



**Annual Report
2000**

Zipcom plc

Annual report 2000

Contents

Chairman's statement	2
Operational and financial review	6
Directors and advisers	8
Board of Directors	10
Senior management team	11
Directors' report	12
Corporate governance	16
Remuneration report	18
Statement of Directors' responsibilities	20
Auditors' report	21
Consolidated profit and loss account	22
Consolidated balance sheet	23
Company balance sheet	24
Consolidated cash flow statement	25
Reconciliation of movements in shareholders' funds	25
Notes to the financial statements	26
Notice of annual general meeting	36



**Chairman's
statement**

Overview

In what is our first report to shareholders, I am pleased to report on a year of considerable progress. The flotation in July 2000 provided the funds to put in place the operational capability to implement our strategy. We set out to build a successful, competitive local exchange carrier business (CLEC), with a strong sales and marketing led culture. As part of that strategy, we said in our admission document that it would be our intention to outsource network design, build and commissioning; installation and maintenance; and our customer care and billing operations. I am pleased to report that all these critical functions have now been outsourced on long term contracts.



Our partnership with Scottish and Southern Energy has yielded the benefits expected and we have been able to source our backbone infrastructure, tower sites and backhaul infrastructure from them as planned. In September, we finalised the switch selection process and awarded the contract to build and commission our first main switch to Nortel Networks. This DMS switch was successfully handed over to us on 8 December. The first two local loop systems were built in December and since then have undergone a programme of thorough and systematic testing. In total we invested £2.6m on our core switching, transmission and RFA networks during the year and, as at the end of December, we were awaiting the first interconnection with other carriers to bring this network fully into service.

Funding

In July 2000 the Company raised £14m gross funds through an initial public offering of 73,684,211 ordinary shares on the Alternative Investment Market. Dealing in the Company's shares began on 4 July 2000. Raising these funds allowed us to recruit our management team and begin to put the strategy into operation.

Strategy

Our strategy is to position Zipcom as a new generation operator, offering leading edge services and solutions to small and medium sized businesses in the less-competed second and third tier cities in the UK. We are now beginning to compete aggressively in the local access network to serve the widest possible potential customer base and to bring about a seamless integration of our fixed wireless access (FWA) and DSL technologies. This will allow us to ensure maximum usage of our core infrastructure assets.

With our expertise in both FWA and DSL, Zipcom's position as a local loop specialist operator in the British market is uniquely strong, which gives us operational flexibility and geographical reach denied to our competitors. However, we are not a company that is defined by, or restricted to, particular access technologies. Above all else, we depend on two things to deliver sustainable differential in the market: superior insight into customer requirements and intentions, and the ability and responsiveness to satisfy that demand.

Products

As with all other aspects of Zipcom's strategy, our development of a portfolio of products and services is driven by customers' needs and a commitment to quality. Our target customer, the smaller enterprise, may show an increasing understanding of the future potential of e-business, but its urgent requirement is still for real competitive choice across a range of relatively basic services – such as voice telephony and Internet connectivity.

Our first phase of product introductions specifically address that need, with the launch in Scotland of ZCall, our Voice Services product. ZCall offers a high quality telephone service at competitive rates, delivered via a number of access methods – FWA, DSL and Indirect Access. ISDN, Internet services and a mobile offering will all be launched shortly.

Future product development will concentrate on more complex solutions, such as Virtual Private Networks and advanced application services. Many of these will be developed in co-operation with strategic partners, bringing specific technical, content or sector expertise.



Branding

Zipcom's communications strategy is to build awareness and visibility on a region-by-region basis. This not only allows a tightly targeted marketing investment to mirror the roll-out of coverage and service, it is also entirely consistent with the attitudes and interests of our customers in small and medium businesses, which tend to be local rather than national.

Working in our launch region of Scotland, we have implemented a campaign which integrates print and radio advertising, direct marketing, public relations and executive briefings to achieve high levels of exposure in target audiences. In the first phase, this has been concentrated around specific areas, including Perth, Inverness, Stirling and Dumfries. However, increasingly this geographical approach will be complemented by programmes which address selected vertical sectors in the Scottish market – such as business and professional services.

A Glasgow-based advertising agency has been retained to help launch and develop the Zipcom brand. We have adopted a very distinctive visual style which combines strong images, bold colours – and a touch of humour – to establish the name and convey the message. The response from customers has been very favourable.

