



/// FREEDOM4 // Annual report and accounts 2008

FREEDOM4

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Chairman's statement



Peter Dubens
Non-Executive Chairman

In the first half of 2008 we realised the objectives that the board had set, following the review of the company's strategic options which had been initiated in March 2007. The hosting and network services division was sold in April 2008 and the proceeds from the sale, together with the net proceeds remaining from the disposal of the broadband and voice businesses in 2007, enabled the company to return £154.8 million of cash to shareholders.

The remaining wireless broadband business has been re focused to align resources with the opportunities developing around mobility, as I indicated in my statement accompanying the company's interim report in 2008.

STRATEGIC TRANSACTIONS

DISPOSAL OF THE HOSTING AND NETWORK SERVICES DIVISION

The hosting and network services division was sold on 2 April 2008 to a wholly-owned subsidiary of Oakley L.P. The consideration for the sale was £120.0 million satisfied by £92.5 million in cash, £17.5 million in loan notes and the balance by assumption by the buyer of certain of the company's debts.

CAPITAL REDUCTION AND TENDER OFFERS

The disposal of the broadband and voice businesses and the hosting and network services division created surplus capital which the board wished to return to shareholders by means of a tender offer. The tender offers closed on 3 April 2008 with the company buying back, in aggregate, 1,490 million shares at a price of 10.39p per share at a total cost of £154.8 million.

OPERATIONAL REVIEW OVERVIEW

Following the sale of the hosting and network services division the remaining trading businesses provide wireless broadband services and comprise the joint venture with Intel (Freedom4 Limited) and a WiFi aggregation business (Freedom4 WiFi Limited).

The company has a 52.35% share of the joint venture which owns licensed spectrum in the 3.6GHz frequency band and has built a WiMAX network in three initial target cities (Manchester, Milton Keynes and Warwick).

BUSINESS RE FOCUS

As I disclosed at the time of the company's interim report, a review of the developing wireless broadband market had indicated that there were a number of actions that should be undertaken in the short term to better position the group to take advantage of the burgeoning opportunity. These were:

- Securing the spectrum licence amendment that will enable the joint venture to offer nomadic and mobile WiMAX services;
- Successfully developing the technical capability to deliver mobile WiMAX;
- Ensuring the quality of the WiMAX infrastructure roll-out in the selected target markets (Manchester, Milton Keynes, Warwick);
- Developing a "multi-technology" mobile access capability i.e. WiMAX, WiFi, 3G; and
- Aligning capex and opex profiles more closely with expected revenue growth.

I am pleased to report that we have made substantial progress on all of these fronts. Since the reconfiguration of the company, we have been focused on laying the right foundations in order to be able to provide a full wireless broadband offering in due course. We are on track with our plans, which the board expects to lead to the start of the roll-out of the mobile network in late 2009.

MOBILITY

The last twelve months have seen a spectacular rise in the use of wireless broadband, principally driven by services to laptops enabled by USB devices. The company's review of the market suggested that WiMAX could be one of the access technologies to address this growth in customer demand. The joint venture owns the largest block of licensed wireless broadband spectrum in the UK.

Recognising the importance of mobility, the joint venture has submitted a request to Ofcom for a variation to its licence to allow it to offer mobile WiMAX services. In the meantime, the joint venture has been trialling mobile broadband and achieved the world's first seamless mobile WiMAX session handover between base stations operating at two different frequencies (2.6GHz and 3.6GHz). This dual band handover capability would allow inter-operator mobile broadband roaming, underpinning the value of the joint venture's wholesale services proposition.

The proposed release by Ofcom of spectrum in the so-called 3G expansion band at 2.6GHz has suffered significant delays. Objections had been raised to the first phase proposal to re-farm existing GSM spectrum allowing it to be used for 3G and these proceedings will need to be heard by the High Court before the 2.6GHz

auction can take place. It is now likely that the auction will be delayed well into 2009 with potential for further slippage depending on the specific outcome of the Court process. The delay enables the company to continue to develop its dual band operating capability to take advantage of 2.6GHz spectrum when it becomes available. The size of Freedom4's spectrum holdings and the ability to aggregate spectrum bands to deliver high capacity broadband wireless are continuing sources of competitive advantage.

Towards the end of 2008 Freedom4 WiFi Limited launched a service to enable customers to get the best wireless broadband connection whilst on the move. The combined 3G and WiFi software and plug-in dongle selects the highest quality connectivity at any given location nationwide to provide users with the ultimate flexible wireless service. Early interest in this service from a number of corporate businesses and ISPs has been encouraging.

NETWORK

The market review concluded that a fixed wireless access business would only address a relatively small niche in the overall wireless broadband market. As a result, we have curtailed our ambitious network roll-out plans until such time as we are able to offer mobile services, concentrating our efforts on the three cities we had previously targeted. This has significantly reduced the cash demands of the business in the short term both in terms of capital equipment purchases and the operating cost of the infrastructure. The return to an expansive network roll-out is also dependent upon the availability of additional financing. We have continued to roll-out fixed services within our initial three target markets (Manchester, Milton Keynes and Warwick) in order to establish an operating footprint (which can be software-only upgraded to mobile), to gain insights into our commercial propositions, and to build partner and reseller relationships.

To-date we have acquired 42 base station sites in and around the targeted areas, which covers over 50,000 businesses and 275,000 homes. 15 sites are currently live. Network availability is very high and stable. Geographic reach can be extended using Freedom4 WiFi's branded network of hot-spots accessible through its roaming agreements. In the UK the company has agreements with nearly all the major WiFi operators, including BT and Spectrum Interactive, giving it access to over 4,000 hot-spots including major hotel chains, as well as airports. Through its international roaming agreements the coverage increases to 55,000 hot-spots worldwide.

MARKETING

Sales activity is focused on wholesale and reseller models as effective routes to market given the brand profile of the businesses and the wish to avoid prohibitively high customer acquisition costs. Freedom4 WiFi has a number of directly sold corporate customers

for their WiFi only service but the success of the combined WiFi and 3G dongle will be driven by wholesale sales.

The WiMAX enabled broadband service is available in limited geographical areas, and sales effort is targeted around specific base station sites with a number of business-oriented broadband packages. At the point that the joint venture business is able to offer mobile services, marketing activity in the target areas will be increased to recognise the greatly enhanced opportunity afforded by mobility.

FINANCIAL OVERVIEW

The major efforts made to scale back costs, mentioned above, are not reflected in the results for continuing operations in 2008 as the savings were implemented principally in the last quarter of the year. EBITDA (earnings before amortisation of intangibles, depreciation, impairment and share based costs) losses of £3.8 million in 2008 reflect central costs and include higher establishment costs in the period before the sale of the hosting and network services division, the once-off costs of scaling back and deal associated costs. Current run rate costs are approximately one third of this level, in line with the current operational profile of the company.

The cost alignment initiative in the joint venture has limited the level of cash consumption in the business going forward whilst allowing it to develop its initial target markets. The share of the loss of the joint venture in 2008 (£9.4 million) includes a once-off charge of £4.5 million incurred as a result of curtailing our roll-out plans as recommended by the wireless broadband market review. Following implementation of the cost savings, the annualised rate of monthly losses shared between the joint venture partners is significantly lower than the 2008 run rate (having adjusted for the non-recurring charges). Losses also include non-cash interest expense on the joint venture's redeemable preference shares, the group's share of which was £1.1 million in 2008.

Within the balance sheet at December 2008, the group had cash of £4.6 million (and no debt); £18.6 million receivable in the form of the loan notes, which includes £1.1 million of accrued interest and £5.1 million as an investment in the joint venture. The loan notes are due to be redeemed in October 2009, and the intention remains to return this to shareholders. The investment in the joint venture is carried at £5.1 million which reflects the original carrying value of the licence and the group's share of contributed cash less the group's share of accumulated losses. However, in the parent company's own accounts the investment in the joint venture is £24.7 million, representing the value of the licences contributed to the joint venture and subsequent cash investments. Whilst the directors do not believe any impairment is required to this carrying value the business is in an early stage of its development and

// Chairman's statement continued //

there can be no certainty that the mobility variation to the licence will be approved, however, comparison with valuations that have arisen in spectrum auctions in other jurisdictions provides the best estimate to support the carrying value of our licences.

The £10.5 million deferred consideration arising from the sale of the broadband and voice division, and included in the 2007 balance sheet, has been received.

STRATEGY

The focus of the Group remains on developing into a leading provider of wireless broadband communications. In the short term, the management team will be focused on ensuring that Freedom4 is prepared to provide a full multi-technology mobile broadband service in 2009, whilst continuing to align the investment profile with the development of the growth drivers.

This focus will be on four areas of development:

- the spectrum licence amendment to include mobility, which is in its final stages, and which would enable us to provide mobile data services from 2009;
- continuing technical and commercial trials;
- preparation of the network for future products, with a range of customer devices expected to be available from 2010; and
- full integration of WiFi/3G into the WIMAX product and sales opportunities.

Achievement of these steps will enable us to deliver good quality WiMAX network coverage in the initial target areas during 2009.

SUMMARY AND OUTLOOK

In 2008 we completed the fundamental restructuring of the group initiated in March 2007 and successfully returned £154.8 million in cash to shareholders.

We are now focused on wireless broadband which is rapidly gaining acceptance and popularity and the board continues to believe that WiMAX enabled services could be a significant contributor to meeting that demand. With its new focus on this market we believe that the group is well positioned to benefit from this growth. We have exclusive wireless broadband spectrum; we have taken the necessary action to forward our objective to provide mobile wireless broadband services; and we have built a robust and scalable preparatory network from which to launch services.

PETER DUBENS NON-EXECUTIVE CHAIRMAN

17 March 2009

Chief Executive's review



Mike Read
Chief Executive

As outlined in the chairman's statement, 2008 has seen a refocus of the company from a hosting and network services business into a next generation wireless broadband company. During the year, we have built on the radio spectrum that we already owned by acquiring additional spectrum in the 28GHz range in the Ofcom auction in February. Additionally, we added a WiFi capability and signed a 3G deal thus providing the key elements needed to meet our ambition to become a leader in the future wireless broadband market. My report covers the two areas: Freedom4 WiFi and Freedom4 WiMAX.

FREEDOM4 WiFi

We have invested in enhancing our WiFi core systems and infrastructure and expanded the business' UK and global roaming footprint. We launched our WiFi aggregator product which resells WiFi networks worldwide under the Freedom4 WiFi brand. Major product development has also been undertaken to enable the business to launch a market leading 'Best Connected' service which combines the two leading wireless broadband technologies of WiFi and 3G. In the future, we anticipate that the service will also incorporate WiMAX connectivity, making Freedom4 a dedicated Wireless broadband provider. Products have

YOU CAN BYPASS YOUR MOBILE NETWORK

There are a number of WiFi networks such as "Freedom 4 WiFi" (www.Freedom4wifi.com) that allow you to bypass your mobile operator's expensive 3G network entirely. The service covers over 40,000 hotspots globally, with many in outlets such as Caffè Nero and HMV. Hilton and Thistle hotels are also covered. The coverage in Spain includes most petrol station chains and some larger hotels. The service is

Source: *The Sunday Times* - 20 July 2008

also been developed for sale as a white-label 'Best Connected' service so that ISPs, telcos, systems integrators and retail brands can take advantage of the opportunities in the growing wireless broadband market.

PRODUCT DEVELOPMENT

The new 'Best Connected' product builds on the existing WiFi roaming service, with improved connectivity technologies, networks and a 3G service. Central to the service is the ConnectionManager smart client which is a software download onto business customers' laptops. This enables companies to provide simple and easy access for their users to the best connection available using a wide range of connectivity technologies (WLAN; LAN; WiFi; HSDPA; 3G; EDGE; GPRS).

The service is also compatible with wireless security protocols such as WEP and WPA2 and has a number of security features such as the capability to automatically launch VPN clients. It is designed for easy adoption and integration to corporate IT systems and is able to integrate applications such as Active Directory.

The 'Best Connected' service includes a sophisticated management portal, subscription management capabilities, flexible billing and other value added services for example standard corporate client software allows businesses to remote install (MSI) the software over Active Directory with bespoke settings. The software can also auto launch VPNs, apply proxy settings and handle the latest WiFi encryption methods.

Freedom4's 'Best Connected' service has attracted national media and online interest and coverage with some examples below:

FREEDOM4 DONGLE

This provides 3G mobile internet and Wi-Fi web access at more than 4,000 'hotspots' in Britain, which means you can get online almost anywhere, just plug it into your laptop's USB port and you're off. The monthly fee includes any combination of either 1,000 minutes of online activity via Wi-Fi, or a data download limit of 1GB when you're using the 3G network to get online - easily enough for general surfing and emailing. **Connection options** Wi-Fi, 3G, EDGE, GPRS. **Average connection speed** 2.75 Mbps. **Price** From £25 per month (0808-198 0211; freedom4wifi.com).

Source: *The Sunday Telegraph*

// Chief Executive's review continued //

NETWORK

To meet customer demand, Freedom4 WiFi has significantly expanded its UK and international WiFi footprint. The network has grown to over 55,000 hotspots in 88 countries via 200 operators, and, to meet demand for worldwide service, we will continue to increase coverage in the coming year. During 2008, an agreement was signed with Spectrum Interactive enabling Freedom4 WiFi's customers to roam onto Spectrum's high quality network which includes UK airports and major hotel chains. As a result, we have access to c.4,000 hotspots across 18 networks in the UK. Internationally, during 2008, Freedom4 WiFi joined the Wireless Broadband Alliance (WBA) and this has helped accelerate the international WiFi network expansion with initial roaming agreements having been signed with IndoSat (Indonesia) and Tata Communications (India); further roaming agreements are in the pipeline. In addition, deals were signed with China Mobile and China Netcom providing access for the 2008 Olympics.

Freedom4 WiFi has undertaken an entire core platform and infrastructure upgrade which has significantly improved technical capabilities, resilience, security and capacity, creating a strong foundation for planned future growth.

FREEDOM4 WiMAX

Freedom4 WiMAX began 2008 by consolidating its live operations in the three cities: namely Milton Keynes, Warwick and Manchester. Site acquisition, site build and network operations were undertaken through outsource contracts with major suppliers, thus reducing the need for additional headcount in Freedom4 WiMAX.

By August, Freedom4 WiMAX had established a mobile WiMAX trial in Stratford-upon-Avon and initiated work to design and implement a mobile network architecture capable of operating in both 3.6GHz and 2.5GHz spectrum and delivering wholesale services. Future plans see us moving from the fixed broadband service into mobile broadband, using Freedom4 WiFi products in conjunction with mobile WiMAX.

SALES AND MARKETING

Market research with target customers in deployed cities showed the commercial opportunity for fixed business wireless broadband with an enhanced uplink capability (1-4Mbps), both as primary line and back-up service. In line with the strategy of limiting direct sales via the Freedom4 brand, products were launched through resale channels targeted at business users. By the year end there were five resellers marketing Freedom4 WiMAX products on the live network with a focus on Manchester. In support of the resellers, marketing activities have been targeted at specific areas and local sales channels to maximise revenue potential.

Freedom4 WiMAX continues to have a strong relationship with Milton Keynes Council, host of the original fixed WiMAX trial in 2007. The Council's award

winning ISP has supported an education based application providing school children with laptops running Freedom4's WiMAX wireless broadband. We are working on public/private partnership models with both Milton Keynes Council and Tameside Council in Manchester to expand network coverage and deliver Council based applications.

Stephen Jewell, Head of IT and e-Government at Milton Keynes, had this to say:

"We are working in a public-private partnership with Freedom4 to achieve wider wireless broadband coverage in Milton Keynes, which is in line with our goal to have greater social inclusion for our citizens."

NETWORK AND OPERATIONS

In early 2008 the WiMAX base station software was upgraded to live operation and was subject to extensive radio testing and site performance evaluation. A number of features were added mid-year as they became available from the equipment vendor. The transmission links in each of the city networks were standardised on 28GHz IP radios supplemented in some areas by BT leased lines. The network was ready for live customers in all its three cities by late 2008.

The core network design is based on multiple VLANs delivered over Cisco equipment in each city and in the core Point of Presence ("PoP") in London Docklands. The infrastructure will be upgraded to a mobile WiMAX core network in 2009. Core network availability in 2008 has remained around the 99.99% level and Radio Access Networks ("RAN") stability has improved throughout the year.

Freedom4 continued to acquire further base sites in 2008; currently Freedom4 WiMAX has 15 live sites (and two trial sites); a further six sites acquired and available to build; and a further 21 sites in the acquisition phase. These assets will allow an accelerated site build programme particularly in Manchester once mobile wireless technology is ready to release for live operation during 2009.

MOBILE

Freedom4 WiMAX has successfully integrated a mobile WiMAX network based on equipment and software from Fujitsu/Airspan, Starent and Bridgewater and has completed an initial network design able to deliver wholesale separation (ie a WiMAX version of MVNO). In November 2008, we demonstrated the world's first 2.6/3.6GHz seamless dual band handover between base stations. This capability uniquely enables Freedom4 to deliver the increasing high bandwidths being demanded by mobile broadband consumers by aggregating capacity across different spectrum. This was successfully demonstrated in Stratford-upon-Avon and received good press coverage.

FREEDOM4 DUAL BAND PRESS RESPONSE:

“The dual mode handover development should put Freedom4 in a strong position to partner with winners in the upcoming 2.6GHz auction.”

Source: Mobile Communications International - Dec 08

SPECTRUM AND REGULATION

In February 2008, Freedom4 WiMAX announced to Ofcom its intention to request a variation to its 3.6GHz spectrum licence, to allow mobile service. Since this date, we have been working closely with Ofcom to clear the path for the submission. This has resulted in our submitting the final analysis and paperwork to Ofcom in December 2008. Ofcom has indicated it will consult on the request in early 2009.

In order to be ready for the forthcoming WiMAX frequency auction, we acquired a 2.6GHz test spectrum at Stratford-upon-Avon to operate alongside our 3.6GHz spectrum in the mobile WiMAX trial.

In the US, while 2.6GHz is the prime focus, there is growing interest in the 3.6-3.7GHz spectrum, which is within the main European WiMAX licence spectrum range of 3.4-3.8GHz. This should provide added focus from equipment vendors resulting in more customer devices and reduced equipment costs for us in the UK.

In February 2008, Freedom4 WiMAX was successful in an Ofcom backhaul spectrum auction, adding a further licence to our 3 x 28GHz licences in Manchester, Birmingham and London. This enabled us to complete national 28GHz coverage in a single frequency band. This spectrum is ideal for low cost wireless broadband backhaul and enterprise fixed links and has attracted considerable interest from perspective users and customers. It also enables us to reduce our base station backhaul costs significantly.

