



**INTERIM REPORT 2007**

Pipex Communications plc

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### DISPOSAL OF THE BROADBAND AND VOICE DIVISION AND REDEMPTION OF CONVERTIBLE BONDS

We announced on 12 March 2007 that the company had appointed UBS to investigate various strategic options for the company, including a possible sale. I subsequently wrote to you in July stating the board's belief that the previous levels of growth enjoyed by Pipex in its broadband and voice division were unlikely to be sustained in the future and that opportunities for growth through acquisition had declined as a result of consolidation in the sector. As a consequence, your directors recommended the sale of the broadband and voice division to Tiscali for a total consideration of £210 million, on a cash and debt free basis, before adjustments. This sale was completed on 13 September 2007. On 12 October 2007, the group will redeem all the outstanding 3.875% guaranteed convertible bonds due 2011 for £93.3 million, which includes payment of a premium of £20 per £1,000 denomination of bonds, plus accrued interest. For the six months to 30 June 2007, the revenues attributable to the broadband and voice division sold were £153.1 million (H1 2006: £88.6 million) with an operating profit before amortisation of intangibles, depreciation and share-based payment costs of £8.5 million (H1 2006: £9.4 million) and a profit before tax of £2.4 million (H1 2006: profit of £7.4 million) excluding amortisation of intangibles.

### POTENTIAL DEMERGER OF PIPEX WIRELESS

Pipex Wireless is our joint venture with Intel established to exploit licensed spectrum operating the WiMAX standard, and the business has now advanced from successful technical trials to commercial service, which is on track to be launched in Manchester during the fourth quarter of 2007. The WiMAX trials in Milton Keynes and Warwick were completed successfully during the first half of this year. As well as further validating the WiMAX technology, these trials demonstrated the demand for wireless broadband access in both the business and consumer markets. Benefits reported by the trial customers of the service included its ease of connection and use, its competitive speed and bandwidth, and the lack of requirement for a fixed line connection. Manchester has been selected as the first major city for a full scale roll-out of our WiMAX based services, and a range of attractive and competitive wireless broadband services will therefore be launched in Manchester during the fourth quarter of 2007. The trials in Milton Keynes and Warwick will also be converted into full commercial service offerings. Deployment of the infrastructure to support this service launch is already well advanced, as are plans to extend network coverage subsequently to other major cities. The board believes that Pipex Wireless continues to represent an excellent long-term growth opportunity. However, following the sale of the broadband and voice division, Pipex Wireless no longer provides a compelling strategic fit with the remaining businesses. During the fourth quarter we therefore intend to initiate a process leading to a possible demerger of Pipex Wireless. The board believes that this will enable Pipex shareholders to continue to participate in the growth potential of this wireless broadband venture. Further details will be communicated to shareholders during the fourth quarter of 2007.

**“THE WIMAX TRIALS IN MILTON KEYNES AND WARWICK WERE COMPLETED SUCCESSFULLY DURING THE FIRST HALF OF THIS YEAR. AS WELL AS FURTHER VALIDATING THE WIMAX TECHNOLOGY, THESE TRIALS DEMONSTRATED THE DEMAND FOR WIRELESS BROADBAND ACCESS IN BOTH THE BUSINESS AND CONSUMER MARKETS. BENEFITS REPORTED BY THE TRIAL CUSTOMERS OF THE SERVICE INCLUDED ITS EASE OF CONNECTION AND USE, ITS COMPETITIVE SPEED AND BANDWIDTH, AND THE LACK OF REQUIREMENT FOR A FIXED LINE CONNECTION.”**

### POTENTIAL SALE OF THE REMAINING GROUP

During the period, and subsequently, we have received a number of expressions of interest in the remaining parts of the group, comprising the web hosting and business services divisions. As a result of these, and following a review of the remaining operations, we intend to initiate a sale process during the fourth quarter, for the web hosting and network services businesses, including the net proceeds from the sale of the broadband and voice division. Oakley Capital Private Equity LP, in which Peter Dubens is a Limited Partner, has expressed an interest in exploring a potential acquisition of the group. As a result an independent committee of the board, comprising all members of the Pipex board, but excluding Peter Dubens, will be established to consider any proposals received in relation to the potential sale of the group. The board believes that a sale of the group will maximise delivery of shareholder value and provide the most efficient method for returning cash to shareholders.

