

Registered number: 04472687

INTERROUTE COMMUNICATIONS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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INTERROUTE COMMUNICATIONS LIMITED

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INTERROUTE COMMUNICATIONS LIMITED

COMPANY INFORMATION

Directors	C Birkett G J Williams M Woolf
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 2016

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

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 2016

Review of business

Revenue increased from €132.4m to €136.0m in the year to 31 December 2016. This represents an increase of 3% on the prior year. Cost of sales has decreased by 6% from €77.0m to €72.3m in the year to 31 December 2016. This improved performance is the result of increased sales of VPN and security and computing product groups, all of which carry a higher margin.

The Company has significant equity and loan investments in subsidiary companies and loan agreements with other Interoute group companies. A net exceptional charge of €162.8m (2015: €76.4m) arose as a result of the impairment review at 31 December 2016 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 6).

The Company recognised a loss of €275,000 arising from the disposal of fixed assets (2015: €709,000).

As a result of the above, the loss for the year ended 31 December 2015 of €80.9m increased to €180.4m in 2016. At 31 December 2016, the Company had net assets of €130.1m (2015: €310.5m).

Future developments

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

Principal risks and uncertainties

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

(a) Market and economic conditions

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 2016

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 2016

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. The Company does not use derivative financial instruments, so no hedge accounting is applied.

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 2016**

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



**C Birkett
Director**

Date: 21/07/17

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 2016

The directors present their annual report and the audited financial statements for the year ended 31 December 2016. 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 2016 (2015: €nil).

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
M Woolf (appointed 29 November 2016)

Directors' indemnities

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

Post balance sheet events

On 7 July 2017, Interoute Communications Limited was re-assigned the intergroup receivable from Interoute SpA by Interoute Germany GmbH. The amount of the receivable was €53,000,000 and it was transferred for consideration equal to its face value. The original assignment of the intergroup receivable from Interoute SpA from Interoute Communications to Interoute Germany GmbH was made on 28 June 2013.

Principal risks and uncertainties

Details of principal risks and uncertainties of the Company are disclosed in the strategic report.

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.

Political Donations

No donations have been made by the Company during the year (2015: €nil).

INTERROUTE COMMUNICATIONS LIMITED

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

Directors' responsibilities statement

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

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

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

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

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

Disclosure of information to auditors

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

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

Independent auditors

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

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



C Birkett
Director

Date:

21/07/17

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

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

Other matters on which we are required to report by exception

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.

INTERROUTE COMMUNICATIONS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERROUTE COMMUNICATIONS LIMITED (continued)

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.

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

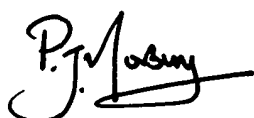
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



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

Date: 25 July 2017

INTERROUTE COMMUNICATIONS LIMITED

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

	Note	2016 €000	2015 €000
Revenue	5	136,011	132,376
Cost of sales		(72,328)	(77,045)
Gross profit		63,683	55,331
Administrative expenses excluding exceptional items		(53,581)	(50,651)
Exceptional administrative expenses	6	(162,826)	(76,383)
Total administrative expenses		(216,407)	(127,034)
Other operating losses	7	(275)	(709)
Operating loss	7	(152,999)	(72,412)
Finance income	11	34,169	11,355
Finance expense	12	(61,545)	(19,793)
Loss before tax		(180,375)	(80,850)
Income tax expense	13	-	-
Loss for the financial year		<u>(180,375)</u>	<u>(80,850)</u>
Total comprehensive expense for the year		<u>(180,375)</u>	<u>(80,850)</u>

All operations relate to continuing activities.

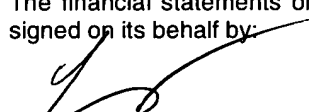
INTERROUTE COMMUNICATIONS LIMITED
REGISTERED NUMBER:04472687

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 €000	2015 €000
Fixed assets			
Intangible assets	14	11,970	11,928
Property, plant and equipment	15	20,888	17,911
Investments	16	703,027	458,869
		735,885	488,708
Current assets			
Trade and other receivables (including €355,510,000 (2015: €668,202,000) due after more than one year)	17	629,501	815,328
Cash and cash equivalents		34,305	68,885
		663,806	884,213
Payables: amounts falling due within one year	18	(372,120)	(305,952)
Net current assets		291,686	578,261
Total assets less current liabilities		1,027,571	1,066,969
Payables: amounts falling due after more than one year	19	(897,445)	(756,423)
Provisions for liabilities			
Other provisions	24	-	(96)
		(897,445)	(756,519)
Net assets		130,126	310,450
Capital and reserves			
Called up share capital	25	19,751	19,751
Share premium account		257,636	257,636
Capital contribution reserve		368,082	368,031
Accumulated losses		(515,343)	(334,968)
Total shareholders' funds		130,126	310,450

The notes on pages 14 to 46 form part of these financial statements.