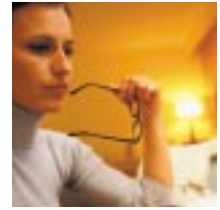
Customers and markets

Zipcom's strategic focus is firmly on the Small and Medium Enterprise (SME) customer. The shape that Local Loop Unbundling has now taken in the UK suggests that this sector will not be well served by our competitors' plans for broadband deployment. Culturally and economically, larger operators in any case tend to feel more comfortable addressing the requirements of the corporate and major enterprise market.

Zipcom, on the other hand, believes passionately that the IT-enabled smaller business can be a major force in the networked economy of the near future. We have been built from the ground up as a company which has the knowledge, the technology and the commitment to serve that customer better than anyone else. We understand that we will have to address the SME on its own terms, shaping what we can do to deliver real value to its business – improving productivity and profitability, and making it easier for it to acquire and service its customers.

Sales and marketing

Our first direct mail campaign commenced in the launch cities of Perth and Inverness on 4 December 2000. Our telemarketing partner followed up with an outbound calling campaign and the first appointments were made for our sales force in the closing week of December, which resulted in some good initial results. I am pleased to report that momentum has continued to build satisfactorily since then.



People

I am particularly proud that we have been able to recruit a very impressive and experienced management team. Our first phase of recruitment is now complete and future recruitment activity is now being confined to sales positions only. Every employee will have share options in the Company, is well motivated and I am indebted to each one of them for their outstanding contribution to the development of the business over the past six months.

Future prospects

Shareholders will be aware of our initial stated objective to return to the market for considerable additional funding to complete our main network roll-out. The current state of the debt and equity markets indicate that this will not be possible in the timescale originally envisaged. At the year end we had a cash balance of £10.1m and no borrowings. We remain convinced that the market opportunity for Zipcom is considerable, as demonstrated by the early take-up of our services. Our strategy of concentrating on highly targeted markets in carefully selected geographic areas means that we are not subject to the same pressures of over-capacity experienced by the operators of major backbone networks. Nevertheless, in the current environment the business continues to be managed on an extremely prudent basis with tight financial controls in place to preserve our cash as far into the future as possible. The speed at which we roll out to additional cities will, of course, depend on the appetite of the capital markets and of the major equipment vendors for additional financing.

A handwritten signature in blue ink, appearing to read 'Grahame Purvis', written over a horizontal line.

Grahame Purvis

Chairman & Chief Executive



**Operational
and financial
review**

Performance

During 2000, the business evolved from a telecommunications licences owner into an operational Company. The Company has invested in the recruitment of a high calibre management team and funded the initial launch of services in the first of its target areas. Capital has also been invested in a core switching and Radio Fixed Access infrastructure.

Operating losses of £3.0m in the year reflect the costs of bringing the business to operational readiness by the year end. This result includes the pre-acquisition losses of RadioTel Systems Limited (RadioTel) which have been included under merger accounting rules. Prior year losses comprise the modest level of costs incurred in the very early stages of RadioTel's development.

The Group took on its first customers, for its ZCall service, towards the end of December 2000 for installation early in the new year. Consequently, there are no revenues reported in 2000. The Group's gross loss in the year is attributable to the payment of license fees and the cost of transmission capacity acquired through various short term leases with other network operators.

Capital structure and treasury

RadioTel raised £0.9m net from a private placement of shares in January 2000. In June 2000, the Company acquired the entire share capital of RadioTel in a share for share exchange. Under merger accounting, this investment is carried at cost in the Company balance sheet. This transaction was followed by a placing and admission to the Alternative Investment Market, which raised £13.0m net of costs.

At the end of December, the Group had cash balances of £10.1m and no borrowings. Surplus cash is invested in money market instruments and earned interest in the year of £339,000. The Group has exposure to exchange rate movements on its foreign currency denominated purchases, in particular the US dollar, which it hedges through a mix of dollar options and forward contracts.

The Company manages its cash resources very tightly, which is particularly important in the light of the current depressed state of the capital markets. Outsource contracts have been placed with both billing and customer care providers using an application service provider model, enabling the Group to avoid significant capital expenditure.

Capital expenditure

The Group invested £2.8m in capital programmes in the year, of which £2.6m was spent on its core switching and routing infrastructure and its RFA networks in Perth and Inverness. This investment is shown as assets under construction at the year end as the networks had not been brought into operational use at that time. The majority of equipment was purchased under various forms of deferred or conditional payment terms and the balance sheet shows accrued costs of future payment obligations amounting to £1.1m. Going forward, the majority of capital expenditure will be invested in providing services in the Group's targeted local access areas and will therefore be customer driven.



