

INTERROUTE COMMUNICATIONS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



INTERROUTE COMMUNICATIONS LIMITED

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INTERROUTE COMMUNICATIONS LIMITED

COMPANY INFORMATION

Directors	C Birkett G J Williams
Company secretary	Abogado Nominees Limited
Registered number	04472687
Registered office	Interoute Communications Limited, 31st Floor 25 Canada Square Canary Wharf London E14 5LQ
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Donington Court Pegasus Business Park Castle Donington East Midlands DE74 2UZ

INTERROUTE COMMUNICATIONS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present the strategic report for Interoute Communications Limited (the "company") for the year ended 31 December 2015.

The purpose of the strategic report is to inform members of the Company and helps them to assess how the Directors have performed their duty to promote the success of the Company.

Principal activities

Interoute Communications Limited ("ICL" or the "Company") is a provider of Next Generation Network services. It offers a range of communication services to business customers and other carriers. Products and services include VoIP (Voice over Internet Protocol), bandwidth, VPNs (Virtual Private Networks), high-speed internet access and transit, managed hosting, communications services, media streaming and the sale of Indefeasible-Rights-of-Use over network infrastructure assets. The Company is also an intermediate holding company in the Interoute Communications Holdings S.A. Group.

The Company acts as a seller of telecommunications services that are provided over a European network owned by its subsidiary undertakings.

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 Interoute Communications Limited.

The Group operates a Next Generation Network¹ 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.

INTERROUTE COMMUNICATIONS LIMITED

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2015

Review of business

The comparative figures for the previous 18 month period ended 31 December 2014 have been pro-rated below to reflect 12 months on a straight line basis.

Turnover increased from €118.7m (previously €117.6m pro-rated under UK GAAP) to €132.4m in the 12 month period to 31 December 2015. This represents an increase on a pro rata basis of 12% on the comparative period. Cost of sales has decreased by 19% from €95.6m, on a pro rata basis (previously €95.3 under UK GAAP pro-rated) to €77.0m in the 12 month period to 31 December 2015. This is caused predominantly by a change in the group's transfer pricing policy enacted during the year, which impacts the consideration the Company receives for services provided to and from other group undertakings. In the period ending 31 December 2014 a credit of €17.9m for transfer pricing was allocated to administrative costs. In the current year, it has all been assigned to Cost of Sales. As a result the Company's operating profit before exceptional items increased from a loss of €2.1m in 2014 (previously loss of €246k under UK GAAP pro-rated) to a profit of €3.9m in 2015.

The Company has significant equity and loan investments in subsidiary companies and loan agreements with other Interoute group companies. A net exceptional charge of €76.4m (2014: exceptional credit of €14.9m, on a pro rata basis) arose as a result of the impairment review at 31 December 2015 comparing the carrying value of the Company's investments in and net loans to its subsidiaries with the net present value of the future cash flows of each subsidiary (see note 7).

The Company recognised a one off loss of €709k arising from the disposal of fixed assets (2014: loss of €439k pro-rated).

As a result of the above the profit for the period ended 31 December 2014 of €18.6m pro-rated (previously €17.6m pro-rated under UK GAAP) fell to a loss of €80.9m in 2015. At 31 December 2015 the Company had net assets of €310.5m (2014: €391.3m (previously €386.7m under UK GAAP)).

Future developments

The directors do not envisage any significant change in the activities of the Company in the forthcoming year.

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

The communications market in Europe remains competitive, both in the Service Provider¹ and Enterprise² sectors. However Interoute is a very competitive provider, because of the ownership of the physical asset. This ownership helps the Group control its costs, develop new technologies based on the most advanced network systems and to deploy rapidly, without disrupting the current customer base.

In essence, to compete effectively, Interoute uses its unique physical asset. In fact, Interoute is increasing its competitive capabilities and challenging a broader range of providers.

(b) Pricing pressures

The pressure on prices continues, which could reduce margins below expectations. The Company's policy relating to the management of price risk is outlined below in the Financial Risk Management section of this report.

INTERROUTE COMMUNICATIONS LIMITED

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2015

Principal risks and uncertainties (continued)

(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; and
- all full-time employees are eligible to participate in the Interoute group's Share Scheme.

(d) Network downtime and Data Centre Infrastructure

The performance of the Group's 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:

The design of the network also mitigates the risk for customers in the case of a severe network fault, such as the destruction of part of the network. In such a circumstance the Company would be able to continue to provide services as traffic could be re-routed across a separate network path.

(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 services³, 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.

INTERROUTE COMMUNICATIONS LIMITED

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2015

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effect of changes in market prices and credit risk. The Company has in place risk management policies that seek to limit the adverse effects on the financial performance of the Company. In accordance with its investment policy (as approved by the CEO committee), the Company makes use of derivative financial instruments, mainly to mitigate currency risks arising from the different locations where the Company is conducting its operational activities. Hedge accounting is not applicable.

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;
- a focus on controlling local tail costs, including the establishment of a team of professionals with experience in local tail acquisition and cost control; and
- by structuring the sales force's incentive plan such that higher commissions are earned on higher margin products

(a) Price risk

The Company is exposed to price risk as a result of its operations, particularly in the sale of third party products. However, the directors consider that they are close enough to the market to be able to react quickly to price changes and hence manage the impact on the Company's performance.

(b) Credit risk

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

(c) 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.

Accordingly the financial statements have been prepared on a going concern basis.

(d) Interest rate cash flow risk

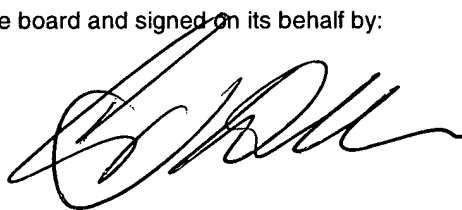
The company has interest bearing liabilities which are charged interest at variable rates and interest bearing assets consisting of cash balances which earn interest at variable rates.

INTERROUTE COMMUNICATIONS LIMITED

**STRATEGIC REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

**G J Williams
Director**

A handwritten signature in black ink, appearing to be 'G J Williams', written over a horizontal line.

Date: 26 July 2016

¹ Service Provider: A company whose primary purpose is the selling of Telecoms network services and who buys products and services from Interoute that will form all or part of its offering to its customers.

² Enterprise: The business opportunity for Enterprise Services, i.e. services that Enterprises purchase in the countries where Interoute operates/sells its services.

³ Cloud services: Servers and network services, which are made available in a "virtual" or abstracted way, so that services and capacity dynamically scale without the user having to add additional hardware or software.

INTERROUTE COMMUNICATIONS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their annual report and the audited financial statements for Interoute Communications Limited (the "company") for the year ended 31 December 2015.