### FINANCIAL OVERVIEW

This is the first set of financial statements to be reported under International Financial Reporting Standards. The impact of reporting under IFRS is set out in the Restatement of Financial Information document. In addition to the impact of IFRS, the other presentational difference in the 2007 report is the treatment of the broadband and voice division which, given the recently completed sale, is shown as “discontinued operations” and “assets and liabilities classified as held for sale”. Group revenue in the period increased by 58% to £188.9 million, of which the broadband and voice division sold accounted for £153.1 million. Revenue of continuing operations was £35.8 million. Gross profit for the six months increased by 49% to £68.5 million, compared to £45.9 million for the same period last year. The overall gross margin in the first half fell to 36.3% from 38.5% for the first half last year, as a result of the full period impact of low margin line

rental business acquired as part of the 2006 acquisitions. EBITDA (operating profit before amortisation, depreciation, integration and share option costs) fell by £1.8 million to £9.4 million. This was due principally to the increased investment in customer facing functions, as the group sought to differentiate its offering through effective customer service. The group reported a loss before tax of £8.4 million, compared to a profit before tax for the same period last year of £0.8 million. As well as the decrease in EBITDA, this also reflected an increase in amortisation costs arising from the 2006 acquisitions, a higher depreciation charge, an increase in the share of the start-up losses of the Wireless business, and additional interest costs incurred due to the issuing of the convertible bond. Free cash flow for the six months was £(11.5) million, compared to £1.9 million for the same period last year, principally due to the lower EBITDA and a working capital outflow of £10.0 million in 2007. Net debt increased to £98.2 million from £52.2 million at the same time last year, reflecting the acquisitions completed during the second half of 2006, free cash flow described above, and additional funding of £2.1 million provided to Pipex Wireless as part of the joint venture agreement with Intel. Cash at 30 June 2007 was £35.2 million, similar to the balance at the end of June 2006 of £37.8 million.

### OPERATIONAL REVIEW BROADBAND AND VOICE

During the period we continued to sell bundled products to our customers with our customers taking an average of 1.74 services each. These services in general were mixtures of broadband, line rental and voice, but we also continued to see demand for a broadband-only service, reflected in a successful broadband-only new product launch towards the end of the period.

“GROUP REVENUE IN THE PERIOD INCREASED BY 58% TO £188.9 MILLION...GROSS PROFIT FOR THE SIX MONTHS INCREASED BY 49% TO £68.5 MILLION, COMPARED TO £45.9 MILLION FOR THE SAME PERIOD LAST YEAR.”

### **HOSTING AND DOMAIN NAMES**

Pipex is a leading provider of hosting and domain names both in the UK and Germany. Revenue in the first half increased by 12% to £17.3 million and gross margins were broadly stable at 65%, compared to 68% in the same period last year. Our hosting business customer base grew by 23% to 262,000 and our domain names base grew by 28% to 1.97 million. In the UK, our share of “.uk” domain names market rose to 20.9% compared to 17.9% at the same time last year. We secured a further 6,000 square feet data centre in Leeds to provide additional capacity for growth. A number of significant new products were launched including virtual private servers, e-commerce packages and enhanced web storage products. During the year we moved our hosting business from its offices in Nottingham to West London as part of an office consolidation policy. In Germany we completed the first phase of our data centre build providing 6,500 square feet initially, expandable to 18,000 square feet, which will allow us to consolidate away from our other German data centres and also provide for future growth.

### **BUSINESS SERVICES**

Revenue in the business services division in the first half grew by 5% to £16.1 million, compared to £15.3 million in the same period last year. During the first half the business was restructured around the vertical business market sectors that we are targeting. New products and services were launched, including “Secure Tele-working”. A significant number of new customers were added and new contracts closed, including hosting of T-Mobile’s Web-n-Walk platform, and new NHS business. In addition we provided the hosting and transaction services for the successful Comic Relief charity event.

### **SUMMARY AND OUTLOOK**

The performance of the remaining group businesses remains robust. In hosting and domain names we anticipate continuing growth in the UK and Germany, driven by the global growth of internet traffic. The business services division is well positioned to win additional new business, following its re-structuring to focus on its core vertical market sectors. Wireless continues to represent a major long-term growth opportunity, with successful trials indicating significant demand for services based on a mainstream wireless access technology. The board believes that the outcome of the strategic review announced today will maximise delivery of shareholder value and enable a timely and efficient return of cash to shareholders. Further details of the actions now being initiated will be communicated to shareholders during the course of the fourth quarter of 2007. Pipex Communications has grown significantly since I joined in 2003, and I would like to thank all of the company’s shareholders, customers and advisors, whose support over the years has underpinned the group’s success.

