

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

Report and Financial statements

31 December 2006

DIRECTORS

J Boland
T Brunner
J Gruntorad
I Maric
K Ullmann

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

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9400 Garsington Road
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REGISTERED OFFICE

9400 Garsington Road
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DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2006.

RESULTS AND DIVIDENDS

The surplus of income over expenditure for the year, before taxation amounted to €67,000 (2005: Deficit of €31,000). The surplus on ordinary activities after taxation amounted to €69,000 (2005: €32,000) 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. 2006 was an important year for the company, where much of the new Pan European network, GEANT2, was implemented and services were migrated from the legacy network to the new infrastructure. This complex activity was completed across Europe without any significant interruptions of services and represents a major step in the development of the Pan European Network and its capabilities. The GEANT2 programme is the key activity and object for DANTE representing about €40M (70%) of the total income and expenditure. Other activities such as Regional development initiatives in Latin America (ALICE), North Africa and Eastern Mediterranean (EUMEDCONNECT) and South East Asia (TEIN2) represent about €4M (7%) each of total income and expenditure.

From a financial out-turn perspective, the net surplus is small at €69,000, but this is as expected for a not for profit entity. Apart from the highly advanced technical capability, this demonstrates that the National Research and Education Networks benefit from these activities at the lowest possible cost.

FUTURE DEVELOPMENTS

The main activities for 2007 are to continue to develop the Pan European network, GEANT2, to develop and implement new leading edge services that enable, facilitate and enhance research across Europe and between Europe and other world regions.

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.

PRINCIPAL RISKS AND UNCERTAINTIES

The principle uncertainties for the company relate to the continued interest from the National Research and Education (NREN) community and from the European Commission in supporting the development and provision of advanced network technology services for the research, academic and educational community in Europe. Continuity of support from the European Commission depends largely on the scheduled funding programmes and occasionally these are not always timed to be able to offer continued funding. The Company seeks to address such funding gaps through the support of the NREN partners and the telecom service providers.

SUPPLIER PAYMENT POLICY

It is the company's policy to determine terms of payment with suppliers as part of the contractual arrangements that are put in place.

DISCLOSURE OF QUALIFYING THIRD PARTY INDEMNITY PROVISIONS FOR DIRECTORS

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provisions remain in force as at the date of approving the directors' report.

DIRECTORS' REPORT

COMPLETENESS OF INFORMATION TO AUDITORS

The directors have taken appropriate steps to ensure that as far as they are aware, there is no relevant audit information of which the company's auditors are unaware.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

J Boland
T Brunner (re-elected 1 January 2007)
J Gruntorad
I Maric (appointed 1 January 2007)
K Ullmann (re-elected 1 January 2007)
D Vandromme (term of office expired 31 December 2006)

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

26th June 2007

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 AUDITOR'S REPORT TO THE MEMBERS OF DANTE LIMITED

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Income and Expenditure Account, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 17. These financial statements have been prepared under 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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

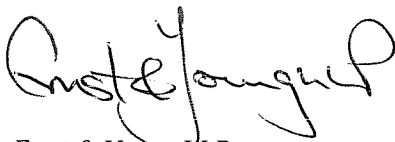
estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its surplus for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



Ernst & Young-LLP
Registered Auditor
Cambridge

29 June 2007

DANTE

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 December 2006

	<i>Notes</i>	<i>2006</i> <i>€'000</i>	<i>2005</i> <i>€'000</i>
TURNOVER	2	55,820	46,683
Cost of sales		52,200	43,183
GROSS SURPLUS		<u>3,620</u>	<u>3,500</u>
Administrative expenses	3	(3,953)	(3,824)
Foreign exchange loss		(31)	(62)
OPERATING DEFICIT	4	<u>(364)</u>	<u>(386)</u>
Interest receivable		431	355
SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>67</u>	<u>(31)</u>
Tax on surplus/(deficit) on ordinary activities	6	2	63
SURPLUS ON ORDINARY ACTIVITIES AFTER TAXATION	13	<u><u>69</u></u>	<u><u>32</u></u>

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

The above results are from continuing activities.

DANTE

BALANCE SHEET as at 31 December 2006

	<i>Notes</i>	<i>2006</i> €'000	<i>2005</i> €'000
FIXED ASSETS			
Tangible assets	7	9,410	7,827
CURRENT ASSETS			
Debtors	8	15,252	18,090
Cash at bank and in hand	9	18,583	56,156
		<u>33,835</u>	<u>74,246</u>
CREDITORS: amounts falling due within one year	10	35,887	74,782
		<u>(2,052)</u>	<u>(536)</u>
NET CURRENT LIABILITIES			
		<u>7,358</u>	<u>7,291</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	11	350	352
		<u>7,008</u>	<u>6,939</u>
CAPITAL AND RESERVES			
Called up share capital	12	1,576	1,576
Capital contributions	13	35	35
Income and expenditure account	13	5,397	5,328
		<u>7,008</u>	<u>6,939</u>
TOTAL SHAREHOLDERS' FUNDS		<u><u>7,008</u></u>	<u><u>6,939</u></u>



