JAZZTEL

Comisión Nacional
del Mercado de Valores
REGISTRO DE ENTRADA
Nº 200122141 02 ABR 2001

COMISIÓN NACIONAL DEL MERCADO DE VALORES
Dirección General de Mercados Primarios
D. Angel Benito Benito

Paseo de la Castellana, 19
28046 Madrid

C N M V
Registro de Auditorías
Emisoras
Nº 6689

Madrid, 2 de abril de 2001

JAZZTEL, P.L.C. / Estados financieros consolidados en U.S. GAAP y auditados.

Estimado señor:

De acuerdo con los artículos 27 y 35 de la Ley 24/1988, de 28 de julio, del Mercado de Valores, adjunto les remitimos el Informe de auditoría y los estados financieros consolidados de Jazztel, p.l.c., elaborados bajo principios contables americanos (U.S. GAAP), y debidamente auditados.

En las próximas semanas les remitiremos la traducción jurada al español de dichos documentos.

Sin otro particular, reciba un cordial saludo,

Pedro Peña

Pedro Peña
Secretario del Consejo de Administración
JAZZTEL PLC

ARTHUR ANDERSEN

Jazztel plc and subsidiaries

Consolidated Financial Statements
as of December 31, 2000 and 1999 together
with Report of Independent Auditors

ARTHUR ANDERSEN

CNMV
Registro de Auditorias
Emisores
Nº 6689

REPORT OF INDEPENDENT AUDITORS

Raimundo Fdez. Villaverde, 65
28003 Madrid

To Jazztel p.l.c.:

We have audited the accompanying consolidated balance sheets of Jazztel p.l.c. and subsidiaries (the "Company") as of December 31, 1999 and 2000, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows and for the years ended December 31, 1998, 1999 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1999 and 2000 and the results of their operations and their cash flows for the years ended December 31, 1998, 1999 and 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen

Madrid, Spain
March 9, 2001

JAZZTEL p.l.c. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Euro, except share data)

	Note	December 31, 1999	December 31, 2000
ASSETS			
Current assets:			
Cash and cash equivalents	2b	417,063,817	415,835,350
Marketable securities	2c	-	91,603,403
Restricted funds related to Senior Notes	7a	73,861,333	125,830,007
Accounts receivable, net of allowance for doubtful accounts of Euro 3,774,435 and 7,611,137 at December 31, 1999 and 2000, respectively	4	10,140,966	38,013,406
Prepaid expenses		6,061,092	6,944,346
Taxes receivable		27,992,170	53,675,044
Other current assets	2h	1,247,891	6,801,703
Total current assets		536,367,269	738,703,259
Property and equipment, net	2g, 5	171,678,114	399,932,679
License costs, net		1,530,557	2,199,414
Intangible assets, net	2f, 6	25,377,179	44,782,338
Debt issuance costs, net	2p	29,591,355	26,451,514
Restricted funds related to Senior Notes	7a	144,871,063	81,398,725
Deposits and other assets		1,328,161	6,260,350
TOTAL ASSETS		910,743,698	1,299,728,279
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current maturities of long-term debt and capital lease obligations	7	12,729,224	27,880,177
Accounts payable		89,415,814	166,974,726
Accrued expenses and other current liabilities		3,186,947	27,779,762
Deferred income		-	1,369,082
Total current liabilities		105,331,985	224,003,747
Long-term debt	7a	606,546,702	821,411,875
Capital lease obligations	9	57,850,262	104,016,685
Other long - term liabilities		2,093	27,642
Minority interests		(1,474,446)	-
Deferred income		-	6,160,867
Shareholders' equity:			
Common stock, Euro 0.08 par value, 62,500,500 authorized shares, 53,545,712 shares issued and outstanding shares at December 31, 1999 and Euro 0.08 par value, 77,500,000 authorized shares and 58,987,767 shares issued and outstanding at December 31, 2000	10	4,283,657	4,719,021
Non-voting stock, 0.01 pound sterling (Euro 0.015) par value at December 31, 1999 and 2000, 5,000,000 shares authorized, issued and outstanding	10	75,127	75,127
Additional paid in capital	10	305,591,643	360,660,489
Warrants	10	2,868,630	20,289,894
Accumulated deficit		(170,331,955)	(241,637,068)
Total shareholders' equity		142,487,102	144,107,463
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		910,743,698	1,299,728,279

The accompanying notes are an integral part of these consolidated financial statements.

JAZZTEL p.l.c. AND SUBSIDIARIES

STATEMENTS OF OPERATIONS

For the years ended December 31, 1998, 1999 and 2000
(In Euro, except share and per share data)

	Note	Year Ended December 31, 1998	Year Ended December 31, 1999	Year Ended December 31, 2000
OPERATING REVENUES:				
Telecommunications revenues	2n	990,569	22,880,933	122,070,298
Other revenues		457	394,047	3,186,184
Total operating revenues		991,026	23,274,980	125,256,482
OPERATING EXPENSES:				
Cost of sales		(5,456,698)	(31,816,730)	(117,421,232)
Sales, general and administration (inclusive of 50,287,992 and 15,854,952 in non-cash share compensation expense in 1999 and 2000)		(1,653,883)	(127,124,431)	(171,086,725)
Depreciation and amortization		(126,473)	(5,882,242)	(39,560,164)
Total operating expenses		(7,237,054)	(164,823,403)	(328,068,121)
OPERATING LOSS		(6,246,028)	(141,548,423)	(202,811,639)
Other income (expense), net:				
Interest income		19,225	9,750,644	27,016,498
Interest expense		(88,451)	(33,657,759)	(119,055,723)
Gain on disposal of subsidiaries	8	-	-	324,299,154
Loss on disposal of marketable securities		-	-	(24,245,339)
Unrealized holding losses on marketable securities held for trading purposes		-	-	(65,329,559)
Other expense		(21,152)	-	(960,332)
Total other income (expense), net		(90,378)	(23,907,115)	141,724,699
LOSS BEFORE MINORITY INTERESTS		(6,336,406)	(165,455,538)	(61,086,940)
Minority interests		46,411	1,494,445	-
LOSS BEFORE EXTRAORDINARY ITEM		(6,289,995)	(163,961,093)	(61,086,940)
Extraordinary loss, net of tax of nil	7b	-	-	(10,218,173)
NET LOSS		(6,289,995)	(163,961,093)	(71,305,113)
LOSS FROM CONTINUING OPERATIONS PER COMMON SHARE - basic and diluted	2j	(0.44)	(6.90)	(1.09)
EXTRAORDINARY LOSS PER COMMON SHARE - basic and diluted	2j	-	-	(0.18)
NET LOSS PER COMMON SHARE - basic and diluted	2j	(0.44)	(6.90)	(1.27)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - basic and diluted		14,263,916	23,755,970	56,106,617

The accompanying notes are an integral part of these consolidated financial statements.