THE FUTURE

The demand for remote access services and mobile data is growing rapidly, and we consider that Freedom4 WiMAX is now well positioned to grow significantly during 2009 and 2010, with its WiFi, 3G and WiMAX products. We have the team, network and partners (including Intel) in place to take full advantage of the growth in wireless broadband.

I finish my report to you with a quote:

“We want mobility. Not only the ability to download content and services to handheld devices at home, but also to be able to update that content and access those services in real time wherever we are. And that puts wireless services at the centre of our converging world where 3G, WiFi, WiMAX and many other wireless networks provide content and services to us wherever we are.”

Source: Convergence Think Tank - February 2008

MIKE READ CHIEF EXECUTIVE OFFICER

17 March 2009

Financial review



Stewart Porter
Chief Financial Officer

TRANSACTIONS

DISPOSAL OF THE HOSTING AND NETWORK SERVICES DIVISION

On 14 March 2008, the company announced that it had entered into a conditional agreement for the sale of the hosting and network services division to a wholly-owned subsidiary of Oakley L.P. The agreement was completed on 2 April 2008. The consideration for the disposal was £120.0 million satisfied by £92.5 million in cash, £17.5 million in loan notes and the balance by assumption by the buyer of certain of the company's debts/liabilities.

For the period to 2 April 2008 the hosting and network services division contributed turnover of £22.2 million, compared to turnover of £72.3 million for the full year in 2007. Earnings before amortisation of intangibles, depreciation, impairment and share based payments (EBITDA) for the period to 2 April 2008 were £1.0 million, compared to £4.4 million for the full year in 2007. The transaction gave rise to a profit on disposal of £48.8 million.

CAPITAL REDUCTION AND TENDER OFFERS

The board recognised that, following the disposal of the broadband and voice businesses and the hosting and network services division, the company would have capital that was surplus to its requirements and that the ongoing capital requirements of the group would reduce. As a consequence of this, on 15 March 2008 the company proposed to effect a capital reduction to create distributable reserves to enable it to return capital to shareholders by means of a tender offer. The board believed that the capital reduction and tender offers were an appropriate means of returning cash to shareholders in a manner that enabled shareholders to choose both whether or not to participate, and when to participate, in the return of capital.

The capital reduction required approval of shareholders at a general meeting of the company and approval of the High Court. These were received such that the capital reduction became effective on 1 April 2008. The tender offers opened on 15 March 2008 and closed on 3 April 2008. In aggregate the company bought back 1,489,775,339 shares at a price of 10.39 pence per share at a total cost of £154.8 million, excluding transaction costs of £1.8 million. Following completion of the tender offers, which included the exercise of 151,085,002 share options, the company had 1,070,541,017 ordinary shares in issue at April 2008.

PERFORMANCE

OVERVIEW

The strategic disposals of the broadband and voice division in 2007 and the hosting and network services division at the beginning of quarter 2 in 2008 have had a radical impact on the presented results. The broadband and voice division was sold on 13 September 2007 and the results for the year ended 31 December 2007 therefore include approximately 8½ months trading for that division. The comparative year results also include a full twelve months trading for the hosting and network services division.

At the point of sale on 13 September 2007, the broadband and voice division contributed turnover of £210.8 million for the year to that date and EBITDA for the same period of £12.0 million and had net assets, including attributable goodwill, of £134.1 million.

Turnover in the hosting and network services division in 2007 was £72.3 million and EBITDA for the year was £4.4 million. Discontinued operations in the consolidated income statement represent the performance of that division up to the date of its sale on 2 April 2008, that is, approximately three months results. The revenue and EBITDA for this division were £22.2 million and £1.0 million respectively, broadly in line with the prior year's results. On the date of sale, the division had net assets, including attributable goodwill, of £56.6 million.

The remaining business, classified as continuing, comprises the wireless joint venture with Intel (Freedom4 Limited), a small WiFi aggregation business (Freedom4 WiFi Limited) and central costs.

CONSOLIDATED INCOME STATEMENT

As discussed above, a comparison of reported results for 2008 with 2007 is largely meaningless because of the significant disposals which have taken place in the periods. In 2008 the discontinued businesses represent 99.7% of reported revenue whilst in 2007 these represented 100% of reported revenues.

Within continuing operations the business reported first time revenues arising from broadband wireless, albeit a very small number at this stage.

EBITDA losses in 2008 of £3.8 million in continuing operations arise from central costs and this compares with £3.7 million in 2007. Following the sale of the hosting and network services division, central costs have been progressively scaled back in keeping with a much smaller business. The charge in 2008 includes both once-off costs incurred in restructuring the central establishment and a number of deal associated costs.

There is no 2008 charge for amortisation of intangibles or depreciation in discontinued operations because the underlying value of the associated assets is essentially frozen once the asset is classified as held for sale. In the case of the hosting and network services division this was at the end of 2007.

Share based payment costs represent the estimated benefit accruing to employees granted options, this benefit being charged as an employment cost over the anticipated vesting period of the options. The charge in 2008 was £1.3 million which included the benefit arising from accelerated vesting of share options under the tender offers (the charge in 2007 was £3.4 million). At the end of 2008, all outstanding options had vested.

Freedom4 Limited, our joint venture with Intel is governed by a constitution which effectively requires unanimous shareholder agreement for major business decisions. This means that the company does not have management control of Freedom4 Limited, which is therefore accounted for as a joint venture. The group reports its share of the losses incurred by the joint venture based on its equity participation in Freedom4 Limited, which at the year end was 52.35%.

The group's share of the trading losses of Freedom4 Limited was £9.4 million which compares to losses of £3.5 million in 2007. The share of loss includes a once-off charge of £4.5 million incurred as a result of curtailing network roll-out plans as recommended by the wireless broadband market review. Interest charged on the joint venture's redeemable preference shares also increased in the year by £0.6 million. In quarter 4 2008, and as a consequence of the review, the business initiated a cost reduction programme to limit the future level of cash consumption in the joint venture whilst still allowing it to develop its initial target markets.

The group had net finance income of £3.4 million in 2008 (2007: net finance expense of £6.5 million). Finance income is derived from three sources; interest accruing on the £17.5 million loan notes which formed part of the proceeds from the sale of the hosting and network services division, amounting to £1.1 million; interest receivable from the joint venture arising from the group's holding of preference shares, amounting to £1.1 million and bank interest of £0.9 million. In 2007, the group was paying interest on £91.5 million convertible bonds and £35.0 million of senior debt, both of which were repaid in quarter 4 of 2007 out of the proceeds of the sale of the broadband and voice division.

In 2008, the sale of the hosting and network services division gave rise to a profit from disposal of discontinued operations of £48.8 million. The disposal profit of £51.6 million in 2007 arose from the sale of the broadband and voice division.

Including the profit from disposal of discontinued operations, profit for the year was £39.4 million (2007: £33.4 million).

CONSOLIDATED BALANCE SHEET

Net assets at 31 December 2008 were £27.7 million, compared to £136.0 million in 2007, though the comparative includes £60.5 million of net assets classified as held for sale belonging to the hosting and network services division. Excluding assets held for sale, net assets decreased in 2008 by £47.8 million, reflecting the return of surplus cash to shareholders in the tender offers.

Included within trade and other receivables totalling £19.0 million (2007: £11.2 million) were the loan notes which were issued as part consideration for the sale of the hosting and network services division and which, together with accrued interest, amounted to £18.6 million. Redemption of the loan notes by Host Europe Group Limited is due in October 2009. In 2007 the biggest contributor to the trade and other receivables figure was an amount of £10.5 million of deferred consideration held in an escrow account to meet any claims arising following the sale of the broadband and voice division to Tiscali. At the end of December 2008 all but £0.2 million of this amount had been recovered by the company, having utilised £0.7 million to meet indemnity claims.

At the end of the year the group had cash and cash equivalents of £4.6 million and no debt. At the end of 2007 net cash (cash and deposits less finance leases and borrowings) was £47.0 million (including debt held in the disposal businesses). This included the net proceeds from the sale of the broadband and voice division, having repaid the convertible bonds and the company's senior debt.

On 8 February 2008 the company announced proposals for a capital reduction scheme to create the distributable reserves necessary to enable it to return cash to shareholders. The capital reduction required both the approval of shareholders and the confirmation of the Court. Shareholder approval was given on 3 March 2008 and the court approved the capital reduction on 19 March 2008. As part of the capital reduction, the share premium account of the company, amounting to £96.8 million, was cancelled. In addition 0.9p of each issued ordinary share of 1p was cancelled and the nominal value reduced to 0.1p. Finally, £2.3 million of the amount outstanding to the credit of the merger reserve was capitalised creating 231 million deferred shares which were subsequently cancelled.

// Financial review continued //

CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement is dominated by those items which had arisen as a result of strategic transactions in 2007 and 2008. In particular, cash had been generated from the sale of the two divisions; hosting and network services in 2008 generating net proceeds of £87.9 million; and broadband and voice in 2007 generating net proceeds of £173.2 million in 2007 and £9.7 million in 2008. The 2007 proceeds had been used in part in 2007 to redeem the group's convertible bonds (at a cost of £93.3 million, including redemption premium) and to repay bank debt (£37.0 million). In 2008, cash surpluses from the disposals were used to buy back shares in the tender offers at a total cost of £156.6 million.

Operating cash flow before movements in working capital is a very close proxy for EBITDA and the decline in this measure from a positive cash flow in 2007 of £12.9 million to a negative cash flow in 2008 of £2.6 million reflects the loss of EBITDA to the group when the two divisions were sold.

In 2008 the company invested a further £6.1 million in cash into the joint venture in exchange for preference shares in Freedom4 Limited. This investment was matched by Intel in proportion to its existing shareholding.

Cash flow benefited in 2008 from the sale of a freehold property which had become surplus following the sale of the broadband and voice division. Net proceeds from the sale were £7.1 million.

In October 2008 the company acquired 41.1 million of its own shares in on-market transactions at a cost of £737,000, equivalent to a price per share of 1.79p. These shares are held as Treasury Stock.

TREASURY

The group uses financial instruments to raise finance for its operations and to manage risk arising from those operations. The group does not undertake any speculative trading in financial instruments.

On 15 March 2008, the company made a conditional offer to its shareholders to buy back 58% of their shareholdings for a minimum price of 10p per share, capped at 11p per share, by way of two tender offers. The offer was subject to consent of the shareholders and approval by the Court of the proposed capital reduction scheme described above. These were received and the capital reduction became effective on 1 April 2008. Take up by shareholders of the offers was high such that 95.8% of those shares capable of being tendered were tendered and the tender price was set at 10.39p. On 4 April 2008 Collins Stewart acquired 1,459,600,083 shares by means of an on-market transaction at the tender price as a result of the first tender offer. On 7 April 2008 Collins Stewart acquired 30,175,256 shares by means of an on-market transaction at the tender price as a result of the second tender offer. Following the cancellation of the tendered shares and share options exercised of 151,085,002, the company had 1,070,541,017 shares left in issue at April 2008.

STEWART PORTER CHIEF FINANCIAL OFFICER

17 March 2009

// Board of Directors //

PETER DUBENS

NON-EXECUTIVE CHAIRMAN, MEMBER OF THE AUDIT AND REMUNERATION COMMITTEES

Peter Dubens has experience in the acquisition, development and restructuring of business both in the public and private sectors. He has overseen the consolidation strategy of Freedom4 Group plc that has included the acquisition of businesses both in the hosting and broadband sectors and the subsequent disposal of the broadband division for £210.0 million to Tiscali and the hosting business to Oakley Capital Private Equity. He is one of the founding partners of Oakley Capital Limited and co founder of Oakley Capital Corporate Finance an advisory business specialising in the TMT sector; Oakley Absolute Return Limited, a global fund of hedge funds; and Palmer Capital LLP, which manages capital raisings for hedge funds, private equity funds and European listed companies. He was instrumental in establishing 365 Media as one of the UK's leading online sports content providers and in the disposal of the company for £106m to BSkyB in December 2006. Peter Dubens has also co-founded a number of other privately held companies.

MIKE READ

CHIEF EXECUTIVE OFFICER

With over 30 years' experience in the Communications and Internet sectors, Mike Read has steered companies through organic growth, acquisition and sale phases.

Mike enjoyed an extensive career at British Telecom, before moving to the US and joining AOL. He completed a 30-company ISP "roll-up" which was sold to Earthlink in 2000. He returned to the UK in 2000 to run XO Europe - the nucleus of today's Freedom4 Group plc. In September 2006, in addition to his existing role as Chief Executive Officer of Freedom4 Group plc, Mike became Chief Executive Officer of Freedom4 Limited, a joint venture with Intel Capital formed in March 2006.

STEWART PORTER

CHIEF FINANCIAL OFFICER

Stewart Porter is a Chartered Accountant and holds a Bachelor of Science degree in Electrical Engineering. Stewart was a founding director of Zipcom plc (now Freedom4 Group plc) in 2001 and has been instrumental in the development of the group over this period. Prior to this, Stewart had eight years in Cable & Wireless in a number of senior financial positions and subsequently was closely involved with a number of telecommunications sector start-ups around Europe.

CHRISTINA KENNEDY

NON-EXECUTIVE DIRECTOR, CHAIRMAN OF THE AUDIT AND REMUNERATION COMMITTEES

Christina Kennedy has a Masters degree in Business Administration and is a Fellow of the Institute of Chartered Secretaries and Administrators. She has worked at board level as a non-executive director and as Company Secretary in a variety of listed companies: AIM, top 250 and overseas companies with a secondary listing.

Industry experience is wide ranging including manufacturing, leisure and service companies. She has worked in a consultancy capacity as Corporate Governance Advisor for a major UK pension fund and therefore has a good understanding of investors' governance requirements. Her experience has involved her working with boards on acquisitions; restructuring; board compositions and appointments; directors' service contracts and remuneration issues; long term incentive schemes; share options and risk management issues related to internal control requirements.

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the group during the year was the supply of telecommunications services though following the sale of the hosting and network services division in April 2008 the group now focuses on the supply of wireless telecommunications services. A detailed review of the business is set out in the chairman's statement on pages 2 to 4, the chief executive's review on pages 5 to 7 and the financial review on pages 8 to 10. On 3 March 2008 the company name changed from Pipex Communications plc to Freedom4 Communications plc. On 8 July 2008 the company name changed from Freedom4 Communications plc to Freedom4 Group plc.

DISPOSALS

On 2 April 2008 the company disposed of its hosting and network services division to Host Europe WVS Ltd for a consideration of £120.0 million satisfied by £92.5 million in cash, £17.5 million in loan notes and the balance by assumption by the buyer of certain of the company's debts/liabilities.

FINANCIAL RESULTS AND DIVIDENDS

The results for the group for the year are shown in the consolidated income statement on page 22.

The directors do not recommend the payment of a dividend.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year were as follows:

Peter Dubens	Chairman (became non-executive chairman on 1 August 2008)
Michael Read	Chief Executive Officer
Stewart Porter	Chief Financial Officer
Christina Kennedy	Non-executive
Laurence Blackall	Non-executive (resigned 8 July 2008)

Peter Dubens retires by rotation in accordance with the Articles of Association and, being eligible, offers himself for re-election. The directors' remuneration and the interests of the directors in the share capital of the company are detailed in the board report on directors' remuneration on page 18 and note C2 on pages 60 to 62.

EMPLOYEES

It is the policy of the group that there should be no unfair discrimination in recruiting and promoting staff, including applicants who are disabled. The directors are committed to maintaining and developing communication and consultation processes with employees, who in turn are encouraged to develop an awareness of the issues affecting the group. The directors place considerable emphasis on employees sharing in the success of the group. This is achieved through the performance related bonus scheme and participation in the share option schemes. As the company now has fewer than 50 employees the previously adopted Employee Consultation Forum, which had been established in line with the Information and Consultation of Employees Regulatory Directive, has been replaced by a less formal process. Business issues are discussed directly between the company's senior management and its employees.

SHARE CAPITAL

Until 1 April 2008 the share capital of the company comprised ordinary shares of 1p each, each share carrying the right to one vote at general meetings of the company. At an EGM on 3 March 2008 the shareholders authorised the directors to effect a capital reduction to create distributable reserves to enable it to return capital to shareholders by means of a tender offer. The company bought back 1,489,775,339 shares in total.

On 1 April 2008 following approval of the scheme by the High Court the capital reduction became effective. As part of the capital reduction 0.9p of each issued ordinary share of 1p was cancelled and the nominal value was reduced to 0.1p. £2.3 million of the amount outstanding to the credit of the merger reserve was capitalised creating 231 million deferred shares which were subsequently cancelled.

At the 2008 Annual General Meeting shareholders authorised the directors to make market purchases of the company's ordinary shares up to a maximum number of 107,054,101, representing approximately 10% of the issued share capital of the company. This authority has been used to make market purchases of the company's shares during the 2008 financial year. At close of business on 17 March 2009, the company had 1,076,006,457 ordinary shares in issue of which 41,138,559 were held in Treasury.

SUBSTANTIAL SHAREHOLDINGS

As of 17 March 2009 interests notified to the company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised:

	%
Gartmore	25.60
UBS AG	15.12
Goldman Sachs Group Inc	10.99
SR Global Fund	5.71
P Dubens	5.45

POLICY ON PAYMENT TO SUPPLIERS

Where the supply of goods and services is satisfactory and in the absence of any dispute, the group's and company's policy is to pay suppliers in accordance with the terms agreed prior to the supply of goods and services. Where no such agreement exists the group and company's policy is to pay suppliers in accordance with the terms contained in the invoice. Trade creditors at 31 December 2008 as a proportion of amounts invoiced by suppliers during the year represent 24 days (2007: 52 days). The company has no material trade creditors.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The company made no political or charitable donations during the year but supported certain charities through the provision of discounted services.

ENVIRONMENTAL POLICY

The group's environmental policy is to meet the statutory requirements placed upon it and to apply good environmental practice in its operations whilst recognising that it is contractually obliged to meet its customers' requirements.

RISK

Senior management is aware of its responsibility for managing risks within each business unit. Each business unit head reports to the board on the status of these risks through management reports. Group risk is regularly reviewed at board level to ensure that risk management is being implemented and monitored effectively.

The board's policy is to ensure that the business unit heads are empowered to run their businesses effectively and appropriately, bearing in mind prevailing market conditions, the requirements for timely decision making and commercial reality. Insurance policies are regularly reviewed to ensure these are adequate and appropriate, in line with the nature, size and complexity of the business. Standard form contracts are provided for commercial use and to assist the varying segments of the business and their commercial function to negotiate within approved parameters. Through management reports, risks are highlighted and monitored to identify potential business risk areas and to quantify and address the risk wherever possible.

BUSINESS REVIEW

The following business review has been provided by the directors in accordance with the Companies Act. The company is disclosing the main trends and factors likely to affect the future development, performance and position of the business.

