FREEDOM4 Interim report 2008

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REGISTERED IN ENGLAND
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CHAIRMAN'S STATEMENT

STRATEGIC 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 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.

The Board believed that, following the disposal of the Company's broadband and voice businesses in September 2007, there was no longer a compelling strategic fit between the remaining businesses within the Group. The disposal of the hosting and network services division followed a competitive sale process.

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 for the period to 2 April 2008 were £1.1 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. 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.

CONTINUING OPERATIONS

The remaining business following the sale of the hosting and network services division comprised the wireless joint venture with Intel (FREEDOM4 Limited) and central costs associated with running the Group. The Company owns 52% of the joint venture (formerly Pipex Wireless Limited) which is currently building a WiMAX network using licensed spectrum in the 3.6 GHz frequency band. Following the disposal of the hosting and network services division, the level of Group costs has been significantly reduced from the level of Group costs incurred in 2007.

FINANCIAL OVERVIEW

The trading results of the hosting and network services division for the period up to its sale on 2 April 2008 are reported as discontinued operations. The revenue and earnings before amortisation of intangibles, depreciation, impairment and share based payment costs (EBITDA) for this division were £22.2 million and £1.1 million respectively, broadly in line with the prior period's results.

Within continuing operations, EBITDA losses for the six months were £1.6 million, compared to £3.7 million for the full year in 2007. Losses for the period included the cost of employer's national insurance arising on the exercise of share options of £0.8 million and relatively high costs for professional fees, though the latter have now been brought into line with the current scale of the business. Share based payment costs in the six months ended 30 June 2008 included the benefit arising from accelerated vesting of share options under the tender offers.

The share of loss of the joint venture of £5.5 million, compared to £1.1 million in the same period in 2007, with the major contributor to this increase being an impairment of £2.7 million to the carrying value of certain software and systems, following a reassessment of their value to the joint venture.

The profit for the 6 months to June 2008 was £42.6 million (6 months to June 2007: a loss of £6.5 million) of which the profit on disposal of the hosting and network services division contributed £48.8 million.

Net assets for the Group at 30 June 2008 were £31.1 million, compared to £136.0 million at December 2007, reflecting the disposal of the hosting and network services division and the capital reduction and tender offer. Cash in the balance sheet was £4.3 million and trade and other receivables of £29.3 million included the £17.5 million Loan Note arising on the sale of the hosting and network services division, and the £10.5 million (gross) held in an escrow account to meet any potential warranty claims arising from the sale to Tiscali of the broadband and voice businesses. Subsequent to 30 June 2008, the Company has received £8.2 million from the escrow account and has reduced the remaining provision for potential claims to £0.5 million.

In January 2008 the Company invested US$7.7 million in cash in the joint venture and in August 2008 it invested a further US$2.7 million. On both occasions the investments were matched by Intel in proportion to their existing shareholding.

It remains the Board's intention to distribute to shareholders the proceeds of the £17.5 million Loan Notes, plus accrued interest, which are due to be repaid by October 2009.

OPERATIONAL REVIEW – WIRELESS DIVISION

STRATEGIC RE-FOCUS

At its full-year results in May the Group disclosed that it had initiated a process to finalise the long-term business plan and financial strategy for the joint venture. As part of this process a new review of the developing wireless broadband market was undertaken.

This analysis confirmed the strong growth potential of the wireless broadband market, and that WiMAX was potentially one of the access technologies which would satisfy the anticipated growth of customer demand for wireless data. The rate of growth of the wireless broadband market, and the share of this market captured by WiMAX, will be driven by a number of factors including:

- The availability of nomadic and mobile WiMAX services;
- The availability of a range of attractive, WiMAX-enabled customer devices;
- The breadth and depth of WiMAX network coverage; and
- The provision of WiMAX within a suite of wireless access technologies.

The review concluded that the joint venture should re-focus its roll-out strategy, to maximise the opportunities that would be presented around the development of mobility and the availability of WiMAX-enabled customer devices. The review identified the requirement for the joint venture to concentrate resources in the short-term on a number of critical objectives, specifically:

- Procuring 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" access capability i.e. WiMAX, WiFi, 3G; and
- Aligning capex and opex profiles more closely with expected revenue growth.

