

8 September 2005

**PIPEX COMMUNICATIONS PLC**  
**RESULTS FOR THE HALF-YEAR ENDED 30 JUNE 2005**

PIPEX Communications plc, the provider of broadband, hosting and network services, today reports its results for the half-year ended 30 June 2005.

**Financial Highlights**

- Turnover up 47% to £64.1m (H1 2004: £43.6m)
- Gross profit up 44% to £29.3m (H1 2004: £20.3m)
- EBITDA before integration costs up 32% to £7.5m (H1 2004: £5.7m)
- Profit before tax and amortisation of £2.5m (H1 2004: £2.0m)
- Free cash inflow of £5.4m, from an outflow of £1.3m in H1 2004
- Balance sheet cash of £12.5m (December 2004: £11.3m) and net debt of £19.0m (December 2004: £20.6m)

**Operational Highlights**

- Acquisition of Donhost Ltd for £6.4m strengthened the Hosting division
- Total customer numbers for the Group increased 38% to 524,000 compared to the same period last year
  - Broadband customers rose 75% from 123,000 to 215,000
  - Hosting rose to 260,000 from 142,000
  - Domain names rose to 1.2m from 0.8m
- Data centre utilisation now 70%
- 10-15% of new broadband customers also taking voice

**Post period end**

- Commenced Local Loop Unbundling
- Trial of 3.6 – 4.2 GHz spectrum to test WiMAX

**Peter Dubens, Executive Chairman, commented:**

*"I am pleased to report record sales, EBITDA and free cash inflow for the first half of the year. We will continue to focus on the key growth areas of broadband and hosting both organically and through acquisitions where we again see a window of opportunity to increase shareholder value, as we did in 2003 and 2004.*

*"The initial orders for unbundling local exchanges have been given to BT and we are confident that this will lead to a greater utilisation of our network, better margins and enhanced product offerings to our customers in the future.*

*"We see the momentum for wireless broadband gaining pace and we look forward to the results from the first official UK WiMAX trial utilising our spectrum, which could now hold significant value for the Group."*

**For further information:**

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**Photographs of Peter Dubens, Mike Read and Stewart Porter can be obtained from Financial Dynamics**

## **Chairman's statement**

PIPEX is pleased to report strong trading for the first half of 2005 with record sales, EBITDA and free cash inflow.

Turnover increased 47% over the same period in 2004, EBITDA (before integration costs) rose 32% and we generated £5.4m of free cash inflow. All three divisions, namely broadband, hosting and network services, performed to our expectations and now represent 55%, 19% and 26% of revenue respectively. This change in mix of products sold has slightly reduced margins for the period to 46%, however the gross profit contribution derived from the divisions is more evenly balanced at 43%, 33% and 24% respectively, showing the importance of hosting with its contribution to margin and cash flow.

At the end of April 2005 we completed the acquisition of Donhost Limited for £6.4m. This has further improved our shared and dedicated hosting offering and also provides us with a reseller sales model. We have now consolidated our hosting facilities from 9 to 6 data centres with an average capacity utilisation of 70%.

The broadband division ended the period with 215,000 customers, up from 192,000 at the end of 2004. We have started the process of integrating the networks, which will be completed by the end of December 2005, to provide a better and more cost effective service to our customers. We also took the decision to unbundle 60 high density exchanges, as the number of customers per exchange has now made it viable to do so. We will only unbundle exchanges where we have sufficient customer density to achieve an anticipated payback in under 2 years.

In order to extract maximum customer value and enhance 'stickiness', we will continue to focus on selling our customers more than one product. With less than 2% of our 524,000 customers buying multiple products, this is clearly an important area of focus for us with the potential to yield significant returns. As part of this focus we launched voice bundled with broadband for the first time in the period and already 10-15% of our new broadband customers are buying the bundled product.

As mentioned in previous statements we own a 3.6 to 4.2 GHz wireless licence that falls within the WiMAX band that offers portable wireless broadband. We continue to review strategic opportunities for this and, to this end, have launched a trial with a leading equipment vendor which will be completed in the second half of this year. At this time we believe the wireless licence could hold significant value for the Group.