The financial statements on pages 11 to 46 were approved and authorised for issue by the board and were signed on its behalf by:



C Birkett
Director

Date: 21/07/17

INTERROUTE COMMUNICATIONS LIMITED

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

	Called up share capital	Share premium account	Capital contribution reserve	Accumulated losses	Total shareholders' funds
	€ 000	€ 000	€ 000	€ 000	€ 000
At 1 January 2016	19,751	257,636	368,031	(334,968)	310,450
Comprehensive expense for the year					
Loss for the financial year	-	-	-	(180,375)	(180,375)
Total comprehensive expense for the year	-	-	-	(180,375)	(180,375)
Contributions by and distributions to owners					
Credit related to equity-settled share-based payments	-	-	51	-	51
Total transactions with owners	-	-	51	-	51
At 31 December 2016	19,751	257,636	368,082	(515,343)	130,126

FOR THE YEAR ENDED 31 DECEMBER 2015

	Called up share capital	Share premium account	Capital contribution reserve	Accumulated losses	Total shareholders' funds
	€ 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)
Contributions by and distributions to owners					
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

The notes on pages 14 to 46 form part of these financial statements.

INTERROUTE COMMUNICATIONS LIMITED

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

1. General Information

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 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.

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

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 101, "Reduced Disclosure Framework" ("FRS 101") and the Companies Act 2006.

3. Summary of significant accounting policies

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

3.1 Basis of preparation

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

These financial statements are the first financial statements of Interoute Communications Limited prepared in accordance with FRS 101. The financial statements of Interoute Communications Limited for the year ended 31 December 2015 were prepared in accordance with FRS 102.

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

Some of the FRS 101 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous FRS 102. Consequently, the directors have amended certain accounting policies to comply with FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

INTERROUTE COMMUNICATIONS LIMITED

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

3. Summary of significant accounting policies (continued)

3.2 Going concern

The Company 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.

3.3 Exemptions for qualifying entities under FRS 101

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

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- b) IFRS 7, 'Financial Instruments: Disclosures'.
- c) Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period);
- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows)
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38 B-D (additional comparative information),
 - 111 (cash flow statement information), and
 - 134-136 (Information on an entity's objectives, policies and processes for managing capital (qualitative and quantitative))
- f) IAS 7, 'Statement of cash flows'
- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- h) Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- i) The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- j) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

3.4 New standards, amendments and IFRIC interpretations

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

INTERROUTE COMMUNICATIONS LIMITED

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

3. Summary of significant accounting policies (continued)

3.4 New standards, amendments and IFRIC interpretations (continued)

IFRS 16 "Leases"

IFRS 16 will be effective from 1 January 2018. The standard will require lessees to recognise assets and liabilities for all leases unless the duration of the lease is 12 months or less and the underlying asset is of low value. The Company is still in the process of assessing and quantifying the impact of IFRS 16. It is anticipated that leases which are currently treated as operating leases will come on to the Company's balance sheet under IFRS 16.

IFRS 15 "Revenue from contracts with customers"

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

IFRS 9 "Financial instruments"

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

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

3.5 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.

3.6 Foreign currency translation

(i) Functional and presentation currency

The Company's functional and presentation currency is the Euro. The exchange rate of 1 GBP : EUR 1.1710 was used at 31 December 2016 (2015: 1.3567).

(ii) Transactions and balances

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

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

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

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

INTERROUTE COMMUNICATIONS LIMITED

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

3. Summary of significant accounting policies (continued)

3.7 Revenue recognition

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

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 revenue in the period in which the service is provided. Amounts invoiced in arrears are shown as accrued income and recognised as revenue in the period in which the service is provided.

(ii) Connection fees

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

(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 revenue is recognised upfront. Contracts less than 15 years do not transfer the risks and rewards to the buyer so revenue 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.

3.8 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 2016

3. Summary of significant accounting policies (continued)

3.9 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 statement of financial position. 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 income statement 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 2016

3. Summary of significant accounting policies (continued)

3.10 Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

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

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

(ii) Deferred tax

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

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

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

3.11 Intangibles

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 income statement.

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 2016

3. Summary of significant accounting policies (continued)

3.11 Intangibles (continued)

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

- The intention to complete the intangible asset and use or sell it and the availability of adequate technical and financial resources for this purpose;
- That the intangible 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.

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

3.12 Property, plant and equipment

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

(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.

(v) Derecognition

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

INTERROUTE COMMUNICATIONS LIMITED

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

3. Summary of significant accounting policies (continued)

3.13 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 in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3.14 Impairment of non-financial assets

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

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

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

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

INTERROUTE COMMUNICATIONS LIMITED

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

3. Summary of significant accounting policies (continued)

3.15 Investments

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

3.16 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 income statement.