The review also concluded that the joint venture should maintain its commitment to the limited fixed-only services launched in the three target markets in the first quarter. These have generated some encouraging "early adopter" interest, and will provide insight into the wireless broadband business model and the distribution/sales cycle in the SME sector. However, it is unlikely that a fixed-only service will deliver significant traction in the market, and marketing should remain low-key until a broader range of services is available.

The re-focusing of the roll-out strategy for the business has been implemented during the course of the third quarter of 2008.

MOBILE WIMAX
In February 2008 the joint venture initiated a process to amend its 3.6GHz spectrum licence to enable it to offer nomadic and mobile services.

The joint venture successfully trialled the use of mobile broadband using WiMAX 802.16 technology in the 3.6GHz frequency band to deliver service to a laptop with a USB device. The trial achieved capacities in excess of 20Mbps and successfully demonstrated sector-to-sector handover.

NETWORK ROLL-OUT
The WiMAX network roll out in Manchester, Warwick and Milton Keynes continued through the first half, with 15 base stations live at the end of July 2008, providing coverage to 25,000 business premises and 195,000 households across the three target markets. Rooftop agreements are in place for a further five sites to be installed, to bring the Metropolitan Manchester site roll-out up to 50% of the initial target total.

Customer numbers in these areas remains low, but distribution agreements are now in place, and interest in the limited fixed-only WiMAX-only services on offer is being generated from a range of small and medium sized enterprises, and valuable commercial and technical insights being gained.

BACKHAUL SPECTRUM
In January 2008 FREEDOM4 successfully participated in an Ofcom auction of spectrum in the 28GHz frequency band extending the geographic coverage provided by its three existing metropolitan licences to the whole of Great Britain. FREEDOM4 now owns 2x112MHz of spectrum with national coverage in the 28GHz frequency band which will enable cost effective provision of high capacity wireless backhaul links between WiMAX base stations and the core transmission network.

WIFI SERVICES
FREEDOM4 WiFi is currently developing capabilities to support the WiMAX business in the longer term, extending the geographic reach of the

brand through roaming agreements, enabling development of multi-technology product bundles, and offering potential sign-up and billing synergies.

New roaming agreements have recently expanded FREEDOM4's UK coverage in hotels and airports, as well as Milton Keynes town centre. Various new products are under development, including a bundled 3G/WiFi offering, using a USB dongle, planned to be launched in the fourth quarter of 2008.

FINANCIAL PROFILE

At its full-year results in May the Group indicated that US$7.7 million had been invested in the joint venture at the start of the year. To date the Group has invested an additional US$2.7 million only, reflecting the re-focusing of the strategy and specifically the alignment of the joint venture's capital and operating expenditure with the expected revenue growth profile. This included a reduction in headcount and contractor numbers in activities no longer identified as critical to the joint venture's current business priorities.

SUMMARY AND OUTLOOK

The Group continues to believe that the UK wireless broadband market represents a major long-term growth opportunity, and that WiMAX technology delivers an attractive combination of range and access speed and bandwidth that can enable it to capture a material part of the growing market for wireless broadband services.

Through its ownership of 52% of the joint venture with Intel, FREEDOM4 is strongly positioned to benefit from the growth of the wireless broadband market. The joint venture owns the largest block of licensed wireless broadband spectrum in the UK, a national wireless backhaul capability, an operational WiMAX network and systems infrastructure, and the capability to deliver multi-technology access for customers.

On the basis of its re-focused strategy the Group is now putting in place a sound platform for future growth, as the market develops over the next two years.