## **Financial overview**

Turnover for the six months to June 2005 was £64.1m, up 47% from £43.6m for the same period last year. The small turnover contributed by acquisitions (£0.3m) is attributable to Donhost, which was acquired on 27 April 2005.

Gross profit has improved in line with turnover, increasing by 44% over the same period last year to £29.3m. This generated a gross profit margin of 45.8%, compared to 46.5% last time. The slight decline in margin percentage was in line with our expectations and reflects the change in mix of products sold.

Operating expenses before amortisation, depreciation and integration costs as a percentage of sales, have improved very slightly from the year end, the minor deterioration from the same period last year being attributable to the Company's decision to increase marketing spend.

EBITDA (operating profit before amortisation, depreciation and integration costs) for the six months was £7.5m, up from £5.7m in the first half of 2004.

Loss before tax rose to £3.0m from £1.9m in the first six months of last year, the increase entirely a reflection of high intangible amortisation costs of £1.5m over the same period. The steep rise in both amortisation and depreciation reflects a full six months' charge relating to the Host Europe acquisition in April last year and the subsequent acquisition of Nildram in August 2004.

Positive free cash inflow for the half year was £5.4m compared to an outflow for the same period last year of £1.3m. The increase in balance sheet cash in this period was £1.2m after net cash outflows in relation to the Donhost acquisition of £3.2m and net loan and finance lease capital repayments of £0.8m. Balance sheet cash at 30 June 2005 was £12.5m (December 2004: £11.3m) and net debt was £19.0m (December 2004: £20.6m).

## **Operational Review**

### Broadband

Broadband continues to show strong growth, with total customers of 215,000 at the end of June 2005. In line with our plan to sell multiple products to customers, a bundled voice product was added to both the Nildram and PIPEX Internet broadband brands in the period, with 10-15% of all new broadband customers taking up the bundled option. We have refocused the product set in order to simplify our customer offering whilst continuing to provide a low entry point product, together with products that satisfy more demanding users. In line with BT's announcement on its speed enhancement to the basic broadband product, we have increased the speed available to our customer base and we will continue to migrate customers to the higher speeds, free of charge, during the rest of the year. In addition, we have participated in the 8 Mbps ADSL trial; once BT testing is complete we anticipate offering these services to our customer base in the ensuing 6 months.

Our business broadband customers continue to grow in number, remaining at 15% of the base. These customers put different time of day demands on the network compared to our residential customers which, together with our network rationalisation programme, has helped us optimise the

use of the network. To improve further the cost efficiency of the broadband network, and to facilitate the launch of new services, including speeds up to 24 Mbps, we have embarked on our Local Loop Unbundling (“LLU”) programme, providing, in August, our forecast for 60 BT exchanges. The outcome of Ofcom’s strategic review allowed us to plan with more certainty our future broadband network. It is clear from this that there is little scope for significant reductions in BT’s wholesale prices in this area, and, hence, the return on our investments in LLU is more certain. We have selected those exchanges where we have at least 400 customers within 5kms of our core network, providing a payback within 24 months.

## Hosting and Domain Names

Hosting and domain business continues to grow in line with expectations, with hosting customers now in excess of 260,000, including those acquired with Donhost. Donhost has also provided us with access to the reseller market, an area in which we were previously under represented. The acquisition also enables us to continue to grow our Windows-based hosting service.

PIPEX, under its 123Reg and WebFusion brands, continues to be a leading hosting and domain name provider. This position has been enhanced by two key partnerships which we have recently announced. The first is with Microsoft, where we have been selected as one of only four companies in the world to work with Microsoft on its accelerator programme to drive Windows shared hosting to the next level of development and services. The other partnership, with Intel, is focused on our “dedicated” servers. Intel has granted PIPEX, along with our partner Compusys, the status “Server Centre of Excellence”. This unique status will provide PIPEX access to Intel’s state of the art technologies.