**PETER DUBENS**  
**CHAIRMAN**  
**25 SEPTEMBER 2007**

**CONSOLIDATED INCOME STATEMENT (UNAUDITED)**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2007**

	Notes	<b>Six month period ended 30 June 2007</b>			Total operations, including continuing, discontinued and acquisitions*	
		<b>Continuing</b>	<b>Discontinued</b>	<b>Total</b>	Six month period ended 30 June 2006	Year ended 31 December 2006
		£'000	£'000	£'000	As restated £'000	As restated £'000
<b>Revenue</b>	4	<b>35,815</b>	<b>153,120</b>	<b>188,935</b>	119,217	294,359
Cost of sales		<b>(16,325)</b>	<b>(104,077)</b>	<b>(120,402)</b>	(73,339)	(182,067)
<b>Gross profit</b>		<b>19,490</b>	<b>49,043</b>	<b>68,533</b>	45,878	112,292
Administration expenses before amortisation of intangibles, depreciation and share-based payment costs		<b>(18,609)</b>	<b>(40,522)</b>	<b>(59,131)</b>	(34,716)	(89,195)
Amortisation of intangibles		<b>(141)</b>	<b>(3,663)</b>	<b>(3,804)</b>	(1,671)	(6,645)
Depreciation		<b>(5,186)</b>	<b>(2,605)</b>	<b>(7,791)</b>	(5,271)	(12,033)
Share-based payment costs		<b>(898)</b>	<b>(1,114)</b>	<b>(2,012)</b>	(801)	(2,206)
Administration expenses		<b>(24,834)</b>	<b>(47,904)</b>	<b>(72,738)</b>	(42,459)	(110,079)
<b>Operating profit before amortisation of intangibles, depreciation and share-based payment costs</b>		<b>881</b>	<b>8,521</b>	<b>9,402</b>	11,162	23,097
Amortisation of intangibles		<b>(141)</b>	<b>(3,663)</b>	<b>(3,804)</b>	(1,671)	(6,645)
Depreciation		<b>(5,186)</b>	<b>(2,605)</b>	<b>(7,791)</b>	(5,271)	(12,033)
Share-based payment costs		<b>(898)</b>	<b>(1,114)</b>	<b>(2,012)</b>	(801)	(2,206)
Operating (loss)/profit		<b>(5,344)</b>	<b>1,139</b>	<b>(4,205)</b>	3,419	2,213
Finance income		<b>469</b>	<b>426</b>	<b>895</b>	369	546
Finance costs		<b>(1,617)</b>	<b>(2,873)</b>	<b>(4,490)</b>	(2,688)	(6,806)
Net financing expenses		<b>(1,148)</b>	<b>(2,447)</b>	<b>(3,595)</b>	(2,319)	(6,260)
Share of loss of jointly controlled entity		<b>(596)</b>	—	<b>(596)</b>	(262)	(1,150)
<b>(Loss)/profit before tax</b>		<b>(7,088)</b>	<b>(1,308)</b>	<b>(8,396)</b>	838	(5,197)
Income tax credit		<b>(4)</b>	<b>14</b>	<b>10</b>	5,218	6,770
<b>(Loss)/profit for the period</b>		<b>(7,092)</b>	<b>(1,294)</b>	<b>(8,386)</b>	6,056	1,573
Earnings per share:						
Basic	5	<b>(0.30)p</b>	<b>(0.05)p</b>	<b>(0.35)p</b>	0.26p	0.07p
Diluted	5	<b>(0.30)p</b>	<b>(0.05)p</b>	<b>(0.35)p</b>	0.26p	0.07p

\* Refer to pages 5 and 6 for the analysis of continuing, discontinued and acquired operations.

**CONSOLIDATED INCOME STATEMENT (UNAUDITED)**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006**

	Continuing operations		Discontinued operations		Total As restated £'000
	Existing As restated £'000	Acquisitions As restated £'000	Existing As restated £'000	Acquisitions As restated £'000	
<b>Revenue</b>	30,653	—	45,387	43,177	119,217
Cost of sales	(13,081)	—	(29,978)	(30,280)	(73,339)
<b>Gross profit</b>	17,572	—	15,409	12,897	45,878
Administration expenses before amortisation of intangibles, depreciation and share-based payment costs	(15,967)	—	(9,320)	(9,429)	(34,716)
Amortisation of intangibles	(41)	—	—	(1,630)	(1,671)
Depreciation	(3,410)	—	(1,147)	(714)	(5,271)
Share-based payment costs	(694)	—	(107)	—	(801)
Administration expenses	(20,112)	—	(10,574)	(11,773)	(42,459)
<b>Operating profit before amortisation of intangibles, depreciation and share-based payment costs</b>	1,605	—	6,089	3,468	11,162
Amortisation of intangibles	(41)	—	—	(1,630)	(1,671)
Depreciation	(3,410)	—	(1,147)	(714)	(5,271)
Share-based payment costs	(694)	—	(107)	—	(801)
Operating (loss)/profit	(2,540)	—	4,835	1,124	3,419
Finance income	117	—	209	43	369
Finance costs	(2,308)	—	(380)	—	(2,688)
Net financing expenses	(2,191)	—	(171)	43	(2,319)
Share of loss of jointly controlled entity	—	(262)	—	—	(262)
<b>(Loss)/profit before tax</b>	(4,731)	(262)	4,664	1,167	838
Income tax expense	3	—	—	5,215	5,218
<b>(Loss)/profit for the period</b>	(4,728)	(262)	4,664	6,382	6,056