The conversion of amounts into Euros related to the financial information presented prior to the creation of the Euro on January 1, 1999 was calculated using the exchange rate as of January 1, 1999, which for the all of the Company's operating subsidiaries, was 1 Euro to 166.386 Spanish Pesetas.

JAZZTEL p.l.c. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 1998, 1999 and 2000

(In Euro)

	Year Ended December 31, 1998	Year Ended December 31, 1999	Year Ended December 31, 2000
OPERATING ACTIVITIES:			
Net loss	(6,289,995)	(163,961,093)	(71,305,113)
Adjustments to reconcile net loss to net cash used in operating activities:			
Extraordinary loss	-	-	10,218,173
Minority interests	(31,386)	(1,494,445)	-
Amortization of goodwill	34,036	224,227	-
Amortization of deferred costs (inclusive amortization of debt issuance cost).	-	313,503	3,160,129
Other depreciation and amortization	90,034	5,344,512	34,018,644
Non-cash provisions for losses	1,252	3,774,435	3,836,702
Gain on sale of subsidiaries	-	-	(324,299,154)
Unrealized holding losses on marketable securities held for trading purposes	-	-	65,329,559
Loss on disposal of marketable securities	-	-	24,245,339
Non-cash compensation associated with issuance of share options and shares in subsidiary to employees	-	50,287,992	15,854,952
Changes in operating assets and liabilities:			
Accounts receivable	(1,205,299)	(12,705,703)	(31,709,184)
Prepaid expenses and other current assets	(7,785)	(35,293,141)	(32,119,895)
Deposits and other assets	(53,118)	(1,268,730)	(4,932,189)
Accounts payable and accruals	2,932,044	89,636,381	103,520,807
Accrued interest	-	8,239,837	15,150,953
Net cash used in operating activities	(4,530,217)	(56,902,225)	(189,030,277)
INVESTING ACTIVITIES:			
Acquisitions of licenses costs	(10,743)	(1,514,378)	(858,912)
Purchase of property and equipment	(1,828,947)	(113,422,304)	(203,057,435)
Acquisitions, net of cash acquired	(226,906)	(31,357)	(15,800,000)
Acquisitions of intangible assets	(31,581)	(26,605,108)	(14,001,751)
Proceeds from the sale of subsidiaries	-	-	100,000,000
Re-payments of intercompany loan from the sale of subsidiary	-	-	10,000,000
Cash proceeds from the sale of marketable securities	-	-	54,221,131
Net cash used in investing activities	(2,098,177)	(141,573,147)	(69,496,967)
FINANCING ACTIVITIES:			
Movement in funds held in Escrow	-	(218,732,396)	11,503,664
Debt issuance costs	-	(29,591,355)	(10,238,460)
Proceeds from exercise of share options and warrants	-	13,421,638	1,604,280
Issuance of share capital	361,360	260,544,938	42,168,405
Share issuance costs	(5,889)	(12,725,866)	(6,458,776)
Increase in short-term debt, net	4,429,030	-	-
Proceeds from borrowings of long-term debt	1,469,668	603,122,625	224,017,433
Payments of long-term debt	-	(991,805)	(5,297,769)
Net cash provided by financing activities	6,254,169	615,047,779	257,298,777
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(374,225)	416,572,407	(1,228,467)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	865,635	491,410	417,063,817
CASH AND CASH EQUIVALENTS AT END OF PERIOD	491,410	417,063,817	415,835,350

SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for taxes	-	-	-
Cash paid for interest, net of amount capitalized	-	7,186,566	65,913,883

Disclosure of non-cash investing and financing activities: during 1999 and 2000, the Company entered into capital leases, recording property and equipment and capital lease obligations of Euro 59,804,671 and 48,629,128, respectively.

JAZZTEL p.l.c. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

For the years ended
December 31, 1998, 1999 and 2000
(In Euro)

	Common Shares	Preference Shares	Additional Paid-in Capital	Non-voting Shares	Warrants	Accumulated Deficit	Total
BALANCE, December 31, 1997	880,600	-	-	40,828	-	(67,411)	854,017
Issuance of common shares	334,628	-	-	34,299	-	(13,456)	355,471
Net loss	-	-	-	-	-	(6,289,995)	(6,289,995)
BALANCE, December 31, 1998	1,215,228	-	-	75,127	-	(6,370,862)	(5,080,507)
Issuance of preference shares, net of issuance costs of 1,142,925	-	1,791,497	59,241,744	-	-	-	61,033,241
Conversion of preference shares	1,791,497	(1,791,497)	-	-	-	-	-
Exercise of share options	356,917	-	13,064,721	-	-	-	13,421,638
Issuance of common stock in an initial public offering, net of issuance costs of 11,582,941	920,000	-	182,997,059	-	-	-	183,917,059
Issuance of warrants	-	-	-	-	2,868,757	-	2,868,757
Exercise of warrants	15	-	127	-	(127)	-	15
Non-cash compensation associated with issuance of share options	-	-	49,844,574	-	-	-	49,844,574
Non-cash compensation associated with issuance of shares in subsidiary to employees	-	-	443,418	-	-	-	443,418
Net loss	-	-	-	-	-	(163,961,093)	(163,961,093)
BALANCE, December 31, 1999	4,283,657	-	305,591,643	75,127	2,868,630	(170,331,955)	142,487,102
Issuance of common shares, net of issuance costs	127,231	-	38,703,972	-	-	-	38,831,203
Exercise of share options	36,155	-	1,296,148	-	-	-	1,332,303
Issuance of warrants	-	-	-	-	19,756,613	-	19,756,613
Exercise of warrants	271,978	-	2,335,349	-	(2,335,349)	-	271,978
Non-cash compensation associated with issuance of share options	-	-	12,834,546	-	-	-	12,834,546
Non-cash compensation associated with issuance of shares in subsidiary to employees	-	-	3,020,406	-	-	-	3,020,406
Expenses related to issuance of common stocks in subsidiary	-	-	(3,121,575)	-	-	-	(3,121,575)
Net loss	-	-	-	-	-	(71,305,113)	(71,305,113)
BALANCE, December 31, 2000	4,719,021	-	360,660,489	75,127	20,289,894	(241,637,068)	144,107,463

JAZZTEL p.l.c. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Euro)

(1) COMPANY HISTORY AND NATURE OF BUSINESS

Jazz Telecom, S.A. was incorporated on October 24, 1997. In July 1998, the shareholders of Jazz Telecom, S.A. incorporated Jazztel p.l.c. (the "Company"). Mr. Martin Varsavsky, Chairman of the Board, owned approximately 74.5% of both Jazztel p.l.c. and Jazz Telecom, S.A. In February 1999, in accordance with a shareholders' agreement, shareholders of Jazz Telecom, S.A. exchanged their shares for shares in Jazztel p.l.c.