Stewart Porter

Chief Financial Officer



A close-up, slightly blurred photograph of a person's hand holding a silver pen over a computer keyboard. The hand is positioned as if about to write or sign a document. The background is out of focus, showing a desk with a computer monitor and other office equipment. The overall lighting is soft and warm, creating a professional and focused atmosphere.

**Directors
and advisers**

Directors

Grahame Purvis

Chairman and Chief Executive

Stewart Porter

Chief Financial Officer and Company Secretary

Colin McKee

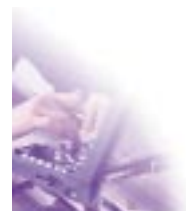
Technical Director

Paul Maher

Non Executive Director

Jon Richards

Non Executive Director



Registered office

20 Black Friars Lane
London EC4V 6HD

Registered number

3948409

Auditors

KPMG Audit plc
8 Salisbury Square
London EC4Y 8BB

Stockbrokers

Collins Stewart Limited
21 New Street
Bishopsgate
London EC2M 4HR

Solicitors

Rowe and Maw
20 Black Friars Lane
London EC4V 6HD

Registrar

Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Bankers

HSBC Bank plc
26 Broad Street
Reading
Berkshire RG1 2BU



Grahame Purvis

Chairman & Chief Executive

Grahame Purvis, an economics graduate, started his career in the oil industry as a marketing executive with BP. Grahame has 14 years' experience in the high technology and telecommunications sector. He has held senior board appointments in Blick plc, Cable and Wireless plc and Mercury Communications. At Mercury he was responsible for the initial commercial service launch and subsequently, as the first general manager, for generating the early rapid growth in revenue and profits. He was appointed to the management board in 1990 and the group executive committee in 1992. He is experienced in high tech start-up businesses from his three-year spell as Managing Director of Mercury Enterprises, where he was responsible for managing and developing the group's portfolio of value-added businesses. During this time he was also Chairman of Mercury's mobile businesses. Prior to joining Zipcom, Grahame was a main board Director of Blick plc and Managing Director of its main UK business for 2 ½ years. Grahame has also held non executive Director appointments at LSI plc.



Stewart Porter

Chief Financial Officer

Stewart Porter is a Chartered Accountant and holds a Bachelor of Science degree in electrical engineering. Prior to joining Zipcom as Chief Financial Officer, Stewart was Finance Director for Highpoint Telecommunications Inc, a Canadian listed company, where he was closely involved in the successful establishment of a number of European start-ups. Stewart worked for Cable and Wireless for 8 years in a number of senior financial positions, most recently as Director of Finance and Business Development in Global Markets, the business unit responsible for serving the multinational customers of Cable and Wireless.



Colin McKee

Technical Director

Colin McKee holds a Bachelor of Science degree in mechanical and electronic engineering. In his 20 years of experience in telecommunications, Colin has been involved in the planning, implementation, project management and operation of major telecommunications networks and the development of long term network strategy. His career in BT culminated as implementation project manager for police networks throughout the UK and he has considerable radio expertise, demonstrated by his appointment as overall project leader of the standardisation work for the TETRA radio system at the European Telecommunications Standards Institute.

Board of Directors and senior management team



Jon Richards

Non Executive Director

Jon Richards was Chief Executive of Anite Group plc from 1989 to 1997. Previously he was Chief Operating Officer of the technology group UEI plc and Managing Director of Miles 33 plc, a vertical market software business. Between 1992 and 1995 he also served as non executive Chairman of the National Council for Educational Technology, a position to which he was appointed by the Secretary of State for Education, reporting to the Minister of State.



Paul Maher

Non Executive Director

Paul Maher is Head of the Corporate Group at Rowe & Maw, one of London's leading commercial law firms. Prior to joining Rowe & Maw in 1990, he was ICI's in house lawyer for six years. Paul was recognised by Chambers in his nomination for the prestigious Business Lawyer of the Year 2000 Award and is ranked by Chambers as one of the leading individuals in Corporate Finance. Paul advises on mergers, acquisitions, flotations, MBOs and joint ventures for a wide range of companies.

Senior management team



Roy Walker

Group Commercial Director



Stephen Sadler

Group Financial
Controller



Jeremy Mooney

Group Marketing Director



David Roughley

Group Operations
Director



Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2000.

Principal activity and business review

The principal activity of the Group during the period was the supply of telecommunications services. A detailed review of the business is set out in the Chairman's statement on page 2 and the Operational and financial review on page 6.