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

Results and dividends

The results for the financial year are set out in the Statement of Comprehensive Income on page 11. No dividends were paid or proposed during the year ended 31 December 2015 (2014: €nil).

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 period and is currently in force. The Company also purchased and maintained throughout the financial period Directors' and Officers' liability insurance in respect of itself and its Directors.

Directors

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

C Birkett
G J Williams

Financial risk management

Details of the Company's financial risk management are disclosed in the strategic report.

Future developments

Details of future developments of the Company are disclosed in the strategic report.

Going concern

The company meets its day-to-day working capital requirements through its group facility arrangements. The current economic conditions continue to create uncertainty particularly over a) level of demand for group's products and b) the availability of finance for the foreseeable future. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the levels of its current facilities. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operating existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing the financial statements.

Political Donations

No donations have been made by the Company during the year (2014: €nil).

INTERROUTE COMMUNICATIONS LIMITED

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2015

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

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 Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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 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. 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.

Disclosure of information to auditors

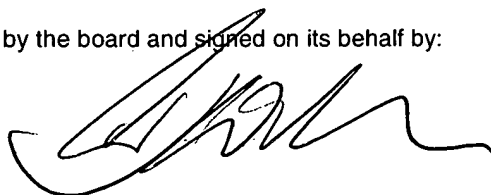
Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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



G J Williams
Director

Date: 26 July 2016

INTERROUTE COMMUNICATIONS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERROUTE COMMUNICATIONS LIMITED

Report on the financial statements

Our opinion

In our opinion, Interoute Communications 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 2015 and of its loss 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 balance sheet as at 31 December 2015;
- 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, 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.

Other matters on which we are required to report by exception

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.

Directors' remuneration

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

INTERROUTE COMMUNICATIONS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERROUTE COMMUNICATIONS LIMITED

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, 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 and 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.

What an audit of financial statements involves

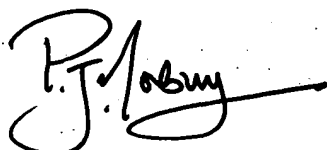
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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



Paul Norbury (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

Date: 26 July 2016

INTERROUTE COMMUNICATIONS LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

		Year ended 31 December 2015 €000	18 month period ended 31 December 2014 €000
	Note		
Turnover	5	132,376	177,988
Cost of sales		(77,045)	(143,365)
Gross profit		55,331	34,623
Administrative expenses excluding exceptional items		(50,651)	(37,167)
Exceptional administrative expenses – intercompany (impairment)/reinstatement	7	(76,383)	22,282
Total administrative expenses		(127,034)	(14,885)
Other operating losses	6	(709)	(658)
Operating (loss)/profit	6	(72,412)	19,080
Interest receivable and similar income	11	11,355	16,616
Interest payable and similar charges	12	(19,793)	(7,836)
(Loss)/profit on ordinary activities before taxation		(80,850)	27,860
Tax on profit on ordinary activities	13	-	-
(Loss)/profit for the financial year		(80,850)	27,860
Total comprehensive (expense)/income for the year		(80,850)	27,860

INTERROUTE COMMUNICATIONS LIMITED
REGISTERED NUMBER:04472687

BALANCE SHEET
AS AT 31 DECEMBER 2015

	Note	2015 €000	2014 €000
Fixed assets			
Intangible assets	14	11,928	10,652
Tangible assets	15	17,911	18,334
Investments	16	458,869	360,177
		<u>488,708</u>	<u>389,163</u>
Current assets			
Debtors	17	815,328	432,984
Cash at bank and in hand	18	68,885	16,455
		<u>884,213</u>	<u>449,439</u>
Creditors: amounts falling due within one year	19	(305,952)	(304,205)
Net current assets		<u>578,261</u>	<u>145,234</u>
Total assets less current liabilities		<u>1,066,969</u>	<u>534,397</u>
Creditors: amounts falling due after more than one year	20	(756,423)	(143,101)
Provisions for liabilities			
Other provisions	25	(96)	-
		<u>(96)</u>	<u>-</u>
Net assets		<u>310,450</u>	<u>391,296</u>
Capital and reserves			
Called up share capital	26	19,751	19,751
Share premium account	27	257,636	257,636
Capital reserve	27	368,031	368,236
Retained earnings	27	(334,968)	(254,327)
Total equity		<u>310,450</u>	<u>391,296</u>

The notes on pages 14 to 45 form part of these financial statements.

The financial statements on pages 11 to 45 were approved and authorised for issue by the board and were signed on its behalf by:



G J Williams
Director

Date: 26 July 2016,

INTERROUTE COMMUNICATIONS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Share capital	Share premium account	Capital reserve	Retained earnings	Total equity
	€000	€000	€000	€000	€000
At 1 January 2015	19,751	257,636	368,236	(254,327)	391,296
Comprehensive expense for the year					
Loss for the financial year	-	-	-	(80,850)	(80,850)
Total comprehensive expense for the year	-	-	-	(80,850)	(80,850)
Employee shares repurchased	-	-	(209)	209	-
Credit relating to equity settled share-based payments	-	-	4	-	4
Total transactions with owners	-	-	(205)	209	4
At 31 December 2015	19,751	257,636	368,031	(334,968)	310,450

FOR THE 18 MONTH PERIOD ENDED 31 DECEMBER 2014

	Share capital	Share premium account	Capital reserve	Retained earnings	Total equity
	€000	€000	€000	€000	€000
At 1 July 2013	19,751	257,636	361,619	(282,344)	356,662
Comprehensive income for the period					
Profit for the financial period	-	-	-	27,860	27,860
Total comprehensive income for the period	-	-	-	27,860	27,860
Employee shares repurchased	-	-	(157)	157	-
Credit relating to equity settled share-based payments	-	-	76	-	76
Capital contribution	-	-	6,698	-	6,698
Total transactions with owners	-	-	6,617	157	6,774
At 31 December 2014	19,751	257,636	368,236	(254,327)	391,296

The notes on pages 14 to 45 form part of these financial statements.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. General Information

Interoute Communications Limited ('ICL' or 'the Company') is a provider of Next Generation Network¹ services. It offers a range of communication services to business customers and other carriers. Products and services include VoIP (Voice over Internet Protocol), bandwidth, VPNs (Virtual Private Networks), high-speed internet access and transit, managed hosting, communications services, media streaming and the sale of indefeasible-Rights-of-Use over network infrastructure assets. The Company is also an intermediate holding company in the Interoute Communications Holdings S.A. Group.

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

Throughout the notes to the financial statements that relate to items in the statement of comprehensive income, references to 2015 refer to the year ended 31 December 2015 and references to 2014 refer to the 18 month period ended 31 December 2014.