PETER DUBENS
Non-Executive Chairman

10 September 2008

CONSOLIDATED INCOME STATEMENT
for the six month period ended 30 June 2008

	Note	Six month period ended 30 June 2008 Continuing £'000	Six month period ended 30 June 2008 Discontinued £'000	Six month period ended 30 June 2008 Total £'000	Total operations, including continuing and discontinued: Six month period ended 30 June 2007 £'000	Total operations, including continuing and discontinued: Year ended 31 December 2007 £'000
Revenue	2	**27**	**22,154**	**22,181**	188,935	283,063
Cost of sales		**(3)**	**(10,459)**	**(10,462)**	(120,402)	(171,938)
Gross profit		**24**	**11,695**	**11,719**	68,533	111,125
Operating costs before amortisation of intangibles, depreciation, impairments and share based payment costs		**(1,665)**	**(10,618)**	**(12,283)**	(59,131)	(98,400)
Earnings before amortisation of intangibles, depreciation, impairment and share based payment costs		**(1,641)**	**1,077**	**(564)**	9,402	12,725
Amortisation of intangibles		**(2)**	**–**	**(2)**	(3,804)	(3,754)
Depreciation		**(10)**	**–**	**(10)**	(7,791)	(12,795)
Impairment		**(306)**	**–**	**(306)**	–	(1,000)
Share based payment costs		**(1,265)**	**–**	**(1,265)**	(2,012)	(3,377)
Total operating costs		**(3,248)**	**(10,618)**	**(13,866)**	(72,738)	(119,326)
Share of loss of joint venture		**(5,533)**	**–**	**(5,533)**	(1,142)	(3,528)
Operating (loss)/profit		**(8,757)**	**1,077**	**(7,680)**	(5,347)	(11,729)
Finance income		**1,752**	**101**	**1,853**	895	3,119
Finance costs		**–**	**(236)**	**(236)**	(4,490)	(9,654)
Net finance income/(expenses)		**1,752**	**(135)**	**1,617**	(3,595)	(6,535)
(Loss)/gain arising on joint venture		**(120)**	**–**	**(120)**	2,458	2,458
(Loss)/profit before tax		**(7,125)**	**942**	**(6,183)**	(6,484)	(15,806)
Income tax credit/(expense)		**13**	**(5)**	**8**	10	(2,330)
(Loss)/profit after tax before profit from disposal of discontinued operations		**(7,112)**	**937**	**(6,175)**	(6,474)	(18,136)
Profit from disposal of discontinued operations, net of tax	3	**–**	**48,765**	**48,765**	–	51,582
(Loss)/profit for the period attributable to equity shareholders of the parent		**(7,112)**	**49,702**	**42,590**	(6,474)	33,446
Earnings per share:						
Basic	4	**(0.40)**	**2.82**	**2.42**	(0.27)	1.39
Diluted	4	**(0.40)**	**2.71**	**2.32**	(0.27)	1.33

CONSOLIDATED INCOME STATEMENT
for the six month period ended 30 June 2007

	Continuing operations £'000	Discontinued operations £'000	**Total £'000**
Revenue	(10)	188,945	**188,935**
Cost of sales	–	(120,402)	**(120,402)**
Gross (loss)/profit	(10)	68,543	**68,533**
Operating costs before amortisation of intangibles, depreciation, impairments and share based payment costs	(1,747)	(57,384)	**(59,131)**
Earnings before amortisation of intangibles, depreciation, impairment and share based payment costs	(1,757)	11,159	**9,402**
Amortisation of intangibles	–	(3,804)	**(3,804)**
Depreciation	–	(7,791)	**(7,791)**
Share based payment costs	(2,012)	-	**(2,012)**
Total operating costs	(3,759)	(68,979)	**(72,738)**
Share of loss of joint venture	(1,142)	-	**(1,142)**
Operating (loss)	(4,911)	(436)	**(5,347)**
Finance income	469	426	**895**
Finance costs	–	(4,490)	**(4,490)**
Net finance income/(expenses)	469	(4,064)	**(3,595)**
Gain arising on joint venture	2,458	-	**2,458**
(Loss) before tax	(1,984)	(4,500)	**(6,484)**
Income tax credit	–	10	**10**
(Loss) for the period attributable to equity shareholders of the parent	(1,984)	(4,490)	**(6,474)**