Domain names (web addresses for individuals and companies) continue to be a key part of PIPEX, and have now grown to over 1.2m names.

We have continued to drive our integration plans and, hence, during the period we closed 3 data centres (Leeds, Nottingham and Doncaster), moving the servers to our core centres in London, Manchester and our remaining facility in Leeds. These centres are some of the most secure and robust centres within the UK, hosting a number of FTSE customers.

## Network Services

As business becomes increasingly web based, our customers demand more sophisticated products, moving from the simple broadband or shared hosting to dedicated servers or IP based networks. Our Networks Services business meets this need. This division offers “multi-product” solutions, providing complex hosting and connectivity. We have been particularly successful in media, Local Government and sport. Each of these sectors is seeing increased demand for online services from video-

streaming, e-commerce and content. During the period, this business has grown to over 3,000 customers.

We are pleased to have signed a deal to sponsor Fulham Football Club which has gone live since the period end. We see this as an effective way to increase brand awareness across the Group.

## **Outlook**

We continue to see strong demand in the UK for hosting and broadband. PIPEX will focus on these key growth areas as well as continue to improve ways of delivering these products to customers both to improve profitability and to offer enhanced services. The utilisation of our network, especially in LLU, will be important in achieving this.

As the WiMAX universe develops, attracting more equipment manufacturers and product developers, the opportunity to crystallise value from our 3.6 to 4.2 GHz spectrum in this nascent market becomes more tangible.

The Board feels that there is now a window to increase shareholder value further through selective acquisitions. This follows a successful, continuing period of integration and consolidation of the acquisitions made in 2003 and 2004.

Peter Dubens

Chairman

7 September 2005

**Consolidated profit and loss account (unaudited)  
for the six months to 30 June 2005**

	6 months to 30 June 2005			Continuing 6 months to 30 June 2004	Continuing Year to 31 Dec 2004
	Existing Unaudited £'000	Acquisitions Unaudited £'000	Continuing Total Unaudited £'000	Unaudited £'000	Audited £'000
<b>Turnover</b>	<b>63,736</b>	<b>334</b>	<b>64,070</b>	43,627	102,289
Cost of sales	(34,719)	(37)	(34,756)	(23,351)	(53,774)
<b>Gross profit</b>	<b>29,017</b>	<b>297</b>	<b>29,314</b>	20,276	48,515
Operating expenses before amortisation, depreciation and integration costs	(21,731)	(75)	(21,806)	(14,609)	(35,354)
Amortisation of intangibles	(5,437)	-	(5,437)	(3,889)	(9,001)
Depreciation	(3,341)	(9)	(3,350)	(2,344)	(5,852)
Integration costs	(652)	-	(652)	(810)	(1,749)
<b>Operating expenses</b>	<b>(31,161)</b>	<b>(84)</b>	<b>(31,245)</b>	(21,652)	(51,956)
Operating profit before amortisation, depreciation and integration costs	7,286	222	7,508	5,667	13,161
Amortisation of intangibles	(5,437)	-	(5,437)	(3,889)	(9,001)
Depreciation	(3,341)	(9)	(3,350)	(2,344)	(5,852)
Integration costs	(652)	-	(652)	(810)	(1,749)
<b>Operating (loss)/profit</b>	<b>(2,144)</b>	<b>213</b>	<b>(1,931)</b>	(1,376)	(3,441)
Other interest receivable and similar income			165	231	465
Interest payable and similar charges			(1,215)	(748)	(2,058)
Loss on ordinary activities before taxation			(2,981)	(1,893)	(5,034)
Tax on loss on ordinary activities			(252)	(9)	(29)
<b>Loss for the financial period</b>			<b>(3,233)</b>	(1,902)	(5,063)
Loss per ordinary share - basic			0.15p	0.10p	0.25p
- diluted			0.15p	0.10p	0.25p