Since both Jazztel p.l.c. and Jazz Telecom, S.A. were under common control of Mr. Varsavsky, the share exchange of February 1999 has been reflected as a reorganization of entities under common control. Accordingly, the transaction has been recorded using the historical cost bases of Jazztel p.l.c. and Jazz Telecom, S.A. and the financial position and results of operations of the company have been retroactively restated in a manner similar to a pooling of interests. Jazztel p.l.c. and Jazz Telecom, S.A. are herein referred to as the Company.

The Company is a facilities-based telecommunications service provider and plans to be the first nationwide competitive local exchange carrier ("CLEC") in Spain. The Company also plans to construct, in high density business districts, a fiber optic telecommunications network employing synchronous digital hierarchy ("SDH") transmission technology (the "E1-4U Network"). Upon completion of the initial phase of the E1-4U Network, the Company plans to offer businesses in these high density centers a full range of enhanced local, national and international voice services and data services, including internet and broadband communications. The Company primarily operates in Spain and Portugal.

The Company started operations in January 1998 and, as a result, has a short operating history. The Company is deploying the E1-4U Network and offering Spanish and Portuguese business customers a wide range of voice and data telecommunications services. Until recently, only Telefonica in Spain and Portugal Telecom in Portugal offered many of these services.

In competing in a recently liberalized market in an evolving and competitive industry, the Company will face uncertainties and obstacles when evaluating its prospects before it will be able to generate future positive cash flow or net income.

From the time the Company started its business until December 31, 2000, it had aggregate net losses of Euro 241,637,068. The Company expects to continue to incur significant net losses for the next several years as the Company deploys the E1-4U Network and tries to increase significantly the size and scope of its operations in accordance with its business plan. There can be no assurance that the Company will achieve or sustain positive cash flow from operations or profitability in the future.

(2) SIGNIFICANT ACCOUNTING POLICIES

a) *Consolidation*

The accompanying consolidated financial statements include the accounts of Jazztel p.l.c. and all majority owned subsidiaries including Jazz Telecom, S.A., Jazz Telecom 1, S.A. (merged with Jazz Telecom S.A. during 1999), Jazz Telecom Malaga, S.A.(merged with Jazz Telecom, S.A. during 1999), Yacom Internet Factory, S.A. (until its disposition on October 11, 2000), Jazztel Portugal Serviços de Telecomunicaçoes, S.A., Banda 26, S.A, and Comunicaciones Versa, S.A. All intercompany transactions and balances have been eliminated. Minority interests have been recorded for the portion of majority owned subsidiaries not owned by the company.

The accompanying financial statements for the year ended December 31, 2000, 1999 and 1998 do not comprise "statutory accounts" within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended December 31, 2000 will be delivered to the Registrar of Companies for England and Wales

b) *Cash and cash equivalents ---*

Cash and cash equivalents include deposits with banks and short-term investments with an original maturity of three months or less.

c) *Marketable securities ---*

Marketable securities have been acquired for purpose of trading. Accordingly, unrealized gain or losses on marketable securities are recorded to the statements of operations in the caption with title "unrealized holding losses on marketable securities held for trading purposes".

d) *Start-up expenses ---*

Start-up expenses, which comprise of incorporation and preopening costs, are expensed as incurred.

e) *Advertising expenses ---*

Advertising costs are expensed as incurred and totaled approximately Euro 481,000, 31,890,404 and 27,367,365 for the years ended December 31, 1998, 1999 and 2000, respectively.

f) Intangible assets ---

Intangible assets primarily consist of amounts paid to acquire certain information technology software and costs related to the registration of the Company's brand and product names. Intangible assets also consist of acquired customer base from acquisitions of companies accounted for under the purchase method.

Information technology software includes the costs incurred to substantially modify billing software, customer service software and administrative applications. All such costs are contracted with third party vendors and no such modifications are made by Company personnel. Costs related to these administrative applications are amortized on a straight-line basis over a period of three to five years.

Maintenance and training costs of these applications are expensed as incurred.

Patents and trademarks are amortized over a period of 3 to 5 years, while acquired customer base also is amortized over a period of 3 to 5 years.

g) Property and equipment ---

Property and equipment are recorded at cost less accumulated depreciation. The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized. Interest costs associated with significant capital additions are also capitalized. Upkeep and maintenance expenses are expensed as incurred.

Property and equipment are depreciated on a straight-line basis on based on the following estimated useful lives (in years):

	Years of Estimated Useful Life
Technical installations	8 to 20
Furniture	10
Information technology equipment	5
Leasehold improvements	Shorter of 5 or life of lease term
Equipment under capital lease	Shorter of 20 or life of lease term
Other fixed assets	3 to 5

h) *Other current assets---*

For all periods presented, other current assets primarily consists of sundry debtors.

i) *Use of estimates ---*

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from such estimates.

j) *Earnings per share ---*

Basic earnings per common share are calculated using income available to common shareholders divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated in a similar manner to basic earnings per share except that the weighted average of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Warrants to acquire 4,175,822 and 2,126,101 common shares were outstanding at December 31, 1999 and 2000 respectively. In addition stock options to acquire 205,506 and 456,065 common shares were also outstanding at December 31, 1999 and 2000 respectively. These potential common shares were excluded from the computation of diluted earnings per common share because their inclusion would have had an antidilutive effect on earnings per common share.

k) *Foreign currency transactions ---*

The Company's functional currency is the Euro. Transactions involving other currencies are translated into the Euro using the exchange rates that are in effect at the time of the transactions. At the balance sheet date, monetary assets and liabilities, which are denominated in other currencies, are adjusted to reflect the current exchange rates. Gains or losses resulting from foreign currency remeasurement are reflected on the accompanying statements of operations.

The functional currency of all of the Company's subsidiaries is the Euro. Prior to the creation of the Euro on January 1, 1999, these subsidiaries previously reported financial information in Spanish pesetas. The conversion of peseta amounts into Euros related to the financial information prior to the creation of the Euro on January 1, 1999 was calculated using the exchange rate as of January 1, 1999 which was 1 Euro to 166.386 Spanish pesetas.