2. Statement of compliance

The individual financial statements of Interoute Communications Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") 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 102 in these financial statements. Details of the transition to FRS 102 are disclosed in note 34.

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.

The preparation of financial statements in conformity with FRS 102 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.

3.2 Going concern

The company meets its day-to-day working capital requirements through its group facility arrangements. The current economic conditions continue to create uncertainty particularly over a) level of demand for group's products and b) the availability of finance for the foreseeable future. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the levels of its current facilities. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operating existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing the financial statements.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Summary of significant accounting policies (continued)

3.3 Exemptions for qualifying entities under FRS 102

FRS 102 allows certain disclosure exemptions. The following exemptions have been taken by the Company in preparing the financial statements:

(i) Cash flow statement

The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its intermediate parent company, Interoute Communications Holdings S.A. includes the Company's cash flows in its own consolidated financial statements.

(ii) Key management compensation

The Company has taken exemption under FRS 102 paragraph 33.7 not to disclose key management compensation.

3.4 Consolidated financial statements

The Company is a wholly owned subsidiary of Interoute Communications Holdings S.A. It is included in the consolidated financial statements of Interoute Communications Holdings S.A, a Company registered in Luxembourg which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the Company's separate financial statements.

3.5 Foreign currency translation

(i) Functional and presentation currency

The Company's functional and presentation currency is the Euro.

(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. The exchange rate of 1 GBP : EUR 1.3567 was used at 31 December 2015. 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 profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'interest receivable and similar income or interest payable and similar charges'. All other foreign exchange gains and losses are presented in the profit and loss account within 'Administrative expenses'.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Summary of significant accounting policies (continued)

3.6 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.

The Company bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Provision of telecommunication services

Revenue from the provision of telecommunication services is recognised rateably over the period in which the service is provided and the risks and rewards have transferred. Amounts invoiced in advance are shown as deferred income and recognised as turnover 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.

(iii) Indefeasible Right of Use (IRU) Agreement

Revenue associated with IRUs arrangements for ducts or dark fibres is recognised at the point at which the risks and rewards are transferred to the buyer, an IRU sale with a contract length of more than 15 years result in substantially all of the risk and rewards being transferred to the buyer and so turnover is recognised upfront. Contracts less than 15 years do not transfer the risks and rewards to the buyer so turnover is spread evenly over the length of the contract. The costs associated with the IRU arrangement are capitalised and depreciated over the life of the arrangement.

3.7 Exceptional items

The Company classifies certain one-off charges or credits that have a material impact on the Company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Company.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Summary of significant accounting policies (continued)

3.8 Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) Defined contribution pension plans

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Company in an independently administered fund.

(iii) Annual bonus plan

The Company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the Company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

(iv) Share-based payments

The Company participates in a number of share-based payment arrangements operated by Interoute Communications Holdings S.A. an intermediate parent undertaking of the Company, in which all of the Company's employees are eligible to participate.

Equity-settled arrangements are measured at fair value (excluding the effect on non-market based vesting conditions) at the date of the grant. The fair value is expensed on a straight line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest.

Where equity-settled arrangements are modified, and are of benefit to the employee, the incremental fair value is recognised over the period from the date of modification to date of vesting. Where a modification is not beneficial to the employee there is no change to the charge for share-based payment. Settlements and cancellations are treated as an acceleration of vesting and the unvested amount is recognised immediately in the income statement.

The Company has no cash-settled arrangements.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Summary of significant accounting policies (continued)

3.9 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, 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 arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

3.10 Intangible assets

Computer software, software development and licences are stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its useful life, of between three and five years, on a straight line basis. Amortisation is charged to Administrative expenses in the Statement of Comprehensive income.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Summary of significant accounting policies (continued)

3.11 Tangible assets

Tangible assets 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 tangible fixed assets.

(i) Land & buildings

Land and buildings relate to improvements to office buildings and data centres. Land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Plant and machinery and networks

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

(iii) Plant and equipment spares

Plant and machinery spares are stated at cost less accumulated depreciation. Accumulated depreciation is written back if and when plant and machinery is put into use in the network or if sold to another group company.

(iv) 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:

• Land and buildings	20 years
• Plant and machinery	3-5 years
• Networks	3-5 years
• Plant and equipment spares	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.

(iv) Derecognition

Tangible assets 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 'Other operating gains / (losses)'.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Summary of significant accounting policies (continued)

3.12 Leased assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

(i) Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the Company's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

(ii) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

3.13 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 profit and loss account

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 profit and loss account.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Summary of significant accounting policies (continued)

3.14 Investments

Investments in subsidiary undertakings are held at cost less accumulated impairment losses.

3.15 Borrowing costs

Specific borrowing costs directly attributable to the acquisition of an investment are added to the cost of the investment. General borrowing costs are deferred over the financing term and released to the profit and loss.

3.16 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.

3.17 Provisions and contingencies

(i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

In particular:

The Company provides for obligations relating to excess space in offices and Points of Presence (PoP). The provision represents the net present value of the future estimated costs and includes the proportion of the dilapidation costs relating to the excess space. The unwinding of the discount cost on these provisions is included within the profit and loss account each year as interest payable and similar charges. The 'decommissioning' element is capitalised as a fixed asset and depreciated over the expected life of the lease.

Where the Company has an obligation to return a leased property at the end of its lease in its original state of repair, a provision is made at each balance sheet date to reflect the estimated cost of 'wear and tear'. This element is debited to profit or loss. The provision represents the net present value of the estimated costs of repair to date.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

(ii) Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Summary of significant accounting policies (continued)

3.18 Financial instruments

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of 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.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate.

The Company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

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.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Summary of significant accounting policies (continued)

3.19 Share capital

Ordinary shares are classified as equity.

3.20 Related party transactions

The Company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned. See note 32 for further details.

3.21 Development costs

Costs of developing computer software that is integral to the operation of the network are capitalised as tangible assets when the following can be demonstrated:

- The intention to complete the tangible asset and use or sell it and the availability of adequate technical and financial resources for this purpose;
- That the tangible asset will generate probably future economic benefits for the Group;
- That the Group can reliably measure the expenditure attributable to the Intangible asset during its development.

Costs of developing other computer software which does not directly relate to the network are capitalised as intangible assets under FRS 102.

Development costs are capitalised and depreciated or amortised over their estimated useful economic lives, which are between 3 and 5 years.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. Judgements in applying accounting policies and key sources of estimation uncertainty

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 judgements in applying the entity's accounting policies

(i) Share-based payments

The Company's employees have been granted share options by the intermediate parent company, Interoute Communications Holdings S.A. These are valued as equity settled, therefore the fair value is calculated at the date of grant of the award and that fair value gets amortised over the remaining period between grant and expected vesting date, less expected attrition.