# Consolidated balance sheet (unaudited)

at 30 June 2005

	At 30 June 2005 Unaudited £'000	At June 2004 Unaudited £'000	At 31 Dec 2004 Audited £'000
<b>Fixed assets</b>			
Intangible assets			
Positive goodwill	94,888	87,897	94,714
Negative goodwill	-	(206)	(94)
Other intangibles	4,549	-	4,675
	<b>99,437</b>	87,691	99,295
Tangible assets	23,799	19,422	21,581
	<b>123,236</b>	107,113	120,876
<b>Current assets</b>			
Stock	42	197	21
Debtors	16,308	10,388	16,386
Cash at bank and in hand	12,548	15,968	11,309
	<b>28,898</b>	26,553	27,716
<b>Creditors: amounts falling due within one year</b>	<b>(46,200)</b>	(39,920)	(44,094)
<b>Net current liabilities</b>	<b>(17,302)</b>	(13,367)	(16,378)
<b>Total assets less current liabilities</b>	<b>105,934</b>	93,746	104,498
<b>Creditors: amounts falling due after one year</b>	<b>(25,932)</b>	(11,373)	(22,861)
<b>Provisions for liabilities and charges</b>	<b>(2,026)</b>	(889)	(2,251)
<b>Net assets</b>	<b>77,976</b>	81,484	79,386
<b>Capital and reserves</b>			
Called up share capital	22,065	21,641	21,822
Share premium account	83,947	83,497	83,868
Other reserves	12,264	10,252	10,703
Profit and loss account	(40,300)	(33,906)	(37,007)
<b>Equity shareholders' funds</b>	<b>77,976</b>	81,484	79,386

## Consolidated cash flow statement (unaudited)

for the six months to 30 June 2005

	6 months to 30 June 2005 Unaudited £'000	6 months to 30 June 2004 Unaudited £'000	Year to 31 Dec 2004 Audited £'000
<b>Cash inflow from operating activities</b>	<b>10,963</b>	886	7,643
<b>Return on investment and servicing of finance</b>			
Interest received	165	231	465
Interest paid	(586)	(605)	(1,523)
Interest element of finance lease repayments	(116)	(143)	(377)
	<b>(537)</b>	(517)	(1,435)
<b>Taxation received</b>	-	238	217
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	(5,025)	(2,654)	(6,086)
Sale of fixed assets	-	796	939
	<b>(5,025)</b>	(1,858)	(5,147)
<i>Free cash flow</i>	<b>5,401</b>	(1,251)	1,278
<b>Acquisitions</b>			
Purchase of subsidiary undertakings (net of cash acquired)	(3,231)	(23,115)	(40,695)
Prior year acquisitions	(259)	-	(163)
	<b>(3,490)</b>	(23,115)	(40,858)
<b>Cash inflow/(outflow) before management of liquid resources and financing</b>	<b>1,911</b>	(24,366)	(39,580)
<b>Management of liquid resources</b>			
Movement in restricted deposits	2,291	-	(693)
<b>Financing</b>			
Issue of ordinary share capital	-	33,000	33,000
Expenses on issue of ordinary share capital	-	(1,227)	(1,227)
Exercise of share options	94	233	785
Capital element of finance lease repayments	(723)	(1,878)	(3,545)
Repayment of loan notes	(1,989)	-	(1,501)
Repayment of loans	(54)	(3,061)	(2,890)
Drawdown of new loan	2,000	-	13,000
<b>Net cash (outflow)/inflow from financing</b>	<b>(672)</b>	27,067	37,622
<b>Increase/(decrease) in cash in the period</b>	<b>3,530</b>	2,701	(2,651)

## Reconciliation of operating loss to operating cash flow (unaudited)

for the six months to 30 June 2005

	6 months to 30 June 2005 Unaudited £'000	6 months to 30 June 2004 Unaudited £'000	Year to 31 Dec 2004 Audited £'000
<b>Operating loss</b>	<b>(1,931)</b>	(1,376)	(3,441)
Depreciation	3,350	2,344	5,852
Amortisation	5,437	3,889	9,001
Profit on sale of fixed assets	-	(35)	(53)
UITF 17 charge	-	-	451
Decrease/ (increase) in working capital	4,343	(3,828)	(3,364)
Non cash credit in respect of provisions	(236)	(108)	(803)
<b>Cash inflow from operating activities</b>	<b>10,963</b>	886	7,643