Financial results and dividends

Zipcom plc (the Company) was incorporated on 17 April 2000. Its activities began on 26 June 2000, on which date it acquired 100% of the shares of RadioTel Systems Ltd. The Company completed an initial public offering and joined the Alternative Investment Market on 4 July 2000, raising £13.0m (net) through the issue of 73,684,211 ordinary 1p shares.

As detailed in note 1 to the financial statements, merger accounting has been used to consolidate the Group results. The results for the Group for the year are shown in the Profit and Loss Account on page 22.

The Directors do not recommend the payment of a dividend.

Directors and Directors' interests

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

Grahame Purvis

Chairman and Chief Executive (appointed 25 June 2000)

Stewart Porter

Chief Financial Officer (appointed 25 June 2000)

Colin McKee

Technical Director (appointed 25 June 2000)

Peter Nelson

Non Executive (appointed 25 June 2000)

Paul Maher

Non Executive (appointed 21 November 2000)

G Purvis, S Porter, C McKee and P Maher, all having been appointed during the year, retire in accordance with the articles of association and, being eligible, offer themselves for re-election.

On 15 March 2001 P Nelson resigned and J Richards was appointed as a Director.

The Directors' remuneration and the interests of the Directors in the share capital of the Company are detailed in the Remuneration report on page 18.

Employees

It is the policy of the Group that there should be no unfair discrimination in recruiting and promoting staff, including applicants who are disabled. The Directors are committed to maintaining and developing communication and consultation processes with employees, who in turn are encouraged to develop an awareness of the issues affecting the Group. The Directors place considerable emphasis on employees sharing in the success of the Group. This is achieved through the performance related bonus scheme and participation in the share option schemes.

Substantial shareholdings

As of 15 March 2001, the Directors were aware of the following significant shareholdings:

	%
<u>C McKee</u>	<u>19.7</u>
<u>Granger Associates Limited</u>	<u>16.2</u>
<u>Friends Ivory and Sime</u>	<u>8.7</u>
<u>Fidelity Investment Services</u>	<u>7.8</u>
<u>Jupiter Asset Management</u>	<u>6.2</u>
<u>Collins Stewart</u>	<u>5.5</u>
<u>G Purvis</u>	<u>3.9</u>
<u>P Nelson</u>	<u>3.9</u>
<u>Gartmore Investment Management</u>	<u>3.3</u>

The mid market price for the Company's shares at 31 December 2000 was 19.5p. The high and low mid market prices of the ordinary shares during the period from admission to AIM on 4 July 2000 to 31 December 2000 were 22.5p and 19.5p respectively.

Policy on payment to suppliers

Where the supply of goods and services is satisfactory and in the absence of any dispute, the Group's and Company's policy is to pay suppliers in accordance with the terms agreed prior to the supply of goods and services. Where no such agreement exists the Group's and Company's policy is to pay suppliers in accordance with the terms contained in the invoice. Trade creditors of the Group at 31 December 2000 as a proportion of amounts invoiced by suppliers during the year represent 46 days. The Company has no material trade creditors.

Annual General Meeting

The Annual General Meeting will be held on 23 May 2001 at 21 New Street, Bishopsgate, London EC2M 4HR at 11 am.

Auditors

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

This report was approved by the Board on 26 March 2001.

A handwritten signature in blue ink, appearing to be 'SP', with a long horizontal line extending from the top right of the signature.

Stewart Porter

Secretary

Corporate governance

Although the Company is not required to comply with the provisions of the Combined Code, the Directors have decided to provide the following voluntary corporate governance disclosures. The Board of Directors recognises the importance of, and is committed to, ensuring that effective corporate governance procedures are in place.

This statement considers how the principles of the Combined Code on Corporate Governance (the Code) have been applied by the Company from its admission to the Alternative Investment Market on 4 July 2000 until 31 December 2000.

The Board and Committees

During the period under review the Board comprised three executive Directors (G Purvis, S Porter and C McKee) and two non executive Directors (P Nelson and P Maher). Until the appointment of P Maher on 21 November 2000 there was only one non executive Director. On 15 March 2001 P Nelson resigned and J Richards was appointed to the Board. P Maher and J Richards are independent non executive Directors.

The Board, which meets at least five times a year, is responsible for the overall strategy and financial performance of the Group and has a formal schedule of matters reserved for its approval. Each Board meeting is preceded by a clear agenda and any relevant information is provided to Directors in advance of the meeting. All Directors are aware of their right to seek independent advice or to consult the Company Secretary as required.

