



**Interim Results
30 June 2001**

Chairman's Statement

Overview

The six months to the 30 June has seen the Group continue to consolidate its position as a specialist local loop operator providing businesses with high performance connectivity and voice and data communication services. We now have an extensive network and a strong base of SME and corporate customers. During the period the Group continued to expand its product and service portfolio which now includes voice, data, internet and VPN services.

The most significant event for Zipcom in the period was the acquisition of HighwayOne. Established in 1997, HighwayOne is a tier 1 ISP providing high-speed access in the local loop for data and internet, deploying digital point-to-point microwave, ADSL, ISDN and leased line technology. The product offering includes data and Internet connectivity across the HighwayOne managed fibre and wireless network. The Value Added Service portfolio includes hosting, co-location and managed firewall applications, which enables HighwayOne to provide a one-stop shop approach to the internet connectivity requirements of its customers. The services are generally provided by partnering with high quality providers who are leaders in their respective sectors.

HighwayOne targets SME and corporate customers – typically mission critical users of data. The excellent customer base comprises a strong mix of household names with multisite connections. A significant number of customers are on contracts in excess of one year, giving good forward visibility of revenues and margins.

Strategy

Acquiring HighwayOne means that we can significantly accelerate our strategy to become a leading player in the broadband market throughout the UK. Demand for broadband services remains strong, and with investment and expertise in both Fixed Wireless Access and Digital Subscriber Line technologies, Zipcom has an operational flexibility and geographical reach which enables it to address segments of the market its larger and less agile competitors have tended to ignore. Our strategy of delivering connectivity with a bundle of value added services, enables us to strengthen our customer relationships providing lock-in and generating increased revenue per customer.

Financial

I am pleased to report that the Company has made considerable financial progress in the six months to 30 June 2001, reporting its first turnover, amounting to £522,000 (2000: nil). HighwayOne contributed revenues for the month of June of £503,000. Cost of sales has risen in line with turnover. A significant proportion of these costs are represented by the fixed costs of our network infrastructure and, as this has considerable unutilised capacity, this provides an opportunity for considerable margin improvement in the future.

Operating losses in the period of £2,883,000 (2000: £598,000) were in line with expectations. The comparative period to June 2000 was prior to our flotation when the Company was incurring only modest business development costs.

On the 1 June 2001, Zipcom acquired the business and assets of HighwayOne Corporation Limited. After adjustment to fair value, the value of net assets acquired was £2,350,000 and, with a total acquisition cost of £931,000, gave rise to negative goodwill of £1,419,000. This is being amortised over 4 years.

We continue, as reported in our last Annual Report, to manage the Company with tight financial controls. This has enabled us to preserve cash whilst managing the growth of the Group and at the end of June 2001 we had £7,214,000 in cash balances with obligations under various finance leases of £3,559,000.

Outlook

As I made clear at the time of our flotation, and I reminded you in our Annual Report, we would need to return to the capital markets for further funding during 2001. Since the time of the flotation, the capital markets have continued to decline. Zipcom has reacted to the changes by significantly reducing our peak funding requirement and the acquisition of HighwayOne, with its extensive network of 63 points of presence, has enabled us to reduce this still further. Construction of our initial RFA local loops in Scotland is complete and testing was successful. Full commercial roll out of the RFA network will begin when sufficient funding has been secured.

We remain convinced that the market opportunity for Zipcom is considerable, and with its advanced network and wide geographic coverage, the Company is well positioned to exploit the growing demand for high speed services in the local loop.



Grahame Purvis
Chairman & Chief Executive

22 August 2001

Consolidated profit and loss account (unaudited) for the six months to 30 June 2001

	6 months to 30 June 2001 unaudited £'000	6 months to 30 June 2000 unaudited £'000	Year to 31 December 2000 audited £'000
Turnover			
Continuing operations	19	-	-
Acquisitions	503	-	-
	522	-	-
Cost of sales	(468)	(18)	(157)
Gross profit/(loss)	54	(18)	(157)
Operating expenses	(2,937)	(580)	(2,802)
Operating loss	(2,883)	(598)	(2,959)
Net interest receivable	215	6	339
Loss on ordinary activities before taxation	(2,668)	(592)	(2,620)
Tax on loss on ordinary activities	-	-	-
Loss for the period	(2,668)	(592)	(2,620)
Loss per Ordinary share – Basic (note 3)	1.8p	0.8p	2.3p

There are no recognised gains or losses other than the loss for the period and accordingly no Statement of Total Recognised Gains and Losses has been produced.