As substantially all of the Company's results of operations and cash flows are derived from operations in Spain, the comparative consolidated statements reported in Euro show the same trends as would have been presented if the Company had presented such statements in Spanish pesetas. The consolidated financial statements are not comparable to financial statements of other companies that report in Euro and that restate amounts from currencies other than Spanish pesetas.

l) *Income taxes ---*

Deferred income taxes are provided using the liability method, whereby deferred tax assets and liabilities are established for the difference between the financial reporting and income tax basis of assets and liabilities as well as operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

For tax purposes, the Company had available net operating loss ("NOL") carryforwards at December 31, 2000 of approximately Euro 257 million. A valuation allowance has been established in full for the deferred tax assets associated with these NOLs due to the company's history of operating losses.

NOL's generated in the UK tax jurisdiction of approximately Euro 8 million can be carried forward indefinitely.

NOL's arising in the Spanish tax jurisdiction of approximately Euro 231 million will begin to expire 10 years from the date that the company obtains tax profitability in that tax jurisdiction.

NOL's arising in the Portuguese tax jurisdiction of approximately Euro 18 million will begin to expire 6 years from the date they are generated.

m) *Long-lived assets ---*

The Company periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of.* Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Company will compare undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Company will write down the carrying value of the long-lived assets to fair value, based on discounted cash flows or market values.

During all periods presented, the Company has not identified events or changes in circumstances that indicates a potential for impairment exists.

Amortization of goodwill amounted to Euro 34,036, 224,227 and nil for the years ended December 31, 1998, 1999 and 2000, respectively.

n) *Revenue recognition ---*

The Company records revenues over the period in which they are earned. The cost of providing service is recognized as incurred. Specifically, the Company's policies are as follows:

Telecommunications Revenues:

Operating revenues are derived from providing various telecommunication services to customers. These services include:

- Basic voice services: The Company generates revenues from the connection of person to person telephone calls through its owned and leased lines. Revenues are measured in terms of traffic minutes processed or transmission capacity provided, and are recognized in the period in which the connection is provided.

- Value added services: These services consist of unified messaging, teleconferencing, centrex and other additional product offerings beyond basic connection services. Revenues from these services are recognized in the period service is provided.

- Data services: The Company provides managed bandwidth to business customers. Revenues from these arrangements are recognized ratably over the period that the bandwidth is provided to customers.

- Other services: The Company provides web hosting and Internet access to its business customers. Revenues from web hosting agreements are recognized rateably over the life of the contract. Revenues from Internet access by business customers are recognized in the period that the services are provided to customers.

Internet Business

Prior to the disposal of Yacom Internet Factory, S.A. on October 11, 2000, this segment's revenues are derived principally from interconnection fees to residential customers, the sale of banner advertisements and sponsorships and commissions on e-commerce activities. At December 31, 2000, the Company had no operations in this segment except for the provision of connection and other services to business customers via the Company's Jazzfree service.

Revenues from fixed Internet access were recognized during the period in which the services are provided. Since June 1999, free Internet access for residential customers has been provided in Spain. Accordingly, since that time, revenues from interconnection operations to residential customers have been zero. The Company continues to charge fees for its business customers, which are recognized ratably over the customer contract period.

The Company also earned revenues from advertising and sponsorship agreements. These agreement generated revenues in the following ways:

> *Display advertising*: Many of the Company's advertising contracts charged fees based on the number of impressions delivered. Revenues on these contracts are recognized based on the number of impressions delivered to date, multiplied by the rate per impression contained in the contract. Other arrangements, including most sponsorship agreements, generated revenues based on the numbers days the advertising is displayed. Revenues from these contracts were recognized ratably over the term that the advertising is displayed.
>
> *Advertisement design*: The Company generated fees for helping sponsors design and customize an advertising campaign. These fees were recognized upon the completion of, and approval by the customer of, the ad campaign. It generally takes the Company two weeks or less to generate such campaigns.

The Company also derived revenues from commissions on e-commerce transactions from consumers utilizing the Company's network of websites. The amount of the commissions varied based on agreements between the Company and the retailers. The Company recognizes such revenues in the period that the user made the on-line purchase. Such revenues were recognized on a net basis, as the Company did not have the risk of non-collection and did not act as a principal in the transaction.

Users of the Company's Jazzfree Internet access services initiate calls through an operator, which must interconnect with the Company to terminate the call at Internet access provider. The operator charges from 1.6 to 4.3 pesetas (or Euro 0.01 to Euro 0.03) per minute for this connection, and, pursuant to Spanish regulation, must reimburse the Internet service provider a significant portion of that revenue. The Company receives 1.05 to 1.65 pesetas (or Euro 0.006 to Euro 0.01) per minute of connection, depending on the time of day a user dials into its network. The Company recognizes these revenues in the period that that the connection is provided.

o) *Recently issued accounting standards ---*

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 133, *Accounting for derivative instruments and hedging activities.* SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific accounting criteria are met. If a derivative instrument qualifies for hedge accounting, the gains or losses from the derivative may offset results from the hedged item in the statement of operations or other comprehensive income, depending on the type of hedge. To adopt hedge accounting, a Company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

In June 2000, the Financial Accounting Standards Board issued SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. This Statement addresses a limited number of issues causing implementation difficulties for numerous entities that apply SFAS 133 and this Statement amends the accounting and reporting standards of SFAS 133 for certain derivative instruments and certain hedging activities.

SFAS 137 delayed the effective date of SFAS 133 to fiscal years beginning after June 15, 2000. A Company may implement the statements as of the beginning of any fiscal quarter after issuance; however, SFAS 133 cannot be applied retroactively.

The Company expects that the adoption of SFAS 133, SFAS 137, and SFAS 138 may have a material impact on the financial position or the results of operations of the Company, but is unable to estimate the effects of adoption at this time. Specifically, the Company expects that a number of its contracts will contain embedded derivatives, which under FAS 133, will need to be recorded as assets or liabilities at fair value. The primary contracts of the Company that will be affected by FAS 133 are those in which the payment provisions of the contracts are not designated in the functional currency of either the Company or the supplier. However, the Company has not yet been able to analyze all of its contracts to quantify the effects of recording these embedded derivatives at January 1, 2001.

p) *Debt issuance costs ---*

Debt issuance costs consist of debt issuance costs related to the Company's senior debt and those related to the formalization of the senior credit facility (See Note 7b).