**CONSOLIDATED INCOME STATEMENT (UNAUDITED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Continuing operations		Discontinued operations		Total As restated £'000
	Existing As restated £'000	Acquisitions As restated £'000	Existing As restated £'000	Acquisitions As restated £'000	
<b>Revenue</b>	61,453	283	90,253	142,370	294,359
Cost of sales	(25,103)	(71)	(59,365)	(97,528)	(182,067)
<b>Gross profit</b>	36,350	212	30,888	44,842	112,292
Administration expenses before amortisation of intangibles, depreciation and share-based payment costs	(32,105)	(113)	(23,031)	(33,946)	(89,195)
Amortisation of intangibles	(421)	(586)	(365)	(5,273)	(6,645)
Depreciation	(7,469)	—	(2,240)	(2,324)	(12,033)
Share-based payment costs	(1,423)	—	(160)	(623)	(2,206)
Administration expenses	(41,418)	(699)	(25,796)	(42,166)	(110,079)
<b>Operating profit before amortisation of intangibles, depreciation and share-based payment costs</b>	4,245	99	7,857	10,896	23,097
Amortisation of intangibles	(421)	(586)	(365)	(5,273)	(6,645)
Depreciation	(7,469)	—	(2,240)	(2,324)	(12,033)
Share-based payment costs	(1,423)	—	(160)	(623)	(2,206)
Operating (loss)/profit	(5,068)	(487)	5,092	2,676	2,213
Finance income	137	—	237	172	546
Finance costs	(6,021)	—	(770)	(15)	(6,806)
Net financing expenses	(5,884)	—	(533)	157	(6,260)
Share of loss of jointly controlled entity	—	(1,150)	—	—	(1,150)
<b>(Loss)/profit before tax</b>	(10,952)	(1,637)	4,559	2,833	(5,197)
Income tax expense	(8)	—	—	6,778	6,770
<b>(Loss)/profit for the year</b>	(10,960)	(1,637)	4,559	9,611	1,573

**CONSOLIDATED BALANCE SHEET (UNAUDITED)**  
**AS AT 30 JUNE 2007, 30 JUNE 2006 AND 31 DECEMBER 2006**

	30 June 2007 £'000	30 June 2006 £'000	31 December 2006 £'000
Notes			
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<b>44,697</b>	40,946	47,069
Goodwill	<b>36,906</b>	138,306	164,954
Intangible assets	<b>7,892</b>	18,772	23,726
	<b>89,495</b>	198,024	235,749
<b>Current assets</b>			
Inventories	—	72	47
Assets classified as held for sale	3 <b>177,755</b>	—	—
Trade and other receivables	<b>10,926</b>	35,240	44,679
Cash and cash equivalents	<b>35,174</b>	37,803	48,328
	<b>223,855</b>	73,115	93,054
<b>Total assets</b>	<b>313,350</b>	271,139	328,803
<b>Equity and liabilities</b>			
<b>Equity attributable to the equity holders of the parent</b>			
Share capital	<b>(23,998)</b>	(23,336)	(23,931)
Share premium reserve	<b>(99,127)</b>	(97,567)	(98,524)
Translation reserve	<b>36</b>	(7)	61
Other reserves	<b>(23,228)</b>	(18,906)	(23,228)
Retained earnings	<b>53,029</b>	45,164	48,184
	<b>(93,288)</b>	(94,652)	(97,438)
<b>Non-current liabilities</b>			
Long-term borrowings	<b>(127,971)</b>	(86,352)	(125,013)
Long-term provisions	<b>(987)</b>	(1,381)	(1,224)
Investments accounted for using the equity method	<b>(2,357)</b>	(4,461)	(5,349)
	<b>(131,315)</b>	(92,194)	(131,586)
<b>Current liabilities</b>			
Short-term borrowings	<b>(5,429)</b>	(3,650)	(4,461)
Liabilities classified as held for sale	3 <b>(58,728)</b>	—	—
Current provisions	<b>(337)</b>	(375)	(337)
Trade and other payables	<b>(24,033)</b>	(80,027)	(94,703)
Current tax liabilities	<b>(220)</b>	(241)	(278)
	<b>(88,747)</b>	(84,293)	(99,779)
<b>Total equity and liabilities</b>	<b>(313,350)</b>	(271,139)	(328,803)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006**