(b) 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) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 15 for the carrying amount of the property plant and equipment, and note 3.11(iv) for the useful economic lives for each class of assets.

(ii) Impairment of debtors

The Company makes an estimate of the recoverable value of trade and other debtors.

When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 17 for the net carrying amount of the debtors and associated impairment provision.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

5. Analysis of turnover

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

	Year ended 31 December 2015 €000	18 month period ended 31 December 2014 €000
Services	132,376	177,988
	132,376	177,988

Analysis of turnover by country of destination:

	Year ended 31 December 2015 €000	18 month period ended 31 December 2014 €000
United Kingdom	82,758	101,516
Rest of Europe	37,035	52,484
Rest of the world	12,583	23,988
	132,376	177,988

6. Operating (loss)/profit before exceptional items

The operating profit is stated after charging/(crediting):

	Year ended 31 December 2015 €000	18 month period ended 31 December 2014 €000
Loss on disposal of tangible assets	709	658
Impairment of trade receivables	120	389
Operating lease charges	9,410	8,266
Foreign exchange (gain)/loss	(3,133)	542
Depreciation of tangible assets - owned	5,564	6,785
Write back of depreciation on plant and machinery spares	(419)	-
Amortisation of intangible assets	2,688	2,988
Impairment of tangible fixed assets	205	-

Of the total depreciation charge of €5,564,000 (2014: €6,785,000) disclosed above, €1,546,000 has been charged to cost of sales (2014: €3,088,000) with the remainder being charged to administrative expenses.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

7. Exceptional items – Intercompany impairment/(reinstatement)

	2015 €000	2014 €000
(a) - Reinstatement of intercompany loans	(1,134)	(21,482)
(b) - Impairment of fixed asset investments	116,359	34,009
(c) - Reinstatement of intercompany loans	(39,797)	(34,809)
(d) - Disposal of Investment in subsidiary	955	-
	76,383	(22,282)

During the year, the company reviewed the carrying amount of its investment in certain subsidiaries and following this impairment review, the following (credits)/charges have been recognised:

(a) During the year a reinstatement of a previously waived loan owing from Interoute France SAS for €1,134,000 arose following an improvement in the company's net assets and operating performance (2014: €1,922,000). In 2014 Interoute Germany experienced an improvement in their performance and a previously waived debt of €19,597,000 was reinstated.

(b) On evaluation of the carrying amount of the company's investments a net increase of impairment provisions of €116,359,000 has arisen, where the carrying value of some investments exceeds their net present value (2014: net increase in investment provision of €34,009,000)

(c) A net release of provisions of €39,797,000 was made by the company against the value of loans to its subsidiary undertakings during the year (2014: release of €34,809,000) as the carrying value of the receivable no longer exceeds their net present value.

(d) During the year there was a disposal of an investment in Interoute Soluciones Tic Para La Pyme S.L which was sold for €1.

8. Auditors' remuneration

	2015 €000	2014 €000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	52	42
Fees payable to the company's auditor and its associates for other non-audit services	81	-
	133	42

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

9. Employees

Staff costs (including directors) were as follows:

	2015	2014
	€000	€000
Wages and salaries	23,044	26,054
Social security costs	2,855	3,113
Cost of defined contribution scheme	754	883
Share based payments (note 30)	4	76
Less capitalised labour	(4,209)	(4,923)
	22,448	25,203

A share based payment charge of €4,000 (2014: €76,000) has been recharged to the Company by its intermediate parent company Interoute Communications Holdings S.A, see note 30 for further details.

The average monthly number of employees, including the directors, during the year was as follows:

	2015	2014
	No.	No.
Sales	113	129
Technical	61	38
Administrative	63	38
	237	205

10. Directors' remuneration

	2015	2014
	€000	€000
Aggregate emoluments	1,082	909
Company contributions to defined contribution pension schemes	26	31
	1,108	940

The highest paid director received remuneration of €735,000 (2014: €576,000).

Benefits are accruing to two directors (2014: 2) under a defined contribution scheme. The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to €15,000 (2014: €17,000).

Amounts paid to the directors of the company upon the repurchase of deferred beneficiary shares totalling €693,000 (2014: €856,000) were paid by the immediate parent company Interoute Communications Holdings S.A. See note 30.

Amounts paid in respect of the highest paid director of the company upon the repurchase of deferred beneficiary shares totalling €423,000 (2014: €514,000) were paid by the immediate parent company Interoute Communications Holdings S.A. See note 30.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

11. Interest receivable and similar income

	2015 €000	2014 €000
Bank interest received	37	110
Interest receivable from other group undertakings	5,034	11,296
Loan note interest receivable (from group undertakings)	6,284	-
Total interest income on financial assets not measured at fair value through profit or loss	11,355	11,406
Gains on derivative financial instruments (note 24)	-	5,210
	11,355	16,616

12. Interest payable and similar charges

	2015 €000	2014 €000
Interest payable on overdrafts and bank loans	3,701	2,693
Interest payable on other loans	1,613	2,383
Finance lease interest	34	18
Interest payable to other group undertakings	947	1,951
Loan note interest payable (to group undertakings)	8,843	-
Other interest (deferred finance fees)	3,299	791
Total interest expense on financial liabilities not measured at fair value through profit or loss	18,437	7,836
Losses on derivative financial instruments (note 24)	1,356	-
	19,793	7,836

13. Tax on (loss)/profit on ordinary activities

There is no corporation tax charge for the Company for the period (2014: €nil).

The tax assessed on the (loss)/profit on ordinary activities for the period differs from the effective UK corporate rate of tax of 20.25% (2014: 21.50%). The differences are explained below:

a) Tax expense included in profit or loss

	2015 €000	2014 €000
Current tax on (loss)/profits for the year/period	-	-
Total current tax	-	-
Deferred tax	-	-
Total deferred tax	-	-
Tax on (loss)/profit on ordinary activities	-	-

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

13. Tax on (loss)/profit on ordinary activities (continued)

b) Reconciliation of tax charge

The tax assessed for the year/period is lower than (2014 - lower than) the standard rate of corporation tax in the UK of 20.25% (2014: 21.50%). The differences are explained below:

	2015 €000	2014 €000
(Loss)/profit on ordinary activities before tax	(80,850)	27,860
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.50%)	(16,372)	5,990
Effects of:		
Non-taxable items	15,468	(5,928)
Expenses not deductible for tax purposes	339	62
Utilisation of losses brought forward	(479)	(1,093)
Depreciation in excess of capital allowances	1,044	11
Short term timing differences	-	8
Group relief surrendered	-	950
	-	-

Items not subject to tax include the exceptional charge of €76,383,000 (2014: credit of €22,282,000), as described in note 7.

c) Deferred taxation

Deferred Tax has been calculated at a rate of 18% (2014: 20%).