3.17 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.

3.18 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 income statement 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 statement of financial position 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 2016

3. Summary of significant accounting policies (continued)

3.19 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.

3.20 Share capital

Ordinary shares are classified as equity.

INTERROUTE COMMUNICATIONS LIMITED

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

4. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

(i) Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed 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 3.12(iv) for the useful economic lives for each class of assets.

(ii) Impairment of receivables

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the current credit rating of the debtor, the ageing profile of receivables and historical experience. See note 17 for the net carrying amount of the receivables and associated impairment provision.

(iii) Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. Historical differences between forecast and actual taxable profits have not resulted in material adjustments to the recognition of deferred tax assets (note 13).

(iv) Impairment of investments in subsidiaries

The Company conducts impairment reviews of investments in subsidiaries whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment annually in accordance with the relevant accounting standards. Determining whether an investment is impaired requires an estimation of the recoverable amount, which requires the Company to estimate the value in use at the subsidiary level (being the Cash Generating Unit). The value in use is based on future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. Where there is an improvement in the performance of the underlying subsidiary, this may result in a reversal of impairment (note 6).

(b) 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.

INTERROUTE COMMUNICATIONS LIMITED

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

5. Revenue

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

	2016 €000	2015 €000
Services	<u>136,011</u>	<u>132,376</u>

Analysis of revenue by country of destination:

	2016 €000	2015 €000
United Kingdom	67,369	82,758
Rest of Europe	63,668	37,035
Rest of the world	4,974	12,583
	<u>136,011</u>	<u>132,376</u>

6. Exceptional administrative expenses

	2016 €000	2015 €000
(a) - Reinstatement of intercompany loans	(1,362)	(1,134)
(b) - (Reinstatement)/impairment of fixed asset investments	(195,535)	116,359
(c) - Impairment/(reinstatement) of intercompany loans	359,723	(39,797)
(d) - Disposal of investment in subsidiary	-	955
	<u>162,826</u>	<u>76,383</u>

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 €2,555,000 arose following an improvement in the company's net assets and operating performance (2015: €1,134,000). In addition under the terms of an agreement between the company and Interoute Germany €1,193,000 (2015: €nil) of intercompany loans were waived.

(b) On evaluation of the carrying amount of the Company's investments a net decrease of impairment provisions of €195,535,000 has arisen, where the carrying value of some investments no longer exceeds their net present value (2015: net increase in investment provision of €116,359,000).

INTERROUTE COMMUNICATIONS LIMITED

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

6. Exceptional administrative expenses (continued)

(c) A net increase of provisions of €359,723,000 was made by the Company against the value of loans to its subsidiary undertakings during the year (2015: release of €39,797,000) as the carrying value of the receivable exceeds their net present value.

(d) During the year, there were no disposals of investments (2015: disposal of an investment in Interoute Soluciones Tic Para La Pyme S.L which was sold for €1).

7. Operating loss

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

	2016 €000	2015 €000
Other operating losses:		
Loss on disposal of property, plant and equipment	275	709
Impairment of trade receivables	24	120
Operating lease charges	14,094	9,410
Foreign exchange loss/(gain)	5,467	(3,133)
Depreciation of property, plant and equipment (note 15)	6,040	5,564
Write back of depreciation on plant and machinery spares	-	(419)
Amortisation of intangible assets (note 14)	3,429	2,688
Impairment of property, plant and equipment	-	205

Of the total depreciation charge of €6,040,000 (2015: €5,564,000) disclosed above, €2,510,000 has been charged to cost of sales (2015: €1,546,000) with the remainder being charged to administrative expenses.

8. Auditors' remuneration

	2016 €000	2015 €000
Fees payable to the Company's auditors and its associates for the audit of the Company's annual report and financial statements	47	52
Fees payable to the Company's auditors and its associates for other non-audit services	-	81
	47	133

INTERROUTE COMMUNICATIONS LIMITED

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

9. Employees

Staff costs (including directors) were as follows:

	2016	2015
	€000	€000
Wages and salaries	19,867	23,044
Social security costs	2,708	2,855
Cost of defined contribution scheme	702	754
Share based payments (note 29)	51	4
Less capitalised labour	(3,472)	(4,209)
	19,856	22,448

A share based payment credit of €51,000 (2015: €4,000) has been recharged to the Company by its intermediate parent Company Interoute Communications Holdings S.A; see note 29 for further details.

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

	2016	2015
	No.	No.
Sales	58	113
Technical	132	61
Administrative	54	63
	244	237

10. Directors' remuneration

	2016	2015
	€000	€000
Aggregate emoluments	1,113	1,082
Company contributions to defined contribution pension schemes	30	26
	1,143	1,108

The highest paid director received remuneration of €750,000 (2015: €735,000).