The Board is chaired by Grahame Purvis who also acts as the Company's Chief Executive. Due to the size of the business the Company has not segregated these two roles and the Board believes that the presence of strong and independent non executive Directors makes this position appropriate at this time.

The Board has established a Remuneration Committee which, throughout the period under review, consisted of G Purvis, P Nelson and, from 21 November 2000, P Maher. Following the resignation of P Nelson in March, J Richards was appointed to the Committee. The Remuneration report on pages 18 to 19 contains a detailed description of remuneration and applicable policies.

Given the small size of the Board, and as permitted by the Code, the Board has not appointed a Nominations Committee. The Board as a whole considers the appointment of all Directors and senior managers.

The Audit Committee was formed on 15 March 2001 and comprises G Purvis, J Richards and P Maher. The Committee operates under written terms of reference and is scheduled to meet at least twice a year with the Company's auditors present.

Relations with shareholders

The Company encourages the participation of both institutional and private investors. Communication with private individuals is maintained through the annual general meeting (AGM), and annual and interim reports. In addition, further details on the strategy and performance of the Company can be found at its website (www.zipcom.uk.com) which includes copies of the Company's press releases.

The Chairman will be available to answer questions at the AGM. Details of the resolutions to be proposed at the AGM are set out in the separate notice sent to all shareholders.

Internal control

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

The Group has an established organisational structure with clearly defined lines of authority, responsibility and accountability which is reviewed regularly. Group management is responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a regular basis and may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, human resource issues and regulatory requirements.

The external auditors are engaged to express an opinion on the accounts. They review and test the systems of internal financial controls and data contained in the accounts to the extent necessary to express their audit opinion. They discuss with management the reporting of operational results and the financial condition of the Group. The Board has reviewed the need for an internal audit function. The Directors consider that, given the size of the Group's operations, it is inappropriate to establish an internal audit function at this time.

Going concern

The Group has financed its trading losses for the year from cash raised from the initial public offering (IPO) in July 2000. The IPO raised £13.0m (net) cash and the Group had cash of £10.1m at 31 December 2000. At the time of the IPO the Directors anticipated returning to the market for second round funding during 2001. Given the subsequent deterioration in the capital markets the Directors continue to monitor the Group's funding strategy. As a result revised forecasts have been prepared which show a lower funding requirement than envisaged at the time of the IPO, and these revised forecasts therefore underpin the going concern basis which the Directors have applied in the preparation of the financial statements for the year ended 31 December 2000.

Remuneration report

Remuneration Committee

Throughout the year the Remuneration Committee consisted of G Purvis, P Nelson and, from 21 November 2000, P Maher. Following the resignation of P Nelson in March 2001, J Richards was appointed to the Committee.

The Committee meets not less than twice a year to determine all aspects of the remuneration of the executive Directors and other senior managers. The fees of the non executive Directors are determined by the Board as a whole. No Director or employee has a role in determining his own remuneration.

Remuneration policy

The Committee determines overall policy for executive remuneration. The Committee sets levels of remuneration to attract and retain executive Directors and other senior managers and, in doing so, takes into account the level of remuneration throughout the telecommunications industry. Employees throughout the Group, including executive Directors, have performance reviews annually. The main components of the executive Directors' and senior managers' remuneration are:

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

The Group operates a discretionary bonus scheme based on the Group's and the individual's performance. Payments may be made annually.

The Group makes contributions to money purchase personal pension schemes on behalf of all executive Directors and senior managers.

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

The Group has two share options schemes, the Unapproved Executive Share Option Scheme and the Approved Executive Share Option Scheme. Details of options granted under these schemes are given in note 14 to the financial statements.

Set out below are the total remuneration, shareholdings and option interests of the Directors for the year:

Directors' remuneration

	Note	Salaries & Fees	Benefits	Bonus	Total 2000	Total 1999	Pension 2000	Pension 1999
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive								
G Purvis		124	10	50	184	13	11	-
S Porter		118	5	50	173	-	11	-
C McKee		122	5	50	177	25	9	-
Non executive								
P Nelson	(i)	95	1	-	96	25	5	-
P Maher	(ii)	3	-	-	3	-	-	-
		462	21	150	633	63	36	-

(i) Payments to P Nelson include amounts paid to him in his capacity as an executive Director of RadioTel Systems Limited.

(ii) P Maher became a non executive Director on 21 November 2000.