	Attributable to the equity holders of the parent					
	Share capital	Share premium reserve	Translation reserve	Other reserves*	Retained earnings	Total equity
	As restated £'000	As restated £'000	As restated £'000	As restated £'000	As restated £'000	As restated £'000
<b>Balance at 1 January 2006 brought forward</b>	22,101	84,127	—	11,217	(42,430)	75,015
<b>Changes in equity for the six months ended 30 June 2006</b>						
Exchange differences on translating foreign operations	—	—	7	—	—	7
Net losses not recognised in the income statement:						
Unrealised loss on Pipex Wireless Limited	—	—	—	—	(9,672)	(9,672)
Net expense recognised directly in equity	—	—	7	—	(9,672)	(9,665)
Profit for the period	—	—	—	—	6,056	6,056
<b>Total recognised income and expense for the period</b>	—	—	7	—	(3,616)	(3,609)
Issue of share capital	1,090	12,544	—	—	—	13,634
Exercise of share options	145	896	—	—	—	1,041
Grant of options	—	—	—	—	882	882
Equity component of convertible bonds issued	—	—	—	7,689	—	7,689
<b>Balance at 30 June 2006 carried forward</b>	23,336	97,567	7	18,906	(45,164)	94,652

\* Other reserves include a merger reserve of £7,538,000, a capital reserve of £207,000, an acquisition reserve of £3,472,000, in relation to the premium on shares issued as part of the consideration for the acquisition of Transigent Limited in 2002 and a bond equity reserve of £7,689,000.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Attributable to the equity holders of the parent					
	Share capital	Share premium reserve	Translation reserve	Other reserves*	Retained earnings	Total equity
	As restated £'000	As restated £'000	As restated £'000	As restated £'000	As restated £'000	As restated £'000
<b>Balance at 1 July 2006 brought forward</b>	23,336	97,567	7	18,906	(45,164)	94,652
<b>Changes in equity for the six months ended 31 December 2006</b>						
Exchange differences on translating foreign operations	—	—	(68)	—	—	(68)
Net gains not recognised in the income statement:						
Unrealised gain on Pipex Wireless Limited	—	—	—	—	139	139
Net expense recognised directly in equity	—	—	(68)	—	139	71
Loss for the period	—	—	—	—	(4,483)	(4,483)
<b>Total recognised income and expense for the period</b>	—	—	(68)	—	(4,344)	(4,412)
Issue of share capital	432	—	—	4,319	—	4,751
Exercise of share options	163	957	—	—	—	1,120
Grant of options	—	—	—	—	1,324	1,324
Equity component of convertible bonds issued	—	—	—	3	—	3
<b>Balance at 31 December 2006 carried forward</b>	23,931	98,524	(61)	23,228	(48,184)	97,438

\* Other reserves include a merger reserve of £11,857,000, a capital reserve of £207,000, an acquisition reserve of £3,472,000, in relation to the premium on shares issued as part of the consideration for the acquisition of Transigent Limited in 2002 and a bond equity reserve of £7,692,000.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2007**

	Attributable to the equity holders of the parent					
	Share capital	Share premium reserve	Translation reserve	Other reserves*	Retained earnings	Total equity
	As restated £'000	As restated £'000	As restated £'000	As restated £'000	As restated £'000	As restated £'000
<b>Balance at 1 January 2007 brought forward</b>	23,931	98,524	(61)	23,228	(48,184)	97,438
<b>Changes in equity for the six months ended 30 June 2007</b>						
Exchange differences on translating foreign operations	—	—	25	—	—	25
Net losses not recognised in the income statement:						
Unrealised gain on Pipex Wireless Limited	—	—	—	—	1,529	1,529
Net expense recognised directly in equity	—	—	25	—	1,529	1,554
Loss for the period	—	—	—	—	(8,386)	(8,386)
<b>Total recognised income and expense for the period</b>	—	—	25	—	(6,857)	(6,832)
Issue of share capital	67	603	—	—	—	670
Exercise of share options	—	—	—	—	—	—
Grant of options	—	—	—	—	2,012	2,012
<b>Balance at 30 June 2007 carried forward</b>	<b>23,998</b>	<b>99,127</b>	<b>(36)</b>	<b>23,228</b>	<b>(53,029)</b>	<b>93,288</b>

\* Other reserves include a merger reserve of £11,857,000, a capital reserve of £207,000, an acquisition reserve of £3,472,000, in relation to the premium on shares issued as part of the consideration for the acquisition of Transigent Limited in 2002 and a bond equity reserve of £7,692,000.

**CONSOLIDATED CASH FLOW STATEMENTS (UNAUDITED)**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2007, 30 JUNE 2006 AND THE YEAR ENDED 31 DECEMBER 2006**