Benefits are accruing to 2 directors (2015: 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 (2015: €15,000).

Amounts paid to the directors of the Company upon the repurchase of deferred beneficiary shares totalling €nil (2015: €693,000) were paid by the immediate parent Company Interoute Communications Holdings S.A. (note 29).

Amounts paid in respect of the highest paid director of the Company upon the repurchase of deferred beneficiary shares totalling €nil (2015: €423,000) were paid by the immediate parent Company Interoute Communications Holdings S.A. (note 29).

INTERROUTE COMMUNICATIONS LIMITED

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

11. Finance income

	2016 €000	2015 €000
Bank interest received	62	37
Interest receivable from other group undertakings	4,786	5,034
Loan note interest receivable (from group undertakings)	29,321	6,284
Total finance income on financial assets not measured at fair value through profit or loss	34,169	11,355

12. Finance expense

	2016 €000	2015 €000
Interest expense on overdrafts and bank loans	701	3,701
Interest expense on other loans	1,529	1,613
Finance lease interest	-	34
Interest expense to other group undertakings	1,589	947
Loan note interest expense (to group undertakings)	40,143	8,843
Other interest (deferred finance fees)	14,241	3,299
Total finance expense on financial liabilities not measured at fair value through profit or loss	58,203	18,437
Losses on derivative financial instruments (note 23)	3,342	1,356
	61,545	19,793

On 9 October 2015, the group issued fixed and floating loan notes as part of a refinancing of the group debt. This resulted in the write off of €8,547,000 of the deferred finance fees, which is included in other interest (deferred finance fees) of €14,241,000.

13. Income tax expense

a) Tax expense included in profit or loss

	2016 €000	2015 €000
Current tax on loss for the year	-	-

INTERROUTE COMMUNICATIONS LIMITED

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

13. Income tax expense (continued)

b) Reconciliation of tax charge

The tax assessed for the year is higher than (2015 - higher than) the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%). The differences are explained below:

	2016 €000	2015 €000
Loss on ordinary activities before tax	(180,375)	(80,850)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015: 20.25%)	(36,075)	(16,372)
Effects of:		
Non-taxable items	33,744	15,468
Expenses not deductible for tax purposes	1,364	1,383
Utilisation of losses brought forward	-	(479)
Group relief surrendered for nil payment	967	-
Total income tax for the year	-	-

Items not subject to tax include the exceptional charge of €162,826,000 (2015: charge of €76,383,000), as described in note 6.

c) Deferred taxation

Deferred tax has been calculated at a rate of 17% (2015: 18%).

At 31 December 2016, the Company could recognise a deferred tax asset of €192,000 (2015: liability of €398,000) in respect of derivative financial instruments. However, the directors have not recognised this in the statement of financial position.

A deferred tax asset has not been recognised in respect of derivative financial instruments, carried forward tax losses, 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 €7,457,000 (2015: €6,324,000). 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 2016

13. Income tax expense (continued)

(d) Factors that may affect future tax charges

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

14. Intangible assets

	Software Development €000	Licences €000	Total €000
Cost			
At 1 January 2016	27,058	5,215	32,273
Additions	3,471	-	3,471
At 31 December 2016	30,529	5,215	35,744
Accumulated amortisation			
At 1 January 2016	15,920	4,425	20,345
Charge for the year	3,298	131	3,429
At 31 December 2016	19,218	4,556	23,774
Net book value			
At 31 December 2016	11,311	659	11,970
At 31 December 2015	11,138	790	11,928

INTERROUTE COMMUNICATIONS LIMITED

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

15. Property, plant and equipment

	Land and buildings €000	Plant and machinery €000	Networks €000	Plant and equipment - Spares €000	Total €000
Cost					
At 1 January 2016	1,423	48,988	4,800	778	55,989
Additions	1,445	9,508	792	415	12,160
Disposals	(27)	(5,388)	-	(276)	(5,691)
Intercompany transfer	-	-	(2,618)	-	(2,618)
At 31 December 2016	2,841	53,108	2,974	917	59,840
Accumulated depreciation					
At 1 January 2016	172	35,946	1,612	348	38,078
Charge for the year	110	5,644	211	75	6,040
Disposals	(13)	(4,877)	-	(276)	(5,166)
At 31 December 2016	269	36,713	1,823	147	38,952
Net book value					
At 31 December 2016	2,572	16,395	1,151	770	20,888
At 31 December 2015	1,251	13,042	3,188	430	17,911

Included in property, plant and equipment are assets subject to finance lease with a net book value of €465,000 (2015: €657,000).