Directors' shareholdings

	1p ordinary shares at 31 December 2000	1p ordinary shares at 31 December 1999
G Purvis	6,001,000	-
S Porter	-	-
C McKee	30,005,000	-
P Nelson	6,001,000	-
P Maher	-	-

Directors' share options

	Note	Number of options at 01.01.00	Awarded/ (exercised) during year(v)	Number of options at 31.12.00 (i)	Exercise price
G Purvis	(ii)	-	5,047,138	5,047,138	1p
		-	2,602,440	2,602,443	8p
		-	750,000	750,000	(iv)
S Porter	(ii)	-	3,682,713	3,682,712	1p
		-	2,602,440	2,602,443	8p
		-	750,000	750,000	(iv)
C McKee		-	750,000	750,000	(iv)
P Nelson		-	-	-	-
P Maher		-	-	-	-

(i) All the awards above represent rights to options which the Company is contracted to grant. The options had not been granted at 31 December 2000. All the above options will be granted under the Unapproved Executive Share Option Scheme.

(ii) These awards replace options held in RadioTel Systems Limited which were granted in December 1999. These options were converted to rights to options over Zipcom plc ordinary shares during the year.

(iii) All the above awards were made at fair value at the date of the award.

(iv) Options to be granted at the fair market value at the time of grant.

(v) No Directors exercised options during the year.

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Report of the auditors to the members of Zipcom plc

We have audited the financial statements on pages 22 to 35.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Directors' report and, as described on page 20, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the loss of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit plc

26 March 2001
Chartered Accountants
Registered Auditor

	Note	Continuing operations	
		2000 £'000	1999 £'000
Group Turnover	2	-	-
Cost of sales		<u>(157)</u>	<u>(7)</u>
Gross loss		(157)	(7)
Operating expenses		<u>(2,802)</u>	<u>(138)</u>
Operating loss	3	(2,959)	(145)
Net interest receivable	5	<u>339</u>	<u>-</u>
Loss on ordinary activities before taxation		(2,620)	(145)
Tax on loss on ordinary activities	6	<u>-</u>	<u>-</u>
Loss for the financial year	15	<u>(2,620)</u>	<u>(145)</u>
Loss per Ordinary share – Basic	19	2.3p	0.2p
Loss per Ordinary share – Diluted	19	<u>2.1p</u>	<u>0.2p</u>

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

There is no difference between the Group's historical cost loss and that reported in the profit and loss account above.

The accompanying notes form an integral part of these financial statements.

	Note	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Fixed assets					
Tangible assets	7		2,750		-
Current assets					
Debtors	9	511		10	
Cash at bank and in hand		<u>10,078</u>		<u>-</u>	
		10,589		10	
Creditors: amounts falling due within one year	10	<u>(2,021)</u>		<u>(260)</u>	
Net current assets/(liabilities)			<u>8,568</u>		<u>(250)</u>
Total assets less current liabilities			11,318		(250)
Provisions for liabilities and charges	12		<u>(271)</u>		<u>-</u>
Net assets/(liabilities)			<u>11,047</u>		<u>(250)</u>
Capital and reserves					
Called up share capital	14, 15		1,523		-
Share premium account	15		12,187		-
Capital reserve	15		207		-
Profit and loss account	15		<u>(2,870)</u>		<u>(250)</u>
Equity shareholders' funds/(deficit)			<u>11,047</u>		<u>(250)</u>

These financial statements were approved by the Board of Directors on 26 March 2001 and were signed on its behalf by:



Grahame Purvis
Chairman and Chief Executive



Stewart Porter
Chief Financial Officer

The accompanying notes form an integral part of these financial statements.

	Note	2000 £'000	2000 £'000
Fixed assets			
Investments	8		740
Current assets			
Debtors	9	213	
Cash at bank and in hand		<u>10,056</u>	
		10,269	
Creditors: amounts falling due within one year	10	<u>(3)</u>	
Net current assets		10,266	
Debtors due after more than one year	9	<u>3,031</u>	
			<u>13,297</u>
Net assets			<u>14,037</u>
Capital and reserves			
Called up share capital	14, 15		1,523
Share premium account	15		12,187
Profit and loss account	15		<u>327</u>
Equity shareholders' funds			<u>14,037</u>

These financial statements were approved by the Board of Directors on 26 March 2001 and were signed on its behalf by:



Grahame Purvis
Chairman and Chief Executive



Stewart Porter
Chief Financial Officer

The accompanying notes form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2000

