

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:

FLAG TELECOM HOLDINGS LIMITED,
FLAG LIMITED
FLAG ATLANTIC LIMITED,
FLAG ATLANTIC HOLDINGS LIMITED,
FLAG PACIFIC USA LIMITED,
FLAG TELECOM GROUP SERVICES LIMITED,
FLAG TELECOM LIMITED
FLAG TELECOM USA LTD.,
FLAG ASIA LIMITED, AND
FLAG ATLANTIC USA LIMITED,

Debtors.

Chapter 11

Case Nos. 02-11732 through 02-11736 and 02-11975 through 01-11979 (ALG)

(Jointly Administered)

Hearing Date: January 9, 2003, at 10:00 a.m.

Objection Deadline: January 2, 2003, at 5:00 p.m.

APPLICATION OF ARTHUR ANDERSEN UK FOR FINAL ALLOWANCE OF COMPENSATION FOR SERVICES RENDERED AND REIMBURSEMENT OF EXPENSES INCURRED FROM APRIL 12, 2002 THROUGH AUGUST 1, 2002 INCLUSIVE.

**TO THE HONOURABLE ALLAN L. GROPPER
UNITED STATES BANKRUPTCY JUDGE:**

1. Arthur Andersen UK (“AAUK”), accountants and independent auditors to FLAG Telecom Holdings Limited (“FTHL”) and its affiliated debtors and debtors in possession (collectively the “Debtors”) in the above-referenced Chapter 11 case, hereby submit the final application (the “Application”) pursuant to sections 330(a) of title 11 of the United States Code (the “Bankruptcy Code”) and Rule 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

2. On April 12, 2002, FTHL, FLAG Limited, Flag Pacific USA Limited, FLAG Atlantic Holdings Limited and FLAG Atlantic Limited filed voluntary petitions for relief under the Bankruptcy Code. On April 23, 2002, FLAG Telecom Group Services Limited, FLAG Telecom Limited, FLAG Telecom USA Ltd., FLAG Asia Limited and FLAG Atlantic USA Limited filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code. April 12, 2002 or April 23, 2002 may each be referred to in this application as a “Petition Date” as the context requires.

3. Pursuant to sections 1107(a) and 1108 of the Bankruptcy Code, the Debtors are authorized to operate their business and manage their properties as debtors in possession. Pursuant to the Federal Rules of Bankruptcy Procedure, all of the Debtors’ chapter 11 cases are being jointly administered.

4. This Court approved the Debtors’ employment of AAUK to render services as described in the application to retain and employ AAUK, dated June 25, 2002 (the “Retention Application”) by an order dated [July 9, 2002].

5. By order dated September 26, 2002, this Court confirmed the Third Amended and Restated Joint Plan of Reorganization of Debtors Under Chapter 11 of the Bankruptcy Code (as amended, supplemented, or otherwise modified, the "Plan"). The Plan became effective on October 9, 2002.

6. AAUK ceased to trade on August 1, 2002 and is currently a partnership in dissolution under UK law. As a result AAUK no longer has ready access to the time reporting and accounting systems used at the time the services were provided to the Debtors and consequently is only able to present summary information. However, prior to commencing each of the assignments described below AAUK agreed with FTHL management an estimate of the time and hence fees to be incurred.

SUMMARY OF PROFESSIONAL COMPENSATION AND REIMBURSEMENT OF EXPENSES REQUESTED

7. AAUK seeks allowance of compensation for professional services rendered during the Application Period and reimbursement of expenses incurred in connection with such services of £176,200 and £1,056 (\$276,634 and \$1,658¹) respectively. A breakdown of the fees and expenses for each assignment is included as Exhibit 1. All these fees were invoiced to the Debtors prior to AAUK's cessation of trade on August 1, 2002 and each invoice rounded down the fees charged to a figure agreed with the Debtors.

8. There is no agreement or understanding between AAUK and any other person, other than members of the firm, for the sharing of compensation to be received for services rendered in these cases.

9. AAUK's fees in these cases were billed in accordance with the hourly rates set out in the Retention Application, which are the same rates as charges in comparable non-bankruptcy related matters. Such fees are reasonable based on the customary compensation charged by comparably skilled practitioners in comparable non-bankruptcy cases in the competitive UK accounting advisory market.

SERVICES RENDERED BY AAUK

10. The description of services below summarises the primary services rendered by AAUK which can be categorised as follows:

- (A) Review of quarterly filings by FTHL on Form 10-Q with the Securities and Exchange Commission of the United States (the "SEC").
- (B) Audit of the December 31, 2001 financial statements of FLAG Limited and review of the filing on Form 20-F with the SEC.
- (C) Preparation of the affidavit for the retention of Arthur Andersen.

