
Interoute Managed Services Denmark A/S

Niels Juels Gade 5, 3, DK-1059 København K

Annual Report for 1 January - 31 December 2016

CVR No 29 61 97 78

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
6 /7 2017

Jesper Parlov Aagaard
Chairman



Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Company Information	
Company Information	5
Financial Statements	
Income Statement 1 January - 31 December	6
Balance Sheet 31 December	7
Notes to the Financial Statements	9

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Interoute Managed Services Denmark A/S for the financial year 1 January - 31 December 2016.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Company and of the results of the Company operations for 2016.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 6 July 2017

Executive Board

Jesper Parlov Aagaard

Board of Directors

Gareth John Williams
Chairman

Catherine Birkett

Stefan Christian Hofland

Jesper Parlov Aagaard

Independent Auditor's Report

To the Shareholder of Interoute Managed Services Denmark A/S

Report on the Financial Statements

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Interoute Managed Services Denmark A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the

Independent Auditor's Report

audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report

Reporting obligations under section 7(2) of the Danish Executive Order on Approved Auditors' Reports

Non-compliance with the Danish Companies Act

We point out that, contrary to section 130 of the Danish Companies Act, the Company has not adopted rules of procedure for the Board of Directors; consequently, Management may incur liability.

Copenhagen, 6 July 2017

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Bo Schou-Jacobsen
State Authorised Public Accountant

Claus Damhave
State Authorised Public Accountant

Company Information

The Company

Interoute Managed Services Denmark A/S
Niels Juels Gade 5, 3
DK-1059 København K

CVR No: 29 61 97 78

Financial period: 1 January - 31 December

Incorporated: 12 June 2006

Municipality of reg. office: København

Board of Directors

Gareth John Williams, Chairman
Catherine Birkett
Stefan Christian Hofland
Jesper Parlov Aagaard

Executive Board

Jesper Parlov Aagaard

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Income Statement 1 January - 31 December

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Gross profit/loss		16.074	14.743
Staff expenses	3	-14.239	-13.745
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		<u>-1.626</u>	<u>-1.460</u>
Profit/loss before financial income and expenses		209	-462
Financial income	4	220	374
Financial expenses		<u>-451</u>	<u>-332</u>
Profit/loss before tax		-22	-420
Tax on profit/loss for the year	5	<u>-3.000</u>	<u>0</u>
Net profit/loss for the year		<u>-3.022</u>	<u>-420</u>

Distribution of profit

Proposed distribution of profit

Retained earnings		<u>-3.022</u>	<u>-420</u>
		<u>-3.022</u>	<u>-420</u>

Balance Sheet 31 December

Assets

	Note	2016 TDKK	2015 TDKK
Goodwill		1.782	2.495
Intangible assets	6	1.782	2.495
Other fixtures and fittings, tools and equipment		2.334	2.357
Property, plant and equipment	7	2.334	2.357
Other receivables		409	394
Fixed asset investments		409	394
Fixed assets		4.525	5.246
Inventories		1.696	1.132
Trade receivables		19.976	15.514
Receivables from group enterprises		16.550	18.994
Other receivables		62	81
Prepayments		1.024	1.194
Receivables		37.612	35.783
Cash at bank and in hand		2.039	1.163
Currents assets		41.347	38.078
Assets		45.872	43.324

Balance Sheet 31 December

Liabilities and equity

	Note	2016 TDKK	2015 TDKK
Share capital		500	500
Retained earnings		-19.299	-16.277
Equity	8	-18.799	-15.777
Other provisions		3.000	0
Provisions		3.000	0
Prepayments received from customers		2.565	3.043
Long-term debt	9	2.565	3.043
Prepayments received from customers	9	13.044	12.765
Trade payables		2.294	5.418
Payables to group enterprises		36.746	29.527
Other payables		7.022	8.348
Short-term debt		59.106	56.058
Debt		61.671	59.101
Liabilities and equity		45.872	43.324
Going concern	1		
Main activity	2		
Contingent assets, liabilities and other financial obligations	10		
Group relation	11		
Subsequent events	12		
Accounting Policies	13		

Notes to the Financial Statements

1 Going concern

The Company has a negative equity. The Company has received a Letter of Support and Subordination from its parent Interoute Communications Ltd. insuring the required funding of its future operation up to 31 May 2018. Furthermore, the Parent Company will subordinate their receivables in favour of other creditors of the Company.

Management has on this basis prepared the Financial Statements on a going concern basis.