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

	2016 €000	2015 €000
Short leasehold (less than 50 years unexpired)	2,572	1,251

INTERROUTE COMMUNICATIONS LIMITED

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

16. Investments

	Note	Investments in subsidiary companies €000
Cost		
At 1 January 2016		1,358,071
Acquisitions	a	35,761
Capital contribution to subsidiaries	b	13,550
Reduction in cost of investment	c	(688)
At 31 December 2016		<u>1,406,694</u>
Provisions		
At 1 January 2016		899,202
Impairment release for the year (note 6)		<u>(195,535)</u>
At 31 December 2016		<u>703,667</u>
Net book value		
At 31 December 2016		<u>703,027</u>
At 31 December 2015		<u>458,869</u>

- a) On 31 December 2016, pursuant to the simplification of the group legal structure in the UK, the Company acquired 100% of the share capital of the following Group wholly owned subsidiaries from EGH (UK) Limited, itself a wholly owned subsidiary:

- Easynet Italia Spa for a total consideration of €887,000;
- Easynet SAS for a total consideration of €10,313,000;
- Easynet Nederland BV for a total consideration of €19,725,000; and
- Easynet Espana SAV for a total consideration of €4,836,000.

On 4 July 2016, pursuant to the simplification of the group legal structure in the Netherlands, the Company acquired 100% of the share capital of Interoute Treasury Services B.V from Interoute Managed Services Netherlands B.V. for €1.

- b) During the year, three capital contributions were made to the Company's subsidiaries: €5,000,000 to Interoute SPA (Italy) in exchange for a debt being waived, €2,339,000 to S.C. Interoute S.R.L. (Romania), and €6,211,000 to MDNX Group Holdings Limited.
- c) Following non-fulfilment of contingent consideration conditions on the acquisition of Interoute Vtesse Limited, an acquisition made on 30 September 2014, the initial acquisition cost has reduced by €688,000.

INTERROUTE COMMUNICATIONS LIMITED

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

16. Investments (continued)

Name	Country of incorporation	Class of shares	Holding	Registered office address
Interoute Austria GmbH	Austria	Ordinary	100%	Lemböckgasse 63, Stiege 2, A-1230 Wien, Austria
Interoute Belgium N.V	Belgium	Ordinary	99.99%	Building Bayreuth, 5th Floor, The Corporate Village, Leonardo Da Vincilaan 3, Zaventem, 1935, Belgium
Interoute Germany GmbH	Germany	Ordinary	100%	Weismuellerstrasse 26, D 60314 Frankfurt, Germany
Interoute SpA	Italy	Ordinary	100%	00166 Rome, Via Cornelia 498
Interoute Iberia SAU	Spain	Ordinary	100%	Calle Lezama, 4, 28034 Madrid
Interoute Networks Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Interoute USA Incorporated	United States of America	Ordinary	100%	Multiple addresses:
				• Delaware –c/o The Corporation Trust Company, 1209 Orange St, Wilmington, DE 19801
				• California – c/o C T Corporation System, 818 W. Seventh St, Los Angeles, CA 90017
				• New York – c/o C T Corporation System, 111 Eighth Ave, New York, NY 10011
				• Virginia - C/O C T Corporation System, 4701 Cox Road, Suite 285, Glen Allen, VA 23060
Interoute Media Services Limited	United Kingdom	Ordinary	100%	• Florida – C T Corporation 1200 South Pine Island Road Plantation, Florida 33324
Flute Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Interoute Czech s.r.o	Czech Republic	Ordinary	99.00%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Interoute Hungary Kft	Hungary	Ordinary	96.60%	Siemensova Street 2717/4, Prague 5, Zip Code 155 00, Czech Republic
Interoute Poland Sp. Z.o.o	Poland	Ordinary	100%	1087 Budapest, Ciprus u. 2-6
S.C Interoute Romania s.r.l	Romania	Ordinary	100%	Chatubińskiego 8, 00-613 Warszawa, Poland
				8 Dimitrie Pompei Blvd, , 4th Floor, Office F9,, 2nd District, 020337 Bucharest