At 31 December 2015 the Company recognised a deferred tax liability of €398,000 (2014: €714,000) in respect of derivative financial instruments, which was offset exactly by a recognised deferred tax asset of €398,000 (2014: €714,000) in respect of carried forward tax losses which it is probable will reverse against the deferred tax liability. A potential deferred tax asset of €328,000 in respect of derivative financial instruments as at 1 July 2013, the date of transition to FRS102, did not meet the conditions for recognition under FRS102

A deferred tax asset has not been recognised in respect of remaining fixed assets and short term timing differences brought forward as the directors do not believe there is reasonable expectation at the Group level that it will be recovered at this time. The amount of the net asset not recognised is €6,324,000 (2014: €5,341,000). The amount would be recovered if the Company makes sufficient taxable profits against which it could be offset.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

13. Tax on (loss)/profit on ordinary activities (continued)

(d) Factors that may affect future tax charges

The July 2015 Budget Statement announced changes to the UK Corporation tax rate which will reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. This change was substantively enacted on 26 October 2015.

The March 2016 Budget Statement announced a further change to the UK Corporation tax rate which will now reduce the main rate of corporation tax to 17% from 1 April 2020. As the change has not been substantively enacted at the balance sheet date its effects are not included in these financial statements.

14. Intangible assets

	Software Development €000	Licences €000	Total €000
Cost			
At 1 January 2015	23,192	5,117	28,309
Additions	3,866	98	3,964
At 31 December 2015	27,058	5,215	32,273
Accumulated Amortisation			
At 1 January 2015	13,664	3,993	17,657
Charge for the year	2,256	432	2,688
At 31 December 2015	15,920	4,425	20,345
Net book value			
At 31 December 2015	11,138	790	11,928
At 31 December 2014	9,528	1,124	10,652

INTERROUTE COMMUNICATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. Tangible fixed assets

	Land and buildings €000	Plant and machinery €000	Networks €000	Plant and equipment - Spares €000	Total €000
Cost					
At 1 January 2015	1,399	45,396	4,105	624	51,524
Additions	541	4,955	710	613	6,819
Transfers intra group	-	(643)	-	-	(643)
Disposals	(517)	(654)	(10)	(530)	(1,711)
Transfers between classes	-	(66)	(5)	71	-
At 31 December 2015	1,423	48,988	4,800	778	55,989
Accumulated depreciation					
At 1 January 2015	101	31,243	1,427	419	33,190
Charge owned for the period	75	5,230	187	72	5,564
Disposals	(4)	(458)	-	-	(462)
Transfers between classes	-	(69)	(2)	71	-
Impairment charge	-	-	-	205	205
Write back of depreciation	-	-	-	(419)	(419)
At 31 December 2015	172	35,946	1,612	348	38,078
Net book value					
At 31 December 2015	1,251	13,042	3,188	430	17,911
At 31 December 2014	1,298	14,153	2,678	205	18,334

Included in fixed assets are assets subject to finance lease with a net book value of €657,000 (2014: €844,000).

The net book value of land and building may be further analysed as follows:

	2015 €000	2014 €000
Short leasehold (less than 50 years unexpired)	1,251	1,298

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

16. Fixed asset investments

	Note	Investments in subsidiary companies €000
Cost		
At 1 January 2015		1,143,021
Acquisitions	a	156,917
Disposals	b	(955)
Capital contribution to subs	c	59,088
At 31 December 2015		1,358,071
Provisions		
At 1 January 2015		782,844
Impairment charge for the year		116,358
At 31 December 2015		899,202
Net book value		
At 31 December 2015		458,869
At 31 December 2014		360,177

The capital contributions during the year were all enacted through the legal waiver of amounts owed by the subsidiaries.

The transaction date, holding acquired and cash paid for investments in subsidiaries made during the period are below:

- On 15 October 2015, the Company acquired 100% of the share capital of MDNX Group Holdings Limited for a total consideration of €156,917,000.
- During the year the Company's investment in Interoute Soluciones Tic Para La Pyme S.L was sold for €1, with a loss on disposal of €955,000.
- During the year a number of capital contributions were made to the Companies subsidiaries including €10,000,000 to Interoute Belgium SA in exchange for a debt being waived, €47,088,000 to Interoute S.p.A and €2,000,000 to Interoute Slovakia s.r.o.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

16. Fixed asset investments (continued)

Name	Country of incorporation	Class of shares	Holding
Interoute Austria GmbH	Austria	Ordinary	100 %
Interoute Belgium N.V	Belgium	Ordinary	99.99 %
Interoute Germany GmbH	Germany	Ordinary	100 %
Interoute SpA	Italy	Ordinary	100 %
Interoute Iberia SAU	Spain	Ordinary	100 %
Interoute Networks Limited	United Kingdom	Ordinary	100 %
Interoute USA Incorporated	United States of America	Ordinary	100 %
Flute Limited	United Kingdom	Ordinary	100 %
Interoute Media Services Limited	United Kingdom	Ordinary	100 %
Interoute Czech s.r.o	Czech Republic	Ordinary	99.00 %
Interoute Hungary Kft	Hungary	Ordinary	96.60 %
Interoute Poland Sp. Z.o.o	Poland	Ordinary	100 %
S.C Interoute Romania s.r.l	Romania	Ordinary	100 %
Interoute Slovakia s.r.o	Slovakia	Ordinary	99.00 %
Interoute France SAS	France	Ordinary	100 %
Interoute Managed Services Netherlands B.V.	Netherlands	Ordinary	100 %
Interoute Managed Services Switzerland Sarl	Switzerland	Ordinary	100 %
Interoute Bulgaria JSCo	Bulgaria	Ordinary	100 %
Interoute Managed Services Sweden AB	Sweden	Ordinary	100 %
Interoute Application Management Limited (formerly Quantix Limited)	United Kingdom	Ordinary	100 %
Newinco 635 Limited	United Kingdom	Ordinary	100 %
Interoute Hong Kong Limited	Hong Kong	Ordinary	100 %
Interoute Managed Services Denmark A/S	Denmark	Ordinary	100 %
Interoute Finland Oy	Finland	Ordinary	100 %
Interoute Managed Services Norge AS (formerly Visual Conference Norge AS)	Norway	Ordinary	100 %
Videokonferensbolaget Forsaljning AB	Sweden	Ordinary	100 %
Interoute Vtesse Limited	United Kingdom	Ordinary	100 %
Interoute Cirrus Limited	United Kingdom	Ordinary	100 %
Vtesse Group Limited	United Kingdom	Ordinary	100 %
Quantix Holdings Limited	United Kingdom	Ordinary	100 %
Interoute Australia Pty Limited	Australia	Ordinary	100 %
Interoute Singapore Pte Limited	Singapore	Ordinary	100 %
Interoute iletisim hizmetleri ltd. sirketi	Turkey	Ordinary	100 %
MDNX Group Holdings Limited	United Kingdom	Ordinary	100%