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2007

	Continuing operations £'000	Discontinued operations £'000	**Total £'000**
Revenue	–	283,063	**283,063**
Cost of sales	–	(171,938)	**(171,938)**
Gross profit	–	111,125	**111,125**
Operating costs before amortisation of intangibles, depreciation, impairments and share based payment costs	(3,720)	(94,680)	**(98,400)**
Earnings before amortisation of intangibles, depreciation, impairment and share based payment costs	(3,720)	16,445	**12,725**
Amortisation of intangibles	–	(3,754)	**(3,754)**
Depreciation	–	(12,795)	**(12,795)**
Impairment	–	(1,000)	**(1,000)**
Share based payment costs	(3,377)	–	**(3,377)**
Total operating costs	(7,097)	(112,229)	**(119,326)**
Share of loss of joint venture	(3,528)	–	**(3,528)**
Operating (loss)	(10,625)	(1,104)	**(11,729)**
Finance income	2,233	886	**3,119**
Finance costs	(8,410)	(1,244)	**(9,654)**
Net finance expenses	(6,177)	(358)	**(6,535)**
Gain arising on joint venture	2,458	–	**2,458**
(Loss) before tax	(14,344)	(1,462)	**(15,806)**
Income tax expense	–	(2,330)	**(2,330)**
(Loss) after tax before profit from disposal of discontinued operations	(14,344)	(3,792)	**(18,136)**
Profit from disposal of discontinued operations, net of tax	–	51,582	**51,582**
(Loss)/profit for the year attributable to equity shareholders of the parent	(14,344)	47,790	**33,446**

CONSOLIDATED BALANCE SHEET
As at 30 June 2008, 30 June 2007 and 31 December 2007

	30 June 2008 £'000	(Restated)* 30 June 2007 £'000	31 December 2007 £'000
ASSETS			
Non current assets			
Goodwill	**28**	39,534	–
Intangible assets	**83**	300	–
Property, plant and equipment	**31**	44,699	–
Investment in joint venture	**5,762**	9,994	7,608
	5,904	94,527	7,608
Current assets			
Trade and other receivables	**29,281**	10,926	11,243
Cash and cash equivalents	**4,297**	35,174	60,750
Assets classified as held for sale	**–**	179,160	100,954
	33,578	225,260	172,947
Current liabilities			
Short term borrowings	**–**	(5,429)	–
Trade and other payables	**(7,475)**	(24,033)	(1,794)
Liabilities classified as held for sale	**–**	(58,728)	(40,497)
Current tax liability	**–**	(220)	–
Current provisions	**(500)**	(337)	(2,219)
	(7,975)	(88,747)	(44,510)
Net current assets	**25,603**	136,513	128,437
Non current liabilities			
Long term borrowings	**–**	(127,971)	–
Long term provisions	**–**	(987)	–
Deferred tax liability	**(446)**	–	–
NET ASSETS	**31,061**	102,082	136,045
Equity attributable to the equity holders of the parent			
Share capital	**1,071**	23,998	24,092
Share premium reserve	**8,237**	96,818	96,848
Translation reserve	**(500)**	(36)	25
Other reserves	**–**	25,537	8,119
Retained earnings	**22,253**	(44,235)	6,961
EQUITY SHAREHOLDERS' FUNDS	**31,061**	102,082	136,045

* The June 2007 numbers above include a restatement that was made at 31 December 2007. Further details of this restatement can be found in the Group's 2007 annual report and year end accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2008, 30 June 2007 and 31 December 2007

	Attributable to the equity holders of the parent							
	Share capital £'000	Share premium reserve £'000	Translation reserve £'000	Merger reserve £'000	Capital reserve £'000	Bond equity reserve £'000	Retained earnings £'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	67	603	–	–	–	–	–	670
Share based payment costs	–	–	–	–	–	–	2,012	2,012
Exchange differences on translating foreign operations	–	–	25	–	–	–	–	25
Loss for the period	–	–	–	–	–	–	(6,474)	(6,474)
At 30 June 2007 and 1 July 2007	**23,998**	**96,818**	**(36)**	**17,638**	**207**	**7,692**	**(44,235)**	**102,082**
Issue of shares	94	30	–	–	–	–	–	124
Share based payment costs	–	–	–	–	–	–	1,365	1,365
Share of joint venture share option cost	–	–	–	–	–	–	185	185
Redemption of convertible bonds	–	–	–	–	–	(7,692)	–	(7,692)
Exchange differences on translating foreign operations	–	–	61	–	–	–	–	61
Disposal of subsidiaries	–	–	–	(9,519)	(207)	–	9,726	–
Profit for the period	–	–	–	–	–	–	39,920	39,920
At 31 December 2007 and 1 January 2008	**24,092**	**96,848**	**25**	**8,119**	**–**	**–**	**6,961**	**136,045**
Capital reduction scheme	(21,683)	(96,848)	–	(2,309)	–	–	120,840	–
Capital reduction and tender offer costs	–	–	–	–	–	–	(1,774)	(1,774)
Tender offer	(1,489)	–	–	–	–	–	(153,299)	(154,788)
Share based payment costs	–	–	–	–	–	–	1,265	1,265
Share of joint venture share based payment cost	–	–	–	–	–	–	(140)	(140)
Joint venture exchange difference	–	–	(500)	–	–	–	–	(500)
Exercise of options	151	8,237	–	–	–	–	–	8,388
Disposal of subsidiaries	–	–	(25)	(5,810)	–	–	5,810	(25)
Profit for the period	–	–	–	–	–	–	42,590	42,590
At 30 June 2008	**1,071**	**8,237**	**(500)**	**–**	**–**	**–**	**22,253**	**31,061**