¹ Translated at \$1.57: £1 for convenience only

- (D) VAT advisory services
- (E) Advising on the preparation of the disclosure statement
- (F) Meeting with the independent accountants of potential investors.

A Review of quarterly filings by FTHL on Form 10-Q with the SEC

AAUK reviewed the quarterly periodic filings prepared by FTHL prior to the filings being submitted to the SEC. FTHL filed a Form 10-Q as at March 31, 2002 on May 15, 2002. In anticipation of being able to complete a review of the Form 10-Q as at June 30, 2002 work commenced in July 2002. However our review as not completed before AAUK ceased to trade and accordingly FTHL's Form 10-Q as at June 30, 2002 was not filed with the SEC, pending completion of the Chapter 11 proceeding and retention of independent accountants.

The review procedures performed were in substance similar to a SAS71 review, although no report on our review was publicly issued.

B Audit of December 31, 2001 financial statements of FLAG Limited

AAUK were retained as auditors to FLAG Limited, a subsidiary of FTHL that was registered as a foreign private issuer with the SEC. The audit of the consolidated financial statement of FTHL had been completed on March 2002 (and Form 10-K filed on April 1, 2002). However the audit of FLAG Limited's financial statements were not completed prior to the Petition Date.

In order to meet FLAG Limited's ongoing reporting requirements, AAUK were engaged, and the audit was completed in June 2002. Form 20-F was filed with the SEC on July 1, 2002.

C Preparation of affidavit for retention of Arthur Andersen

When the Debtors initially approached Andersen to be retained, the intention was to retain AAUK and all the other member firms of Andersen Worldwide, who provided auditing, accounting and tax services to the Debtors and their subsidiaries around the world. However due to the circumstances relating to Andersen Worldwide and all its member firms at the time it was eventually decided to prepare an affidavit solely for the retention of AAUK. However, in preparing for the affidavit it was necessary to ensure that no part of the Andersen Worldwide network of firms had been retained to assist any other party in this case.

D VAT advisory services

Prior to the Debtors filing for Chapter 11, AAUK had provided VAT advisory services to the Debtors. In order for the Debtors and their subsidiaries to continue to comply with VAT related obligations. AAUK were retained to continue to provide the appropriate advice.

E Advising on the preparation of the disclosure statement

The Debtors retained AAUK to advise on the accounting applicable to the financial information included in the disclosure statement, including but not limited to the application of fresh-start reporting under US Generally Accepted Accounting Principles and the application of the principles of fair value accounting.

F Meeting with the independent accountants of potential investors

AAUK were retained to meet with the independent public accountants working for a party undertaking due diligence on the FTHL Group. The meeting was to discuss the results of the December 31, 2001 audit of FTHL which had been undertaken by AAUK.

AA UK's REQUEST FOR FINAL COMPENSATION

The allowance of final compensation for services rendered and reimbursement of expenses incurred in bankruptcy cases is expressly provided for in section 331 of the Bankruptcy Code:

Debtor's attorney, or any professional person...may apply to the court not more than once every 120 days after an order for relief in a case under this title, or more often if the court permits, for such compensation for services rendered...as is provided under section 330 of this title.

11 U.S.C. § 331

Concerning the level of compensation, section 330 (a) (1) of the Bankruptcy Code provides, in pertinent part, that the court may award to a professional person, including the debtor's attorney:

Reasonable compensation for actual, necessary services rendered by the...professional person, or attorney...

11 U.S.C. § 330

The Congressional intent and policy expressed in section 330 of the Bankruptcy Code is to provide for adequate compensation to continue to attract qualified and competent practitioners to bankruptcy cases.

AAUK submits that its request for final allowance of compensation is reasonable. The services rendered by AAUK were appropriate and necessary and created substantial benefits to the Debtors and their estates.

Dated December 6, 2002

By: /s/ David C. Lovett
David C. Lovett
Liquidating Partner
Arthur Andersen
7 Arundel Street
London WC2R 3DX

EXHIBIT 1**Schedule of fees charged between the retention of Arthur Andersen UK and August 1, 2002 (being the date Arthur Andersen UK ceased to trade)**

Description of services	Entity	Fees £	Expenses £	Total £
Review of Q102 filing	FTHL	40,000	250	40,250
Review of draft Q202 filing	FTHL	45,000	250	45,250
Preparation of affidavit for retention of Arthur Andersen	FTHL	18,000	-	18,000
Completion of December 31, 2001 audit	FLAG Limited	48,000	500	48,500
VAT Advisory Services	FLAT Telecom Limited	10,200	-	10,200
Meeting with potential investor's independent accountants	FTHL	5,000	-	5,000
Advising on the preparation of the disclosure statement	FTHL	10,000	56	10,056
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		176,200	1,056	177,256