	Notes	Six month period ended 30 June 2007 £'000	Six month period ended 30 June 2006 £'000	Year ended 31 December 2006 £'000
<b>Cash flows from operating activities</b>				
Cash generated from operations	6	(595)	15,601	34,012
Interest paid		(2,939)	(1,937)	(4,997)
Income taxes (paid)/received		(4)	(144)	230
<b>Net cash generated from operating activities</b>	3	<b>(3,538)</b>	13,520	29,245
<b>Cash flows from investing activities</b>				
Acquisition of subsidiaries		—	(1,984)	(25,563)
Net overdrafts acquired on acquisition of subsidiaries		—	(43,146)	(40,589)
Acquisition of businesses		—	—	(10,368)
Investment in jointly controlled entity		(2,058)	—	(797)
Purchase of property, plant and equipment		(8,552)	(12,035)	(22,077)
Interest received		587	369	546
<b>Net cash used in investing activities</b>	3	<b>(10,023)</b>	(56,796)	(98,848)
<b>Cash flows from financing activities</b>				
Proceeds from the issue of share capital		—	13,634	13,634
Proceeds from the exercise of share options		671	1,041	2,161
Proceeds from the issue of convertible bonds		982	88,277	88,279
Change in bank overdraft		1,402	—	—
Proceeds from long-term borrowings		—	41,082	76,746
Repayments of long-term borrowings		—	(75,714)	(74,310)
Payment of finance lease liabilities		(2,648)	(1,205)	(2,543)
<b>Net cash generated from financing activities</b>	3	<b>407</b>	67,115	103,967
<b>Net increase in cash and cash equivalents</b>		<b>(13,154)</b>	23,839	34,364
<b>Cash and cash equivalents at the beginning of the period</b>		<b>48,328</b>	13,964	13,964
<b>Cash and cash equivalents at the end of the period</b>		<b>35,174</b>	37,803	48,328

# NOTES TO THE INTERIM GROUP FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2007

## I. BASIS OF PREPARATION

The AIM Rules require that the next annual consolidated financial statements of the company, for the year ending 31 December 2007, be prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU ("adopted IFRSs").

This interim financial information has been prepared on the basis of the recognition and measurement requirements of adopted IFRSs as at 30 June 2007 that are effective (or available for early adoption) at 31 December 2007, the group's first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted IFRSs, the directors have applied the accounting policies, as set out in the restatement document, which they expect to apply when the first annual IFRS financial statements are prepared for the year ending 31 December 2007.

However, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 December 2007 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 December 2007.

## BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Pipex Communications plc (the "company") and enterprises controlled by the company (its "subsidiaries", together referred to as the "group").

## STATUS OF FINANCIAL INFORMATION

The comparative figures for the financial year ended 31 December 2006 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.

## ACCOUNTING POLICIES

The accounting policies that the group intends to apply for the year ending 31 December 2007 are set out in the separate document entitled "Restatement of Financial Information under International Financial Reporting Standards". The accounting policies have been applied consistently to all periods presented in these interim group financial statements, subject to the exemptions contained in IFRS 1 that the group has elected to use.

## 2. POST BALANCE SHEET EVENTS

On 13 July 2007, the company announced that it had entered into an agreement for the sale, subject to shareholder approval and competition clearance, of the companies which comprise the group's broadband and voice businesses to Tiscali. The consideration for the disposal on a cash and debt free basis was £210 million, which sum was subject to adjustment in accordance with the terms of the sale agreement. This agreement was completed on 13 September 2007.

Although the broadband and voice division had experienced significant growth, this was not expected to continue due to the declining adoption rate of broadband in the UK and increasing levels of competition in the sector. These factors were considered likely to result in a higher cost of customer acquisition and ongoing margin erosion which would limit the business's ability to increase profitability. In addition, opportunities for growth through acquisition have declined considerably as a result of the significant consolidation which has occurred in the sector.

Pipex's broadband and voice division was a leading UK provider of broadband and voice services. For the year to 31 December 2006, the revenues attributable to the division were £232.9 million with an EBITDA of £18.8 million and a profit before tax of £13.9 million, excluding amortisation of goodwill and inter-company interest. As at 31 December 2006, the net tangible assets of the division were £13.1 million, excluding investments and inter-company balances. At that time, the division had approximately 570,000 broadband customers and 480,000 voice customers.

On 17 September 2007, the company announced that it would redeem all of the £91,500,000 3.875% guaranteed convertible bonds due 2011 on 12 October 2007. The redemption will be at their principal amount plus accrued interest together with payment of a premium of £20 per £1,000 denomination of bonds.

### 3. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (REFER NOTE 2)

The major classes of assets and liabilities classified as held for sale are as follows:

	<b>30 June 2007 £'000</b>
Property, plant and equipment	<b>7,126</b>
Goodwill	<b>123,245</b>
Intangible assets	<b>19,824</b>
Inventories	<b>25</b>
Trade and other receivables	<b>27,535</b>
<b>Total assets classified as held for sale</b>	<b>177,755</b>
Long-term borrowings	<b>(3)</b>
Short-term borrowings	<b>(117)</b>
Trade and other payables	<b>(58,530)</b>
Tax liabilities	<b>(78)</b>
<b>Total liabilities associated with assets classified as held for sale</b>	<b>(58,728)</b>
<b>Net assets of disposal group</b>	<b>119,027</b>

The information presented in the consolidated income statements of pages 4 to 6 has been reanalysed to show the income and expenditure relating to the disposal group as arising from discontinued operations.