	Note	2000 £'000	2000 £'000	1999 £'000
Cash outflow from operating activities	16		(2,450)	-
Returns on investment and servicing of finance				
Interest received			126	-
Capital expenditure and financial investment				
Purchase of tangible fixed assets			(1,515)	-
Cash outflow before financing			(3,839)	-
Financing				
Issue of ordinary share capital		15,000		
Expenses on issue of ordinary share capital		(1,083)		
Net cash inflow from financing			13,917	-
Increase in cash in the period	17		10,078	-

Reconciliation of movements in shareholders' funds for the year ended 31 December 2000

	Group 2000 £'000	1999 £'000	Company 2000 £'000
(Loss)/profit for the financial year	(2,620)	(145)	327
New share capital subscribed (net of issue costs)	13,710	-	13,710
Movement on capital reserve	207	-	-
Net addition to/(reduction in) shareholders' funds	11,297	(145)	14,037
Opening shareholders' funds	(250)	(105)	-
Closing shareholders' funds/(deficit)	11,047	(250)	14,037

The accompanying notes form an integral part of these financial statements.

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

Going concern

The Group has financed its trading losses for the year from cash raised from the initial public offering (IPO) in July 2000. The IPO raised £13.0m (net) cash and the Group had cash of £10.1m at 31 December 2000. At the time of the IPO the Directors anticipated returning to the market for second round funding during 2001. Given the subsequent deterioration in the capital markets the Directors continue to monitor the Group's funding strategy. As a result revised forecasts have been prepared which show a lower funding requirement than envisaged at the time of the IPO and these revised forecasts therefore underpin the going concern basis which the Directors have applied in the preparation of the financial statements for the year ended 31 December 2000.

Basis of consolidation

The Company was incorporated on 17 April 2000. Its activities began on 26 June 2000 on which date it acquired the entire issued share capital of RadioTel Systems Limited in a share for share exchange as part of a Group reorganisation. With effect from that date RadioTel Systems Limited became the Company's principal operating subsidiary. On 23 August 2000 RadioTel Systems Limited changed its name to Zipcom Telecommunications Limited.

The acquisition by the Company of RadioTel Systems Limited was accounted for in accordance with the principles of merger accounting, set out in Financial Reporting Standard 6 "Mergers and Acquisitions". Accordingly, the comparative figures are presented as if the combination had existed throughout the year ended 31 December 1999.

In the Company's balance sheet, the investment in Zipcom Telecommunications Limited is stated at the nominal value of the shares issued in consideration for that company. As permitted by Sections 131 and 133 of the Companies Act 1985, no premium has been recorded on the shares issued in consideration. On consolidation, the difference between the nominal value of the shares issued and received is credited directly to the capital reserve.

The Group financial statements consolidate the financial statements of Zipcom plc and all its subsidiary undertakings.

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account is not presented in respect of the Company.

Turnover

Turnover comprises the value of telecommunications services provided net of value added tax.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives, as follows:

Network infrastructure	3 to 10 years
Office equipment	3 to 5 years
Leasehold improvements	Life of the lease
Motor vehicles	4 years

No depreciation is charged on assets under construction. Where assets are financed under finance leases the cost is written off over the shorter of the lease term and the remaining useful economic life.

Foreign currencies

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

The assets and liabilities and profit and loss accounts of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension costs

The pension costs charged against profit represent the amounts of contributions payable to the Group pension scheme in the accounting period.

Share options

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance.

Taxation

The charge for taxation is based on the results for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

2 Segmental information

The Group had a single class of business during all periods reported on.

The net assets of the Group at the end of each period were all attributable to the United Kingdom.

The loss before tax of the Group during each period was attributable to the United Kingdom.

3 Operating loss

Operating loss is stated after charging:	2000 £'000	1999 £'000
Auditors' remuneration:		
– audit	25	1
– other services	7	–
Depreciation and other amounts written off tangible fixed assets:		
Owned	15	–
Rentals payable under operating leases:		
Motor vehicles	2	–

In addition to the amounts disclosed above for audit services KPMG Audit plc raised fees of £169,000 relating to the initial public offering. These fees have been written off against the share premium account.

4 Staff numbers and costs

The average number of persons (including executive Directors) employed by the Group during each period was as follows:

	2000 £'000	1999 £'000
Full time operations staff	6	1
Operations staff employed under short-term contracts	1	–

The aggregate payroll costs (including Directors' remuneration) were as follows:

	2000 £'000	1999 £'000
Wages and salaries	865	62
Social security costs	372	–
Pension costs	48	–
	1,285	62

Details of Directors' remuneration are set out in the Remuneration report on page 18.