## Reconciliation of net cash flow to movement in net funds/(debt) (unaudited)

for the six months to 30 June 2005

	6 months to 30 June 2005 Unaudited £'000	6 months to 30 June 2004 Unaudited £'000	Year to 31 Dec 2004 Audited £'000
Increase/(decrease) in cash in the period	3,530	2,701	(2,651)
Net movement in liquid resources	(2,291)	-	693
New loan drawdown	(2,000)	-	(13,000)
Repayment of loans	54	1,561	2,890
Repayment of loan notes	1,989	1,501	1,501
Repayments of lease financing	723	1,878	3,545
New finance leases	(417)	-	(486)
Finance leases acquired	-	(411)	(504)
Finance lease fair value adjustment	-	-	(950)
Movement in net funds/(debt)	1,588	7,230	(8,962)
Opening net debt	(20,617)	(11,655)	(11,655)
Closing net debt	(19,029)	(4,425)	(20,617)

## Analysis of net debt (unaudited)

at 30 June 2005

	At 1 January 2005 £'000	Cashflow £'000	Acquisitions (excluding cash £'000)	New finance leases £'000	At 30 June 2005 £'000
Cash	8,191	3,530	-	-	11,721
Restricted deposits	3,118	(2,291)	-	-	827
Cash at bank and in hand per balance sheet	11,309	1,239	-	-	12,548
Bank loans	(26,989)	(1,946)	-	-	(28,935)
Finance leases	(2,948)	723	-	(417)	(2,642)
Loan notes	(1,989)	1,989	-	-	-
Net (debt)/funds	(20,617)	2,005	-	(417)	(19,029)

## Reconciliation of movements in shareholders' funds (unaudited)

for the six months to 30 June 2005

	6 months to 30 June 2005 Unaudited £'000	6 months to 30 June 2004 Unaudited £'000	Year to 31 Dec 2004 Audited £'000
<b>Loss for the financial period</b>	<b>(3,233)</b>	<b>(1,902)</b>	<b>(5,063)</b>
New share capital subscribed (net of issue costs)	1,770	31,773	31,773
Translation difference in respect of net investment in overseas subsidiary undertaking	(41)	-	60
Exercise of share options	94	233	785
Granting of options/UITF 17 charge reversed	-	-	451
<b>Net (decrease)/increase in shareholders' funds</b>	<b>(1,410)</b>	<b>30,104</b>	<b>28,006</b>
Opening shareholders' funds	79,386	51,380	51,380
<b>Closing shareholders' funds</b>	<b>77,976</b>	<b>81,484</b>	<b>79,386</b>

## NOTES

### 1. Financial information

The financial information contained in this interim report does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Financial information is presented on the basis of the accounting policies of the Group as set out in the Annual Report for the year ended 31 December 2004.

The consolidated profit and loss account and cash flow statements for the 6 months to 30 June 2005 and 30 June 2004 and the consolidated balance sheets at 30 June 2005 and 30 June 2004 are unaudited. The financial information for the year ended 31 December 2004 has been extracted from the statutory accounts filed with the Registrar of Companies which contained an unqualified audit report and no adverse statement under Section 237 (2) or (3) of the Companies Act 1985.

### 2. Segmental information

The group operates one class of business, that of telecommunications services, and consequently does not prepare segmental information by class of business. However, to provide useful information, turnover is subdivided into three main service categories shown below.

	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	Year to 31 Dec 2004 £'000
<b>Turnover</b>			
Broadband services	34,981	22,353	53,619
Hosting services	12,465	5,183	16,515
Network services	16,624	16,091	32,155
	<b>64,070</b>	<b>43,627</b>	<b>102,289</b>

December 2004 comparatives stated above have been adjusted for consistency.