The information presented in the consolidated cash flow statement on page 11 is the total cash flows arising from all the group's operations. In respect of the disposal group only, the following cash flows are relevant:

	<b>Six month period ended 30 June 2007 £'000</b>	Six month period ended 30 June 2006 £'000	Year ended 31 December 2006 £'000
Net cash generated from operating activities	<b>6,443</b>	17,965	38,251
Net cash used in investing activities	<b>(11,966)</b>	(1,611)	(8,348)
Net cash generated from financing activities	<b>(59)</b>	(46)	(92)

**NOTES TO THE INTERIM GROUP FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2007**

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS**

**BUSINESS SEGMENTS**

For management purposes, the group is currently organised into three operating divisions – broadband and voice services, hosting services, and business 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.

**Business 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.

The segment information for these businesses is as follows:

	<b>For the six month period ended 30 June 2007</b>				
	<b>Broadband and voice services</b>	<b>Hosting services</b>	<b>Business services</b>	<b>Adjustments</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Revenue</b>					
External sales	<b>155,528</b>	<b>17,291</b>	<b>16,126</b>	<b>(10)</b>	<b>188,935</b>
<b>Result</b>					
Segment result	<b>9,117</b>	<b>3,241</b>	<b>(1,209)</b>	<b>(1,747)</b>	<b>9,402</b>
Amortisation of intangibles	<b>(3,663)</b>	<b>(141)</b>	<b>—</b>	<b>—</b>	<b>(3,804)</b>
Depreciation	<b>(2,533)</b>	<b>(1,765)</b>	<b>(3,493)</b>	<b>—</b>	<b>(7,791)</b>
Share-based payment costs	<b>(1,114)</b>	<b>(80)</b>	<b>(125)</b>	<b>(693)</b>	<b>(2,012)</b>
Share of joint venture	<b>—</b>	<b>—</b>	<b>—</b>	<b>(596)</b>	<b>(596)</b>
Finance income	<b>—</b>	<b>—</b>	<b>—</b>	<b>895</b>	<b>895</b>
Finance costs	<b>—</b>	<b>—</b>	<b>—</b>	<b>(4,490)</b>	<b>(4,490)</b>
Profit before tax	<b>1,807</b>	<b>1,255</b>	<b>(4,827)</b>	<b>(6,631)</b>	<b>(8,396)</b>
Income tax expense	<b>14</b>	<b>(4)</b>	<b>—</b>	<b>—</b>	<b>10</b>
	<b>1,821</b>	<b>1,251</b>	<b>(4,827)</b>	<b>(6,631)</b>	<b>(8,386)</b>
<b>Other information</b>					
Capital additions	<b>(909)</b>	<b>(2,537)</b>	<b>(7,351)</b>	<b>—</b>	<b>(10,797)</b>
<b>Balance sheet</b>					
<b>Assets</b>					
Segment assets	<b>111,238</b>	<b>18,990</b>	<b>29,889</b>	<b>—</b>	<b>160,117</b>
Unallocated corporate assets	<b>—</b>	<b>—</b>	<b>—</b>	<b>153,233</b>	<b>153,233</b>
	<b>111,238</b>	<b>18,990</b>	<b>29,889</b>	<b>153,233</b>	<b>313,350</b>
<b>Liabilities</b>					
Segment liabilities	<b>(57,117)</b>	<b>(14,548)</b>	<b>(25,196)</b>	<b>—</b>	<b>(96,861)</b>
Unallocated corporate liabilities	<b>—</b>	<b>—</b>	<b>—</b>	<b>(123,201)</b>	<b>(123,201)</b>
	<b>(57,117)</b>	<b>(14,548)</b>	<b>(25,196)</b>	<b>(123,201)</b>	<b>(220,062)</b>

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED) BUSINESS SEGMENTS (CONTINUED)

The segment information for these businesses is as follows:

For the six month period ended 30 June 2006

	Broadband and voice services £'000	Hosting services £'000	Business services £'000	Adjustments £'000	Total £'000
<b>Revenue</b>					
External sales	88,553	15,364	15,289	11	119,217
<b>Result</b>					
Segment result	9,384	4,631	(653)	(2,200)	11,162
Amortisation of intangibles	(1,630)	—	(41)	—	(1,671)
Depreciation	(1,692)	(1,496)	(2,080)	(3)	(5,271)
Share-based payment costs	(107)	(110)	(119)	(465)	(801)
Unallocated corporate expenses	—	—	—	(262)	(262)
Finance income	—	—	—	369	369
Finance costs	—	—	—	(2,688)	(2,688)
Profit before tax	5,955	3,025	(2,893)	(5,249)	838
Income tax expense	5,215	3	—	—	5,218
	11,170	3,028	(2,893)	(5,249)	6,056
<b>Other information</b>					
Capital additions	(15,561)	(2,735)	(4,309)	—	(22,605)
<b>Balance sheet</b>					
<b>Assets</b>					
Segment assets	84,002	14,694	81,069	—	179,765
Unallocated corporate assets	—	—	—	91,374	91,374
	84,002	14,694	81,069	91,374	271,139
<b>Liabilities</b>					
Segment liabilities	(53,180)	(11,152)	(24,678)	—	(89,010)
Unallocated corporate liabilities	—	—	—	(87,477)	(87,477)
	(53,180)	(11,152)	(24,678)	(87,477)	(176,487)