Debt issuance costs are amortized as interest expense over the term of the debt using the effective interest method.

q) *Deferred income ---*

Deferred income consist of revenues related to traffic termination to be deferred over the next 6 years.

(3) ACQUISITION

On February 16, 1998 Jazz Telecom, S.A. acquired 67% of Jazz Telecom 1, S.A. for consideration of Euro 120,202. On February 20, 1998, Jazz Telecom, S.A. acquired the remaining 33% of Jazz Telecom 1, S.A. for consideration of Euro 84,142. This acquisition has been accounted for under the purchase method of accounting. The purchase price has been allocated based on estimated fair values of assets and liabilities at the date of acquisition as follows:

	Euro
Property, plant and equipment	60,975
Intangible assets	8,375
Receivables	36,848
Cash and cash equivalents	132,530
Current liabilities	(80,521)
Long term debt	(180,769)
Goodwill	226,906
Total consideration	204,344

This allocation has resulted in acquired goodwill of Euro 226,906, which during 1998 was being amortized on a straight-line basis over 5 years. In 1999, the reminder of this goodwill was immediately expensed as the carrying amount was immaterial. The results of the acquired business have been included in the accompanying consolidated financial statements since the date of acquisition.

(4) ACCOUNTS RECEIVABLE

At December 31, 1999 and 2000, accounts receivable includes Euro 4,594,582 and 19,221,384 of unbilled receivables relating to services rendered but not yet invoiced respectively. Such unbilled amounts as of December 31, 2000 were billed in February 2001.

The movements in the allowance for doubtful accounts during the three years ended December 31, 1998, 1999 and 2000 are as follows:

	Beginning Balance	Charged to Cost and Expenses	Ending Balance
Year Ended December 31, 1998	-	-	-
Year Ended December 31, 1999	-	3,774,435	3,774,435
Year Ended December 31, 2000	3,774,435	3,836,702	7,611,137

(5) PROPERTY AND EQUIPMENT

Property and equipment accounts and related accumulated depreciation as of December 31, 1999 and 2000 were as follows:

	December 31, 1999	December 31, 2000
Technical installations	65,455,886	143,955,199
Furniture	2,144,761	6,753,363
Information technology equipment	11,562,787	18,949,101
Leasehold improvements	4,970,014	23,271,298
Equipment under capital leases	60,562,396	130,626,814
Other fixed assets	798,700	1,823,781
Construction in process	30,380,952	102,197,159
	175,875,496	427,576,715
Less accumulated depreciation	(4,197,382)	(27,644,036)
Property and equipment, net	171,678,114	399,932,679

Interest capitalized totaled Euro 2,066,203 and 5,629,905 for the years ended December 31, 1999 and 2000, respectively.

Depreciation expense totaled Euro 82,466, 4,103,488 and 23,431,998 for the years ended December 31, 1998, 1999 and 2000, respectively.

(6) INTANGIBLE ASSETS

Intangible assets and related accumulated amortization as of December 31, 1999 and 2000 were as follows:

	December 31, 1999	December 31, 2000
Patents and trademarks	4,721,795	386,799
IT software	21,902,214	53,053,659
Customer base	-	2,360,749
Other intangible assets	-	416,177
	26,624,009	56,217,384
Less accumulated amortization	(1,246,830)	(11,435,046)
Total intangible assets, net	25,377,179	44,782,338

Amortization expense totaled Euro 6,202, 1,241,024 and 10,396,591 for the years ended December 31, 1998, 1999 and 2000 respectively.

The decrease in patents and trademarks from December 1999 to December 2000 is attributable to the Company's disposal on its investment in Yacom Internet Factory, S.A.

(7) DEBT

The company had the following debt outstanding:

	December 31, 1999	December 31, 2000
14% Senior Notes	206,416,640	215,099,191
14% Senior Notes interest	7,628,018	7,610,419
13.25 % Senior Notes	400,000,000	400,000,000
13,25% Senior Notes interest	2,137,098	2,355,556
14% Senior Notes	-	206,231,218
14% Senior Notes interest	-	15,400,000
Deposits	130,062	81,466
Capital Lease Obligations	59,804,671	106,530,887
Total	676,116,489	953,308,737
Less: Current Portion	11,719,525	27,880,177
Long - Term debt	664,396,964	925,428,560

a) Senior Notes ---

On April 8, 1999, the Company issued $100 million principal amount of 14% Senior Notes due 2009 and Euro 110 million principal 14% Senior Notes due in April 2009 (April Senior Notes). Interest is due on the April Senior Notes on April 1 and October 1 of each year commencing October 1, 1999. The April Senior Notes are unsecured unsubordinated obligations.

Prior to April 1, 2002, the Company may on any one or more occasions redeem up to an aggregate of 35% of the aggregate principal amount of the notes originally issued under the indenture at a redemption price of 114.00%.

The Company may redeem the April Senior Notes, in whole or in part, at any time after April 1, 2004 in the amount of $1,000 each or Euro 1,000 increments at the following redemption prices:

2004	107.000%
2005	104.667%
2006	102.333%
2007 and each year thereafter	100.000%

Following the issue of the April Senior Notes, a portion of the proceeds are held in Escrow for the benefit of the noteholders. These funds have been invested in US government securities and European government securities. The funds mature at appropriate intervals in order to pay the first six interest payments on the Notes. Under SFAS No. 115, the investments are classified as held to maturity, and as such are carried at cost.

On December 15, 1999, the Company issued €400 million principal amount of 13.25% December Senior Notes due December 15, 2009. Interest is due on the December Senior Notes on December 15 and June 15 of each year commencing June 15, 2000.

Prior to December 15, 2002, the Company may on any one or more occasions redeem up to an aggregate of 35% of the aggregate principal amount of the notes originally issued under the indenture at a redemption price of 113.25%. The Company may redeem the December Senior Notes, in whole or in part, at any time after December 15, 2004 in the amount of Euro 1,000 at the following redemption prices:

2004	106.625%
2005	104.417%
2006	102.208%
2007 and each year thereafter	100.000%

Following the issue of the December Senior Notes, a portion of the proceeds are held in Escrow for the benefit of the noteholders. These funds have been invested in European government securities. The funds mature at appropriate intervals in order to pay the first six interest payments on the Notes. Under SFAS No. 115, the investments are classified as held to maturity, and as such are carried at cost.

On July 15, 2000, the Company issued Euro 225 million principal amount of 14% Senior Notes due 2010. Interest is due on January 15 and July 15 of each year commencing January 15, 2001.