Consolidated balance sheet (unaudited)
at 30 June 2001

	At 30 June 2001 unaudited £'000	At 30 June 2000 unaudited £'000	At 31 December 2000 audited £'000
Fixed assets			
Intangible assets – negative goodwill	(1,388)	–	–
Tangible assets	7,362	7	2,750
	5,974	7	2,750
Current assets			
Debtors	1,540	379	511
Cash at bank and in hand	7,214	27	10,078
	8,754	406	10,589
Creditors: amounts falling due within one year	(4,302)	(308)	(2,021)
Net current assets	4,452	98	8,568
Total assets less current liabilities	10,426	105	11,318
Creditors: amounts falling due after one year	(1,960)	–	–
Provisions for liabilities and charges	(87)	–	(271)
Net assets	8,379	105	11,047
Capital and reserves			
Called up share capital	1,523	740	1,523
Share premium account	12,187	–	12,187
Capital reserve	207	207	207
Profit and loss account	(5,538)	(842)	(2,870)
Equity shareholders' funds	8,379	105	11,047

Consolidated cash flow statement (unaudited)
for the six months to 30 June 2001

	6 months to 30 June 2001 unaudited £'000	6 months to 30 June 2000 unaudited £'000	Year to 31 December 2000 audited £'000
Operating loss	(2,883)	(598)	(2,959)
Depreciation	384	1	15
Amortisation	(31)	–	–
(Increase) / decrease in working capital	(143)	(320)	223
Non cash credit in respect of provisions	(184)	–	271
Cash outflow from operating activities	(2,857)	(917)	(2,450)
Returns on investment and servicing of finance	291	6	126
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(386)	(8)	(1,515)
Acquisitions (note 4)	(931)	–	–
Cash outflow before financing	(3,883)	(919)	(3,839)
Financing			
Issue of ordinary share capital	–	1,000	15,000
Expenses on issue of ordinary share capital	–	(54)	(1,083)
New finance leases	1,485	–	–
Capital element of finance lease payments	(466)	–	–
Net cash flow from financing	1,019	946	13,917
(Decrease) / increase in cash in the period	(2,864)	27	10,078

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

for the six months to 30 June 2001

	6 months to 30 June 2001 unaudited £'000	6 months to 30 June 2000 unaudited £'000	Year to 31 December 2000 audited £'000
(Decrease) / increase in cash in period	(2,864)	27	10,078
Finance leases acquired	(2,540)	-	-
New finance leases	(1,019)	-	-
Movement in net funds	(6,423)	27	10,078
Opening net funds	10,078	-	-
Closing net funds	3,655	27	10,078
Cash at bank and in hand	7,214	27	10,078
Finance leases	(3,559)	-	-
Closing net funds	3,655	27	10,078

Reconciliation of movements in shareholders' funds (unaudited)

for the six months to 30 June 2001

	6 months to 30 June 2001 unaudited £'000	6 months to 30 June 2000 unaudited £'000	Year to 31 December 2000 audited £'000
Loss for the financial year	(2,668)	(592)	(2,620)
New share capital subscribed (net of issue costs)	-	740	13,710
Movement on capital reserve	-	207	207
Net (reduction in) / addition to shareholders' funds	(2,668)	355	11,297
Opening shareholders' funds / (deficit)	11,047	(250)	(250)
Closing shareholders' funds	8,379	105	11,047

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 2000.

The consolidated profit and loss account and cash flow statements for the 6 months to 30 June 2001 and 30 June 2000 and the consolidated balance sheets at 30 June 2001 and 30 June 2000 are unaudited. The financial information for the year ended 31 December 2000 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 Dividend

The directors do not recommend the payment of an interim dividend (2000: nil).

3 Loss per share

	6 months to 30 June 2001 unaudited	6 months to 30 June 2000 unaudited	Year to 31 December 2000 audited
Loss for the financial period attributable to shareholders	£2,668,000	£592,000	£2,620,000
Weighted average number of equity shares in issue	152,264,272	73,357,898	113,892,797
Basic loss per equity share	1.8p	0.8p	2.3p

In accordance with Financial Reporting Standard 14 - Earnings per share, diluted loss per share is not disclosed as a result of the losses incurred.

4 Acquisition

On 1 June 2001 the Group acquired the business and assets of HighwayOne Corporation Limited. Details of the assets and liabilities acquired are set out below:

	£'000
Net assets acquired (at fair value):	
Tangible fixed assets	4,610
Debtors	752
Creditors	(472)
Loans and finance leases	(2,540)
	2,350
Negative goodwill	(1,419)
	931
Satisfied by: Cash	931

The fair value assessment of the net assets acquired is preliminary. The negative goodwill arising on acquisition is being written off over four years, which corresponds to the estimated useful economic life of the assets acquired.

As the acquired HighwayOne operations and staff have been integrated with the existing business of the Group, it has not been possible to separately identify the operating loss for the period.

Independent review report by KPMG Audit plc to Zipcom plc

We have been instructed by the company to review the financial information set out on pages 3 to 7 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.

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. 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 2001.

KPMG Audit Plc

Chartered Accountants

London

22 August 2001

Zipcom plc

Red House
Brookwood
Surrey
GU24 0BL

Tel: 01483 522 900

Fax: 01483 522 925

E-mail: info@zipcom.uk.com

www.zipcom.uk.com