Key performance indicators (KPIs), which are set at group level, have been devised to allow the board and shareholders to monitor the group as a whole, as well as operating businesses within the group.

Directors' report continued

The company has non-financial KPIs that it monitors on a regular basis at board level and where relevant at business unit management meetings as follows:

	31 December 2008	31 December 2007
Number of live base stations	15	6
Further sites acquired/in progress	27	9
Business premises covered	50,000	20,000
Households covered	275,000	105,000

The company has financial KPIs which it monitors on a regular basis at board level and where relevant at business unit management meetings as follows:

	31 December 2008	31 December 2007
EBITDA - continuing operations	(£3.8)m	(£3.7)m
Share of loss of joint venture	(£9.4)m	(£3.5)m
Net cash (i)	£4.6m	£47.0m
Net assets - continuing operations	£27.7m	£75.6m

(i) Net cash in 2008 consists of bank deposits. In 2007 net cash consisted of cash and bank deposits less finance leases and borrowings.

The chairman's statement, chief executive's review, and financial review provide details of various risks the company faces. These include:

- failure to raise additional funds to support the development of the Freedom4 joint venture (chairman's statement and outlook (pages 2 to 4)); and
- failure to obtain a variation to the company's WiMAX licence to allow the provision of mobile services (chairman's statement (pages 2 to 4)).

The company perceives and monitors the following major trends, opportunities and risks for the year ending 31 December 2009 and beyond:

- ensuring that the Freedom4 joint venture meets its commercial roll-out objectives recognising the likelihood of delays in fund raising given the current difficult market conditions;
- focusing on the marketing of wireless services, initially through resellers and distributors;
- monitoring progress of our application to add mobile services to our WiMAX licence; and
- predicting the impact of the next spectrum auctions on the competitive landscape.

CORPORATE AND SOCIAL RESPONSIBILITY

The company embraces corporate and social responsibility and encourages all of its subsidiaries to become involved in local projects and initiatives on an ad hoc basis dependent upon employee interest and participation.

GOING CONCERN

Details of the group's liquidity risk and going concern position are set out on page 54 under the financial overview section of the chairman's statement. The directors are satisfied that the company and the group have adequate resources to continue to operate for the foreseeable future. Following the scaling back of operations in quarter 4 2008, the cash requirements of the group, both in terms of central costs and the funding needs of the joint venture, have been significantly reduced. The group had cash balances of £4.6 million at the end of December 2008 which the directors consider is adequate for meeting the group's cash requirements, in addition to £18.6 million relating to loan notes that are receivable in October 2009. There are no requirements for the group to continue to fund the joint venture. For this reason they continue to adopt the "going concern" basis for preparing the accounts on pages 22 to 66.

FINANCIAL INSTRUMENTS

The group uses financial instruments to raise finance and manage risk for its operations. It does not undertake any speculative trading in financial instruments.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 9 June 2009 at 11.00 am at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB. At the Annual General Meeting, resolutions will be proposed to receive these accounts and the directors' and auditors' reports, to re-elect Peter Dubens who is retiring at the Annual General Meeting in accordance with the company's Articles of Association, and to re-appoint KPMG as auditors and to fix their remuneration. In view of the recent reduction in share capital and in order to maintain flexibility to act in a manner which promotes the success of the company for the benefit of its members, the directors will seek authority to allot shares generally and disapply pre-emption rights in respect of ordinary shares having an aggregate nominal value of up to £344,955, authority to allot shares by way of a fully pre-emptive rights issue in respect of ordinary shares having an aggregate nominal value of up to £689,911 and to make market purchases of up to 103,486,789 ordinary shares of 0.1p each. The company also proposes to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, would be treated as forming part of the company's Articles of Association as of 1 October 2009 and to remove the reference to the authorised share capital, which will be abolished by the Act. Directors will still be limited as to the number of shares they can at any time allot because the authority on the part of the directors to allot continues to be required, subject to certain limitations under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006, save in respect of employee share schemes.

A copy of the proposed new Articles of Association and the proposed changes marked up in the new Articles of Association will be available for inspection at the company's registered office at 5 Roundwood Avenue, Stockley Park, Uxbridge, Middlesex UB11 1FF and at the offices of SJ Berwin LLP, 10 Queen Street Place, London EC4R 1BE during normal business hours up until the date of the Annual General Meeting and at the Meeting itself.

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

AUDITORS

In accordance with section 385 of the Companies Act 1985, a resolution proposing that KPMG Audit Plc be re-appointed as auditors of the group will be put to the Annual General Meeting.

This report was approved by the board on 17 March 2009.

STEWART PORTER
CHIEF FINANCIAL OFFICER

Corporate governance

The board is responsible to shareholders for effective direction and control of the group and this report describes the framework for corporate governance and internal control that the directors have established to enable them to carry out this responsibility. It also explains how the company has applied the Principles of Good Governance. Although, as an AIM listed company, the company is not required to comply with the provisions of the Combined Code ("the Code") and this is not a statement of compliance as required by the Code, the board of directors recognises the importance of, and is committed to, ensuring that effective corporate governance procedures relevant to smaller listed companies are in place.

THE BOARD AND COMMITTEES

At 1 January 2008 the board comprised three executive directors (P Dubens, M Read and S Porter) and two non-executive directors (C Kennedy and L Blackall). On 8 July 2008, L Blackall resigned as a director. On 1 August 2008 P Dubens became non-executive chairman. C Kennedy is considered to be an independent non-executive director as defined under the Code.

An evaluation of board performance is required under the Combined Code. Due to the changes to the business during the year and the reduction in the size of the business, the board did not feel that it would be appropriate to conduct a review at this time. The board is responsible for the overall strategy and financial performance of the group and has a formal schedule of matters reserved for its approval. Each board meeting is preceded by a clear agenda and any relevant information is provided to directors in advance of the meeting. The board met on five occasions during the year to discuss operational business. All directors were in attendance.

Since September 2003 the roles of chairman and chief executive officer have been separate. The board does not consider it necessary to appoint a senior independent director.

Until 8 July 2008 the remuneration committee comprised C Kennedy and L Blackall only. With effect from 1 August 2008 the remuneration committee comprised C Kennedy and P Dubens only and is chaired by C Kennedy. The board report on directors' remuneration on page 18 contains a detailed description of remuneration and applicable policies. The committee met on three occasions during the year. All members were present.

Given the small size of the board, and as permitted by the Code, the board has not appointed a nominations committee. The board as a whole considers the appointment of all directors and senior managers. The Articles of Association of the company require directors to submit themselves for re-election at the first Annual General Meeting following appointment and then every three years by rotation, but in accordance with good practice one third of the directors will be submitted for re-election each year.

Until 8 July 2008 the audit committee comprised L Blackall (chairman) and C Kennedy. Since 1 August 2008 the audit committee has comprised C Kennedy (chairman) and P Dubens. C Kennedy is considered by the board to have relevant financial experience. The committee operates under written terms of reference and is scheduled to meet at least twice a year with the company's external auditors, and the executive directors present by invitation only. The committee met twice during the year. All members were present. The committee meets with the external auditors without the executive directors present as it considers appropriate. The committee is responsible for the independent monitoring of the effectiveness of the system of internal control, compliance, accounting policies and published financial statements on behalf of the board. This is achieved primarily through a review of the annual financial statements and a review of the nature and scope of the external audit. Any significant findings or identified risks are examined so that appropriate action may be taken. The committee is also responsible for keeping under review the independence and objectivity of the external auditors, including a review of non-audit services provided to the group, consideration of any relationships with the company that could affect independence, and seeking written confirmation from the auditors that, in their professional judgement, they are independent.

CONFLICTS OF INTEREST

The company amended its Articles of Association in July 2008 to deal with, amongst other things, the provisions on conflicts of interest in the Companies Act 2006 which came into force in October 2008. Following this the company has put in place procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the directors may have and for the authorisation of such conflict matters by the board. In deciding whether to authorise a conflict or potential conflict the directors must have regard to their general duties under the Companies Act 2006. The authorisation of a conflict matter, and the terms of authorisation, may be reviewed at any time by the board. The board considers that these procedures are operating effectively.

On 2 April 2008 the company disposed of its hosting and network services division for a consideration of £120.0 million. Whilst the London Stock Exchange confirmed that Peter Dubens' interest in the buyer did not result in the disposal constituting a related party transaction for the purposes of the AIM Rules, Peter Dubens did not take part in decisions of the company relating to the disposal. Accordingly, an independent committee of the board, comprising all of the independent directors and chaired by Laurence Blackall, was established to consider any proposals in relation to the potential sale of the group or the hosting and network services division. Peter Dubens therefore did not take part, *inter alia*, in the sale process within the company, the decision to propose the disposal resolution nor in the recommendation given in relation to the disposal resolution. These matters were dealt with by the independent directors. Peter Dubens, who owned 138,888,889 ordinary shares of 1p each in the Company, (5.76 per cent) also undertook to abstain from voting on the disposal resolution.

RELATIONSHIPS WITH SHAREHOLDERS

The company encourages the participation of both institutional and private investors. Communication with private individuals is maintained through the Annual General Meeting, and annual and interim reports. In addition further details on the strategy and performance of the company can be found at its website (www.freedom4group.com) which includes copies of the company's press releases. Regular updates are provided to the board on meetings with shareholders and analysts, and brokers opinions are made available to the board. As required by the Combined Code, non-executive directors are available to meet major shareholders, if required.

The company's share registrars provide a helpdesk, which members may contact with enquiries regarding their shareholdings. The helpdesk telephone number is 0871 664 0300* (or +44 20 8639 3399 for overseas callers) and their e-mail address is ssd@capitaregistrars.com

INTERNAL CONTROL

The board has overall responsibility for the group's systems of internal control and for monitoring their effectiveness. Although no system of internal control can provide absolute assurance against material misstatement or loss, the group's systems are designed to provide the directors with reasonable assurance that issues are identified on a timely basis and dealt with appropriately.

The group has an established organisational structure with clearly defined lines of authority, responsibility and accountability, which is reviewed regularly. Group management is responsible for the identification and evaluation of key risks applicable to their areas of business.

During the year the company had contingency and disaster recovery plans which included avian flu and other key risk areas.

The external auditors are engaged to express an opinion on the accounts. They discuss with management the reporting of operational results and the financial condition of the group, to the extent necessary to express their audit opinion.

During the year the board considered the need for an internal audit function but resolved that due to the size of the group, this could not be justified on the grounds of cost effectiveness.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

The company has purchased insurance to cover its directors and officers against the costs of defending themselves in legal proceedings taken against them in that capacity, and in respect of any damages resulting from those proceedings. In accordance with section 236(2) of the Companies Act 2006 the directors disclose a qualifying third party indemnity provision entered into between the company and its directors and officers which was in force at the date of approval of this report. Neither the insurance nor the indemnity provide cover where the director has acted fraudulently or dishonestly.

* calls cost 10p per minute plus network extras

// Board report on directors' remuneration //

REMUNERATION COMMITTEE

The remuneration committee comprises C Kennedy (chairman) and P Dubens.

The committee meets not less than twice a year to determine all aspects of the remuneration of the executive directors and other senior managers. The fees of the non-executive directors are determined by the board as a whole. No director or employee has a role in determining their own remuneration.

REMUNERATION POLICY

The committee determines overall policy for executive remuneration. The committee sets levels of remuneration to attract, retain and motivate executive directors and other senior managers and, in doing so, takes into account the level of remuneration throughout the telecommunications industry. Employees throughout the group, including executive directors, have performance reviews annually.

The main components of the executive directors' and senior managers' remuneration are:

- a competitive base salary;
- an annual performance bonus;
- pension provision;
- benefits in kind; and
- share options.

The group operates a discretionary bonus scheme. The scheme applies to directors, senior managers and certain other employees. Individual payments made under the scheme are generally dependent on the company achieving its financial targets and the attainment of individual objectives.

The group makes contributions to money purchase personal pension schemes on behalf of certain executive directors and senior managers.

Other customary benefits, such as car allowances, permanent health insurance and life assurance are made available as appropriate.

The group has three share options schemes, the unapproved executive share option scheme, the approved executive share option scheme and the EMI scheme. Details of options granted under these schemes are given in note 5 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

The service contracts of executive directors remain in force until age 65 and continue until terminated by either party giving to the other not less than twelve months' written notice.

The service contracts of non-executive directors remain in force until terminated by either party giving to the other not less than three months' written notice.

Details of directors' remuneration and emoluments can be found in note C2 of the company's financial statements.

On behalf of the board

STEWART PORTER
CHIEF FINANCIAL OFFICER

17 March 2009

Statement of directors' responsibilities

in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable laws and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and the performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

// Independent auditors' report //

to the members of Freedom4 Group plc (formerly Freedom4 Communications plc)

We have audited the group and parent company financial statements (the "financial statements") of Freedom4 Group plc (formerly Freedom4 Communications plc) for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expenses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 19.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the annual report includes that specific information presented in the chairman's statement, the chief executive's report and the financial review is cross referred from the principal activity and business review section of the directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

IN OUR OPINION:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

KPMG AUDIT PLC

Chartered Accountants

Registered Auditor

8 Salisbury Square

London EC4Y 8BB

United Kingdom

17 March 2009

Consolidated income statement

for the year ended 31 December 2008

	Note	Continuing £'000	Discontinued £'000	Total 2008 £'000	Continuing £'000	Discontinued £'000	Total 2007 £'000
Revenue	2	76	22,154	22,230	–	283,063	283,063
Cost of sales		(48)	(10,458)	(10,506)	–	(171,938)	(171,938)
Gross profit		28	11,696	11,724	–	111,125	111,125
Operating costs before amortisation of intangibles, depreciation, impairments and share based payment costs		(3,819)	(10,693)	(14,512)	(3,720)	(94,680)	(98,400)
Earnings before amortisation of intangibles, depreciation, impairment and share based payment costs		(3,791)	1,003	(2,788)	(3,720)	16,445	12,725
Amortisation of intangibles	3,11	(21)	–	(21)	–	(3,754)	(3,754)
Depreciation	3,12	(7)	–	(7)	–	(12,795)	(12,795)
Impairment	3,12	(315)	–	(315)	–	(1,000)	(1,000)
Share based payment costs	3,4	(1,265)	–	(1,265)	(3,377)	–	(3,377)
Total operating costs		(5,427)	(10,693)	(16,120)	(7,097)	(112,229)	(119,326)
Share of loss of joint venture	14	(9,399)	–	(9,399)	(3,528)	–	(3,528)
Operating (loss)/profit	3	(14,798)	1,003	(13,795)	(10,625)	(1,104)	(11,729)
Finance income	6	3,523	101	3,624	2,233	886	3,119
Finance costs	7	(1)	(236)	(237)	(8,410)	(1,244)	(9,654)
Net finance expenses		3,522	(135)	3,387	(6,177)	(358)	(6,535)
(Loss)/gain arising on joint venture	14	(167)	–	(167)	2,458	–	2,458
(Loss)/profit before tax		(11,443)	868	(10,575)	(14,344)	(1,462)	(15,806)
Income tax credit/(expense)	8	13	(5)	8	–	(2,330)	(2,330)
(Loss)/profit after tax before profit from disposal of discontinued operations		(11,430)	863	(10,567)	(14,344)	(3,792)	(18,136)
Profit from disposal of discontinued operations, net of tax	18	–	49,922	49,922	–	51,582	51,582
(Loss)/profit for the year		(11,430)	50,785	39,355	(14,344)	47,790	33,446
Attributable to:							
Equity shareholders of the parent company		(11,420)	50,785	39,365	(14,344)	47,790	33,446
Minority interests		(10)	–	(10)	–	–	–
(Loss)/profit for the year		(11,430)	50,785	39,355	(14,344)	47,790	33,446
Earnings per share:							
Basic – pence	9	(0.81)	3.60	2.79	(0.60)	1.99	1.39
Diluted – pence	9	(0.81)	3.60	2.79	(0.60)	1.99	1.39

Consolidated balance sheet

as at 31 December 2008

	Note	2008 £'000	2007 £'000
Assets			
Non current assets			
Intangible assets	11	64	–
Property, plant and equipment	12	32	–
Investment in joint venture	14	5,142	7,608
		5,238	7,608
Current assets			
Inventories	15	3	–
Trade and other receivables	16	19,014	11,243
Cash and cash equivalents	17	4,595	60,750
Assets classified as held for sale	19	–	100,954
		23,612	172,947
Current liabilities			
Trade and other payables	21	(1,178)	(1,794)
Liabilities classified as held for sale	19	–	(40,497)
Provisions	22	–	(2,219)
		(1,178)	(44,510)
Net current assets		22,434	128,437
Non current liabilities			
Deferred tax liability	8	(18)	–
		(18)	–
Net assets		27,654	136,045
Equity attributable to the equity holders of the parent			
Share capital	23	1,076	24,092
Share premium reserve	23	8,286	96,848
Translation reserve	23	–	25
Other reserves	23	753	8,119
Retained earnings	23	17,539	6,961
Equity shareholders' funds		27,654	136,045
Minority interests	23	–	–
Total equity		27,654	136,045

The consolidated financial statements on pages 22 to 66 were approved by the directors and authorised for issue on 17 March 2009, and signed on their behalf by:

PETER DUBENS
Non-executive Chairman

STEWART PORTER
Chief Financial Officer

// Consolidated statement of recognised income and expenses //

for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
In the year			
Exchange differences on translating foreign operations	23	–	86
Net income recognised directly in equity		–	86
Profit for the year		39,355	33,446
Total recognised income and expense for the year		39,355	33,532
Attributable to			
Equity shareholders of the company		39,365	33,532
Minority interests		(10)	–
		39,355	33,532

Consolidated cash flow statement

for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Profit for the year		39,355	33,446
Profit from disposal of discontinued operations	18	(49,922)	(51,582)
Income tax (credit)/expense		(8)	2,330
Loss/(gain) arising on joint venture	14	167	(2,458)
Interest received		(3,624)	(3,119)
Interest payable		237	9,654
Operating loss		(13,795)	(11,729)
Adjustments for:			
Depreciation charge	12	7	12,795
Impairment of tangible fixed assets	12	315	1,000
Share of loss of joint venture	14	9,399	3,528
Amortisation of intangibles	11	21	3,754
Loss on sale of fixed assets		203	157
Share based payment costs		1,265	3,377
Operating cash flows before movements in working capital		(2,585)	12,882
(Increase)/decrease in inventories		(3)	31
(Increase)/decrease in receivables		(3,085)	4,197
Increase/(decrease) in payables		6,324	(24,292)
(Decrease)/increase in provisions		(596)	1,599
Cash generated/(used) from operations		55	(5,583)
Interest paid		(87)	(2,387)
Bond interest paid		–	(5,512)
Interest element of finance lease repayments		(150)	(827)
Income taxes (paid)/received	8	14	(270)
Net cash used from operating activities		(168)	(14,579)
Cash flows from investing activities			
Acquisition of subsidiaries	11	–	(958)
Payment to acquire intangible assets	11	(85)	(152)
Cash left in disposal group		(2,395)	–
Investment in jointly controlled entity	14	(6,118)	(2,058)
Purchase of property, plant and equipment (held for sale)		(3,977)	(13,450)
Purchase of property, plant and equipment	12	(33)	(10,256)
Proceeds from sale of property, plant and equipment		7,149	2,648
Proceeds from sale of subsidiaries – hosting and network services division (net)	18	87,856	–
Proceeds from sale of subsidiaries – broadband and voice division (net)	18	9,657	173,170
Interest received		1,422	2,115
Net cash generated from investing activities		93,476	151,059
Cash flows from financing activities			
Proceeds from the exercise of share options	24	8,443	795
Payments to buy back shares – tender offer	24	(156,562)	–
Payments to buy back shares – treasury	24	(737)	–
Payment to redeem convertible bonds		–	(91,500)
Repayments of short term borrowings		–	(1,445)
Proceeds from long term borrowings		–	2,255
Repayments of long term borrowings		–	(35,506)
Drawdown of new finance leases		396	5,700
Payment of finance lease liabilities		(1,003)	(4,357)
Net cash used from financing activities		(149,463)	(124,058)
Net (decrease)/increase in cash and cash equivalents		(56,155)	12,422
Cash and cash equivalents at the beginning of the year		60,750	48,328
Cash and cash equivalents at the end of the year		4,595	60,750

Cash flows relating to discontinued operations can be found in note 20.