Prior to July 15, 2003, the Company may on any one or more occasions redeem up to an aggregate of 35% of the aggregate principal amount of the notes originally issued under the indenture at a redemption price of 114.00%.

The Company may redeem the Senior Notes, in whole or in part, at any time after July 15, 2005 in amounts of Euro 1,000 or integral multiples thereof at the following redemption prices:

2005	107.000%
2006	104.667%
2007	102.333%
2008 and each year thereafter	100.000%

Following the issue of the Senior Notes, a portion of the proceeds will be held in escrow for the benefit of the noteholders. These funds will be invested in US government securities and European government securities. The funds mature at appropriate intervals in order to pay the first four interest payments on the Senior Notes. Under SFAS No. 115, the investments are classified as held to maturity, and as such are carried at cost.

The indentures governing the April Senior Notes, the December Senior Notes and the July Senior Notes contain various covenants including, among other things, limitations on the incurrence of indebtedness, liens and sale-leaseback transactions and restricts the Company's ability to pay dividends, redeem or repurchase our common shares or other classes of shares, sell assets, guarantee indebtedness and certain other transactions. No direct or indirect subsidiaries of Jazztel p.l.c. have guaranteed the April Senior Notes, the December Senior Notes and the July Senior Notes. Jazztel p.l.c. has no operations or assets separate from its investment in its subsidiaries.

b) Credit facility -

On August 13, 1999, the company entered into a credit facility with a syndicate of banks led by Chase Manhattan p.l.c. The credit facility was a senior secured credit facility that provided loans in an aggregate principal amount of up to Euro 300 million.

Borrowings under the credit facility would have borne interest at a rate per annum of an Euro LIBOR rate plus the applicable margin and mandatory costs.

On October 31, 2000, pursuant to clause 15.3 of the credit facility agreement, the Company gave written notice to the Facility Agent to cancel the credit facility. This cancellation took effect on November 15, 2000. There were no costs associated with canceling the facility. However, unamortized deferred issuance costs of 10,218,173 were immediately written-off and recorded as an extraordinary loss on the early extinguishment of debt, net of tax of nil.

(8) DISPOSAL OF BUSINESS

Effective October 11, 2000, the company sold Yacom Internet Factory, S.A., a network of integrated websites with Spanish-language content, services, e-commerce, and free Internet access (ISP) in Spain, for cash proceeds of Euro 100 million and 10.651.558 T-Online shares amounted Euro 235,399,432 on the date of disposal.

After adjusting for the net cost of the assets sold and for the expenses associated with the divestiture, the company realized a gain of Euro 324 million or Euro 5.79 per basic and diluted share.

During the period from January 1, 2000 until the date of sale, Yacom Internet Factory, S.A had sales of approximately Euro 3 million and an operating loss of about Euro 36 million.

(9) COMMITMENTS AND CONTINGENCIES

On January 28, 1999, RENFE and Jazz Telecom, S.A. entered into an agreement for a period of up to twenty years for the lease and maintenance of dark fiber owned by RENFE and which forms part of its railway infrastructure. Under the lease agreement, RENFE will lease to Jazz Telecom, S.A. certain sections of its actual and future dark fiber as well as use of the sites needed for installation of some technical equipment of Jazz Telecom, S.A. for an annual fee of Euro 1,171,974 for the network sections in the first delivery, Euro 1,382,328 for those in the second delivery and Euro 847,427 for the network sections in the third delivery. Additionally during 1999 and 2000, RENFE and Jazz Telecom entered into new agreements for a period of up to twenty years for the lease and maintenance of dark fiber for an annual fee of Euro 1,651,581 for the network sections deliver in 1999 an for an annual fee of Euro 4,384,977 for the network sections deliver during 2000.

On June 23, 1999, Iberdrola, S.A. and Jazz Telecom, S.A. entered into an agreement for a period of twenty years for the lease and maintenance of dark fiber owned by Iberdrola, S.A. and which forms part of its electricity infrastructure. Under the lease agreement, Iberdrola, S.A. will lease to the company certain sections of its actual and future dark fiber as well as use of sites needed for installation of some technical equipment of Jazz Telecom, S.A. for an annual fee of Euro 176,841 for the network sections in the first delivery. Additionally during 2000, Iberdrola, S.A. and Jazz Telecom, S.A. entered into new agreements for a period between ten and twenty years for the lease and maintenance of dark fiber owned by Iberdrola, S.A. for an annual fee of Euro 13,461,745.

The aforementioned leases are being accounted for as capital leases (see Note 7).

On June 5, 2000, Jazz Telecom, S.A. signed an agreement to lease a STM-1 between London and Madrid from Telemonde Networks for a period of ten years for a total fee of Euro 8,214,489. Furthermore, Telemonde Networks has agreed to pay Jazztel a maximum fee of Euro 114,090 a month for a period of six years for any traffic originating from Telemonde Networks over this STM-1. To the extent that traffic originating from Telemonde exceeds a defined threshold outlined in the contract, Telemonde will be obligated to pay additional fees to the Company based on predefined rates in the contract.

Jazztel has recorded a deferred asset related to the prepayment for the STM-1 license, and is amortizing such prepayment to expense on a straight-line basis over the life of the lease. Moreover, the Company has recorded deferred income related to a prepayment received from Telemonde and is recognizing such amount as revenues based on a straight-line basis, according to the terms of the contract, also over the life of the lease. Amounts recognized as revenues and expense were Euro 410,725 and 410,725, respectively, during the year ended December 31, 2000.

Jazz Telecom, S.A. has issued guaranties during the year 2000 to third parties in relation to the construction in process of metropolitan access network for the amount of Euro 12,064,060.

Additionally Jazz Telecom, S.A. has issued guaranties in favor of Banda 26, S.A. in relation to the license of wireless local loop license granted by the Spanish Ministerio de Fomento on March 8, 2000 for the amount of Euro 24,521,294

The Company and its subsidiaries lease certain office facilities and other equipment. The leases generally provide for the lessee to pay taxes, maintenance, insurance and certain other operating costs of the leased property. The leases on most of the properties contain renewal provisions. Rent expense on operating leases totaled approximately Euro 48,000, 1,364,648 and 5,422,534 for the years ended December 31, 1998, 1999 and 2000 respectively.