### Turnover and loss before interest and tax by country of origin

	Turnover 6 months to 30 June 2005 £'000	Turnover 6 months to 30 June 2004 £'000	Turnover Year to 31 Dec 2004 £'000	(Loss)/profit before interest and tax 6 months to 30 June 2005 £'000	(Loss)/profit before interest and tax 6 months to 30 June 2004 £'000	(Loss)/profit before interest and tax Year to 31 Dec 2004 £'000
<b>UK</b>	60,702	42,296	98,096	(2,141)	(1,458)	(3,601)
<b>Germany</b>	3,368	1,331	4,193	210	82	160
	<b>64,070</b>	<b>43,627</b>	<b>102,289</b>	<b>(1,931)</b>	<b>(1,376)</b>	<b>(3,441)</b>

Turnover analysed by destination is not materially different to turnover by origin.

### Net assets by country of origin

	Net assets At 30 June 2005 £'000	Net assets At 30 June 2004 £'000	Net assets At 31 Dec 2004 £'000
<b>UK</b>	76,496	80,443	77,803
<b>Germany</b>	1,480	1,041	1,383
	<b>77,976</b>	<b>81,484</b>	<b>79,186</b>

## NOTES

### 3. Dividend

The directors do not recommend the payment of an interim dividend (2004: £nil).

### 4. Loss per share

	6 months to 30 June 2005	6 months to 30 June 2004	Year to 31 Dec 2004
Loss for the financial period attributable to shareholders	<b>£3,233,000</b>	£1,902,000	£5,063,000
Weighted average number of equity shares in issue	<b>2,191,455,476</b>	1,920,949,152	2,063,093,735
Basic/diluted loss per equity share*	<b>0.15p</b>	0.10p	0.25p

\* Since the conversion of potential ordinary shares to ordinary shares would decrease the net loss per share, they are not dilutive. Accordingly diluted loss per share is the same as basic loss per share.

### 5. Acquisition

On 27 April 2005 the Company acquired Donhost Limited for a total consideration of £6,357,000 financed by £4,130,000 in cash and the issue of ordinary share capital of £1,770,000, while costs of acquisition were £457,000.

The goodwill of £5,322,000 arising on acquisition is being amortised over ten years, the useful life as estimated by the directors.

The acquisition contributed £334,000 of turnover in the period to 30 June 2005, and an operating profit of £213,000.

The turnover and operating profit of Donhost Limited for the year ended 31 December 2004 were £1,269,000 and £675,000 respectively. The net assets of Donhost Limited at 31 December 2004 were £834,000.

Details of the fair values of the assets and liabilities acquired are set out below:

	Book value of assets acquired £'000	Fair value adjustments £'000	Fair value of assets Acquired £'000
Fixed assets	<b>123</b>	-	<b>123</b>
Debtors	<b>78</b>	-	<b>78</b>
Cash	<b>1,356</b>	-	<b>1,356</b>
Creditors	<b>(511)</b>	-	<b>(511)</b>
Provisions	<b>(11)</b>	-	<b>(11)</b>
<b>Net assets</b>	<b>1,035</b>	-	<b>1,035</b>
Goodwill			5,322
<b>Consideration</b>			<b>6,357</b>
Satisfied by:			
22,840,000 ordinary shares at market price of 7.75p			1,770
Cash			4,130
Costs of acquisition			457
			<b>6,357</b>

### Fair values

The fair value of assets acquired during the Host Europe acquisition in 2004 has been reduced by £215,000 during the half year. This comprises £59,000 in previously unaccrued secondary lease rentals, and £156,000 in other unaccrued liabilities. Consideration has also been adjusted by £44,000 in respect of previously unprovided professional fees.

Fair values with respect to acquisitions made in 2004 and 2005 to date, remain provisional.

**Independent review report by KPMG Audit Plc to PIPEX Communications plc**

We have been engaged by the Company to review the financial information set out on pages 1 to 11 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. 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 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 interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors.

**Review work performed**

We conducted our review in accordance with guidance contained in the Bulletin 1999/4: 'Review of Interim Financial Information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

**Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

**KPMG Audit Plc**

Chartered Accountants  
London

**7 September 2005**