Notes to the consolidated financial statements

for the year ended 31 December 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRS"). The company has elected to prepare its parent company financial statements in accordance with UK GAAP. These are presented on pages 22 to 66.

STANDARDS AND INTERPRETATIONS NOT APPLIED

At the date of authorisation of these financial statements, the following Standards and Interpretations (International Financial Reporting Interpretation Committee - IFRIC), which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 8 Operating segments
IFRIC 11 IFRS 2 : Group and treasury share transactions
Amendment to IAS 1 : Presentation of financial statements

The directors anticipate that the adoption of these Standards and Interpretations in future years will have no material impact on the financial statements of the group when the relevant standards and interpretations come into effect.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted have been applied consistently in both the current and comparative years, and are set out below.

GOING CONCERN

The disclosures on page 44 in respect of going concern form part of our audited accounts, (refer directors' report on page 14). After review the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the consolidated and parent company financial statements.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Freedom4 Group plc (formerly Freedom4 Communications plc) (the "company") and enterprises controlled by the company (its "subsidiaries", together referred to as the "group"). The excess of cost of acquisition over the fair values of the group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (a discount on acquisition) is recognised directly in the income statement.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any minority interest.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

PROPERTY, PLANT AND EQUIPMENT

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Depreciation is charged so as to write off the cost of assets, other than land, to their estimated residual values over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	over twenty to twenty-five years
Leasehold improvements	over the life of the lease
Network infrastructure	over two to ten years
Plant and machinery	over three to five years
Office equipment	over three to five years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income. The incremental costs of staff working on specific network projects are capitalised under network infrastructure costs.

GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Upon the acquisition of subsidiaries goodwill is separately disclosed. Goodwill on acquisition of associates and jointly controlled entities is included in investment in associates and jointly controlled entities.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of these cash generating units represents the group's investment in each country of operation by primary reporting segment.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

At each balance sheet date goodwill is reviewed for impairment using a discounted cash flow method applied to business forecasts. This method is more fully explained within Note 11. If the test shows an impairment has occurred, this is expensed to the income statement immediately.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the amount previously calculated under UK GAAP subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

OTHER INTANGIBLE ASSETS

Intangible assets such as patents and trademarks are measured initially at their purchase cost and amortised on a straight-line basis over their estimated useful lives, on the following bases:

Patents	over ten years
Wireless licence	over twenty years
Customer lists	over three years
Other licences	over twenty years

Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be reliably measured.

IMPAIRMENT OF PROPERTY, PLANT, EQUIPMENT, INVESTMENT IN JOINT VENTURE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

// Notes to the consolidated financial statements continued //

for the year ended 31 December 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. A jointly controlled entity is an entity in which the company holds an interest on a long term basis and which is jointly controlled by the company and one or more other venturers under a contractual arrangement.

The results and assets, liabilities and contingent liabilities of associates and jointly controlled entities are incorporated in these financial statements using the equity method of accounting except when classified as held for sale. In the income statement the group's share of net income/loss of its joint venture is included in operating income as the operations of the joint venture are related to telecommunications. Included in the group's share of the net income/loss in the joint venture is interest accrued on the redeemable preference shares. The interest income is calculated using a market interest rate on the outstanding debt element of the preference shares, adjusted for each cash injection as appropriate.

The group's share of post acquisition movement in the joint venture reserves is recognised in reserves. Investments in associates and jointly controlled entities are carried in the balance sheet as the group's share of the net assets of the associate or jointly controlled entity. Losses of the associates or jointly controlled entities in excess of the group's interest in those associates or jointly controlled entities are not recognised.

Any excess of cost of acquisition over the group's share of the fair values of identifiable net assets acquired of the associate or jointly controlled entity at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the group's share of the fair values of identifiable net assets of the associate or jointly controlled entity at the date of acquisition (a discount on acquisition) is recognised in the income statement.

The gain or loss arising on joint venture relates to changes in the group's share of the net assets of the joint venture arising from additional capital contributions made by the venturers during the year, which are not in line with the original ownership stakes prior to the capital contribution.

Where a group company transacts with an associate or jointly controlled entity of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate or jointly controlled entity. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

RESEARCH AND DEVELOPMENT

Research expenditure is expensed in the income statement in the year in which it is incurred. Development expenditure is expensed in the income statement in the year in which it is incurred unless it is probable that economic benefits will devolve to the group from the asset developed and the financial and technical viability of the project can be demonstrated. Capitalisation ceases when the asset is ready for use. Development costs include direct labour, contractor charges, materials and direct overheads.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

NON CURRENT ASSETS HELD FOR SALE

Non current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the group's balance sheet when the group has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are initially recognised at fair value and then subsequently measured at amortised cost using the effective interest rate method.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. A financial liability is a contractual obligation to pay cash or transfer other benefits or an obligation to exchange a financial instrument. This includes debt. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Cash and cash equivalents

Cash for the purposes of the cash flow statement comprises cash in hand, deposits repayable on demand and credit card deposits. Restricted deposits pertaining to a rented building are shown in other debtors in 2007.

Bank borrowings

Bank borrowing are initially recognised at fair value and then subsequently measured at amortised cost using the effective interest rate method. Interest bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arose.

Convertible loan notes

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The liability component is subsequently measured at amortised cost using the effective interest rate method. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the effective market interest rate for similar non-convertible debt to the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible loan notes.

Early redemption and potential premium payable resulting from early redemption will only occur following discussions held with the bondholders.

// Notes to the consolidated financial statements continued //

for the year ended 31 December 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Trade payables

Trade payables are initially recognised at fair value and then subsequently measured at amortised cost using the effective interest rate method.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

PROVISIONS

Provisions are recognised when the group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated. Provisions for restructuring costs are recognised when the group has a detailed formal plan for the restructuring which has been notified to affected parties.

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax and other sales related taxes. Sales of goods are recognised when goods are delivered and title has passed.

In particular, broadband and voice revenue is recognised evenly over the period for which the customer has received the service. Fees for hosting services, including shared and dedicated hosting, are deferred over the life of the contract and recognised evenly over the period of that contract. Domain name income is recognised in full on registration of the domain names.

WiFi revenue is recognised in full on a usage basis with any set up revenue being recognised in proportion to the set up work performed.

OTHER INCOME

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

FOREIGN CURRENCIES

Transactions in currencies other than Sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as Sterling denominated assets and liabilities.

SHARE BASED PAYMENTS

The share option programme allows group employees to acquire shares of the ultimate parent company; these awards are granted by the ultimate parent.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Binomial method, taking into account the terms and conditions upon which the options were granted. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations. Non market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The fair value determined at the grant date of equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

- Freedom4 Limited, the joint venture with Intel, has a carrying value in the group accounts of £5.1 million. The investment in the joint venture is accounted for using the equity method making the company's share in 2008 52.35% (2007 51.88%). An adjustment is made for the company's share of the joint venture share based payment costs and interest receivable by the company on the loan. The directors have considered whether this carrying value is supportable and have concluded, following an analysis of comparable spectrum valuations, that there is no requirement to impair the carrying value of the investment in the joint venture.
- Freedom4 Limited is governed by a constitution which effectively requires unanimous shareholder agreement for major business decisions. This means that the company does not have management control of Freedom4 Limited, which is therefore accounted for as a joint venture. The group reports its share of the losses incurred by the joint venture based on its equity participation in Freedom4 Limited, which at the year end was 52.35%.
- The group makes an allowance for impairment of receivable balances based on estimates of losses arising from the failure or inability of customers or debtors to make payments. The receivables balances include loan notes receivable of £17.5 million plus interest receivable of £1.1 million due in October 2009 (note 28). Directors are not aware of any events that will lead to uncertainty in collection of this balance and therefore consider there is no need for an allowance for impairment.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

BUSINESS SEGMENTS

The group comprises the following main business segments:

Wireless

Includes the company's subsidiary WiFi and its investment in the joint venture.

Other

Includes the company and the group's financing.

Broadband and voice services

The group supplied internet access via broadband and narrowband, and voice telephony services (carrier pre-select and wholesale line rental) to both residential and business customers through different brands such as Pipex, Pipex Homecall, Toucan, Nildram and Freedom 2 Surf. (This division was sold in September 2007).

Hosting services

The group provided a comprehensive suite of hosting services from shared and virtual private servers through to domain names and security. (This division was sold in April 2008).

Network services

The group provided all aspects of network support for medium and large businesses, with a range of services including voice, enterprise hosting, internet, IP VPNs and other IP network applications and security solutions. (This division was sold in April 2008).

Post sale of the broadband and voice division in 2007 and hosting and network services division in 2008, the continuing operations of the group are organised into wireless and other. The segmental results for 2007 have therefore been restated to provide a consistent presentation for all years.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS continued

The segment information for these businesses in the income statement is as follows:

	For the year ended 31 December 2008					
	Broadband and voice services Discontinued £'000	Hosting services Discontinued £'000	Network services Discontinued £'000	Wireless Continuing £'000	Other Continuing £'000	Total £'000
Revenue						
External sales	–	10,804	11,350	76	–	22,230
Result						
Segment result ⁽ⁱ⁾	–	2,802	(1,799)	(353)	(3,438)	(2,788)
Amortisation of intangibles	–	–	–	(21)	–	(21)
Depreciation charge	–	–	–	(7)	–	(7)
Impairment of tangible fixed assets	–	–	–	–	(315)	(315)
Share based payment costs	–	–	–	–	(1,265)	(1,265)
Share of loss of joint venture	–	–	–	(9,399)	–	(9,399)
Operating profit/(loss)	–	2,802	(1,799)	(9,780)	(5,018)	(13,795)
Finance income	–	70	31	1,122	2,401	3,624
Finance costs	–	(112)	(124)	–	(1)	(237)
Loss arising on joint venture	–	–	–	(167)	–	(167)
Profit/(loss) before tax	–	2,760	(1,892)	(8,825)	(2,618)	(10,575)
Income tax (expense)/credit	–	–	(5)	–	13	8
Profit on disposal of discontinued operations	1,157	36,033	12,732	–	–	49,922
	1,157	38,793	10,835	(8,825)	(2,605)	39,355
Other information						
Property, plant and equipment additions	–	1,887	2,090	39	–	4,016
Intangibles additions	–	–	–	85	–	85
Balance sheet						
Assets						
Segment assets	–	–	–	5,333	23,517	28,850
	–	–	–	5,333	23,517	28,850
Liabilities						
Segment liabilities	–	–	–	(477)	(718)	(1,196)
	–	–	–	(477)	(718)	(1,196)

(i) Segment result refers to earnings before amortisation of intangibles, depreciation, impairment and share based payments

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

2. BUSINESS AND GEOGRAPHICAL SEGMENTS continued

The segment information for these businesses in the income statement is as follows:

	For the year ended 31 December 2007					
	Broadband and voice services Discontinued £'000	Hosting services Discontinued £'000	Network services Discontinued £'000	Wireless Continuing £'000 (restated)	Other Continuing £'000 (restated)	Total £'000
Revenue						
External sales	210,776	36,111	36,176	–	–	283,063
	210,776	36,111	36,176	–	–	283,063
Result						
Segment result ⁽ⁱ⁾	12,013	7,240	(2,808)	–	(3,720)	12,725
Amortisation of intangibles	(3,663)	(90)	(1)	–	–	(3,754)
Depreciation charge	(1,351)	(4,000)	(7,444)	–	–	(12,795)
Impairment of tangible fixed assets	–	–	(1,000)	–	–	(1,000)
Share based payment costs	–	–	–	–	(3,377)	(3,377)
Share of loss of joint venture	–	–	–	(3,528)	–	(3,528)
Operating profit/(loss)	6,999	3,150	(11,253)	(3,528)	(7,097)	(11,729)
Finance income	629	197	60	747	1,486	3,119
Finance costs	(91)	(372)	(781)	–	(8,410)	(9,654)
Gain arising on joint venture	–	–	–	2,458	–	2,458
Profit/(loss) before tax	7,537	2,975	(11,974)	(323)	(14,021)	(15,806)
Income tax expense	(2,189)	(141)	–	–	–	(2,330)
Profit on disposal of subsidiary	51,582	–	–	–	–	51,582
	56,930	2,834	(11,974)	(323)	(14,021)	33,446
Other information						
Property, plant and equipment additions	1,259	8,997	13,450	–	–	23,706
Balance sheet						
Assets						
Segment assets	–	47,085	53,869	7,608	71,993	180,555
	–	47,085	53,869	7,608	71,993	180,555
Liabilities						
Segment liabilities	–	(16,949)	(23,548)	–	(4,013)	(44,510)
	–	(16,949)	(23,548)	–	(4,013)	(44,510)

(i) Segment result refers to earnings before amortisation of intangibles, depreciation, impairment and share based payments

2. BUSINESS AND GEOGRAPHICAL SEGMENTS *continued*

GEOGRAPHICAL SEGMENTS

The group's operations were located in the United Kingdom and Germany prior to the disposal of the hosting and networks services division. Germany provided mainly hosting services. Subsequent to the disposal the group's operations are located only in the United Kingdom.

The segment information for these geographical destinations which is not materially different to its origin is as follows:

	Continuing		Discontinued		Total 2008 £'000	Continuing		Discontinued		Total 2007 £'000
	United Kingdom £'000	Germany £'000	United Kingdom £'000	Germany £'000		United Kingdom £'000	Germany £'000	United Kingdom £'000	Germany £'000	
Sales revenue	76	4,265	17,889		22,230	–	12,568	270,495		283,063
Carrying amount of segment assets	29,131	–	–		29,131	79,601	16,186	84,768		180,555
Additions to property, plant and equipment	39	1,292	2,685		4,016	–	7,931	15,775		23,706

3. OPERATING LOSS

The group's operating loss has been arrived at after charging/(crediting) the following items:

	2008 £'000	2007 £'000
Staff costs (note 4)	7,752	47,838
Share based payment costs (note 4)	1,265	3,377
Fees payable to KPMG for the audit of the group's annual accounts	114	320
Fees payable to KPMG and its associates for other services:		
– The audit of the group subsidiaries pursuant to legislation	11	65
– Other services relating to taxation	233	237
– Other services	27	–
Loss on disposals of tangible assets	203	157
Rentals repayable under operating leases – land and buildings	689	2,637
Rentals payable under operating leases – other assets	404	1,838
Amortisation of intangibles	21	3,754
Depreciation on owned assets	7	9,974
Depreciation on leased assets	–	2,821
Impairment losses – tangible fixed assets	315	1,000

4. STAFF COSTS

	2008 Number	2007 Number
The average monthly number of employees (including executive directors) for the year was as follows:		
Full time operations staff	112	1,251
Executive and administrative	62	458
	174	1,709

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

4. STAFF COSTS continued

	2008 £'000	2007 £'000
The aggregate remuneration comprised:		
Wages and salaries	6,035	47,524
Social security costs	1,551	5,484
Share based payment costs	1,265	3,377
Other pension costs (note 10)	231	744
Staff costs capitalised ⁽ⁱ⁾ (note 3)	(65)	(1,334)
	9,017	55,795

(i) Staff costs capitalised in 2008 relate to additions to property, plant and equipment held for sale

Included in the above is remuneration for directors amounting to:

Emoluments for services as a director	816	6,316
Pension contributions	95	80
	911	6,396

DIRECTORS' REMUNERATION

	Salaries and fees £'000	Other £'000	Total 2008 £'000	Total 2007 £'000	Pension 2008 £'000	Pension 2007 £'000
Executive						
M Read	229	–	229	2,184	41	37
S Porter	216	–	216	1,620	54	43
P Dubens ⁽ⁱ⁾	154	100	254	2,442	–	–
Non-executive						
L Blackall	18	35	53	35	–	–
C Kennedy	29	35	64	35	–	–
	646	170	816	6,316	95	80

(i) The other payment made to P Dubens in 2008 was as a consequence of a change from executive chairman to non-executive chairman effective August 2008. His non-executive chairman's fee is £20,000 pa.

Emoluments of the highest paid director (excluding pension contributions) were £254,000 (2007: £2,442,000). Amounts paid by the group in respect of pension contributions for the highest paid director were £nil (2007: £nil).

Other payments made to L Blackall and C Kennedy in 2008, were as a result of the disposal of the hosting and network services division. L Blackall resigned effective 8 July 2008.

The total bonus payments made to directors for 2007 were £5,152,000. Within the 2007 bonuses, a total amount of £4,580,000 was paid to the directors as a result of services in respect of the disposal of certain subsidiaries and was included as part of the cost of disposal of the broadband and voice division.

Details of directors share options are presented in the notes to the company accounts (note C2).

5. SHARE BASED PAYMENTS AND WARRANTS

There were no new options or warrants granted during 2008. The share options cost charged to the income statement, includes the benefit arising for the accelerated vesting of the share options and warrants under the tender offers and capital reduction scheme as at April 2008.