Following is a summary of the future minimum payments under operating and capital leases that have initial or remaining noncancellable lease terms in excess of one year at December 31, 2000:

Year ending December 31,	Operating Leases amount	Capital Leases amount
2001	5,542,216	11,407,513
2002	5,029,285	11,392,826
2003	4,514,006	10,294,189
2004	4,042,297	10,503,750
2005	1,215,912	10,706,234
Thereafter	390,268	171,360,191
Total	20,733,984	225,664,703
Portion representing interest		119,133,816
Net present value for future minimum lease payments		106,530,887
Current portion		2,514,202
Long term portion		104,016,685

(10) SHAREHOLDERS' EQUITY

Jazztel p.l.c. was incorporated on July 8, 1998, with a share capital of £2 (Euro 3) consisting of 2 common shares of £1 (Euro 1.50) each. On July 16, 1998, the authorized share capital of the Company was reorganized by sub-dividing each £1 (Euro 1.50) common share into 100 common shares of 1 pence (Euro 0.015), ranking parri passu. On this date, an additional 4,999,800 common shares were issued, of which £12,499 (Euro 18,780) was called-up and paid.

a) *Share exchange ---*

On February 2, 1999 the share capital of the Company was reorganized as follows (for purposes of describing the share exchange, share and per share amounts in this note have not been restated to reflect the October 4, 1999 share consolidation referred to at the end of this note):

The authorized share capital of Jazztel p.l.c. was increased by Euro 1,215,228 by creating 121,522,845 common shares of Euro 0.01 each. On this date, Jazztel p.l.c. acquired 100% of the share capital of Jazz Telecom, S.A. The consideration for the transfer of the shares in Jazz Telecom, S.A. to the Company was the issue of 121,522,845 fully paid common shares in the Company of Euro 0.01 each, amounting to Euro 1,215,228, to the shareholders of Jazz Telecom, S.A., and the satisfaction of the balance of the obligations of the shareholders in the Company in respect of the 5,000,000 issued but partly paid common shares, amounting to £37,499 (Euro 56,343).

The 5,000,000 issued common shares of 1 pence (Euro 0.015) each were redesigned as 5,000,000 1 pence (Euro 0.015) non-voting shares.

The authorized share capital of Jazztel p.l.c. was further increased by authorizing 75,168,133 common shares of Euro 0.01 each and 179,149,688 preference shares of Euro 0.01 each. None of such common shares were issued. The preference shares were issued and fully paid up with a premium of Euro 0.337 per share less costs of Euro 1,142,925.

The preference shares were converted into common shares (at the ratio of one common share to one preference share) on September 13, 1999.

The Company approved on October 4, 1999, the consolidation of its authorized 500,000,000 common shares to 62,500,000 common shares, with a consolidation ratio of 8 old shares to 1 new share and increased the par value of common shares to Euro 0.08. The impact of these changes have been retroactively applied to these financial statements.

b) Warrants ---

In connection with the offering of $100,000,000 and Euro 110,000,000 14% Senior Notes due in 2009, the Company issued 500,000 dollar warrants and 550,000 Euro warrants to purchase 1,913,213 and 2,262,795 common shares respectively at an exercise price of Euro 0.08 per share. The estimated fair value of these warrants at the date issued was $2.82 to each dollar warrant and Euro 2.82 to each Euro warrant.

In connection with the offering of Euro 225,000,000 14% Senior Notes due in 2010, the Company issued 225,000 Euro warrants to purchase 1,350,000 common shares at an exercise price of Euro 34.10 per share. The estimated fair value of these warrants at the date issued was Euro 87.80 to each Euro warrant.

45 warrants to purchase 185 shares of the Company's common stock and 854,092 warrants to purchase 3,399,721 shares of the Company's common stock were exercised during 1999 and 2000, respectively.

The expiration date of each Dollar and Euro warrant will be on April 1, 2009 for the warrants issued in 1999 and July 15, 2010 for the warrants issued during July 2000. Any warrant not exercised before the expiration date shall become void, and all rights of the holder under applicable warrant agreement shall cease.

(11) FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS 107, "Disclosure About Fair Value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. Cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and debt maturing within one year are reflected in the consolidated financial statements at amounts approximating fair value because of the short-term maturity of these instruments. Marketable securities are recorded at fair value in the accompanying financial statements. The Company uses quoted market prices to value warrants (using the intrinsic value method), deposits and restricted funds, and discounted cash flows to calculate the fair value of its fixed rate long-term debt.

The estimated fair values of long-term debt, assets and warrants outstanding at period end was as follows:

	December 31, 1999		December 31, 2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Restricted funds	218,732,396	199,587,890	207,228,732	186,703,193
Deposits and other assets	1,328,161	1,328,161	6,260,350	6,487,573
Liabilities				
Fixed rate debt	675,986,427	678,257,621	974,365,965	645,756,715
Warrants	2,868,630	269,737,614	20,289,894	19,932,061
Deposits	130,062	119,742	-	-

(12) RELATED PARTIES

In 1998, the chairman and president of Jazztel p.l.c., loaned certain sums to Jazz Telecom, S.A. to provide operating capital. Each of the following loans matures two years from the date of the loan and bears an annual interest rate of 10%:

Date of Loan:	Amount:
June 16, 1998	Euro 361,446
July 30, 1998	Euro 1,204,819
October 14, 1998	Euro 90,361

In addition, a related party and a former 75% owner of Jazz Telecom 1, S.A., also loaned certain sums to Jazz Telecom, S.A. to provide operating capital. Each of the following loans matures two years from the date of the loan and bears an annual interest rate of 12%, except that the December 17, 1998 loan bears an annual interest rate of 10%:

Date of Loan:	Amount:
June 30, 1997	Euro 120,166
July 20, 1998	Euro 240,964
October 22, 1998	Euro 210,843
November 13, 1998	Euro 90,361
November 30, 1998	Euro 361,446
December 17, 1998	Euro 1,204,819
January 26, 1999	Euro 373,493

The related party assigned all the loans granted to Jazz Telecom, S.A. to the chairman and president of Jazztel p.l.c. on February 1, 1999, for consideration equal to their principal and outstanding interest. In February 1999, the chairman and president received 12,440,951 preference shares of Jazztel p.l.c. from Jazztel p.l.c. in exchange for these loans and the loans assigned to him and as a result there were no balances outstanding at December 31, 1999 and 2000.

There were no other related party transactions requiring disclosure during any of the periods presented.

(13) SEGMENT REPORTING

Descriptions of the segments---

Until the disposal of Yacom Internet Factory, S.A. in October 2000, the Company operated in two main business segments: Internet Business and Telecommunications Business. The Company was organized around these segments, with senior management in place for both businesses.

The main products and services offered by each segment were as follows:

Internet Business:

Until the disposal of Yacom Internet Factory, S.A., this segment was focused on the creation and development of local services and content for residential Internet users in Spain.