**NOTES TO THE INTERIM GROUP FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2007**

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)**

**BUSINESS SEGMENTS (CONTINUED)**

The segment information for these businesses is as follows:

	For the year ended 31 December 2006				
	Broadband and voice services £'000	Hosting services £'000	Business services £'000	Adjustments £'000	Total £'000
<b>Revenue</b>					
External sales	232,905	30,687	30,632	135	294,359
<b>Result</b>					
Segment result	18,752	9,285	(1,017)	(3,923)	23,097
Amortisation of intangibles	(5,858)	—	(787)	—	(6,645)
Depreciation	(4,177)	(2,997)	(4,831)	(28)	(12,033)
Share-based payment costs	(783)	(225)	(243)	(955)	(2,206)
Unallocated corporate expenses	—	—	—	(1,150)	(1,150)
Finance income	—	—	—	546	546
Finance costs	—	—	—	(6,806)	(6,806)
Profit before tax	7,934	6,063	(6,878)	(12,316)	(5,197)
Income tax expense	6,778	(8)	—	—	6,770
	14,712	6,055	(6,878)	(12,316)	1,573
<b>Other information</b>					
Capital additions	(16,698)	(8,400)	(9,480)	—	(34,578)
<b>Balance sheet</b>					
<b>Assets</b>					
Segment assets	122,808	16,423	36,314	—	175,545
Unallocated corporate assets	—	—	—	153,258	153,258
	122,808	16,423	36,314	153,258	328,803
<b>Liabilities</b>					
Segment liabilities	(68,169)	(13,067)	(24,418)	—	(105,654)
Unallocated corporate liabilities	—	—	—	(125,711)	(125,711)
	(68,169)	(13,067)	(24,418)	(125,711)	(231,365)

**GEOGRAPHICAL SEGMENTS**

The group's operations are located in the United Kingdom and Germany. The segment information for these geographical locations which is not materially different to its origin is as follows:

	For the six month period ended 30 June 2007		
	United Kingdom £'000	Germany £'000	Total £'000
Sales revenue	<b>183,302</b>	<b>5,633</b>	<b>188,935</b>
Carrying amount of segment assets	<b>300,592</b>	<b>12,758</b>	<b>313,350</b>
Additions to property, plant and equipment and intangible assets	<b>(8,788)</b>	<b>(2,010)</b>	<b>(10,798)</b>

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

##### GEOGRAPHICAL SEGMENTS (CONTINUED)

	For the six month period ended 30 June 2006		
	United Kingdom	Germany	Total
	£'000	£'000	£'000
Sales revenue	114,741	4,476	119,217
Carrying amount of segment assets	264,061	7,078	271,139
Additions to property, plant and equipment and intangible assets	(22,199)	(2,735)	(24,934)

	For the year ended 31 December 2006		
	United Kingdom	Germany	Total
	£'000	£'000	£'000
Sales revenue	284,787	9,572	294,359
Carrying amount of segment assets	318,591	10,212	328,803
Additions to property, plant and equipment and intangible assets	(26,975)	(7,603)	(34,578)

#### 5. EARNINGS PER SHARE

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

	Six month period ended	Six month period ended	Year ended
	30 June 2007 £'000	30 June 2006 £'000	31 December 2006 £'000
<b>Earnings</b>			
Earnings for the purposes of basic earnings per share (net loss for the period attributable to the equity holders of the parent)	<b>(8,386)</b>	6,056	1,573
	<b>30 June 2007 Number</b>	30 June 2006 Number	31 December 2006 Number
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>2,397,038,867</b>	2,321,397,845	2,337,117,056

#### 6. CASH GENERATED FROM OPERATIONS

	Six month period ended	Six month period ended	Year ended
	30 June 2007 £'000	30 June 2006 £'000	31 December 2006 £'000
Operating profit	<b>9,402</b>	11,162	23,097
Adjustments for:			
Decrease in provisions	<b>(294)</b>	(167)	(363)
Operating cash flows before movements in working capital	<b>9,108</b>	10,995	22,734
(Increase)/decrease in inventories	<b>22</b>	(9)	16
(Increase)/decrease in receivables	<b>6,314</b>	813	865
Increase in payables	<b>(16,039)</b>	3,802	10,397
Cash generated from operations	<b>(595)</b>	15,601	34,012



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