At 31 December 2008 rights to options over 53,087,665 ordinary shares of the company were outstanding as follows:

	At 1 January 2007	Exercised through tender offer	Exercised	Lapsed	At 31 December 2008	Exercise price	Weighted average share price upon exercise	Exercise period
Unapproved Scheme								
(i)	2,693,583	(2,693,583)	–	–	–	1.00p	–	20 Nov 2001 to 19 Nov 2011
(i)	2,602,440	(348,360)	–	–	2,254,080	3.00p	–	20 Nov 2001 to 19 Nov 2011
(i)	750,000	–	–	–	750,000	3.00p	–	27 Dec 2001 to 26 Dec 2011
(ii)	5,253,000	–	–	–	5,253,000	4.50p	–	27 Dec 2001 to 26 Dec 2011
(iii)	17,939,247	(17,939,247)	–	–	–	2.25p	–	20 Mar 2003 to 19 Mar 2013
(i)	19,002,000	(19,002,000)	–	–	–	6.25p	–	24 Oct 2003 to 23 Oct 2013
(iv)	29,475,000	–	–	(17,975,000)	11,500,000	10.50p	–	21 Jun 2004 to 20 Jun 2014
(iv)	10,000,000	(5,960,000)	–	(4,040,000)	–	8.50p	–	4 Aug 2004 to 3 Aug 2014
(iv)	1,250,000	(725,000)	–	(525,000)	–	7.50p	–	20 Oct 2004 to 19 Oct 2014
(v)	7,000,000	(4,040,000)	–	(2,750,000)	210,000	8.25p	–	29 Jan 2005 to 28 Jan 2015
(v)	8,599,999	(6,253,658)	–	–	2,346,341	7.50p	–	11 Apr 2005 to 10 Apr 2015
(iv)	12,491,227	–	–	–	12,491,227	14.25p	–	7 Apr 2006 to 6 Apr 2016
(vi)	3,000,000	–	–	(3,000,000)	–	11.50p	–	27 Oct 2006 to 26 Oct 2016
(vii)	13,012,952	(7,547,512)	(5,465,440)	–	–	1.00p	1.64p	11 Oct 2006 to 10 Oct 2016
(viii)	3,000,000	–	–	(3,000,000)	–	12.50p	–	14 Dec 2006 to 13 Dec 2016
(ix)	21,283,017	–	–	(3,000,000)	18,283,017	13.25p	–	16 Jan 2007 to 15 Jan 2017
(x)	4,000,000	(2,320,000)	–	(1,680,000)	–	9.49p	–	1 Oct 2007 to 30 Sept 2017
	161,352,465	(66,829,360)	(5,465,440)	(35,970,000)	53,087,665			
(xi)	989,130	(989,130)	–	–	–	1.00p	–	20 Nov 2001 to 19 Nov 2011
(xii)	300,000	(300,000)	–	–	–	3.00p	–	20 Feb 2003 to 19 Feb 2013
(xi)	3,455,313	(3,455,313)	–	–	–	2.25p	–	20 Feb 2003 to 19 Feb 2013
(xiii)	7,112,000	(7,091,200)	–	(20,800)	–	6.25p	–	24 Oct 2003 to 23 Oct 2013
	11,856,443	(11,835,643)	–	(20,800)	–			
Total	173,208,908	(78,665,003)	(5,465,440)	(35,990,800)	53,087,665			
Warrants								
(xiv)	75,000,000	(70,100,000)	–	–	4,900,000	6.25p	–	
(xv)	60,000,000	–	–	–	60,000,000	10.50p	–	
(xvi)	4,000,000	(2,320,000)	–	–	1,680,000	7.75p	–	
	139,000,000	(72,420,000)	–	–	66,580,000			

// Notes to the consolidated financial statements continued //

for the year ended 31 December 2008

5. SHARE BASED PAYMENTS AND WARRANTS continued

SHARE OPTIONS AND WARRANTS

- (i) Unapproved Scheme - no performance criteria attached.
- (ii) Unapproved Scheme - were exercisable once the company's market capitalisation reached £25 million.
- (iii) Unapproved Scheme - 10,687,290 were exercisable when the company's share price reached 5.00p and was EBITDA positive, measured on a monthly basis. The remaining 7,236,907 were exercisable once the company's share price reached 3.00p and the company was EBITDA positive, measured on a monthly basis.
- (iv) Unapproved Scheme - 50% were exercisable at share price of 16.00p, 50% are exercisable at share price of 21.00p.
- (v) Unapproved Scheme - were exercisable once the company's share price reached 12.00p.
- (vi) Unapproved Scheme - exercisable in annual instalments of 3,000,000 starting at October 2007 until October 2009.
- (vii) Unapproved Scheme - 13,012,952 were exercisable on 11 October 2007, the balance were dependent upon specific targets for Toucan now lapsed.
- (viii) Unapproved Scheme - exercisable in annual instalments of 1,000,000 starting at December 2007 until December 2009.
- (ix) Unapproved Scheme - 60% were exercisable after 17 January 2008 and 40% exercisable after 17 January 2009.
- (x) Vesting in instalments of 1,333,333 on 1st, 2nd and 3rd anniversaries and on any takeover offer.
- (xi) EMI Scheme - no performance criteria attached.
- (xii) EMI Scheme - vesting in equal instalments starting on 20 February 2003, until 20 February 2005.
- (xiii) EMI Scheme - were exercisable once the company's share price reached 9.00p and the company was EBITDA positive, measured on a monthly basis.
- (xiv) Warrants - exercisable when the company's EBITDA is positive and the company's share price has reached 12.00p.
- (xv) Warrants - exercisable in two instalments 50% when company's share price has reached 16p and the remaining 50% when the share price has reached 21p.
- (xvi) Warrants - exercisable immediately at an exercise price of 7.75p.

As at 31 December 2008, following the tender offers and capital reduction scheme in April 2008, all warrants are considered to have vested.

On 15 March 2008, the company made a conditional offer to its shareholders to buy back 58% of their shareholdings for a minimum price of 10p per share, capped at 11p per share, by way of two tender offers. On 19 March 2008 the Court approved a capital reduction scheme to eliminate the deficit on the company's profit and loss account and create distributable reserves to facilitate the return of cash to shareholders. The take up by shareholders of the offers was high such that 95.8% of those shares capable of being tendered were tendered and the tender price was set at 10.39p. On 4 April 2008 Collins Stewart acquired 1,459,600,083 shares by means of an on-market transaction at the tender price as a result of the first tender offer. On 7 April 2008 Collins Stewart acquired 30,175,256 shares by means of an on-market transaction at the tender price as a result of the second tender offer. Following the cancellation of the tendered shares and exercise of share options of 151,085,002, the company had 1,070,541,017 of ordinary shares of 0.1p left in issue at April 2008.

6. FINANCE INCOME

	2008 £'000	2007 £'000
Bank interest receivable	927	2,301
Loan notes interest receivable	1,080	–
Other interest receivable	1,617	818
	3,624	3,119

Included in other interest receivable is interest receivable from the joint venture of £1,122,000 (2007: £747,000)

7. FINANCE COSTS

	2008 £'000	2007 £'000
Interest on bank loans and overdrafts	69	2,338
Interest on convertible bonds	–	4,610
Premium on redemption of convertible bonds	–	1,830
Interest on obligations under finance leases	150	827
Other interest payable	18	49
	237	9,654

8. TAXATION

(i) CORPORATION TAX

	2008 £'000	2007 £'000
Current tax:		
UK corporation tax	–	499
Overseas tax	11	114
	11	613
Adjustments in respect of prior periods:		
UK corporation tax	(19)	(48)
	(19)	(48)
Total current tax	(8)	565
Deferred tax:		
Origination and reversal of timing differences	–	1,765
Adjustments in respect of prior periods	–	–
Total deferred tax	–	1,765
Total tax charge/(credit)	(8)	2,330

UK corporation tax is calculated at 28.5% (2007: 30%) of the estimated assessable profit for the year. The tax rate changed from 30% to 28% in March 2008, meaning that the average rate for the year was 28.5%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The profit on disposal of the hosting and network services division of £48,765,000 is not taxable because the substantial shareholding exemption legislation was applicable to this transaction.

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

8. TAXATION continued

The charge for the year can be reconciled to the profit per the income statement as follows:

	2008 £'000	2007 £'000
Loss before tax	(10,575)	(15,806)
Loss before taxation at 28.5% (2007: 30%)	(3,014)	(4,742)
Tax effect of expenses that are not deductible in determining taxable profit	165	5,036
Tax effect of income that is not taxable	(15)	(737)
Chargeable gains	1,305	–
Tax effect of utilisation of tax losses not previously recognised	(46)	–
Depreciation for year in excess of capital allowances	2	–
Adjustments to tax charge in respect of previous periods	(19)	(48)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(65)	59
Unrelieved tax losses arising in the year not recognised	2,928	2,881
Deduction for employee share scheme	(1,249)	–
Current year deferred tax not recognised	–	(119)
Total tax charge	(8)	2,330

At 31 December 2008, there were unrelieved losses in the group of approximately £12,010,000 (2007: £52,607,000). On the basis of the relevant tax rates applicable to the jurisdictions in which the tax losses arose, at 31 December 2008, the group had a potential deferred tax asset in relation to unrelieved losses, fixed asset timing differences and short term timing differences of £1,115,000 (2007: £20,549,000). The deferred tax asset has not been recognised in the accounts as, in the opinion of the directors, the group is not expected to make sufficient profits against which these unrelieved losses can be utilised in the future.

(ii) DEFERRED TAX

	Provision for losses £'000	Depreciation in excess of capital allowances £'000	Total £'000
Assets			
At 1 January 2007	1,785	2,809	4,594
(Charge) for the year	–	(2,804)	(2,804)
On disposal	(1,511)	58	(1,453)
At 1 January 2008	274	63	337
(Charge) for the year	(256)	–	(256)
On disposal	–	(63)	(63)
At 31 December 2008	18	–	18

	Business combinations property revaluation £'000	Development costs £'000	Customer lists £'000	Total £'000
Liabilities				
At 1 January 2007	590	81	5,688	6,359
Credit/(charge) for the year	(590)	193	(606)	(1,003)
On disposal	–	–	(5,019)	(5,019)
At 1 January 2008	–	274	63	337
Credit/(charge) for the year	–	(274)	18	(256)
On disposal	–	–	(63)	(63)
At 31 December 2008	–	–	18	18

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. The share options were excluded from the number of ordinary shares used to calculate dilutive earnings per share in both years as they were not dilutive.

The calculation of basic and dilutive earnings per share is based on the following data:

NUMBER OF SHARES

	Year ended 31 December 2008 Number million	Year ended 31 December 2007 Number million
Weighted average number of ordinary shares used to calculate basic and diluted earnings per share	1,413	2,400

EARNINGS

	Year ended 31 December 2008			Year ended 31 December 2007		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
(Loss)/profit for the year attributable to the equity holders of the parent	(11,430)	50,785	39,355	(14,344)	47,790	33,446
Earnings per share in pence	(0.81)	3.60	2.79	(0.60)	1.99	1.39
Diluted earnings per share in pence	(0.81)	3.60	2.79	(0.60)	1.99	1.39

10. RETIREMENT BENEFIT PLANS

The group makes payments to defined contribution retirement benefit plans that are charged as an expense as they fall due. Payments are made on the basis of a percentage of qualifying salary for certain employees to personal pension schemes.

The total charge to the income statement for the year was £231,000 (2007: £744,000), and outstanding contributions of £Nil (2007: £Nil) were included as current liabilities in the balance sheet.

11. INTANGIBLE ASSETS

	Goodwill £'000	Customer lists £'000	Patents £'000	Licence £'000	Total £'000
Cost					
At 1 January 2007	165,907	29,578	10	–	195,495
Additions	958	–	–	152	1,110
Disposal of subsidiaries	(126,607)	(29,308)	–	–	(155,915)
Transfer to held for sale (note 19)	(40,258)	(270)	(10)	(152)	(40,690)
At 31 December 2007	–	–	–	–	–
Additions	–	85	–	–	85
At 31 December 2008	–	85	–	–	85

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

11. INTANGIBLE ASSETS continued

	Goodwill £'000	Customer lists £'000	Patents £'000	Licence £'000	Total £'000
Amortisation and impairment					
At 1 January 2007	724	5,858	4	–	6,586
Amortisation for the year	–	3,753	1	–	3,754
Disposal of subsidiaries	–	(9,484)	–	–	(9,484)
Transfer to held for sale (note 19)	(724)	(127)	(5)	–	(856)
At 31 December 2007	–	–	–	–	–
Amortisation for the year	–	21	–	–	21
At 31 December 2008	–	21	–	–	21
Carrying amount					
At 1 January 2007	165,183	23,720	6	–	188,909
At 31 December 2007 and 1 January 2008	–	–	–	–	–
At 31 December 2008	–	64	–	–	64

Additions of £85,000 represent intangibles acquired as part of the trade and assets of BOZII by the group's subsidiary, Freedom4 WiFi Limited.

AS AT 31 DECEMBER 2007

Additions to goodwill of £948,000 represent a late payment of a government grant in relation to Toucan Ireland that was agreed to be transferred to IDT as part of the acquisition cost for Toucan. The remaining £10,000 is due to legal fees related to Switch2 Telecoms Limited. The £152,000 is payment for an Ofcom licence.

During 2007 only, the following cash generating units had significant carrying amounts of goodwill:

	2007 £'000
Broadband and voice services	–
Hosting services	30,635
Network services	8,899
Transfer to held for sale (note 19)	(39,534)

The directors of the company considered any potential impairment of the carrying value of goodwill separately within the financial statements for the UK and German hosting businesses, Supanetwork Limited, and the business services business. The method applied involved calculating the net present value of forecasted future discounted cash flows. A discount factor of 12.5% was deemed appropriate for the calculation which took into consideration the directors' assessment of the prevailing risk free rate, the market risk premium and business risk premium. The directors concluded that there was no impairment to the carrying value of the goodwill within the financial statements.

As both the sale of the broadband and voice division in 2007, and the sale of the hosting and network services division in 2008 yielded a profit on disposal, the directors concluded there was no impairment to goodwill on these businesses.

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold buildings £'000	Leasehold improvements £'000	Network infrastructure £'000	Plant and machinery £'000	Office equipment £'000	Total £'000
Cost						
As at 1 January 2007	12,035	2,776	50,302	1,238	12,265	78,616
Additions	1,254	2,675	17,252	600	1,925	23,706
Disposals	(1,998)	(237)	(1,280)	(60)	(34)	(3,609)
Disposal of subsidiaries	–	(540)	(17,890)	(2)	(12,408)	(30,840)
Exchange differences	430	–	1,250	66	75	1,821
Transfer to held for sale (note 19)	(11,721)	(4,674)	(49,634)	(1,842)	(1,823)	(69,694)
At 31 December 2007 and 1 January 2008	–	–	–	–	–	–
Additions	–	–	–	–	33	33
Acquisitions through business combinations	–	–	–	–	6	6
Assets transferred from held for sale	–	315	–	–	–	315
At 31 December 2008	–	315	–	–	39	354
Accumulated depreciation						
As at 1 January 2007	409	1,139	25,161	340	4,498	31,547
Charge for the year	210	546	8,747	46	3,246	12,795
Disposals	(442)	(223)	(76)	(38)	(25)	(804)
Disposal of subsidiaries	–	(139)	(11,967)	(2)	(6,311)	(18,419)
Impairment	–	–	1,000	–	–	1,000
Exchange differences	89	–	610	12	36	747
Transfer to held for sale (note 19)	(266)	(1,323)	(23,475)	(358)	(1,444)	(26,866)
At 31 December 2007 and 1 January 2008	–	–	–	–	–	–
Charge for the year	–	–	–	–	7	7
Impairment	–	315	–	–	–	315
At 31 December 2008	–	315	–	–	7	322
Carrying amount						
At 1 January 2007	11,626	1,637	25,141	898	7,767	47,069
At 31 December 2007	–	–	–	–	–	–
At 31 December 2008	–	–	–	–	32	32

YEAR ENDED 31 DECEMBER 2008

The movement in fixed assets in the year related mainly to the discontinued operations which were disposed of in April 2008 (note 18).

Of the remaining £354,000 of assets (after the disposal of the hosting and network services division), the company impaired the carrying value of fixed assets in leasehold improvements relating to the St James's leasehold improvements of £315,000 as a result of the consolidation of properties leased by the business, which resulted in a part of the business being relocated to other existing premises.

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

12. PROPERTY, PLANT AND EQUIPMENT continued

YEAR ENDED 31 DECEMBER 2007

Included in the total net book value are assets which were held for sale and were held under finance leases with a net book value of £9,967,000 comprising network infrastructure of £9,966,000, plant and machinery of £Nil, and office equipment of £1,000. Depreciation charged for the year on these assets was network infrastructure of £2,749,000, plant and machinery of £Nil, and office equipment of £72,000.

Included within network infrastructure additions in 2007 are capitalised incremental staff costs of £1,334,000.

In 2007 the company impaired the carrying value of fixed assets within the hosting services segment that were leased to Tiscali UK Limited as part of a Transitional Services Agreement by £1,000,000. The adjustment brought the net book value of the assets down to a level, such that should the agreement be terminated at the earliest possible date, then the carrying value at termination would reflect the net realisable value of those assets.

13. SUBSIDIARIES

Details of the company's subsidiaries at 31 December 2008 are as follows:

Name	Place of incorporation (or registration)	Place of operation	Proportion of ownership interest %	Voting power held %	Principal activity
Freedom4 WiFi Limited	England & Wales	United Kingdom	88	88	Telecommunications

The subsidiary operates in the United Kingdom.

Freedom4 Finance (Jersey) Limited was wound up in December 2008.

14. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

On 31 March 2006, the group jointly formed Freedom4 Limited with Intel Capital (Cayman) Corporation. The group sold its interests in Pipex Communications Business Solutions Limited (the holder of the group's 3.6-4.2 GHz Spectrum Licence) and Faultbasic Limited (the holder of the group's three 28 GHz Spectrum Licences) to Freedom4 Limited in two share for share exchanges.

Under the terms of the shareholder agreement between the group and Intel Capital (Cayman) Corporation, key business decisions in respect of Freedom4 Limited require the unanimous approval of the shareholders. As a consequence, the directors of the group do not have total management control of Freedom4 Limited (formerly Pipex Wireless Limited), and therefore, the group's investment is accounted for as a joint venture.

Freedom4 Limited is registered in England & Wales, and operates in the United Kingdom.

During 2008 in three separate tranches, in accordance with the shareholder agreement, Intel Capital (Cayman) Corporation contributed an additional £5,277,000 and Freedom4 Group plc (formerly Freedom4 Communications plc) an additional £6,118,000, to the Freedom4 Limited joint venture.

The loss on the joint venture represents the loss arising in the increase in ownership from 51.88% to 52.35%.