2 Main activity

The object of the Company is to provide consultancy on and deliver solutions based on Internet technology as well as related activities

3 Staff expenses

	<u>2016</u> TDKK	<u>2015</u> TDKK
Wages and salaries	13.202	13.017
Pensions	212	116
Other staff expenses	<u>825</u>	<u>612</u>
	<u>14.239</u>	<u>13.745</u>
Average number of employees	<u>14</u>	<u>11</u>

4 Financial income

Interest received from group enterprises	220	218
Other financial income	0	5
Financial income	<u>0</u>	<u>151</u>
	<u>220</u>	<u>374</u>

5 Tax on profit/loss for the year

Current tax for the year	0	0
Tax provision regarding transfer pricing case	<u>3.000</u>	<u>0</u>
	<u>3.000</u>	<u>0</u>

Notes to the Financial Statements

6 Intangible assets

	Goodwill TDKK
Cost at 1 January	3.565
Cost at 31 December	3.565
Impairment losses and amortisation at 1 January	1.070
Amortisation for the year	713
Impairment losses and amortisation at 31 December	1.783
Carrying amount at 31 December	1.782

7 Property, plant and equipment

	Other fixtures and fittings, tools and equipment TDKK
Cost at 1 January	3.292
Additions for the year	1.311
Disposals for the year	-65
Cost at 31 December	4.538
Revaluations at 1 January	0
Revaluations at 31 December	0
Impairment losses and depreciation at 1 January	935
Depreciation for the year	1.281
Reversal of impairment and depreciation of sold assets	-12
Impairment losses and depreciation at 31 December	2.204
Carrying amount at 31 December	2.334

Notes to the Financial Statements

8 Equity

	Share capital TDKK	Retained earnings TDKK	Total TDKK
Equity at 1 January	500	-16.277	-15.777
Net profit/loss for the year	0	-3.022	-3.022
Equity at 31 December	500	-19.299	-18.799

9 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	2016 TDKK	2015 TDKK
Prepayments received from customers		
Between 1 and 5 years	2.565	3.043
Long-term part	2.565	3.043
Within 1 year	13.044	12.765
	15.609	15.808

Notes to the Financial Statements

	2016 TDKK	2015 TDKK
10 Contingent assets, liabilities and other financial obligations		
Rental and lease obligations		
Lease obligations, period of non-terminability 22 months	1.935	2.402

Other contingent liabilities

A transfer pricing audit of the Danish joint taxation for the years 2011 - 2014 has been performed by the Danish tax authorities (DTA). In end June 2017, the DTA has issued a ruling stating that the Company's transfer pricing documentation is not compliant with Danish requirements. Further, the DTA have increased the Danish joint taxation income for the years 2011 to 2014.

The Company does not agree with the assessment made by the DTA and plan to file a complaint for the Appellate Body (Landsskatteretten) and at the same time ask for a MAP (Mutual Agreement Procedure) between Denmark and UK. However, due to the litigation risk and probably considerable time frame before the matter is settled, the Company has recognised a provision of DKK 3 million to cover penalties and additional tax due to the income adjustments. Based on the ruling from the DTA, the total exposure is estimated to DKK 8-9 million before addition of interest.

The Danish group companies are jointly and severally liable for tax on the jointly taxed incomes etc. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income.

Notes to the Financial Statements

11 Group relation

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company :

<u>Name</u>	<u>Place of registered office</u>
Interoute Communications Ltd.	United Kingdom

The Group Annual Report of Interoute Communications Ltd. may be obtained at the following address:

Interoute Communications Ltd.
31st Floor, 25 Canada Square
Canary Wharf
London, E14 5LQ
United Kingdom

12 Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Notes to the Financial Statements

13 Accounting Policies

The Annual Report of Interoute Managed Services Denmark A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2016 are presented in TDKK.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Notes to the Financial Statements

13 Accounting Policies (continued)

Resultatopgørelsen

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

Revenue

Revenue is recognised in the income statement when delivery and transfer of risk has been made before year end.

Revenue is recognised exclusive of VAT and net of discounts relating to sales.

Delivery of WAN-circuit is divided in the two stages, design and advice, and project management and installation. Delivery of WAN-circuit's regarding installations and stage design and advice are recognised in the income statement over the estimated contract length.

Revenue from subscriptions is allocated over the subscriptions duration.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangibles assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses comprise interest, realised and unrealised exchange adjustments as well as extra payments and repayment under the onaccount taxation scheme.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with Danish consolidated companies. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Notes to the Financial Statements

13 Accounting Policies (continued)

Balancen

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 5 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Other fixtures and fittings, tools and equipment	3-5	years
--	-----	-------

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour.

Notes to the Financial Statements

13 Accounting Policies (continued)

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning coming years.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Prepayments received from customers

Prepayments received consist of payments from customers relating to income in subsequent years.