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

16. Fixed asset investments (continued)

Indirectly owned investments:

Name	Country of incorporation	Class of shares	Holding
Via NetWorks France Holding SAS	France	Ordinary	100%
Interoute Managed Services Belgium BVBA	Belgium	Ordinary	0.66%
Interoute Communications Services USA Inc	USA	Ordinary	100%
ATP3 Dusseldorf GmbH	Germany	Ordinary	100%
Interoute Capital Markets B.V	Netherlands	Ordinary	100%
Interoute Treasury Services B.V	Netherlands	Ordinary	100%
Easynet Worldwide Limited	United Kingdom	Ordinary	100%
Easynet Intermediate Holding Limited	United Kingdom	Ordinary	100%
Easynet Finance Company Limited	United Kingdom	Ordinary	100%
MDNX Holdings Limited	United Kingdom	Ordinary	100%
MDNX Group Limited	United Kingdom	Ordinary	100%
EGHL Limited	United Kingdom	Ordinary	100%
Octium Limited	United Kingdom	Ordinary	100%
Easynet Channel Partners Limited	United Kingdom	Ordinary	100%
Allurian Limited	United Kingdom	Ordinary	100%
Easynet Corporate Services Limited	United Kingdom	Ordinary	100%
MDNX Limited	United Kingdom	Ordinary	100%
Easynet Enterprise Services Limited	United Kingdom	Ordinary	100%
MDNX CIG Limited	United Kingdom	Ordinary	100%
MDNX S1 Limited	United Kingdom	Ordinary	100%
Easynet Managed Services Limited	United Kingdom	Ordinary	100%
Easynet Internet Services Limited	United Kingdom	Ordinary	100%
Easynet Network Services Limited	United Kingdom	Ordinary	100%
Interdart Limited	United Kingdom	Ordinary	100%
MDNX Internet Limited	United Kingdom	Ordinary	100%
EGHL (UK) Limited	United Kingdom	Ordinary	100%
Easynet Global Services GmbH	Germany	Ordinary	100%
Easynet Espana SAU	Spain	Ordinary	100%
Easynet Nederland BV	Netherlands	Ordinary	100%
Easynet Italia Spa	Italy	Ordinary	100%
Easynet SAS	France	Ordinary	100%
Easynet Belgium NV/SA	Belgium	Ordinary	100%
B2B Holding Limited	United Kingdom	Ordinary	100%
EGSL Holding Limited	United Kingdom	Ordinary	100%
Easynet Global Services Limited	United Kingdom	Ordinary	100%
Easynet Limited	United Kingdom	Ordinary	100%
Easynet Group Inc.	United States of America	Ordinary	100%
Easynet (shanghai) Information & Technology Company Ltd	China	Ordinary	100%
Easynet AG	Switzerland	Ordinary	100%
Hong Kong Easynet Technology Co Ltd	Hong Kong	Ordinary	100%

The directors believe that the carrying value of the investments after impairment provisions is supported by their underlying assets or future cashflows.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

17. Debtors

	2015 €000	2014 €000
Trade debtors	17,284	19,333
Amounts owed by group undertakings	761,872	399,199
Other receivables	2,265	5,603
Prepayments and accrued income	8,672	5,280
Deferred finance fees	23,023	-
Derivative financial instruments	2,212	3,569
	815,328	432,984

Amounts owed by group undertakings are unsecured and repayable on demand with the exception of €668,202,000 (2014: €252,001,000) which is receivable in greater than one year and is fully secured. Interest on amounts receivable in greater than one year and on pooling balances of €5,846,000 (2014: €5,154,000) receivable within one year is being charged based on the 3 month Euribor rate plus a 1.5% margin.

Deferred finance fees include amounts falling due after more than one year €18,176,000 (2014: €nil). The deferred finance fees have arisen on the re-financing of the group debt. On 9 October 2015 the group issued fixed and floating loan notes, the cost of which have been borne by Interoute Communications Limited. As the loan notes sit in the parent company Interoute Communications Holdings SA these have been presented within debtors and will be released over the 5 year period to which they relate. They have not been recharged back to Interoute Communications Holdings SA as the company is deemed to have received the benefit of this re-financing.

Loan notes receivable (included in amounts owed by group undertakings above) amounts to €407,353,000 (2014: €nil). These relate to the funds provided by Interoute Communications Holdings Limited which have been loaned to subsidiaries Easynet Worldwide Limited and Easynet Finance Company Limited.

Trade debtors are stated after provisions for impairment of €753,000 (2014: €1,435,000).

18. Cash at bank and in hand

	2015 €000	2014 €000
Cash at bank and in hand	68,885	16,455

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

19. Creditors: Amounts falling due within one year

	2015 €000	2014 €000
Other loans	16,982	17,569
Trade creditors	9,836	9,561
Amounts owed to group undertakings	241,029	251,397
Finance leases	174	83
Other taxation and social security	2,544	460
Other creditors	782	858
Accruals and deferred income	34,489	24,180
Pension Liability	116	97
	305,952	304,205

Loans are secured on certain network assets and bear interest rates of between 3.4% and 8.8%.

Amounts owed to group undertakings are unsecured and repayable on demand with interest being charged on pooling balances of €122,917,000 (2014: €69,306,000) based on the 3 month Euribor rate plus a 1.5% margin.

Accruals and deferred income due in less than one year includes €23,588,000 (2014: €15,771,000) in respect of amounts invoiced to customers which will be recognised as turnover within the next 12 months.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

20. Creditors: Amounts falling due within one to five years

	2015 €000	2014 €000
Amounts falling due within one to five years:		
Bank loans (note 21)	-	42,892
Other loans (note 21)	16,395	10,031
Finance leases (note 23)	642	816
Accruals and deferred income	15,089	14,571
Amounts owed to group undertakings	715,674	64,843
Amounts falling due after five years:		
Accruals and deferred income	8,623	9,948
	756,423	143,101

Accruals and deferred income of €8,623,000 (2014: €9,948,000) are repayable after more than five years.

Loans secured on certain network assets and bear interest rates of between 3.375% and 7.37%.