The investment in the joint venture is accounted for using the equity method. The investment comprises the cost of the investment together with the group's share of post acquisition profit or loss less any impairment. An adjustment is made for interest receivable by the company on the debt element of the preference shares. Cash injections during the year are added to the carrying value. The directors have considered whether the carrying value is supportable and have concluded following an analysis of comparable spectrum valuations that no impairment is required. A more detailed description of the directors review of the carrying value of Freedom4 Limited can be found in note C3 of notes to the company financial statements on page 62.

14. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD continued

£'000

As at 1 January 2007	
Brought forward carrying value of wireless licence and associated balances	5,688
Cash injection	2,058
Share of attributable losses	(3,528)
Interest receivable on loan	747
Share of share based payment costs	185
Gain on joint venture (net of legal expenses)	2,458

At 31 December 2007 and 1 January 2008 **7,608**

Cash injection	6,118
Share of attributable losses	(9,399)
Interest receivable on loan	1,122
Share of share based payment costs	(140)
(Loss) on joint venture	(167)

At 31 December 2008 **5,142**

The following amounts are included in the group's financial statements in relation to the group's 52.35% (2007: 51.88%) interest in Freedom4 Limited.

	2008 £'000	2007 £'000
Current assets	1,073	3,348
Current liabilities	(385)	(2,821)
Non current assets	4,454	7,081
Total share of joint venture	5,142	7,608
Revenue	85	4
Share of loss	(9,399)	(3,528)
(Loss)/gain on joint venture	(167)	2,458

There is no tax impact from the joint venture as a result of the losses made by the joint venture.

15. INVENTORIES

	2008 £'000	2007 £'000
Finished goods	3	1
Less transfer to assets held for sale (note 19)	—	(1)
	3	—

16. TRADE AND OTHER RECEIVABLES

	2008 £'000	2007 £'000
Trade receivables	295	—
Other receivables	98	11,078
Prepayments and accrued income	41	165
Loans and receivables	18,580	—
	19,014	11,243

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Loans and receivables represents amounts due in October 2009 from Host Europe Group Limited of £18,580,000 (note 28).

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

17. CASH AND CASH EQUIVALENTS

	2008 £'000	2007 £'000
Cash at bank and in hand	4,595	60,750
	4,595	60,750

The balance of group cash and cash equivalents, being £4,595,000 (2007: £60,750,000) is held in current accounts, money market accounts and no notice deposit accounts.

18. ACQUISITIONS AND DISPOSALS

(i) ACQUISITION

BOZII

On 17 April 2008, Freedom4 WiFi Limited acquired the trade and assets of BOZII Limited for cash consideration of £90,000, giving rise to intangibles of £85,000. The contribution from Freedom4 WiFi Limited's acquisition to revenue was £76,000 and to operating activities was (£382,000) from the date of acquisition.

(ii) DISPOSAL OF SUBSIDIARIES IN 2008

During 2008 the company disposed of its hosting and network services division. On 14 March 2008, the company announced that it had entered into a conditional agreement for the sale of the hosting and network services division to a wholly-owned subsidiary of Oakley L.P. The agreement was completed on 2 April 2008. The sale was of the share capital of GX Networks Limited, XTMH Holdings Limited, CIX Holdings Limited, Supanetwork Limited and Transigent Limited together with the subsidiaries of these entities (all listed below), and which, taken together, comprised the hosting and network services division.

- 123-Reg Limited
- CIX Holdings Limited
- Compulink Information Exchange Limited
- Cyberpress Limited
- Defries & Haim Limited
- Donhost Limited
- Drive Memory Limited
- GX Networks (UK) Limited
- GX Networks Limited
- GXN Limited
- Host Europe GmbH
- Host Europe Limited
- Magic Moments Design Limited
- Magic Moments Employee Benefits Limited
- Magic Moments Internet Services Limited
- Magic Moments Investments Limited
- Supanetwork Limited
- Transigent Limited
- Vialtus Solutions Limited
- Webfusion Internet Limited
- Webfusion Internet Services Limited
- XTMH Holdings Limited
- XTMH Limited

18. ACQUISITIONS AND DISPOSALS *continued*

The proceeds of the sale amounted to £110.0 million after adjusting for debt assumed by the buyer, and before costs. The sale proceeds comprised £92.5 million in cash and £17.5 million in loan notes. In addition, the buyer paid £2.6 million in cash in respect of the bank and cash balance left in the businesses at completion. This £2.6 million is not included in the cash and cash equivalents below. The loan notes are repayable by October 2009, which is within 18 months from the completion of the sale, and accrue interest at the rate of 8.25% per annum for the first 12 months and 10.75% per annum thereafter.

For the period to 2 April 2008 the turnover attributable to the division was £22.2 million (compared to a turnover of £72.3 million for the full year in 2007) with an EBITDA (earnings before amortisation of intangibles, depreciation, impairment and share based payment costs) of £1.0 million (compared to £4.4 million for the full year in 2007). On 2 April 2008 the net assets of the division were £56.6 million.

The net assets of the above companies at the date of disposal were as follows:

	2008 £'000
Property, plant and equipment	34,009
Intangible assets	300
Trade and other receivables	27,864
Cash and cash equivalents	2,395
Long term borrowings	(5,415)
Deferred tax liability	(144)
Income tax liability	(106)
Trade and other payables	(33,004)
Obligations under finance leases	(7,886)
Provisions	(956)
Attributable goodwill	39,534
	<hr/> 56,591
Cost of disposal	4,644
Gain on disposal	48,765
Total consideration	<hr/> 110,000
Satisfied by:	
Cash	92,500
Deferred consideration	17,500
	<hr/> 110,000
Net cash inflow arising on disposal:	
Cash consideration	92,500
Deferred consideration (due October 2009)	17,500
	<hr/> 110,000

The cost of disposal of £4.6 million consists of legal and professional fees of £4.0 million, payroll costs of £0.3 million and other costs of £0.3 million.

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

18. ACQUISITIONS AND DISPOSALS continued

	2008 £'000
Profit on disposal per income statement	
Hosting and network services division	48,765
Broadband and voice division (disposed of in 2007) ⁽ⁱ⁾	1,157
	49,922

(i) The additional profit of £1,157,000 recorded on the broadband and voice disposal was the result of the release of the escrow provision of £2,000,000 made in 2007 less expenditure of £843,000 (£480,000 related to migration of the Bulldog database, another £187,000 for the surrender cost, dilapidations and legal fees relating to a St Albans property lease and £176,000 relates to dilapidations of the Minton Hollins property leases).

(iii) DISPOSAL OF SUBSIDIARIES IN 2007

During 2007 the company disposed of its broadband and voice division.

On 13 September 2007 Freedom4 Communications plc (formerly Pipex Communications plc) sold its broadband and voice division to Tiscali UK Limited for £210.0 million on a debt free basis, before adjustments. The sale was of the share capital of Pipex Internet Limited, Pipex Homecall Limited, Toucan Residential Limited, Toucan Residential Ireland Limited and Switch2 Telecoms Limited, together with the subsidiaries of these entities (all listed below), and which, taken together, comprised the broadband and voice division.

- Accent UK Limited
- Freedom to Surf Limited
- Freedom to Surf Consumer Services Limited
- Freedom to Surf Registration Services Limited
- GX Networks Twelve Limited
- Highway One Limited
- Homecall Payment Services Limited
- Homecall UK Limited
- Toucan Residential Ireland Limited
- Nildram Limited
- Pipex Broadband Limited
- Pipex Communications Services Limited
- Pipex Homecall Limited
- Pipex Internet Limited
- Pipex Networks Limited
- Switch2 Telecoms Limited
- Toucan Residential Limited
- Trinite Limited
- Trinite Services Limited

18. ACQUISITIONS AND DISPOSALS *continued*

At completion, the proceeds of the sale amounted to £195.5 million after adjusting for debt and other adjustments, before costs and after making a provision against the escrow receivable. The sale proceeds comprised £171.3 million in cash, £10.5 million in deferred consideration, payable over a fixed term up to 18 months, and £15.8 million held in an escrow account to meet any claims arising under the Sale and Purchase Agreement. At 31 December 2007, the company had received £6.5 million of the deferred consideration leaving £4.0 million as a receivable, and had recovered £5.3 million from the escrow account. The balance of £10.5 million outstanding on the escrow account has now been received. A provision of £2.0 million had been made for any future claims that may arise (note 22).

For the period to 13 September 2007 the revenues attributable to the division were £210.8 million with an EBITDA of £12.0 million and a profit before tax of £7.5 million. On 13 September 2007 the net assets of the division were £134.1 million.

The net assets of the above companies at the date of disposal were as follows:

	2007 £'000
Property, plant and equipment	12,421
Customer lists	19,824
Inventories	15
Trade receivables	23,974
Deferred tax asset	1,453
Bank and cash	–
Deferred tax liability	(5,019)
Income tax liability	(443)
Trade payables	(44,659)
Lease creditor	(95)
Attributable goodwill	126,607
	134,078
Cost of disposal	9,830
Gain on disposal	51,582
Total consideration	195,490
Satisfied by:	
Cash	171,250
Deferred consideration	10,500
Escrow account	15,740
Provision against the escrow account	(2,000)
	195,490
Net cash inflow arising on disposal:	
Cash consideration	171,250
Deferred consideration received	6,500
Escrow account received	5,250
	183,000

The cost of disposal of £9.8 million consists of legal and professional fees of £4.1 million and payroll and bonus costs of £5.7 million.

Included in the payroll and bonus costs of £5.7 million were £5.3 million (bonus and associated national insurance costs) which related to the directors. The balance of £0.4 million was the total payroll and bonus costs paid to other members of staff.

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

18. ACQUISITIONS AND DISPOSALS continued

The balance of the deferred consideration of £4.0 million was transferred through intercompany accounts from the company to its subsidiary GX Networks Limited. Before the subsequent sale of GX Networks Limited (as part of the sale of the hosting and network services businesses), intercompany balances between the company and GX Networks Limited were settled. The balance of £10.5 million outstanding on the escrow account was included in other receivables and has now been received. There were £843,000 additional costs utilised against the escrow provision (note 22), resulting in a net cash inflow of £9,657,000.

19. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

There were no assets held for sale as at 31 December 2008. Assets and liabilities held for sale as at 31 December 2007 were disposed of during 2008 (note 18).

YEAR ENDED 31 DECEMBER 2007

As at 31 December 2007 the assets and liabilities of the hosting and network services division were held for sale.

During 2007, following the receipt of a number of expressions of interest in the hosting and network services division, the directors decided to pursue this sale and, on 8 February 2008, the company announced that it was at an advanced stage in the sale process with a single potential purchaser. The sale was completed on 2 April 2008 to Host Europe WVS Limited for £120.0 million (on an enterprise value basis).

For the year to 31 December 2007 the revenues attributable to the division were £72.3 million (2006: £61.5 million) with earnings before amortisation of intangibles, depreciation, impairment and share based payments of £4.4 million (2006: £6.0 million) and a loss before tax of £9.0 million (2006: £3.4 million). On 31 December 2007 the net assets of the division were £60.5 million (2006: £65.8 million).

The major classes of assets and liabilities classified as held for sale at 31 December 2007 were as follows:

	2007 £'000
Property, plant and equipment	42,828
Goodwill	39,535
Intangible assets	300
Inventories	1
Trade and other receivables	18,290
Total assets classified as held for sale	100,954
Long term borrowings	(4,819)
Short term borrowings	(288)
Trade and other payables	(25,801)
Finance leases	(8,642)
Provisions	(853)
Current tax liabilities	(94)
Total liabilities classified as held for sale	(40,497)
Net assets of disposal group	60,457

20. AGGREGATED CASH FLOW FROM DISCONTINUED OPERATIONS

The information presented in the consolidated cash flow statement on page 25 is the total cash flow arising from all the group's operations. In respect of the discontinued activities only, the following cash flow is relevant.

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Net cash generated from/(used) in operating activities	2,479	(21,510)
Net cash (used) in investing activities	(1,873)	(14,930)
Net cash (used) in financing activities	(606)	(3,546)
Net increase/(decrease) in cash and cash equivalents	—	(39,986)

21. TRADE AND OTHER PAYABLES

	2008 £'000	2007 £'000
Trade payables	168	669
Other taxation and social security	44	–
Other payables	3	76
Accruals and deferred income	962	1,049
	1,178	1,794

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 24 days (2007: 52 days).

The directors consider that the carrying amount of trade and other payables approximates to their value.

22. PROVISIONS

	Dilapidations £'000	Onerous leases £'000	National insurance £'000	Escrow account £'000	Total £'000
At 1 January 2007	100	1,194	267	–	1,561
Additional provisions in the year	–	–	–	2,000	2,000
Amounts reversed in the year	–	–	(48)	–	(48)
Utilisation of provisions	(88)	(353)	–	–	(441)
Transfer to liabilities classified as held for sale (note 19)	(12)	(841)	–	–	(853)
At 31 December 2007	–	–	219	2,000	2,219
Amounts reversed in the year	–	–	(219)	(1,157)	(1,376)
Utilisation of provisions	–	–	–	(843)	(843)
At 31 December 2008	–	–	–	–	–

YEAR ENDED 31 DECEMBER 2008

In 2008 £480,000 utilisation of the escrow provision relates to migration of the Bulldog database, another £187,000 relates to the surrender cost, dilapidations and legal fees relating to a St Albans property lease, another £176,000 relates to dilapidations at the Minton Hollins property. All are late costs to the broadband and voice subsidiary disposal and were provided for, and included in profit on disposal of the broadband and voice division in 2007. The £219,000 reversal of provision relates to national insurance payable on share options which, as a result of the tender offer is no longer required.

YEAR ENDED 31 DECEMBER 2007

In 2007 the national insurance provision relates to national insurance payable on the exercise of share options and is utilised as and when the share options are exercised. The onerous leases provision is in respect of an acquired telecommunications contract and is expected to be utilised up to the end of the contract in August 2010. The dilapidations provision relates to two properties; £88,000 in relation to a lease which had been extended for three years with an option to break in October 2007; and £12,000 in relation to a lease which was acquired in December 2006. These provisions were transferred as part of the sale of the hosting and network services division.

The 2007 £2,000,000 provision was against the £10,500,000 receivable from the escrow account in relation to the sale of the broadband and voice division.

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

23. SHARE CAPITAL, RESERVES AND MINORITY INTERESTS

	Share capital £'000	Share premium reserve £'000	Translation reserve £'000	Merger reserve £'000	Other Reserves Capital redemption reserve £'000	Bond equity reserve £'000	Treasury shares reserve £'000	Retained earnings £'000	Minority interest £'000	Total equity £'000
At 1 January 2007	23,931	96,215	(61)	17,638	207	7,692	–	(39,773)	–	105,849
Issue of shares	161	633	–	–	–	–	–	–	–	794
Share based payment costs	–	–	–	–	–	–	–	3,377	–	3,377
Share of joint venture share based payment	–	–	–	–	–	–	–	185	–	185
Redemption of convertible bonds	–	–	–	–	–	(7,692)	–	–	–	(7,692)
Loss on translation of foreign subsidiary	–	–	86	–	–	–	–	–	–	86
Disposal of subsidiaries	–	–	–	(9,519)	(207)	–	–	9,726	–	–
Profit for the year	–	–	–	–	–	–	–	33,446	–	33,446
At 31 December 2007 and 1 January 2008	24,092	96,848	25	8,119	–	–	–	6,961	–	136,045
Issue of shares	157	8,286	–	–	–	–	–	–	–	8,443
Capital reduction scheme (i)	(21,683)	(96,848)	–	(2,309)	–	–	–	120,840	–	–
Capital reduction and tender offer costs	–	–	–	–	–	–	–	(1,774)	–	(1,774)
Tender offer	(1,490)	–	–	–	1,490	–	–	(154,788)	–	(154,788)
Share buy back	–	–	–	–	–	–	(737)	–	–	(737)
Share based payment costs	–	–	–	–	–	–	–	1,265	–	1,265
Share of joint venture share based payment cost	–	–	–	–	–	–	–	(140)	–	(140)
Disposal of subsidiaries	–	–	(25)	(5,810)	–	–	–	5,810	–	(25)
Aquisition of minority interest (ii)	–	–	–	–	–	–	–	–	10	10
Profit for the year (ii)	–	–	–	–	–	–	–	39,365	(10)	39,355
At 31 December 2008	1,076	8,286	–	–	1,490	–	(737)	17,539	–	27,654

- (i) Following the tender offer on 1 April 2008 the nominal value of the shares was changed from 1.0p to 0.1p (refer to note 5 and the financial review on page 8).
- (ii) This represents the share capital the minority shareholders hold in the company's subsidiary, Freedom4 WiFi Limited and their share of the Freedom4 WiFi Limited losses for the year.

MERGER RESERVE

At 31 December 2008, the £2,309,000 was utilised as part of the capital reduction scheme and the remaining £5,810,000 was transferred to retained earnings following the disposal of the subsidiaries on which the merger reserve arose.

At 31 December 2007 this represented the share premium on shares issued to acquire XTML Limited and Compulink Information Exchange Limited (£796,000), Donhost Limited (£1,542,000), Firstnet Services Limited (£2,309,000) and the premium on shares issued as part of the consideration for the acquisition of Transigent Limited (£3,472,000).

The disposal of subsidiaries in 2007 relates to the share premium issued at the time of the acquisition of Toucan Residential Limited and Pipex Internet Limited, which were sold as part of the broadband and voice division disposal in 2007.

TRANSLATION RESERVE

Comprises foreign exchange difference arising on the translation of the accounts of, and investments in, foreign operations. The group's foreign operations were disposed of as part of the hosting and network services disposal (note 18), consequently the remaining balance was disposed of through the income statement at the date of disposal.

CAPITAL REDEMPTION RESERVE

In 2008 this arises on buy back of shares with a nominal value of £1,490,000.

The disposal of the subsidiary movement in the capital reserve in 2007 arose from the sale of Pipex Internet Limited (part of the broadband and voice division disposal in 2007).

TREASURY SHARES RESERVE

During October 2008 the company purchased 41,138,559 of its own shares for £737,000 which are being held in treasury for future resale or cancellation.

24. SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised:		
4,000,000,000 ordinary shares of 0.1p each (2007: 4,000,000,000 ordinary shares of 1p each)	4,000	40,000
Issued and fully paid:		
At the start of the year, 2,409,231,354 ordinary shares of 1.0p (2007: 2,393,074,923 ordinary shares 1.0p)	24,092	23,931
Capital reduction scheme 2,409,231,354 ordinary shares of 1.0p changed to a nominal value of 0.1p	(21,683)	–
Issued during the year, 156,550,442 ordinary shares of 0.1p (2007: 16,156,431 ordinary shares of 1.0p)	157	161
Tender offer and cancellation of 1,489,775,339 ordinary shares of 0.1p	(1,490)	–
At the end of the year, 1,076,006,457 ordinary shares of 0.1p each (2007: 2,409,231,354) ordinary shares of 1p each	1,076	24,092

Share capital issued at nominal value in the year relates to the exercise of share options. The company has one class of ordinary shares which carry no rights to fixed income.