K Ullmann
Director

26th June 2007

DANTE

STATEMENT OF CASH FLOWS

For the year ended 31 December 2006

	<i>Notes</i>	<i>2006</i> <i>€'000</i>	<i>2005</i> <i>€'000</i>
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	14(a)	(31,160)	19,238
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	14(b)	431	355
TAXATION	14(b)	(471)	(4)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	14(b)	(6,365)	(5,934)
MANAGEMENT OF LIQUID RESOURCES	14(b)	32,115	(7,947)
(DECREASE)/INCREASE IN CASH		<u>(5,450)</u>	<u>5,708</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 2006

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

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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 it is considered 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 to the income and expenditure account as incurred.

Research and development

Research and development expenditure is written off as incurred.

DANTE

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

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.

	2006	2005
	€'000	€'000
Europe	51,654	45,373
Outside Europe	4,166	1,310
	<u>55,820</u>	<u>46,683</u>

3. ADMINISTRATIVE EXPENSES

	2006	2005
	€'000	€'000
Wages and salaries	1,893	1,921
Social security costs	473	353
Other staff costs	424	391
Depreciation	75	79
Premises	621	570
Professional services	99	161
Financial charges	29	18
Other administrative expenses	339	331
	<u>3,953</u>	<u>3,824</u>

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

	2006	2005
	No.	No.
Administration	36	33

4. OPERATING DEFICIT

	2006	2005
	€'000	€'000
This is stated after charging:		
Auditors' remuneration - audit services	35	27
- non audit services	26	19
Operating lease rentals - land and buildings	465	432
- plant and machinery	3,994	332
Depreciation of owned fixed assets	4,782	2,314

5. DIRECTORS' REMUNERATION

No director received any remuneration from the company during the year (2005: €nil).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

6. TAX ON SURPLUS / (DEFICIT) ON ORDINARY ACTIVITIES

	2006 €'000	2005 €'000
Current tax:		
UK corporation tax	-	(445)
Tax overprovided in prior periods	-	(1,024)
	<u>-</u>	<u>(1,469)</u>
Total current tax	-	(1,469)
Deferred taxation (note 11)	(2)	1,406
	<u>(2)</u>	<u>(63)</u>
	<u><u>-</u></u>	<u><u>(63)</u></u>
Factors affecting the tax charge for the period:		
	2006 €'000	2005 €'000
Surplus / (deficit) on ordinary activities before taxation	67	(31)
	<u>67</u>	<u>(31)</u>
Surplus / (deficit) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	20	(9)
Effect of:		
Disallowed expenses and non-taxable invoice	9	41
Accelerated capital allowances	(958)	(1,791)
Adjustment in respect of prior periods	-	(1,024)
Difference in tax and exchange rates on losses carried back	-	73
Unrelieved tax losses carried forward	929	1,241
	<u>-</u>	<u>(1,469)</u>
Current tax charge for the period	-	(1,469)
	<u><u>-</u></u>	<u><u>(1,469)</u></u>

7. TANGIBLE FIXED ASSETS

	<i>Short leasehold property</i> €'000	<i>Furniture</i> €'000	<i>Equipment</i> €'000	<i>Total</i> €'000
Cost:				
At 1 January 2006	218	178	23,444	23,840
Additions	-	17	6,348	6,365
Disposals	-	-	(192)	(192)
	<u>218</u>	<u>195</u>	<u>29,600</u>	<u>30,013</u>
At 31 December 2006	218	195	29,600	30,013
Depreciation:				
At 1 January 2006	79	117	15,817	16,013
Provided during the year	16	19	4,747	4,782
On disposals	-	-	(192)	(192)
	<u>95</u>	<u>136</u>	<u>20,372</u>	<u>20,603</u>
At 31 December 2006	95	136	20,372	20,603
Net book value:				
At 31 December 2006	123	59	9,228	9,410
	<u><u>123</u></u>	<u><u>59</u></u>	<u><u>9,228</u></u>	<u><u>9,410</u></u>
At 1 January 2006	139	61	7,627	7,827
	<u><u>139</u></u>	<u><u>61</u></u>	<u><u>7,627</u></u>	<u><u>7,827</u></u>

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

8. DEBTORS

	2006	2005
	€'000	€'000
GÉANT debtors	2,103	7,256
Other trade debtors	3,642	1,584
Other debtors	3,581	5,198
Prepayments and accrued income	4,673	3,452
UK VAT repayable	801	600
UK Corporation tax	452	-
	<u>15,252</u>	<u>18,090</u>

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 2006 the balance of cash and short term deposits covered by the indemnity was €1,048,616 (2005: €4,130,623)

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 2006 the balance of cash and short term deposits covered by the indemnity was €1,661,879 (2005: €5,003,892)