Telecommunications Business:

This business is focused on the creation and development of an Indirect Access Service (reselling the domestic services of Telefonica and the international services of other carriers), Direct Access Services (offering a broad range of services to those customers that are connected directly to Jazztel Fiber Optic Network) and Carrier Services (to businesses which require transmission capacity).

Accounting Principles—

The accounting principles used in accounting for the segments are the same as those used in the consolidated financial statements.

During 1999 and 1998, the Company only operated in the telecommunications segment and had no operations in its Internet segment. Accordingly, information for the Company's segments as of and for the year ended December 31, 2000 only have been presented in the following table. Moreover, as the Company disposed of its internet business segment in October 2000, the information in the table below only represents information for this segment during the period that it was owned by Jazztel, p.l.c. The Company believes that effective January 1, 2001, it will only operate in one business segment, the provision of telecommunication services.

Year ended December 31, 2000	Telecomm Business	Internet Business	Total Telecomm + Internet
Revenues	122,070,298	3,186,184	125,256,482
Total operating expenses	(288,584,727)	(39,483,394)	(328,068,121)
Sales, General and Administration	(144,864,149)	(26,222,576)	(171,086,725)
Depreciation and Amortization	(34,018,644)	(5,541,520)	(39,560,164)
Operative Income (Loss)	(166,514,429)	(36,297,210)	(202,811,639)
Expenditures for long-lived assets	228,254,565	-	228,254,565
Assets	1,299,728,279	-	1,299,728,279

The Company believes that it is impracticable to report revenues from external customers by product and service, since many customers utilize multiple services that are priced in bundled packages.

The following represents geographic information related to the Company's operations (the Company only operated in Spain for periods prior to 2000).

Year ended December 31, 2000	PORTUGAL	SPAIN	TOTAL
Revenues	5,235,158	120,021,324	125,256,482
Long - lived assets	37,252,424	362,680,255	399,932,679

The Company has no customers with revenues in excess of 10% of the Company's total revenues in any reporting period.

(14) SHARE OPTION PLAN

The Board of Directors authorized the implementation of a share option plan for employees on June 16, 1999. It also approved share option plans for shareholder managers and independent directors on that date.

The Company accounts for its share option plans under Accounting Principles Board (APB) Opinion No 25, "Accounting for Stock Issued to Employees" in accounting for options granted under the Stock Option Plans. Accordingly, for the year ended December 31, 1999 and 2000, compensation expense of € 49,844,574 and € 12,834,546, respectively, was recognized for options granted under these schemes. This amount is based upon first determining intrinsic value of each award on its measurement date, and then amortizing this value over the service or vesting period of the awards.

Had compensation expense for options granted under these schemes been determined based on fair value at the grant dates in accordance with FASB Statement 123, the Company's charge for the years ended December 31, 1999 and 2000 would have been Euro 49,562,034 and 12,933,500, respectively. Net income and earnings per share would have been reduced to the pro-forma amounts shown below:

	Year ended December 31, 1999	Year ended December 31, 2000
Net income:		
As reported	(163,961,093)	(71,305,113)
Pro Forma	(163,678,553)	(71,404,067)
Basic and diluted net loss per share per US GAAP:		
As reported	(6.90)	(1.27)
Pro Forma	(6.89)	(1.27)

The movement in options outstanding during the year ending 31 December 2000 is summarised in the following table:

	Number of shares subject to option	Weighted average exercise price (Euro)
Outstanding at December 31, 1998	-	-
Granted during 1999	4,712,172	2.990
Exercised during 1999	4,506,666	2.992
Outstanding at December 31, 1999, as disclosed in accounts for year ending December 31, 1999	205,506	2.952
Granted during the period	733,177	3.162
Exercised during the period	452,146	3.028
Forfeited during the period	30,472	3.094
Expired during the period	-	-
Outstanding at December 31, 2000	456,065	3.091
Exercisable at December 31, 2000	12,787	2.952

The weighted average fair value of options granted in the year ended December 31, 1999 and 2000 were estimated using the Black-Scholes stock option pricing model. The following weighted average assumptions were used:

- dividend yield of nil,
- volatility ranging from 39.5% to 104%,
- risk free interest rate ranging from 2.60% to 4.7%, and
- expected lives ranging from 0.2 to 2.2 years.

The weighted average fair value at grant date were estimated to be € 10.78 and € 51.43 for options granted during the years ended December 31, 1999 and 2000, respectively.

In addition, throughout 1999, a greater than 10% corporate shareholder of the Company's subsidiary Yacom Internet Factory, S.A. ("YIF") granted the right to certain employees of YIF to buy 11% (11,000 shares) of the YIF shares held by this shareholder for a price of Euro 1 per share. When this offer was made to employees in October 1999, this Euro 1 price per share represented the fair market value of YIF's common stock, as YIF's portal had not yet been developed and the Company had no operations to date.

However, when this offer was made to additional employees in December 1999, the value of YIF was significantly in excess of the Euro 1 per share offer price. Therefore, YIF determined that the intrinsic value of the shares purchased by employees in December 1999 was Euro 10,477,061, based on management's estimate of the fair market value of the YIF's common stock on the date the offer was made to employees.

This compensation charge is being amortized over a period of approximately 40 months, as a portion of such stock is restricted for sale by the employee over that period of time.

Under APB 25, YIF recognized compensation expenses of Euro 443,418 and 3,020,406 for the year ended December 31, 1999 and for the months from January 1, 2000 to the disposal date, respectively. Under the original plan provisions, the vesting stock awards under the YIF plan did not accelerate at the moment that YIF was acquired. Moreover, from this date, the acquiror of YIF assumed all obligations related to the YIF Stock Option Plan. These charges are equivalent to the cost that would have been recorded had YIF applied the provisions of FAS 123, "Accounting for Stock-Based Compensation".

(15) SUBSEQUENT EVENTS

On September 22, 2000 Jazztel entered into an agreement to purchase Adatel, a telecommunications systems integrator for SMEs in Spain specialized in vertical wiring, PBX installation and Data networks installation and maintenance. The transaction was closed on January 11, 2001 and the Company bought 87.2% of the shares of Adatel for an aggregate consideration of €15.9 million, 50% of which was paid in cash and 50% in common shares (220,044 shares).

During January 2001, Jazztel plc has sold all the marketable securities by a total amount of approximately Euro 99 million.

During January and February 2001, Jazztel plc has granted new participate loans to Jazz Telecom, S.A. and Jazztel Portugal Serviços de Telecomunicaçoes, S.A. amounted Euro 149,086,944 and 12,500,000, respectively.