On 15 March 2008, the company made a conditional offer to its shareholders to buy back 58% of their shareholdings for a minimum price of 10p per share, capped at 11p per share, by way of two tender offers. On 19 March 2008 the Court approved a capital reduction scheme to eliminate the deficit on the company's profit and loss account and create distributable reserves to facilitate the return of cash to shareholders. The take up by shareholders of the offers was high such that 95.8% of those shares capable of being tendered were tendered and the tender price was set at 10.39p. On 4 April 2008 Collins Stewart acquired 1,459,600,083 shares by means of an on-market transaction at the tender price as a result of the first tender offer. On 7 April 2008 Collins Stewart acquired 30,175,256 shares by means of an on-market transaction at the tender price as a result of the second tender offer. The nominal value of a share was changed from 1.0p to 0.1p. Following the cancellation of the tendered shares and exercise of share options of 151,085,002 the company had 1,070,541,017 of ordinary shares of 0.1p each left in issue at April 2008.

During October 2008 the company purchased 41,138,559 of its own shares in on-market transactions for £737,000; these shares are to be held in treasury for future resale or cancellation.

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Amounts payable under finance leases:				
Within one year	–	4,323	–	3,920
In the second to fifth years inclusive	–	5,567	–	4,722
After five years	–	–	–	–
	–	9,890	–	8,642
Less: Future finance charges	–	1,248	–	–
Present value of lease obligations	–	8,642	–	–
Less: Amounts due for settlement within 12 months (shown under current liabilities)	–	–	–	(3,920)
Amounts due for settlement after 12 months	–	–	–	4,722
Transfer to held for sale (note 19)	–	(8,642)	–	(4,722)
	–	–	–	–

In 2007 the majority of finance leases required the return of the goods to the lessor at the end of the initial lease term.

Leased equipment comprised mainly routers and switches used in the operation of the UK core network.

// Notes to the consolidated financial statements continued //

for the year ended 31 December 2008

26. FINANCIAL INSTRUMENTS

Financial disclosures under this section for the current and comparative years include balances held for sale.

The group's activities expose it to a variety of financial risks: market risk (including interest rate risk and liquidity risk) credit risk and foreign currency risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

(i) INTEREST RATE RISK

The group financed its operations through the year from bank deposits. The interest rate exposure of the financial assets of the group at the balance sheet date was:

	Fixed rate £'000	Floating rate £'000	Total 2008 £'000	Fixed rate £'000	Floating rate £'000	Total 2007 £'000
Sterling	17,500	4,595	22,095	360	59,828	60,188
Euros	–	–	–	287	275	562
	17,500	4,595	22,095	647	60,103	60,750

The interest rate exposure of the financial liabilities of the group at the balance sheet date was:

	Fixed rate £'000	Floating rate £'000	Total 2008 £'000	Fixed rate £'000	Floating rate £'000	Total 2007 £'000
Sterling	–	–	–	13,748	–	13,748

Included in the 2007 fixed rate balance £13,748,000 are lease creditors of £8,642,000 and bank loans totalling £5,106,000 (€6,930,000). Of these bank loans, £288,000 (€391,000) carry interest at a rate of 6.64% and £4,818,000 (€6,539,000) carry interest at a rate of 5.19%.

The group finances its continuing operations through a mixture of cash and deposits. Management manages the interest rate risk by using a combination of fixed and floating rates. No interest rate derivative contracts have been entered into. Management will continue to monitor this position to ensure that the interest rate profile is appropriate for the group.

The fixed rate interest asset of £17,500,000 represents the loan notes receivable from Host Europe Group Limited from the sale of the hosting and network services division (note 28).

The loan notes have an interest rate of 8.25% per annum until March 2009 which increases to 10.75% per annum in April 2009 (note 16).

All cash and cash equivalents and trade and other receivables have been classified as continuing.

(ii) LIQUIDITY RISK

The group's objective is to ensure adequate funding for its operations. The operations of the joint venture were scaled back during the year and there are no requirements for the group to continue to fund the joint venture. Following the disposal of the hosting and network services division the company used the proceeds and other cash reserves to buy back 58% of its shares at a tender price of 10.39p per share by way of two tender offers leaving sufficient cash and cash equivalents in the group to meet its requirements. The group uses financial instruments to raise finance and manage risk for its operations. It does not undertake any speculative trading in financial instruments.

26. FINANCIAL INSTRUMENTS *continued*

In 2007 all of the group's debt was secured by means of fixed and floating charges over the group's assets.

	Debt £'000	Other financial liabilities £'000	Total 2008 £'000	Debt £'000	Other financial liabilities £'000	Total 2007 £'000
Financial liabilities maturing:						
In one year or less or on demand	–	–	–	288	3,920	4,208
In more than one year, but not more than two years	–	–	–	1,691	2,695	4,386
In more than two years, but not more than five years	–	–	–	3,127	2,027	5,154
After five years	–	–	–	–	–	–
	–	–	–	5,106	8,642	13,748

(iii) CREDIT RISK

The group's principal financial assets are trade and other receivables and cash and cash equivalents, which represent the group's maximum exposure to credit risk in relation to financial assets.

The group's credit risk is primarily attributable to its unsecured loan notes receivable as part of the consideration for the sale of the hosting and network services division of £18,580,000 (including interest of £1,080,000). The directors are not aware of any events that will lead to uncertainty in collection of this balance and therefore consider there is no need for an allowance for impairment. As at 31 December 2008 £59,000 of the trade and other receivable balances of the group is past due. An allowance has been made for estimated irrecoverable amounts included in trade receivables of £8,000 (2007: £4,304,000). This allowance has been determined by management with reference to past default experience and the current economic environment.

The credit risk on liquid funds included in cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

(iv) FOREIGN CURRENCY RISK

Post sale of the hosting and network services division, the group has little foreign currency exposure.

Where it is considered appropriate, the group enters into derivative transactions (principally forward foreign currency transactions). The purpose of such transactions is to manage the currency risks arising from the group's operations and its sources of finance. It is the group's policy that no speculative trading in financial instruments is undertaken.

(v) FAIR VALUES

The following table sets out the book values and estimated fair values of the group's financial instruments:

	Book value 2008 £'000	Fair value 2008 £'000	Book value 2007 £'000	Fair value 2007 £'000
Primary financial instruments:				
Cash at bank and in hand	4,595	4,595	60,750	60,750
Bank loans	–	–	(5,106)	(5,106)
Loan notes receivable	18,580	18,580	–	–
Finance lease due within one year	–	–	(3,920)	(3,920)
Finance leases due after more than one year	–	–	(4,722)	(4,722)
	23,175	23,175	47,002	47,002

Notes to the consolidated financial statements continued

for the year ended 31 December 2008

26. FINANCIAL INSTRUMENTS continued

(vi) SENSITIVITY ANALYSIS

In managing interest rates and currency risks the group aims to reduce the impact of short term fluctuations on the group's earnings. Over the long term however, permanent changes in interest rates would have an impact on the consolidated results.

The impact of currency fluctuations on profit before tax and equity is immaterial.

At 31 December 2008, it is estimated that a general decrease of one percentage point in interest rates would decrease the group's profit before tax by approximately £60,000 (2007: £65,000).

(vii) CAPITAL MANAGEMENT

The group's objective when managing capital (equity and borrowings) is to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Surplus cash, following the disposal of both the broadband and voice and the hosting and network services divisions, was returned to shareholders by way of a tender offer in April 2008.

27. OPERATING LEASE ARRANGEMENTS

The group had commitments under non-cancellable operating leases, and the rentals were payable as follows:

	Short leasehold property £'000	Other assets £'000	Total 2008 £'000	Short leasehold property £'000	Other assets £'000	Total 2007 £'000
In less than one year	–	–	–	2,890	1,648	4,538
Between two and five years	–	–	–	6,154	60	6,214
After five years	–	–	–	10,940	–	10,940
	–	–	–	19,984	1,708	21,692

Short leasehold property comprises office accommodation and data centre facilities. Other assets comprise mainly bandwidth or circuits rental agreements.

All the above leases were classified as held for sale as at 31 December 2007 (note 19).

28. RELATED PARTY TRANSACTIONS

On 14 March 2008, the company announced that it had entered into an agreement for the sale of the hosting and network services businesses to Host Europe WVS Limited (a wholly owned subsidiary of Oakley Capital Private Equity L.P.) for £120.0 million. The sale was completed on 2 April 2008. Consideration for the sale was satisfied by £92.5 million in cash, £17.5 million in loan notes (issued by a wholly owned subsidiary of Oakley L.P.) and the assumption by the buyer of the division's debts. Peter Dubens, then an executive director, now a non-executive director of the company is a director of Oakley Capital Private Equity L.P. Transactions for the year with Oakley Capital Private Equity L.P. and companies in which Peter Dubens is a director are as follows:

	Sold during year		Purchased during year	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
365 Media Group Limited	–	88	–	71
GX Networks Limited	230	–	29	–
Oakley Capital Limited (professional services)	–	43	1,262	795

28. RELATED PARTY TRANSACTIONS *continued*

Balances outstanding at the year end were as follows:

	Receivable at year end		Payable at year end	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
365 Media Group Limited	–	14	–	–
GX Networks Limited	230	–	96	–
Host Europe Group Limited ⁽ⁱ⁾	18,580	–	–	–
Oakley Capital Limited	–	5	230	21

- (i) The amount receivable from Host Europe Group Limited represents the amount of deferred consideration on its purchase of the hosting and network services division of £17,500,000 plus interest of £1,080,000. The loan notes including interest are due for repayment in October 2009.

In addition to the above Peter Dubens and Mike Read are directors of Freedom4 Limited. Freedom4 Limited is accounted for as a joint venture. Transactions with the joint venture (note 14) for the year were as follows:

	Sold during year		Purchased during year	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Freedom4 Limited	231	–	–	–

Balances outstanding at the year end were as follows:

	Receivable at year end		Payable at year end	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Freedom4 Limited	–	–	–	–

Remuneration details of the group's key management, Peter Dubens, Mike Read and Stewart Porter (including options and warrants), can be found under directors remuneration note C2.

29. POST BALANCE SHEET EVENTS

There are no post balance sheet events.

// Company balance sheet //

for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Investments	C3	24,777	68,353
Current assets			
Debtors	C4	18,918	28,142
Cash at bank and in hand	C5	4,590	44,469
		23,508	72,611
Creditors			
Amounts falling due within one year	C6	(1,135)	(1,794)
Net current assets		22,373	70,817
Total assets less current liabilities			
		47,150	139,170
Provisions for liabilities and charges	C7	–	(2,219)
Net assets		47,150	136,951
Capital and reserves			
Called up share capital	C8	1,076	24,092
Share premium account	C8	8,286	96,848
Other reserves	C8	753	8,119
Profit and loss account	C8	37,035	7,892
Equity shareholders' funds	C9	47,150	136,951

The financial statements on pages 22 to 66 were approved by the directors and authorised for issue on 17 March 2009, and signed on their behalf by:

PETER DUBENS
Non-executive Chairman

STEWART PORTER
Chief Financial Officer

Notes to the company financial statements

for the year ended 31 December 2008

C1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared to comply with current statutory requirements, under the historical cost convention, and in accordance with United Kingdom Generally Accepted Accounting Practice. Unless otherwise stated, all policies have been applied consistently throughout the current and comparative years. As permitted by section 230 of the Companies Act 1985, a separate income statement has not been presented in respect of the company. The profit after taxation attributable to Freedom4 Group plc (formerly Freedom4 Communications plc) and dealt with in the financial statements of the company is £57,790,000 (2007: £2,293,000).

INVESTMENTS

Investments in subsidiary undertakings are stated at cost in the balance sheet of the company unless, in the opinion of the directors, there has been an impairment, in which case an appropriate provision has been made.

JOINT VENTURES

A jointly controlled entity is an entity in which the company holds an interest on a long term basis and which is jointly controlled by the company and one or more other venturers under a contractual arrangement.

The investment in the joint venture is included in the balance sheet at cost less any impairments. Cost includes any cash injections and interest income accrued on the redeemable preference shares. The interest income is calculated using a market interest rate on the outstanding debt element of the preference shares, adjusted for each cash injection as appropriate.

INTEREST BEARING BORROWINGS

Borrowings are recognised initially at fair value less associated transaction costs and subsequently at amortised cost.

CASH FLOW STATEMENT

The company has taken advantage of the exemptions permitted by FRS 1 "Cash Flow Statements" not to produce a cash flow statement, on the basis that the cash flow of the company is included within the consolidated cash flow statement of Freedom4 Group plc (formerly Freedom4 Communications plc).

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date and the gains or losses on translation are included in the income statement.

TAXATION

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting in respect of all timing differences that have originated, but not reversed, at the balance sheet date, except as required by FRS 19.

SHARE BASED PAYMENTS

The share option programme allows employees to acquire shares of the company. The fair value of options granted after 7 November 2002 and those not yet vested as at 31 December 2008 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

CASH

Cash at bank and in hand comprises cash in hand, deposits repayable on demand, less overdrafts payable on demand and restricted deposits.

Notes to the company financial statements continued

for the year ended 31 December 2008

C2. DIRECTORS' REMUNERATION

The company employed six members of staff in 2008 (2007: nil). Additional information on share options is included in note 5 of the group accounts. Details of directors' emoluments are shown below:

	Salaries and fees £'000	Other £'000	Total 2008 £'000	Total 2007 £'000	Pension 2008 £'000	Pension 2007 £'000
Executive						
M Read	229	–	229	2,184	41	37
S Porter	216	–	216	1,620	54	43
P Dubens ⁽ⁱ⁾	154	100	254	2,442	–	–
Non-executive						
L Blackall	18	35	53	35	–	–
C Kennedy	29	35	64	35	–	–
	646	170	816	6,316	95	80

(i) The other payment made to P Dubens in 2008 was as a consequence of a change from executive chairman to non-executive chairman effective August 2008. His non-executive chairman's fee is £20,000 per annum.

Emoluments of the highest paid director (excluding pension contributions) were £254,000 (2007: £2,442,000). Amounts paid by the group in respect of pension contributions for the highest paid director were £nil (2007: £nil).

Other payments made to L Blackall and C Kennedy in 2008 were as a result of the disposal of the hosting and network services division. L Blackall resigned effective 8 July 2008.

The total bonus payments made to directors for 2007 were £5,152,000. Within the 2007 bonuses, a total amount of £4,580,000 was paid to the directors as a result of services in respect of the disposal of certain subsidiaries and was included as part of the cost of disposal of the broadband and voice division.

For details on pension refer to the board report on directors' remuneration on page 18.

Shareholdings and option interests of the directors in office at 31 December 2008 are as follows:

DIRECTORS' SHAREHOLDINGS

	0.1p Ordinary Shares 31 December 2008	1p Ordinary Shares 31 December 2007
M Read	–	–
S Porter	73,290	174,500
P Dubens	58,333,334	138,888,889
C Kennedy	93,810	223,355

C2. DIRECTORS REMUNERATION continued

DIRECTORS' SHARE OPTIONS

	Note	At 1 January 2008	Exercised through tender offer	Exercised/lapsed	At 31 December 2008	Exercise price	Exercise period
S Porter	(i)	989,130	(989,130)	-	-	1.00p	20 Nov 2001 to 19 Nov 2011
	(ii)	2,693,583	(2,693,583)	-	-	1.00p	20 Nov 2001 to 19 Nov 2011
	(ii)	750,000	-	-	750,000	3.00p	20 Nov 2001 to 19 Nov 2011
	(ii)	2,602,440	(348,360)	-	2,254,080	3.00p	27 Dec 2001 to 26 Dec 2011
	(iii)	5,253,000	-	-	5,253,000	4.50p	27 Dec 2001 to 26 Dec 2011
	(i)	3,455,313	(3,455,313)	-	-	2.25p	20 Feb 2003 to 19 Feb 2013
	(iv)	17,939,247	(17,939,247)	-	-	2.25p	20 Mar 2003 to 19 Mar 2013
	(vi)	2,333,333	-	-	2,333,333	7.50p	11 Apr 2005 to 10 Apr 2015
	(vii)	3,368,421	-	-	3,368,421	14.25p	7 Apr 2006 to 6 Apr 2016
(viii)	4,452,830	-	-	4,452,830	13.25p	17 Jan 2007 to 16 Jan 2017	
M Read	(ii)	9,650,000	(9,650,000)	-	-	6.25p	24 Oct 2003 to 23 Oct 2013
	(v)	1,600,000	(1,600,000)	-	-	6.25p	24 Oct 2003 to 23 Oct 2013
	(vi)	2,933,333	(2,920,325)	-	13,008	7.50p	11 Apr 2005 to 10 Apr 2015
	(vii)	4,210,526	-	-	4,210,526	14.25p	7 Apr 2006 to 6 Apr 2016
	(viii)	6,037,735	-	-	6,037,735	13.25p	17 Jan 2007 to 16 Jan 2017
P Dubens	(ii)	8,400,000	(8,400,000)	-	-	6.25p	24 Oct 2003 to 23 Oct 2013
	(v)	1,600,000	(1,600,000)	-	-	6.25p	24 Oct 2003 to 23 Oct 2013
	(vi)	3,333,333	(3,333,333)	-	-	7.50p	11 Apr 2005 to 10 Apr 2015
	(vii)	4,912,280	-	-	4,912,280	14.25p	7 Apr 2006 to 6 Apr 2016
	(viii)	6,792,452	-	-	6,792,452	13.25p	17 Jan 2007 to 16 Jan 2017
C Kennedy		-	-	-	-	-	

(i) EMI Scheme - no performance criteria attached.

(ii) Unapproved Scheme - no performance criteria attached.

(iii) Unapproved Scheme - were exercisable once the company's market capitalisation reached £25.0 million.

(iv) Unapproved Scheme - 10,687,290 were exercisable when the company's share price reached 5.00p and was EBITDA positive, measured on a monthly basis. The remaining 7,236,907 were exercisable once the company's share price reached 3.00p and the company was EBITDA positive, measured on a monthly basis.

(v) EMI Scheme - were exercisable once the company's share price reached 9.00p and the company was EBITDA positive, measured on a monthly basis.

(vi) Unapproved Scheme - were exercisable once the company's share price reached 12.00p.

(vii) Unapproved Scheme - were exercisable once the company's share price reached 18.00p and is within three years of date of grant.

(viii) Unapproved Scheme - 60% were exercisable after 17 January 2008 and 40% are exercisable after 17 January 2009.