INTERROUTE COMMUNICATIONS LIMITED

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

16. Investments (continued)

Name	Country of incorporation	Class of shares	Holding	Registered office address
Interoute Slovakia s.r.o	Slovakia	Ordinary	99.00%	Kutlikova 17, 852 50 Bratislava, Slovakia
Interoute France SAS	France	Ordinary	100%	34, rue Gardinoux, 93300 Aubervilliers
Interoute Managed Services Netherlands B.V.	Netherlands	Ordinary	100%	Koolhovenlaan 120 1119 NH Schiphol-Rijk The Netherlands
Interoute Managed Services Switzerland Sarl	Switzerland	Ordinary	100%	Chemin de l'Epinglier 2, CH-1217 Meyrin GE, Geneva, Switzerland
Interoute Bulgaria JSCo	Bulgaria	Ordinary	100%	Tsarigradsko shose No115G, , Office Building MEGAPARK, floor 1, Mladost District, Sofia 1784, Bulgaria
Interoute Managed Services Sweden AB	Sweden	Ordinary	100%	Hudiksvallsgatan8, 113 30 Stockholm, Sweden, , ,
Interoute Application Management Limited (formerly Quantix Limited)	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Newinco 635 Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Interoute Hong Kong Limited	Hong Kong	Ordinary	100%	Unit 1001, 10/F Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong
Interoute Managed Services Denmark A/S	Denmark	Ordinary	100%	Niels Juels Gade 5, 3rd Floor, DK-1059 Copenhagen K, Denmark
Interoute Finland Oy	Finland	Ordinary	100%	Teknobulevardi 3-5, 01530 Vantaa, Finland
Interoute Managed Services Norge AS (formerly Visual Conference Norge AS)	Norway	Ordinary	100%	Evolve IT, Martin Linges vei 25, 1364 Fornebu, 0219 Baerum, Norway

INTERROUTE COMMUNICATIONS LIMITED

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

16. Investments (continued)

Name	Country of incorporation	Class of shares	Holding	Registered office address
Videokonferensbo laget Forsaljning AB	Sweden	Ordinary	100%	Hudiksvallsgatan 8, 113 30 Stockholm, Sweden
Interoute Vtesse Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Interoute Cirrus Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Vtesse Group Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Quantix Holdings Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Interoute Australia Pty Limited	Australia	Ordinary	100%	18 Marlborough Avenue, Freshwater NSW 2096, Australia
Interoute Singapore Pte Limited	Singapore	Ordinary	100%	10 Changi Business Park Central 2, #05-01, HansaPoint@CBP, Singapore 486030
Interoute iletisim hizmetleri ltd. sirketi	Turkey	Ordinary	100%	Barbaros Mah Kardelen Sk, Palladium Tower Apt No.2 K:10 D:41 Oda No 7 Ataşehir/Istanbul
MDNX Group Holdings Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Easynet Espana SAU	Spain	Ordinary	100%	Calle Lezama, 4, 28034 Madrid, España
Easynet Nederland BV	Netherlands	Ordinary	100%	Koolhovenlaan 120 1119 NH Schiphol-Rijk The Netherlands
Easynet Italia Spa	Italy	Ordinary	100%	00166 Rome, Via Cornelia 498
Easynet SAS	France	Ordinary	100%	55 Avenue Des Champs, Pierreux - 92000 Nanterre
Via NetWorks France Holding SAS	France	Ordinary	100%	34, rue Gardinoux, 93300 Aubervilliers
Interoute Managed Services Belgium BVBA	Belgium	Ordinary	0.66%	Building Bayreuth, 5th Floor, The Corporate Village, Leonardo Da Vincilaan 3, Zaventem, 1935, Belgium
Interoute Communications Services USA Inc	USA	Ordinary	100%	Delaware – The Corporation Trust Co, 1209 Orange Street, Wilmington, Delaware 19801 (State ID: 5540303)

INTERROUTE COMMUNICATIONS LIMITED

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

16. Investments (continued)

Name	Country of incorporation	Class of shares	Holding	Registered office address
ATP3 Dusseldorf GmbH	Germany	Ordinary	100%	Interoute Germany GmbH , Weismuellerstrasse 26, D 60314 Frankfurt, Germany
Interoute Capital Markets B.V	Netherlands	Ordinary	100%	Koolhovenlaan 120, 1119 NH Schiphol-Rijk
Interoute Treasury Services B.V	Netherlands	Ordinary	100%	Koolhovenlaan 120, 1119 NH Schiphol-Rijk
Easynet Worldwide Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Easynet Intermediate Holding Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Easynet Finance Company Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
MDNX Holdings Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
MDNX Group Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
EGHL Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Octium Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Easynet Channel Partners Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Allurian Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Easynet Corporate Services Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
MDNX Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Easynet Enterprise Services Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
MDNX CIG Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
MDNX S1 Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ

INTERROUTE COMMUNICATIONS LIMITED

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

16. Investments (continued)

Name	Country of incorporation	Class of shares	Holding	Registered office address
Easynet Managed Services Limited	United Kingdom	Ordinary	100%	272 Bath Street, Glasgow, Scotland, G2 4JR
Easynet Internet Services Limited	United Kingdom	Ordinary	100%	272 Bath Street, Glasgow, Scotland, G2 4JR
Easynet Network Services Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Interdart Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
MDNX Internet Limited	United Kingdom	Ordinary	100%	272 Bath Street, Glasgow, Scotland, G2 4JR
EGHL (UK) Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Easynet Global Services GmbH	Germany	Ordinary	100%	Carl-Zeiss Ring 19, 85737 Ismaning, Germany
Easynet Belgium NV/SA	Belgium	Ordinary	100%	Building Bayreuth, 5th Floor, The Corporate Village, Leonardo Da Vincilaan 3, Zaventem, 1935, Belgium
B2B Holding Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
EGSL Holding Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Easynet Global Services Limited	United Kingdom	Ordinary	100%	272 Bath Street, Glasgow, Scotland, G2 4JR
Easynet Limited	United Kingdom	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Easynet Group Inc.	USA	Ordinary	100%	31st Floor, 25 Canada Square, Canary Wharf, London, E14 5LQ
Easynet (shanghai) Information & Technology Company Ltd	China	Ordinary	100%	Unit 204, Floor 2, Building B, No. 2 Chamtime Square No. 2889, Jinke Road, China (Shanghai Pilot Free Trade Zone)
Easynet AG	Switzerland	Ordinary	100%	Interoute Managed Services Switzerland Sàrl, Josefstrasse 225, CH-8005 Zurich, Switzerland, ,
Hong Kong Easynet Technology Co Ltd	Hong Kong	Ordinary	100%	9th Floor,, 3 Exchange Square, Central, Hong Kong

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 2016

17. Trade and other receivables

	2016	2015
	€000	€000
Trade receivables	21,861	17,284
Amounts owed by group undertakings	574,860	761,872
Other receivables	5,631	2,265
Prepayments and accrued income	10,841	8,672
Deferred finance fees	15,386	23,023
Derivative financial instruments	922	2,212
	629,501	815,328

Amounts owed by group undertakings are unsecured and repayable on demand with the exception of €355,510,000 (2015: €668,202,000) 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 €6,685,000 (2015: €5,846,000) 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 €11,857,000 (2015: €18,176,000). The deferred finance fees have arisen on the re-financing of the group debt whereby, 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 receivables 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 €436,674,000 (2015: €407,353,000). These loan notes are receivable in greater than one year and relate to the funds provided by Interoute Communications Holdings Limited that have been loaned to its subsidiary MDNX Group Holdings Limited.

Trade receivables are stated after provisions for impairment of €771,000 (2015: €753,000).

INTERROUTE COMMUNICATIONS LIMITED

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

18. Payables: Amounts falling due within one year

	2016	2015
	€000	€000
Other loans (note 20)	16,555	16,982
Trade payables	11,618	9,836
Amounts owed to group undertakings	304,601	241,029
Finance leases (note 22)	228	174
Other taxation and social security	2,262	2,544
Other payables	-	782
Accruals and deferred income	34,698	34,489
Pension liability	107	116
Derivative financial instruments	2,051	-
	372,120	305,952

Other loans are secured on certain network assets and bear interest rates of between 3.2% and 3.7%.

Amounts owed to group undertakings are unsecured and repayable on demand with interest being charged on pooling balances of €78,305,000 (2015: €122,917,000) based on the 3 month Euribor rate plus a 1.5% margin. No interest is charged on non pooling balances.

Accruals and deferred income due in less than one year includes €24,400,000 (2015: €23,588,000) in respect of amounts invoiced to customers which will be recognised as revenue within the next 12 months (note 21).

INTERROUTE COMMUNICATIONS LIMITED

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

19. Payables: Amounts falling due after more than one year

	2016	2015
	€000	€000
Amounts falling due after more than one year and less than five years:		
Other loans (note 20)	11,335	16,395
Finance leases (note 22)	414	642
Accruals and deferred income	13,102	15,089
Amounts owed to group undertakings	866,756	715,674
Amounts falling due after five years:		
Accruals and deferred income	5,838	8,623
	897,445	756,423

Other Loans secured on certain network assets and bear interest rates of between 3.2% and 3.7%.

Amounts owed to parent undertakings of €97,792,000 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 of €16,683,000 which has interest charged based on the 3 month Libor rate plus a 1.5% margin. Loan notes payable (included in amounts owed to group undertakings above) amounts to €673,986,000 (2015: €598,843,000). This arose during the year following the Group's re-financing in October 2016, 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.

Accruals and deferred income due after more than one year includes €18,940,000 (2015: €23,712,000) in respect of amounts invoiced to customers which will be recognised as revenue over the period which telecommunications services are provided to customers. Accruals and deferred income of €5,838,000 (2015: €8,623,000) are repayable after more than five years (note 21).