Amounts owed to parent undertakings are unsecured and repayable in full on 31 December 2017.

Amounts owed to other group undertakings are fully secured and repayable in greater than one year with interest being charged based on the 3 month Euribor rate plus a 1.5% margin. The only exception to this is the loan payable to Interoute Application Management Limited, which has interest charged based on the 3 month Libor rate plus a 1.5% margin.

Accruals and deferred income due after more than one year includes €23,712,000 (2014: €24,519,000) in respect of amounts invoiced to customers which will be recognised as turnover over the period which telecommunications services are provided to customers. See note 23 for further details.

Loan notes payable (included in amounts owed to group undertakings above) amounts to €598,843,000 (2014: €nil). This arose during the year following the Group's re-financing in October 2015, when Interoute Communications Holdings S.A issued fixed and floating rate loan notes. These funds were then passed down to Interoute Holdings Limited who provided a loan to the Company.

21. Loans

Analysis of the maturity of external loans is given below:

	2015 €000	2014 €000
Amounts falling due within one year		
Other loans	16,982	17,569
Amounts falling due within 2-5 years		
Bank loans	-	42,892
Other loans	16,395	10,031

The bank loans in 2014 consisted of a revolving credit facility from Barclays of up to €120m. In addition to the amount drawn down at 31 December 2014, a further €5.5m was drawn during the year, with a further €71.7m undrawn. The Company repaid the outstanding bank loan of €48,348,000 in full with funds made available by its parent company Interoute Communications Holdings Limited following the Group issue of fixed and floating loan notes in October 2015.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

22. Deferred Income

Amounts in respect of deferred income are expected to be recognised in the Statement of Comprehensive Income as follows:

	2015 €000	2014 €000
Within one year	23,588	15,771
In more than one year, but not more than five years	15,089	14,571
After five years	8,623	9,946
	47,300	40,288

23. Finance leases

Minimum lease payments under finance leases fall due as follows:

	2015 €000	2014 €000
Within one year	208	120
Within 2-5 years	689	821
Over 5 years	-	75
Total gross payments	896	1,016
Less finance charges	(80)	(117)
Carrying amount of liability	816	899

Finance leases primarily relate to the purchase of network equipment (see note 15). The Company has 3 finance leases. The average period remaining on these agreements is 3 years (2014: 4 years) and there is no option to purchase the assets at the end of the term.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

24. Financial instruments

	2015 €000	2014 €000
Financial assets		
Financial assets measured at fair value through profit or loss	2,212	3,569
Financial assets that are debt instruments measured at amortised cost	808,747	424,760
	<u>810,959</u>	<u>428,329</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(1,015,072)	(407,017)
	<u>(1,015,072)</u>	<u>(407,017)</u>

Financial assets measured at fair value through profit or loss comprise of foreign currency derivative contracts.

FRS 102 requires derivative financial instruments to be recognised at fair value. The fair value has been assessed at the end of each year and changes in the value have been recognised in the statement of comprehensive income.

The Company enters into both forward contracts and options in order to mitigate the exchange risk of future fluctuations, predominantly in British Pounds and US Dollars. At 31 December 2015 the outstanding contracts all mature within 1 year (2014: 1 year).

The company has no interest rate derivative financial instruments (2014: none).

See note 34 for further details of the derivative adjustments recorded upon the transition to FRS 102.

Financial assets measured at amortised cost comprise of trade debtors, amounts owed by group undertakings, other receivables, accrued income and deferred finance fees.

Financial liabilities measured at amortised cost comprise of bank loans, other loans, trade creditors, amounts owed to group undertakings, finance leases, other creditors and accruals.

25. Other provisions

	Dilapidation provision €000
At 1 January 2015	-
Charged to the profit or loss	96
At 31 December 2015	<u>96</u>

The provision for dilapidation costs is for the cost of reinstating property at the end of the lease period to its condition at the commencement of the lease. Any estimated costs of the termination are included in the provision.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

26. Called up share capital

	2015	2014
	€000	€000
Allotted, called up and fully paid		
197,512,000 (2014: 197,512,000) Ordinary shares of €0.10 each	19,751	19,751

27. Reserves

Share premium

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.

Capital reserve

The capital reserve represents the amount by which share capital has been reduced on repurchase of the company's own shares.

Retained earnings

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

28. Capital commitments

At 31 December 2015 the company had capital commitments as follows:

	2015	2014
	€000	€000
Contracts for future capital expenditure not provided in the financial statements	2,047	1,088

29. Pension commitments

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge amounted to €754,000 (2014: €883,000). Outstanding contributions amounting to €116,000 (2014: €97,000) were payable to the fund and are included in creditors.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

30. Employee restricted share plan

Staff contractually employed by the Company participate in a number of share-based incentive arrangements operated by its intermediate parent undertaking, Interoute Communications Holdings S.A ("ICHSA"). Depending on the nature of these awards, the obligation for settlement rests with either ICHSA or its shareholders. The Company can never assume any obligation for the settlement of these awards.

Under the arrangements employees are entitled to receive either shares in ICHSA, which they are then obligated to sell at fair value, or a cash payment direct from ICHSA. The awards will only vest if a vesting event such as an Initial Public Offering or trade sale occurs at a share price in excess of the target price specified in the award. Employee awards are forfeited if, prior to a vesting event, an individual's employment with the group ceases.

All such awards are treated as equity-settled because the Company has no current or future obligation for settlement. The awards are valued at their fair value at the date of grant, which is estimated using a variant of the Black-Scholes option valuation model and amortised over the period from the grant date to the expected vesting date, after taking account of actual and expected future leaver rates. The expected vesting date is a key assumption that is re-evaluated at every balance sheet date.

The awards were previously treated as cash-settled share-based payment arrangements in the Company's previous accounts under old UK GAAP. However, following the adoption of FRS102 and a reassessment by management, these awards are now treated as equity-settled on the grounds set out above. This treatment has been applied retrospectively as at the date of the Company's transition to FRS102.

As part of the FRS102 transition, the method of allocation of share based payment charges between group companies has also been amended so that it is consistent with the policy adopted in ICHSA's accounts under IFRS. The group-wide charge is now allocated based on the economic benefit received by each company from the services to which the share based payments relate, whereas previously this was done based on contractual employment relationships. As a result, the Company's accumulated charge for share based payments has reduced significantly.

