
| Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%) | 2 | 52 |
| Effect of: | | |
| Disallowed expenses and non-taxable invoice | 36 | 6 |
| Decelerated capital allowances | 504 | 432 |
| Adjustment in respect of prior periods | (252) | - |
| | <u>290</u> | <u>490</u> |
| Current tax charge for the period | <u><u>290</u></u> | <u><u>490</u></u> |

The directors have made full provision for taxation for the years ended 31 December 2001, 2002, 2003 and 2004 pending agreement of the company's tax status and liabilities with the Inland Revenue.

DANTE

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

7. TANGIBLE FIXED ASSETS

| | <i>Short leasehold property</i> | <i>Furniture</i> | <i>Equipment</i> | <i>Total</i> |
|--------------------------|-------------------------------------|------------------|------------------|--------------|
| | €'000 | €'000 | €'000 | €'000 |
| Cost: | | | | |
| At 1 January 2004 | 52 | 91 | 15,227 | 15,370 |
| Additions | 166 | 87 | 744 | 997 |
| At 31 December 2004 | 218 | 178 | 15,971 | 16,367 |
| Depreciation: | | | | |
| At 1 January 2004 | 52 | 85 | 9,868 | 10,005 |
| Provided during the year | 10 | 13 | 3,671 | 3,694 |
| At 31 December 2004 | 62 | 98 | 13,539 | 13,699 |
| Net book value: | | | | |
| At 31 December 2004 | 156 | 80 | 2,432 | 2,668 |
| At 1 January 2004 | - | 6 | 5,359 | 5,365 |

8. DEBTORS

| | 2004 | 2003 |
|--------------------------------|--------|--------|
| | €'000 | €'000 |
| GÉANT debtors | 10,122 | 7,688 |
| Other trade debtors | 2,032 | 2,019 |
| Other debtors | 11,832 | 1,284 |
| Prepayments and accrued income | 5,246 | 6,004 |
| UK VAT repayable | 384 | 693 |
| Deferred tax (note 11) | 1,054 | 570 |
| | 30,670 | 18,258 |

9. CASH AT BANK AND IN HAND

On 2 December 2003, the Company granted a counter-indemnity to an EU special funded account relating to funds transferred to DANTE for the EUMEDCONNECT project, in favour of Crown Agents Financial Services Limited. At 31 December 2004 the balance of cash and short term deposits covered by the indemnity was €1,864,233 (2003: €600,000)

On 20 May 2004, the Company granted a counter-indemnity to an EU special funded account relating to funds transferred to DANTE for the ALICE project, in favour of Crown Agents Financial Services Limited. At 31 December 2004 the balance of cash and short term deposits covered by the indemnity was €2,570,931 (2003: €0)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2004 | 2003 |
|---|---------------|---------------|
| | €'000 | €'000 |
| GÉANT creditors | 8,456 | 6,612 |
| Rebates in respect of GÉANT service subscriptions | 2,515 | 1,200 |
| Rebates in respect of DWS service subscriptions | 280 | 1,100 |
| Other trade creditors | 2,942 | 204 |
| UK corporation tax | 1,492 | 1,208 |
| Other taxes and social security costs | 52 | 50 |
| Other creditors | 36,586 | 6,177 |
| Accruals and deferred income | 16,577 | 17,464 |
| | <u>68,900</u> | <u>34,015</u> |

11. PROVISIONS FOR DEFERRED TAXATION

The deferred tax assets recognised in respect of deferred taxation arising from decelerated capital allowances are as follows:

| | 2004 | 2003 |
|--------------------------------------|----------------|--------------|
| | €'000 | €'000 |
| At 1 January | (570) | (138) |
| Benefit for the year (note 6) | (504) | (432) |
| Adjustment in respect of prior years | 20 | - |
| At 31 December | <u>(1,054)</u> | <u>(570)</u> |

12. CALLED UP SHARE CAPITAL

| | 2004 | <i>Authorised</i> 2003 |
|----------------------------|------------------|---|
| | No. | No. |
| Ordinary shares of £1 each | 2,500,000 | 2,500,000 |
| | <u>2,500,000</u> | <u>2,500,000</u> |
| | | <i>Allotted, called up and fully paid</i> |
| | 2004 | 2003 |
| | €'000 | €'000 |
| Ordinary shares of £1 each | 1,576 | 1,576 |
| | <u>1,576</u> | <u>1,576</u> |
| | No. | No. |
| Ordinary shares of £1 each | 1,171,500 | 1,171,500 |
| | <u>1,171,500</u> | <u>1,171,500</u> |

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

13. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

| | <i>Share capital</i> €'000 | <i>contributions</i> €'000 | <i>Income and expenditure account</i> €'000 | <i>Total shareholders' funds</i> €'000 |
|----------------------|-----------------------------------|-------------------------------|--|---|
| At 1 January 2003 | 1,576 | 35 | 4,980 | 6,591 |
| Surplus for the year | - | - | 116 | 116 |
| At 31 December 2003 | 1,576 | 35 | 5,096 | 6,707 |
| Surplus for the year | - | - | 200 | 200 |
| At 31 December 2004 | 1,576 | 35 | 5,296 | 6,907 |

14. NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of operating (loss)/profit to net cash inflow from operating activities:

| | 2004 €'000 | 2003 €'000 |
|---|---------------|---------------|
| Operating (loss)/profit | (212) | 34 |
| Depreciation | 3,694 | 3,864 |
| Increase in debtors | (11,928) | (1,279) |
| Increase in creditors | 35,224 | 5,138 |
| Exchange rate movements on cash and short term deposits | 2 | 58 |
| Net cash inflow from operating activities | 26,780 | 7,815 |

b) Analysis of cash flows for headings netted in the statement of cash flows

| | 2004 €'000 | 2003 €'000 |
|--|---------------|---------------|
| Returns on investments and servicing of finance: | | |
| Interest received | 218 | 140 |

| | 2004 €'000 | 2003 €'000 |
|-------------------------|---------------|---------------|
| Taxation: | | |
| UK corporation tax paid | (6) | - |

| | 2004 €'000 | 2003 €'000 |
|---|---------------|---------------|
| Capital expenditure and financial investment: | | |
| Payment to acquire tangible fixed assets | (1,620) | (4,431) |

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

14. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

| | 2004 €'000 | 2003 €'000 |
|---------------------------------|-------------------|-------------------|
| Management of liquid resources: | | |
| Increase in short term deposits | (16,612) | (2,787) |
| | <u> </u> | <u> </u> |

c) Analysis of changes in net debt

| | <i>At 1 January 2004 €'000</i> | <i>Cashflow €'000</i> | <i>Exchange rate movements €'000</i> | <i>At 31 December 2004 €'000</i> |
|---------------------|--|---------------------------|--|--|
| Cash | 2,698 | 8,760 | (2) | 11,456 |
| Short term deposits | 14,401 | 16,612 | - | 31,013 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | 17,099 | 25,372 | (2) | 42,469 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Short term deposits are included within cash at bank and in hand in the balance sheet.

15. RELATED PARTY TRANSACTIONS

Under UK accounting standards, transactions between a company and a significant shareholder with common management, or directly with its shareholders, are deemed to be related party transactions. All related party transactions were made on a fully arms length basis. During the year €27,942,000 of sales was derived from shareholders (2003: €32,320,000). Sales during the year and amounts due from/(owed by) related parties at year end, where directors of DANTE Limited also hold directorships in the shareholding company, are as follows.

| <i>Related Party</i> | <i>Relationship</i> | <i>Amounts (Due)/Owed (to)/by Related Party</i> | | | |
|----------------------|---|---|-----------------------|-----------------------|-----------------------|
| | | <i>Sales to Related Party 2004 €'000</i> | <i>2003 €'000</i> | <i>2004 €'000</i> | <i>2003 €'000</i> |
| D Vandromme | Director of GIP RENATER, which holds 165,000 ordinary shares in DANTE | 1,704 | 1,901 | 466 | (94) |
| J Boland | Chief Executive of HEAnet, which Holds 22,000 ordinary shares in DANTE | 1,433 | 1,998 | 233 | 840 |
| R Arak | Chief Executive of UKERNA, (who represent HEFC-E), HEFC-E holds 165,000 ordinary shares in DANTE | 1,353 | 1,894 | - | 661 |
| J Gruntorad | Director of CESNET which holds 22,000 ordinary shares in DANTE | 1,641 | 1,793 | - | - |

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

15. RELATED PARTY TRANSACTIONS (continued)

| <i>Related Party</i> | <i>Relationship</i> | <i>Sales to Related Party</i> | | <i>Amounts (Due)/Owed (to)/by Related Party</i> | |
|----------------------|--|-------------------------------|--------------|---|--------------|
| | | <i>2004</i> | <i>2003</i> | <i>2004</i> | <i>2003</i> |
| | | <i>€'000</i> | <i>€'000</i> | <i>€'000</i> | <i>€'000</i> |
| E Valente | Director of Consortium GARR Which holds 165,000 ordinary shares in DANTE | 2,319 | 2,881 | 617 | 467 |
| V Castelo | Director of RedIRIS, which holds 55,000 ordinary share in DANTE | - | 3,090 | - | 799 |

16. OPERATING LEASE COMMITMENTS

At 31 December the company had annual commitments under operating leases in respect of land and buildings as set out below:

| | <i>2004</i> | <i>2003</i> |
|--------------------------------|-------------------|-------------------|
| | <i>€'000</i> | <i>€'000</i> |
| Operating leases which expire: | | |
| Within one year | - | 185 |
| After five years | 415 | - |
| | <u> </u> | <u> </u> |