CONSOLIDATED CASH FLOW STATEMENTS
for the six month period ended 30 June 2008, 30 June 2007 and year ended 31 December 2007

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Profit/(loss) for the period	**42,590**	(6,474)	33,446
Profit from disposal of discontinued operations	**(48,765)**	–	(51,582)
Income tax (credit)/expense	**(8)**	(10)	2,330
Loss/(gain) arising on joint venture	**120**	(2,458)	(2,458)
Interest received	**(1,853)**	(895)	(3,119)
Interest payable	**236**	4,490	9,654
Operating (loss)	**(7,680)**	(5,347)	(11,729)
Adjustments for:			
Depreciation charge	**10**	7,791	12,795
Share of loss of joint venture	**5,533**	1,142	3,528
Impairment of tangible fixed assets	**306**	–	1,000
Amortisation of intangibles	**2**	3,804	3,754
Loss on sale of fixed assets	**203**	–	157
Share based payment costs	**1,265**	2,012	3,377
Operating cash flows before movements in working capital	**(361)**	9,402	12,882
Decrease in inventories	**–**	22	31
(Increase)/decrease in receivables	**(3,023)**	6,314	4,197
Increase/(decrease) in payables	**12,284**	(15,057)	(24,292)
(Decrease)/increase in provisions	**(1,616)**	(294)	1,599
Cash generated/(used) from operations	**7,284**	387	(5,583)
Interest paid	**(99)**	(782)	(2,387)
Bond interest paid	**–**	(1,773)	(5,512)
Interest element of finance lease repayments	**(137)**	(384)	(827)
Income taxes received/(paid)	**14**	(4)	(270)
Net cash generated/(used) from operating activities	**7,062**	(2,556)	(14,579)
Cash flows from investing activities			
Acquisition of subsidiaries	**(115)**	–	(958)
Payment to acquire intangible assets	**–**	–	(152)
Investment in jointly controlled entity	**(3,913)**	(2,058)	(2,058)
Purchase of property, plant and equipment	**(4,003)**	(8,552)	(23,706)
Proceeds from sale of property, plant and equipment	**7,023**	–	2,648
Proceeds from sale of subsidiaries	**92,500**	–	173,170
Costs of disposal	**(4,644)**	–	–
Interest received	**962**	587	2,115
Net cash generated/(used) in investing activities	**87,810**	(10,023)	151,059
Cash flows from financing activities			
Proceeds from the exercise of share options	**8,388**	671	795
Payment to redeem convertible bonds	**–**	–	(91,500)
Payment to buy back shares	**(156,562)**	–	–
Change in bank overdraft	**–**	1,402	–
Repayments of short term borrowings	**–**	–	(1,445)
Proceeds from long term borrowings	**–**	–	2,255
Repayments of long term borrowings	**–**	–	(35,506)
Cash disposed	**(2,395)**	–	–
Drawdown of new finance leases	**397**	–	5,700
Payment of finance lease liabilities	**(1,153)**	(2,648)	(4,357)
Net cash (used)/generated from financing activities	**(151,325)**	(575)	(124,058)
Net (decrease)/increase in cash and cash equivalents	**(56,453)**	(13,154)	12,422
Cash and cash equivalents at the beginning of the year	**60,750**	48,328	48,328
Cash and cash equivalents at the end of the period	**4,297**	35,174	60,750

NOTES TO THE INTERIM GROUP FINANCIAL STATEMENTS
for the six month period ended 30 June 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") as adopted by the European Union. These interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which were prepared in accordance with IFRS as adopted by the European Union.