Notes to the company financial statements continued

for the year ended 31 December 2008

C2. DIRECTORS REMUNERATION continued

DIRECTORS' SHARE OPTIONS

	Warrants	Exercise price
M Read	10,000,000	10.50p
M Read	10,000,000	10.50p
P Dubens	700,000	6.25p
P Dubens	17,500,000	10.50p
P Dubens	17,500,000	10.50p
S Porter	2,500,000	10.50p
S Porter	2,500,000	10.50p

As at 31 December 2008, following the tender offers and capital reduction scheme in April 2008, all warrants are considered to have vested.

The mid-market price for the company's ordinary shares at 31 December 2008 was 1.87p. The high and low mid-market prices of the ordinary share during the year to 31 December 2008 were 8.90p and 1.50p respectively. The movement in the share price is largely attributable to the return of cash to shareholders by way of the tender offers in April 2008.

C3. INVESTMENTS

	Subsidiary undertakings £'000	Joint ventures £'000	Total £'000
Cost			
At 1 January 2008	51,631	17,462	69,093
Additions ⁽ⁱ⁾	4,075	7,240	11,315
Disposals	(54,466)	–	(54,466)
Impairment ⁽ⁱⁱ⁾	(1,165)	–	(1,165)
At 31 December 2008	75	24,702	24,777
Amounts provided			
At 1 January 2008 and 31 December 2008	740	–	740
Disposals	(740)	–	(740)
At 31 December 2008	–	–	–
Net book value			
At 31 December 2008	75	24,702	24,777
At 31 December 2007	50,891	17,462	68,353

(i) Additions to investments in subsidiary undertakings represent additional investments in CIX Holdings and XTM Holdings prior to their disposal. Additions to joint venture represent cash injections of £6.1 million and interest receivable on the redeemable preference shares of £1.1 million.

(ii) Prior to the disposal of the hosting and network services division, the directors reviewed the carrying value of some of the investments in the subsidiaries that resulted in an impairment charge of £1.2 million.

The company's remaining investments are investments in Freedom4 Limited, the joint venture with Intel and holdings in Freedom4 WiFi Limited.

At 31 December 2008 the company had a carrying value for its investment in the Freedom4 Limited joint venture of £24.7 million. This comprises: consideration for the sale of its investments in Freedom4 Access Limited and Faultbasic Limited, sold to the joint venture for £13.6 million; cash invested of £8.8 million; and accrued interest on the redeemable preference shares of £2.3 million. The company is a 52.35% shareholder in Freedom4 Limited.

C3. INVESTMENTS *continued*

Freedom4 Limited, through its wholly owned subsidiaries, owns a perpetual, nationwide wireless spectrum licence in the 3.6 GHz band, suitable for providing WiMAX based services, and contiguous spectrum with national coverage in the 28 GHz band which will enable economic microwave backhaul to be provided for its WiMAX base stations. The joint venture has built preparatory networks in Manchester, Milton Keynes and Warwick delivering WiMAX based fixed wireless broadband services to a growing customer base. The joint venture has applied to Ofcom for a variation to its licence to allow the business to provide mobile services.

As at 31 December 2008, the directors have reviewed the carrying value of the investment in Freedom4 Limited for impairment. The WiMAX network roll-out is currently in its initial phase and, as mentioned above, the joint venture is awaiting approval from Ofcom to allow a mobility variation to its spectrum licence. Due to these circumstances the recoverable amount has been estimated by the directors based upon fair value less costs to sell. Currently there is no active market for the WiMAX spectrum licence in the UK and therefore the directors have decided that the valuations which have arisen in the spectrum auctions outside the UK should be used to support the carrying value. The fair value to sell has been determined using a price measure (US dollar/Mhz/population (\$ per MHz pop)) widely used to compare spectrum prices. Based on these auction prices outside the UK, the directors have concluded that no impairment of the company's investment is required.

The addition to the investment in 2007 in subsidiary undertakings related to additional costs on acquisition of Toucan Limited and Freedom to Surf Consumer Services Limited which were subsequently disposed of.

The addition to the investment in the joint venture is due to additional funding and interest receivable.

The investments disposed of were the investments in the hosting and network services companies which were sold during the year (note 18 to the consolidated financial statements). The company's principal subsidiary undertakings included in the financial statements are as follows:

Company	Country of registration or incorporation	Class of shares held	Proportion of shares held	Nature of business
Freedom4 WiFi Limited The subsidiary operates in the United Kingdom.	England & Wales	Ordinary	88	Telecommunications

Freedom4 Finance (Jersey) Limited was wound up in December 2008.

C4. DEBTORS

	2008 £'000	2007 £'000
Amounts due from subsidiary undertakings	–	16,899
Other receivables	307	11,078
Prepayments and accrued income	31	165
Loans and receivables	18,580	–
	18,918	28,142

Loans and receivables represent amounts due in October 2009 from Host Europe Group Limited of £18.6 million (see note C11). Other receivables in 2007 includes the deferred consideration from the broadband and voice division sale of £10,500,000, which has now been received.

C5. CASH AT BANK AND IN HAND

The balance of group cash and cash equivalents, £4,590,000 (2007: £44,469,000), is held in current accounts, money market accounts and no notice deposit accounts.

C6. CREDITORS DUE WITHIN ONE YEAR

	2008 £'000	2007 £'000
Amounts falling due within one year		
Trade creditors	146	669
Other creditors	38	76
Accruals and deferred income	951	1,049
	1,135	1,794

Notes to the company financial statements continued

for the year ended 31 December 2008

C7. PROVISIONS FOR LIABILITIES AND CHARGES

	2008 £'000	2007 £'000
At 1 January	2,219	267
Additional provisions in the year	–	2,000
Amounts reversed in the year	(1,376)	–
Utilised in the year	(843)	(48)
At 31 December	–	2,219

In 2008 the utilised provision relates to utilisation of the escrow provision made in 2007 for the migration of the Bulldog database of £480,000, another £187,000 relates to the surrender cost, dilapidation and legal fees relating to a St Albans property lease, and another £176,000 relates to dilapidations at the Minton Hollins property. All are late costs to the broadband and voice subsidiary disposal and were provided for, and included in profit on disposal of the broadband and voice division in 2007. Amounts reversed in 2008 were the balance of the escrow provision £1,157,000 plus national insurance payable on share options no longer required.

In 2007 the £2,000,000 provision is against the £10,500,000 receivable from the escrow account in relation to the sale of the broadband and voice division.

The 2007 utilisation relates to national insurance payable on the exercise of share options and is utilised as and when the share options are exercised.

C8. SHARE CAPITAL AND RESERVES

(i) SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised:		
4,000,000,000 ordinary shares of 0.1p each (2007: 4,000,000,000 ordinary shares of 1p each)	4,000	40,000
Issued and fully paid:		
At the start of the year 2,409,231,534 ordinary shares of 1.0p (2007: 2,393,074,923 ordinary shares 1.0p)	24,092	23,931
Capital reduction scheme 2,409,231,534 ordinary shares of 1.0p changed to a nominal value of 0.1p	(21,683)	–
Issued during the year 156,550,442 ordinary shares of 0.1p (2007: 16,156,431 ordinary shares of 1.0p)	157	161
Tender offer and cancellation of 1,489,775,339 ordinary shares of 0.1p	(1,490)	–
At the end of the year 1,076,006,457 ordinary shares of 0.1p each (2007: 2,409,231,354) ordinary shares of 1p each	1,076	24,092

Share capital issued at nominal value in the year relates to the exercise of share options. The company has one class of ordinary shares which carry no rights to fixed income.

On 15 March 2008, the company made a conditional offer to its shareholders to buy back 58% of their shareholdings for a minimum price of 10p per share, capped at 11p per share, by way of two tender offers. On 19 March 2008 the Court approved a capital reduction scheme to eliminate the deficit on the company's profit and loss account and create distributable reserves to facilitate the return of cash to shareholders. The take up by shareholders of the offers was high such that 95.8% of those shares capable of being tendered were tendered and the tender price was set at 10.39p. On 4 April 2008 Collins Stewart acquired 1,459,600,083 shares by means of an on-market transaction at the tender price as a result of the first tender offer. On 7 April 2008, Collins Stewart acquired 30,175,256 shares by means of an on-market transaction at the tender price as a result of the second tender offer. The nominal value of a share was changed from 1.0p to 0.1p. Following the cancellation of the tendered shares and exercise of share options of 151,085,002 the company had 1,070,541,017 of ordinary shares of 0.1p each left in issue. During October 2008 the company purchased 41,138,559 of its own shares for £737,000 in on-market transactions, these shares are held in treasury for future resale or cancellation.

C8. SHARE CAPITAL AND RESERVES continued

(ii) RESERVES CAPITAL

	Share Capital £'000	Share premium account £'000	Merger reserve £'000	Capital redemption reserve £'000	Treasury shares reserve £'000	Profit and loss account £'000	Total £'000
Opening balance at 1 January 2008	24,092	96,848	8,119	–	–	7,892	136,951
Issue of shares	157	8,286	–	–	–	–	8,443
Capital reduction scheme ⁽ⁱ⁾	(21,683)	(96,848)	(2,309)	–	–	120,840	–
Capital reduction and tender offer costs	–	–	–	–	–	(1,774)	(1,774)
Tender offer	(1,490)	–	–	1,490	–	(154,788)	(154,788)
Share buy back	–	–	–	–	(737)	–	(737)
Share based payment costs	–	–	–	–	–	1,265	1,265
Disposal of subsidiaries	–	–	(5,810)	–	–	5,810	–
Profit for the year	–	–	–	–	–	57,790	57,790
Balance at 31 December 2008	1,076	8,286	–	1,490	(737)	37,035	47,150

(i) Following the tender offer in April 2008 the nominal value of the shares was changed from 1.0p to 0.1p (refer to note 5 and the financial review on page 8).

MERGER RESERVE

At 31 December 2008, the £2,309,000 was utilised as part of the capital reduction scheme, and the remaining £5,810,000 was transferred to retained earnings following the disposal of the subsidiaries on which the merger reserve arose.

At 31 December 2007 this represented the share premium on shares issued to acquire XTML Limited and Compulink Information Exchange Limited (£796,000), Donhost Limited (£1,542,000), Firstnet Services Limited (£2,309,000) and the premium on shares issued as part of the consideration for the acquisition of Transigent Limited in 2002 (£3,472,000).

CAPITAL REDEMPTION RESERVE

In 2008 this arises on buy back of shares with a nominal value of £1,490,000.

TREASURY SHARES RESERVE

During October 2008 the company purchased 41,138,559 of its own shares at a cost of £737,000 which are being held in treasury for future resale or cancellation.

C9. EQUITY SHAREHOLDERS' FUNDS

Reconciliation of the movement in equity shareholders' funds

	2008 £'000	2007 £'000
Loss for the financial year	57,790	2,293
New share capital subscribed (net of issue costs)	8,443	794
Capital reduction and tender offer	(156,562)	–
Treasury share buy back	(737)	–
Settlement of equity component of convertible bonds	–	(7,692)
Share based payment costs	1,265	3,377
Net increase in equity shareholders' funds	(89,801)	(1,228)
Opening equity shareholders' funds	136,951	138,179
Closing equity shareholders' funds	47,150	136,951

// Notes to the company financial statements continued //

for the year ended 31 December 2008

C10. RELATED PARTY TRANSACTIONS

On 14 March 2008, the company announced that it had entered into an agreement for the sale of the hosting and network services businesses to Host Europe WVS Limited (a wholly owned subsidiary of Oakley Capital Private Equity L.P.) for £120.0 million. The sale was completed on 2 April 2008. Consideration for the sale was satisfied by £92.5 million in cash, £17.5 million in loan notes (issued by a wholly owned subsidiary of Oakley L.P.) and the assumption by the buyer of the division's debts. Peter Dubens, then an executive director now a non-executive director of the company, is a director of Oakley Capital Private Equity L.P. Transactions for the year with Oakley Capital Private Equity L.P. and companies in which Peter Dubens is a director are as follows:

	Sold during year		Purchased during year	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
365 Media Group Limited	–	88	–	71
GX Networks Limited	230	–	29	–
Oakley Capital Limited	–	43	1,262	795

Balances outstanding at the year end were as follows:

	Receivable at year end		Payable at year end	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
365 Media Group Limited	–	14	–	–
GX Networks Limited	230	–	96	–
Host Europe Group Limited	18,580	–	–	–
Oakley Capital Limited	–	5	230	21

The amount receivable from Host Europe Group Limited represents the amount of deferred consideration on its purchase of the hosting and network services division of £17,500,000 plus interest of £1,080,000. The loan notes including interest are due for repayment in October 2009.

In addition Peter Dubens and Mike Read are directors of Freedom4 Limited. Freedom4 Limited is accounted for as a joint venture (note 14). Transactions with the joint venture and associated companies for the year were as follows:

	Sold during year		Purchased during year	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Freedom4 Limited	–	–	–	–

Balances outstanding at the year end were as follows:

	Receivable at year end		Payable at year end	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Freedom4 Limited	–	–	–	–

Remuneration details of the group's key management, Peter Dubens, Mike Read and Stewart Porter (including options and warrants), can be found under directors' remuneration note C2.

C11. POST BALANCE SHEET EVENTS

There are no significant post balance sheet events.

Notice of Annual General Meeting

Notice is hereby given that the 2009 Annual General Meeting of Freedom4 Group plc will be held at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB on 9 June 2009 at 11.00 am for the following purposes:

As ordinary business to consider and, if thought fit, pass Resolutions 1 to 3 inclusive below which will be proposed as Ordinary Resolutions:

1. To receive, approve and adopt the report of the directors and the financial statements of the company for the financial year ended 31 December 2008 together with the report of the auditors thereon.
2. To re-elect Peter Dubens as a director, who retires by rotation pursuant to article 100.1 of the company's Articles of Association.
3. To re-appoint KPMG Audit Plc as auditors to the company to hold office from the conclusion of the meeting until the conclusion of the next Annual General Meeting and to authorise the directors to fix their remuneration.

As special business to consider and, if thought fit, to pass the following Resolutions of which Resolution 4 will be proposed as an Ordinary Resolution and Resolutions 5, 6 and 7 will be proposed as Special Resolutions:

4. That the board be and hereby is generally and unconditionally authorised (in place of all existing authorities, save to the extent relied upon prior to the passing of this Resolution) to exercise all powers of the company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985):
 - (a) up to an aggregate nominal amount of £344,955; and
 - (b) comprising equity securities (as defined in section 94 of the Companies Act 1985) up to an aggregate nominal amount of £689,911 (including within such limit any shares issued under (a) above) in connection with an offer by way of a rights issue (as that term is defined in article 7.2.4 (a) of the Articles of Association of the company),

such authorities to apply until the end of next year's Annual General Meeting or, if earlier, until the close of business on 8 September 2010 (unless previously revoked or varied by the company in general meeting) save that the company may make offers and enter into agreements during the relevant period which would, or might, require relevant securities to be allotted after the authority ends and the board may allot relevant securities under any such offer or agreement as if the authority had not ended.

5. That, subject to resolution 4 being passed, the board be and hereby is empowered (in place of all existing powers, save to the extent relied upon prior to the passing of this Resolution), pursuant to section 95 of the Companies Act 1985, to allot equity securities (within the meaning of section 94 of the Companies Act 1985) for cash under the authority given by that resolution and/or where the allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the Companies Act 1985, free of the restriction in section 89(1) of the Companies Act 1985, such power to be limited:
 - (a) to the allotment of equity securities in connection with an offer of equity securities by way of a rights issue (as that term is defined in article 7.2.4 (a) of the Articles of Association of the company), only; and
 - (b) in the case of an allotment made under the authority granted under Resolution 4(a), to the allotment of equity securities up to a nominal amount of £344,955,

such power to apply until the end of next year's Annual General Meeting or, if earlier, until the close of business on 8 September 2010 but during this period the company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted after the power ends and the board may allot equity securities under any such offer or agreement as if the power had not ended.

// Notice of Annual General Meeting continued //

6. That the company be and is hereby granted general and unconditional authority (pursuant to section 166 of the Companies Act 1985 ("the Act") and the authorities contained in its Articles of Association) to make market purchases (as defined in section 163 of the Act) of up to in aggregate 103,486,789 of its own ordinary shares of 0.1p each in the capital of the company ("ordinary shares") provided that:
- (i) the maximum price which may be paid for an ordinary share is an amount equal to not more than 5% above the average of the middle market quotations for the ordinary shares taken from the London Stock Exchange plc Daily Official List for the five business days before the day on which the purchase is made, and the minimum price which may be paid for an ordinary share is 0.1p, in each case exclusive of expenses payable by the company; and
 - (ii) the authority conferred by this Resolution shall expire on the conclusion of the next Annual General Meeting of the company held after the passing of this Resolution, or 8 September 2010 (whichever shall first occur), except that the company may, before such expiry, enter into a contract for the purchase of its own ordinary shares which would or may require to be completed or executed wholly or partly after the expiration of this authority as if the said authority had not expired.
7. That, on section 28 of the Companies Act 2006 coming into force, the Articles of Association of the company be amended by deleting:
- (a) all the provisions of the company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are to be treated as provisions of the company's Articles of Association but that a statement be included within the Articles of Association that "the liability of the members is limited to the amounts, if any, unpaid on the shares held by them"; and
 - (b) all references to the "authorised share capital" be replaced with the phrase "share capital".

By order of the board

STEWART PORTER

COMPANY SECRETARY

17 March 2009

REGISTERED OFFICE

5 ROUNDWOOD AVENUE

STOCKLEY PARK

UXBRIDGE

MIDDLESEX

UB11 1FF

Registered in England number: 3974683

NOTES:

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the company. A Form of Proxy which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a Form of Proxy and believe that you should have one, or if you require additional forms, please contact Capita Registrars on 0871 664 0330*. To appoint more than one proxy you may photocopy the Form of Proxy. Please indicate the proxy holder's name and number of shares in relation to which they are authorised to act as your proxy (which in aggregate should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
2. To be valid any Form of Proxy or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 11.00 am on 7 June 2009.
3. The return of a completed Form of Proxy, other such instrument or any CREST Proxy Instruction (as described in paragraph 6 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
4. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, to be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the company of the votes they may cast), shareholders must be registered in the register of members of the company at 6.00 pm on 7 June 2009 (or, in the event of any adjournment, 6.00 pm on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
5. As at 16 March 2009 (being the last business day prior to the publication of this Notice) the company's issued share capital consisted of 1,076,006,457 ordinary shares of which 41,138,559 were held as Treasury Shares. Therefore, the total voting rights in the company as at 16 March 2009 were 1,034,867,898.
6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
7. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent ID (RA10) by 11.00 am on 7 June 2009. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
8. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
9. The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
10. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (<http://www.icsa.org.uk>) for further details of this procedure.

* Calls cost 10p per minute plus network extras.

// Advisors //

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// For your notes //



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