As at 31 December 2015, the Company has recognised in profit or loss accumulated share based payment charges of €1,180,000 (2014: €1,175,000), which have been credited to the capital contribution reserve. The charge to profit or loss for the year ended 31 December 2015 was €4,000 (18 months ended 31 December 2014: €76,000)

During both 2014 and 2015 ICHSA repurchased the legal and beneficial interest in certain share awards issued to employees of the group. The repurchases resulted in additional profit and loss charge for the accelerated vesting of the share awards for which the Company received the economic benefit. Following each repurchase a reserve transfer was also made from capital contribution and into retained earnings, equal to the amount previously charged in the Company's income statement in respect of repurchased shares.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

31. Commitments under operating leases

At 31 December 2015 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2015 €000	2014 €000
Not later than 1 year	9,254	5,795
Later than 1 year and not later than 5 years	966	1,011
Later than 5 years	979	1,096
Total	11,199	7,902

The company had no other off balance sheet arrangements.

32. Related party transactions

FRS 102 requires the disclosure of the details of material transactions between reporting entities and related parties. The Company has taken advantage of exemptions under FRS 102 not to disclose transactions between other group companies.

During the year there were only transactions with one related undertaking, being a subsidiary of the company that was not 100% owned by the company or another group company. Transactions with this subsidiary are disclosed below up until 27 November 2015 after which Interoute Communications Limited became the sole shareholder:

	Year to 31 December 2015				18 month period to 31 December 2014			
	Cost of sales	Admin. expenses	Cash advance/ (payments)	Interest receivable	Cost of sales	Admin. expenses	Cash advance/ (payments)	Interest receivable
	€000	€000	€000	€000	€000	€000	€000	€000
Interoute SpA	(9,523)	603	(54,997)	836	9,061	(4,269)	(11,334)	1,205

There were no balances with related undertakings as at 31 December 2015 to disclose.

	Investments	Debtors	As at 31 December 2014		Investment provision	Debtor provision.
			Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year		
	€000	€000	€000	€000	€000	€000
Interoute SpA	100,000	103,038	75,823	17	100,000	27,198

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

32. Related party transactions (continued)

The minority shareholding in Interoute SpA was held up until 27 November 2015 by ITCON B.V. The transactions with the above related party recognised in cost of sales and administrative expenses are in respect of recharges for the utilisation of assets and resources operated by the Company. Other than these group charges, transactions with the related undertaking are limited to short term funding, as disclosed above, with the exception of the following transactions, which arose following an impairment review which compared the carrying value of the Company's investments in and net loans to its subsidiaries with the net present value of the future cash flows of each subsidiary. A release in the debtor provision in respect of amounts due from Interoute SpA of €27,198,000 and an increase in the provision against the investment of €47,088,000 (2014: reduction in the provision against the investment in Interoute SpA of €4,407,000).

During the year, the Company entered into various transactions with related undertakings, being affiliates of Al Mada Investments Sarl, a shareholder of the Company's intermediate parent undertaking, Interoute Communications Holdings S.A. These transactions are disclosed up until 21 April 2015, after which these undertakings ceased to be related, as there was a change in control of Al Mada Investments Sarl. These transactions were as follows:

	Year to 31 December 2015		18 month period to 31 December 2014	
	Turnover €000	Admin. expenses €000	Turnover €000	Admin. expenses €000
Emirates Integrated Telecommunications Company, PJSC (Du)	269	-	1,213	(52)
Maltacom Plc	1	-	4	-
Go Plc	-	3	1	168

The balances at 31 December 2015 have not been disclosed as these were not related undertakings.

	18 month period to 31 December 2014	
	Debtors €000	Creditors: amounts falling due within one year €000
Emirates Integrated Telecommunications Company, PJSC (Du)	81	-
Maltacom Plc	(1)	-
Go Plc	-	5

33. Ultimate parent undertaking and controlling party

The directors consider the Company's immediate parent undertaking to be Interoute Communications 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.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

34. First time adoption of FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under UK GAAP were for the 18 month period ended 31 December 2014. The date of transition to FRS 102 was 1 July 2013.

Set out below are the changes in accounting policies which reconcile profit for the financial period ended 31 December 2014 and the total equity as at 1 July 2013 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

Reconciliation of equity at 1 July 2013

	Note	€000
Equity at 1 July 2013 under previous UK GAAP		358,303
Derivatives	2	(1,641)
Equity shareholders' funds' at 1 July 2013 under FRS 102		356,662

Reconciliation of equity at 31 December 2014

	Note	€000
Equity at 31 December 2014 under previous UK GAAP		386,747
Adjustment to hedging treatment	1	980
Derivatives	2	3,569
Equity shareholders' funds at 31 December 2014 under FRS 102		391,296

Reconciliation of profit and loss account for the ended 31 December 2014

		€000
Profit for the year under UK GAAP		26,408
Adjustment to hedging treatment	1	980
Recognition of Derivatives	2	5,210
Share based payment transactions	3	(4,738)
Profit for the financial year ended 31 December 2014 under FRS 102		27,860

The following were changes in accounting policies arising from the transition to FRS 102:

1 Adjustment to hedging treatment

All foreign transactions previously recorded at the company's hedge rate have been restated at the spot rate applicable at the transaction date. This has resulted in a restatement of all items in the income statement for the 12 month period ended 31 December 2014 and a corresponding credit to foreign exchange differences included within administrative expenses of €602,000. As the company makes payments on behalf of other group companies a foreign exchange difference has been recognised on those transactions for €980,000 with the corresponding entry being presented as an intercompany balance receivable.

INTERROUTE COMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

34. First time adoption of FRS 102 (continued)

2 Recognition of Derivatives

FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the company did not recognise these instruments in the financial statements. Accordingly at transition a liability of €1,641,000 was recognised. At 31 December 2014 an asset of €3,569,000 was recognised on derivatives and a gain of €5,210,000 was recognised in the profit and loss account of the 18 month period ended 31 December 2014.

3 Share based payment transactions

As part of the FRS 102 transition, the method of allocation of share based payment charges between group companies has been amended so that it is consistent with the policy adopted by its intermediate parent company Interoute Communications Holdings SA under IFRS. Also following the adoption of FRS102 and a reassessment by management, these awards are now treated as equity-settled by the Company because they have no current or future obligation for the settlement of these transactions. Treatment has been applied retrospectively as at the date of the Company's transition to FRS102 resulting in a reclass of €1,099,000 between capital reserves and retained earnings. During the 18 month period to 31 December 2014 the credit to profit and loss reduced from €4,662,000 under UK GAAP to €23,000 under FRS 102:

35. Contingent Liabilities

Guarantees

At 31 December 2015 the Company had provided €2,061,000 (2014: €4,320,000) in guarantee's, both collateralised and uncollateralised in respect of a number of commitments. The majority of these guarantees are in respect of derivative financial instruments, see note 24.

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 and €240m floating rate notes issued by Interoute Finco Plc and the Revolving Creditor Facility for €75m held by the Company.