20. Loans

Analysis of the maturity of external loans is given below:

	2016	2015
	€000	€000
Amounts falling due within one year		
Other loans	16,555	16,982
Amounts falling due after more than one year and less than five years		
Other loans	11,335	16,395

INTERROUTE COMMUNICATIONS LIMITED

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

21. Deferred income

Amounts in respect of deferred income are expected to be recognised in the income statement as follows:

	2016	2015
	€000	€000
Within one year	24,400	23,588
In more than one year, but not more than five years	13,102	15,089
After five years	5,838	8,623
	43,340	47,300

22. Finance leases

Minimum lease payments under finance leases fall due as follows:

	2016	2015
	€000	€000
Within one year	251	208
Within 2-5 years	435	688
Over 5 years	-	-
Total gross payments	686	896
Less finance charges	(44)	(80)
Carrying amount of liability	642	816

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 2 years (2015: 3 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 2016

23. Financial instruments

	2016 €000	2015 €000
Financial assets		
Financial assets measured at fair value through profit or loss	922	2,212
Financial assets that are debt instruments measured at amortised cost	621,064	808,747
	<u>621,986</u>	<u>810,959</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(1,224,173)	(1,015,072)
Financial liabilities measured at fair value through profit or loss	(2,051)	-
	<u>(1,226,224)</u>	<u>(1,015,072)</u>

Financial assets measured at fair value through profit or loss comprise of foreign currency derivative contracts. These contracts are valued using observable market inputs (Level 2).

FRS 101 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 2016, the outstanding contracts all mature within 1 year (2015: 1 year).

The Company has no interest rate derivative financial instruments (2015: none).

Financial assets measured at amortised cost comprise of trade receivables, 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 payables, amounts owed to group undertakings, finance leases, other payables and accruals.

24. Other provisions

	Dilapidation provision €000
At 1 January 2016	96
Utilised in the year	(96)
At 31 December 2016	<u>-</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. The provision has been utilised in full during the year.

INTERROUTE COMMUNICATIONS LIMITED

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

25. Called up share capital

	2016 €000	2015 €000
Allotted, called up and fully paid		
197,512,000 (2015: 197,512,000) ordinary shares of €0.10 (2015: €0.10) each	19,751	19,751

26. 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 contribution reserve

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

Accumulated losses

The accumulated losses represent the accumulated profits, losses and distributions of the Company.

27. Capital commitments

At 31 December 2016, the Company had capital commitments as follows:

	2016 €000	2015 €000
Contracts for future capital expenditure not provided in the financial statements	11	2,047

28. 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 €702,000 (2015: €754,000). Outstanding contributions amounting to €107,000 (2015: €116,000) were payable to the fund and are included in payables.

INTERROUTE COMMUNICATIONS LIMITED

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

29. 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 statement of financial position date.

The method of allocation of share based payment charges between group companies is consistent with the policy adopted in ICHSA's accounts under IFRS. The group-wide charge is allocated based on the economic benefit received by each company from the services to which the share based payments relate.

As at 31 December 2016, the Company has recognised in profit or loss accumulated share based payment charges of €1,231,000 (2015: €1,180,000), which have been credited to the capital contribution reserve. The charge to the income statement for the year ended 31 December 2016 was €51,000 (2015: €4,000).

30. Commitments under operating leases

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

	2016 €000	2015 €000
Not later than 1 year	14,499	9,514
Later than 1 year and not later than 5 years	1,872	2,085
Later than 5 years	2,114	2,576
Total	18,485	14,175

The Company had no other off statement of financial position arrangements.

INTERROUTE COMMUNICATIONS LIMITED

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

31. 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.

32. Contingent Liabilities

Guarantees

- At 31 December 2016, the Company had provided €5,102,000 (2015: €2,061,000) 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 23.

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.

33. Post balance sheet events

On 7 July 2017, Interoute Communications Limited was re-assigned the intergroup receivable from Interoute SpA by Interoute Germany GmbH. The amount of the receivable was €53,000,000 and it was transferred for consideration equal to its face value. The original assignment of the intergroup receivable from Interoute SpA from Interoute Communications to Interoute Germany GmbH was made on 28 June 2013.

34. Related parties

FRS 101 requires the disclosure of the details of material transactions between reporting entities and related parties. The Company has taken advantage of exemptions under FRS 101 not to disclose transactions between other group companies.

During the year, there were no transactions with related parties. In the prior period, there were the following transactions with a related undertaking, being a subsidiary of the Company that was not 100% owned by the Company or another group Company:

INTERROUTE COMMUNICATIONS LIMITED

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

34. Related parties (continued).

13 months to 31 December 2015				
	Cost of sales	Admin (income)/ expenses	Cash advance/ (payments)	Interest receivable
	€000	€000	€000	€000
Interoute SpA	(9,523)	603	(54,997)	836

The balances with this related undertaking are disclosed as follows:

At 31 December 2015						
	Investments	Receivables	Payables: amounts falling due within one year	Payables: amounts falling due after more than one year	Investment provision	Receivables provision
	€000	€000	€000	€000	€000	€000
Interoute SpA	-	12,742	-	-	-	-