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006	2005
	€'000	€'000
GÉANT creditors	8,507	5,167
Rebates in respect of GÉANT service subscriptions	1,590	5,900
Rebates in respect of DWS service subscriptions	141	-
Other trade creditors	3,045	2,292
UK corporation tax	-	19
Other taxes and social security costs	63	57
Other creditors	9,987	45,240
Accruals and deferred income	12,554	16,107
	<u>35,887</u>	<u>74,782</u>

11. PROVISIONS FOR DEFERRED TAXATION

The deferred tax liability recognised arising from accelerated capital allowances is as follows:

	2006	2005
	€'000	€'000
At 1 January	352	(1,054)
Charge for the year (note 6)	29	550
Adjustment in respect of prior years (note 6)	(31)	856
At 31 December	<u>350</u>	<u>352</u>

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

12. CALLED UP SHARE CAPITAL

	<i>Authorised</i>	
	<i>2006</i>	<i>2005</i>
	<i>No.</i>	<i>No.</i>
Ordinary shares of £1 each	2,500,000	2,500,000
	<u> </u>	<u> </u>
	<i>Allotted, called up and fully paid</i>	
	<i>2006</i>	<i>2005</i>
	<i>€'000</i>	<i>€'000</i>
Ordinary shares of £1 each	1,576	1,576
	<u> </u>	<u> </u>
	<i>No.</i>	<i>No.</i>
Ordinary shares of £1 each	1,171,500	1,171,500
	<u> </u>	<u> </u>

13. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital</i>	<i>Capital expenditure contributions</i>	<i>Income and account</i>	<i>Total shareholders' funds</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
At 1 January 2005	1,576	35	5,296	6,907
Surplus for the year	-	-	32	32
At 31 December 2005	<u>1,576</u>	<u>35</u>	<u>5,328</u>	<u>6,939</u>
Surplus for the year	-	-	69	69
At 31 December 2006	<u>1,576</u>	<u>35</u>	<u>5,397</u>	<u>7,008</u>

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2006

14. NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of operating deficit to net cash inflow from operating activities:

	2006	2005
	€'000	€'000
Operating deficit	(364)	(386)
Depreciation	4,782	2,314
Decrease in debtors	3,290	6,541
(Decrease)/increase in creditors	(38,876)	10,801
Exchange rate movements on cash and short term deposits	8	(32)
	<u>(31,160)</u>	<u>19,238</u>

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

	2006	2005
	€'000	€'000
Returns on investments and servicing of finance:		
Interest received	431	355
	<u>431</u>	<u>355</u>
	2006	2005
	€'000	€'000
Taxation:		
UK corporation tax paid	(471)	(4)
	<u>(471)</u>	<u>(4)</u>
	2006	2005
	€'000	€'000
Capital expenditure and financial investment:		
Payments to acquire tangible fixed assets	(6,365)	(5,934)
	<u>(6,365)</u>	<u>(5,934)</u>
	2006	2005
	€'000	€'000
Management of liquid resources:		
Decrease/(increase) in short term deposits	32,115	(7,947)
	<u>32,115</u>	<u>(7,947)</u>

c) Analysis of changes in net debt

	At 1		Exchange	At 31
	January		rate	December
	2006	Cashflow	movements	2006
	€'000	€'000	€'000	€'000
Cash	17,196	(5,450)	(8)	11,738
Short term deposits	38,960	(32,115)	-	6,845
	<u>56,156</u>	<u>(37,565)</u>	<u>(8)</u>	<u>18,583</u>

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

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 €26,255,000 of sales was derived from shareholders (2005: €24,519,000). Sales during the year and amounts due from/(owed to) related parties at year end, are as follows.

Related Party	Relationship	Sales to Related Party		Amounts (Due)/Owed (to)/by Related Party	
		2006 €'000	2005 €'000	2006 €'000	2005 €'000
D Vandromme	Director of GIP RENATER, which holds 165,000 ordinary shares in DANTE	1,884	1,602	46	233
J Boland	Chief Executive of HEAnet, which holds 22,000 ordinary shares in DANTE	1,385	1,306	(1,295)	995
J Gruntorad	Director of CESNET which holds 22,000 ordinary shares in DANTE	1,759	1,461	(421)	–
K Ullmann	Chief Executive of DFN, which holds 165,000 ordinary shares in DANTE	2,015	1,853	60	60
T Brunner	Chief Executive of SWITCH, which holds 110,000 ordinary shares in DANTE	1,006	1,027	(403)	(213)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

16. OPERATING LEASE COMMITMENTS

At 31 December the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	
	<i>2006</i>	<i>2005</i>
	<i>€'000</i>	<i>€'000</i>
Operating leases which expire: After five years	465	432

	<i>Plant and machinery</i>	
	<i>2006</i>	<i>2005</i>
	<i>€'000</i>	<i>€'000</i>
<i>Operating leases which expire:</i>		
During the year ending 31 December 2006	3,994	3,994
During the year ending 31 December 2007	4,759	4,515
During the year ending 31 December 2008	3,221	2,951
During the year ending 31 December 2009	191	-

17. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the financial statements amounted to €1,234,495 (2005: €4,821,564).