In accordance with IFRS 5, the comparative income statement has been represented so that the discontinued operations disclosed relate to all discontinued operations at the balance sheet date.

The comparative figures for the financial year ended 31 December 2007 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985. This is a statutory disclosure required by the Companies Act 1985.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of FREEDOM4 Group plc (formerly FREEDOM4 Communications plc, formerly Pipex Communications plc) (the "Company") and enterprises controlled by the Company, its subsidiaries and joint ventures, together referred to as the "Group".

ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those financial statements. Taxes on income in interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings.

The preparation of interim financial statements requires management to make judgements estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated interim financial statements the significant judgements made by management in applying the Group accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2007.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is organised into three operating divisions – broadband and voice services, hosting services and network services. These divisions are the basis on which the Group reports its primary segment information.

The principal activities of each of the divisions are as follows:

Broadband and voice services

The Group supplies 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.

Hosting services

The Group provides a comprehensive suite of hosting services from shared and virtual private servers through to domain names and security.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS continued

Network services

The Group provides 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.

Other

Includes the Company, its subsidiary "WiFi", its investment in the joint venture and the Group's financing, including debt incurred to provide financing for acquisition of subsidiaries.

All segments are regarded as discontinued, with the exception of the Company and the joint venture, which are regarded as continuing operations.

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

	For the six month period ended 30 June 2008				
	Broadband and voice services Discontinued £'000	Hosting services Discontinued £'000	Network services Discontinued £'000	Other Continuing £'000	Total £'000
Revenue					
External sales	–	10,804	11,350	27	22,181
	–	10,804	11,350	27	22,181
Result					
Segment result(i)	–	2,802	(1,725)	(1,641)	(564)
Amortisation of intangibles	–	–	–	(2)	(2)
Depreciation charge	–	–	–	(10)	(10)
Impairment of tangible fixed assets	–	–	–	(306)	(306)
Share based payment costs	–	–	–	(1,265)	(1,265)
Share of loss of joint venture	–	–	–	(5,533)	(5,533)
Operating profit/(loss)	–	2,802	(1,725)	(8,757)	(7,680)
Finance income	–	70	31	1,752	1,853
Finance costs	–	(112)	(124)	–	(236)
Loss arising on joint venture	–	–	–	(120)	(120)
Profit/(loss) before tax	–	2,760	(1,818)	(7,125)	(6,183)
Income tax (expense)/credit	–	–	(5)	13	8
Profit on disposal of discontinued operations, net of tax	–	36,033	12,732	–	48,765
	–	38,793	10,909	(7,112)	42,590
Other information					
Property, plant and equipment additions	–	1,883	2,090	30	4,003
Balance sheet					
Assets					
Segment assets	–	–	–	39,482	39,482
	–	–	–	39,482	39,482
Liabilities					
Segment liabilities	–	–	–	(8,421)	(8,421)
	–	–	–	(8,421)	(8,421)

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

NOTES TO THE INTERIM GROUP FINANCIAL STATEMENTS continued for the six month period ended 30 June 2008

2. BUSINESS AND GEOGRAPHICAL SEGMENTS continued

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

	For the six month period ended 30 June 2007				
	Broadband and voice services Discontinued £'000	Hosting services Discontinued £'000	Network services Discontinued £'000	Other Continuing £'000	Total £'000
Revenue					
External sales	155,528	17,291	16,126	(10)	188,935
Inter-segment sales					–
	155,528	17,291	16,126	(10)	188,935
Result					
Segment result(i)	9,117	3,241	(1,199)	(1,757)	9,402
Amortisation of intangibles	(3,663)	(141)	–	–	(3,804)
Depreciation charge	(2,533)	(1,765)	(3,493)	–	(7,791)
Share based payment costs				(2,012)	(2,012)
Share of loss of joint venture	–	–	–	(1,142)	(1,142)
Operating profit/(loss)	2,921	1,335	(4,692)	(4,911)	(5,347)
Finance income	–	–	426	469	895
Finance costs	–	–	(4,490)	–	(4,490)
Gain arising on joint venture	–	–	–	2,458	2,458
Profit/(loss) before tax	2,921	1,335	(8,756)	(1,984)	(6,484)
Income tax credit/(expense)	14	(4)	–	–	10
	2,935	1,331	(8,756)	(1,984)	(6,474)
Other information					
Property, plant and equipment additions	909	2,537	7,351	–	10,797
Balance sheet					
Assets					
Segment assets	179,160	18,990	29,889	91,748	319,787
	179,160	18,990	29,889	91,748	319,787
Liabilities					
Segment liabilities	(58,728)	(14,548)	(25,196)	(119,233)	(217,705)
	(58,728)	(14,548)	(25,196)	(119,233)	(217,705)

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

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	Other Continuing £'000	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)	(10,625)	(11,729)
Finance income	629	197	60	2,233	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)	(14,344)	(15,806)
Income tax expense	(2,189)	(141)	–	–	(2,330)
Profit on disposal of discontinued operations, net of tax	51,582	–	–	–	51,582
	56,930	2,834	(11,974)	(14,344)	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	79,601	180,555
	–	47,085	53,869	79,601	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.

NOTES TO THE INTERIM GROUP FINANCIAL STATEMENTS continued for the six month period ended 30 June 2008

2. BUSINESS AND GEOGRAPHICAL SEGMENTS continued

Geographical segments

The Group's operations are located in the United Kingdom and Germany. Germany provides mainly hosting services.

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

	For the six month period ended 30 June 2008			
	Continuing	Discontinued		
	United Kingdom £'000	Germany £'000	United Kingdom £'000	Total 2008 £'000
Sales revenue	**27**	**4,265**	**17,889**	**22,181**
Carrying amount of segment assets	**39,482**	**–**	**–**	**39,482**
Additions to property, plant and equipment	**30**	**1,292**	**2,681**	**4,003**

	For the six month period ended 30 June 2007			
	Continuing	Discontinued		
	United Kingdom £'000	Germany £'000	United Kingdom £'000	Total 2007 £'000
Sales revenue	(10)	5,633	183,312	188,935
Carrying amount of segment assets	91,748	12,758	215,281	319,787
Additions to property, plant and equipment	–	2,010	8,787	10,797

	For the year ended 31 December 2007			
	Continuing	Discontinued		
	United Kingdom £'000	Germany £'000	United Kingdom £'000	Total 2008 £'000
Sales revenue	–	12,568	270,495	283,063
Carrying amount of segment assets	79,601	16,186	84,768	180,555
Additions to property, plant and equipment	–	7,931	15,775	23,706

NOTES TO THE INTERIM GROUP FINANCIAL STATEMENTS continued for the six month period ended 30 June 2008

3. DISPOSAL OF SUBSIDIARIES

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, XTML Holdings Limited, CIX Holdings Limited, Supanetwork Limited and Transigent Limited together with the subsidiaries of these entities, and which taken together comprised the hosting and network services division.

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, which are repayable within 18 months from the date of completion of the sale, 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 of £1.1 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	301
Trade and other receivables	27,863
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
	56,591
Cost of disposal	4,644
Gain on disposal	48,765
Total consideration	110,000
Satisfied by:	
Cash	92,500
Deferred consideration	17,500
	110,000

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

4. EARNINGS PER SHARE

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

	Six month period ended 30 June 2008 £'000	Six month period ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Profit/(loss) for the year attributable to the equity holders of the parent	**42,590**	(6,474)	33,446

	30 June 2008 Number million	30 June 2007 Number million	31 December 2007 Number million
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,762**	2,397	2,400
Dilution impact of share options*	**73**	–	110
Diluted number of ordinary shares for the purpose of the diluted earnings per share	**1,835**	2,397	2,510

* In June 2007 dilution has no effect on EPS as the Group was loss making for the period.

INDEPENDENT REVIEW REPORT TO FREEDOM4 GROUP PLC

INTRODUCTION

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2008 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

DIRECTORS' RESPONSIBILITIES

The half-yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU.

OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU and the AIM Rules.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

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10 September 2008

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