Included in social security costs is a provision of £271,000 for National Insurance payable on the exercise of share options, in accordance with the provisions of Urgent Issues Task Force Abstract (UITF) 25 (note 12).

5 Interest receivable

	2000	1999
	£'000	£'000
Bank interest receivable	339	-
	<u> </u>	<u> </u>

6 Taxation

There is no charge to corporation tax due to the losses incurred in each period. At 31 December 2000 there are unrelieved losses in the Group of approximately £2,100,000.

The above figure is subject to the agreement of corporation tax computations with the relevant tax authorities.

7 Tangible fixed assets

	Assets under construction £'000	Leasehold improvements £'000	Network infrastructure £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Group						
Cost						
At 1 January 2000	-	-	-	-	-	-
Additions	<u>2,528</u>	<u>95</u>	<u>48</u>	<u>31</u>	<u>63</u>	<u>2,765</u>
At 31 December 2000	<u>2,528</u>	<u>95</u>	<u>48</u>	<u>31</u>	<u>63</u>	<u>2,765</u>
Depreciation						
At 1 January 2000	-	-	-	-	-	-
Charge for year	<u>-</u>	<u>1</u>	<u>7</u>	<u>2</u>	<u>5</u>	<u>15</u>
At 31 December 2000	<u>-</u>	<u>1</u>	<u>7</u>	<u>2</u>	<u>5</u>	<u>15</u>
Net book value						
At 31 December 2000	<u>2,528</u>	<u>94</u>	<u>41</u>	<u>29</u>	<u>58</u>	<u>2,750</u>
At 31 December 1999	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Assets under construction represent network infrastructure assets which had not been brought into use by 31 December 2000. Accordingly no depreciation has been charged on these assets in the year.

The Company held no tangible fixed assets as at 31 December 2000.

8 Fixed asset investments

	Shares in Group undertaking £'000
Company	
Cost	
1 January 2000	-
Additions	<u>740</u>
At 31 December 2000	<u><u>740</u></u>

The Group includes the following wholly owned subsidiary undertaking:

Name	Class of share capital held	Proportion held	Nature of business
Zipcom Telecommunications Limited	Ordinary shares	100%	Telecommunications

9 Debtors

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000
Other debtors	266	10	-
Prepayments and accrued income	245	-	213
	<u>511</u>	<u>10</u>	<u>213</u>
 Debtors due after more than one year			
Amounts owed by Group undertakings	<u>-</u>	<u>-</u>	<u>3,031</u>

10 Creditors: amounts falling due within one year

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000
Amounts owed to related parties (note 18)	-	96	-
Trade creditors	450	106	3
Taxation and social security	74	31	-
Other creditors	8	25	-
Accruals and deferred income	1,489	2	-
	2,021	260	3

11 Operating leases

The Group had commitments to make annual payments under non-cancellable operating leases which expire as follows:

	Short leasehold property 2000 £'000	Other 2000 £'000	Short leasehold property 1999 £'000	Other 1999 £'000
Within one year	-	-	-	-
Within two to five years	80	7	-	-
After five years	45	-	-	-
	125	7	-	-

12 Provisions for liabilities and charges

	Total £'000
Group	
At 1 January 2000	-
Charge for National Insurance on option gains	271
At 31 December 2000	271

The provision is made according to UITF 25 and relates to the National Insurance payable on exercise of share options.

13 Financial instruments

The Group's financial instruments comprise cash and liquid resources, and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of the financial instruments is to provide finance for the Group's operations.

It is the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Directors review and agree policies for managing each of these risks.

As permitted by Financial Reporting Standard (FRS) 13, short term debtors and creditors have been excluded from all following disclosures.

(i) Interest rate risk

The Group financed its operations throughout the year from bank deposits. The Group does not consider that its current exposure to movements in interest rates is sufficient to necessitate hedging. The interest rate exposure of the financial assets of the Group as at 31 December was:

	Fixed £'000	Floating £'000	Nil £'000	Total £'000
2000 : Sterling financial assets	<u>10,011</u>	<u>55</u>	<u>12</u>	<u>10,078</u>
1999	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(ii) Liquidity risk

The Group's objective is to ensure adequate funding for its operations ahead of commitments being made for expansion. This has been achieved in the current year through the issue of equity.

(iii) Foreign currency risk

The Group has some transactional currency exposures. Such exposures mainly arise from purchases in dollars. The Group hedges this risk through the use of dollar options and forward contracts. The value of dollar options is assessed using the year end rate and to the extent that the value is below the exercise value any premium is written off to the profit and loss account. Gains or losses on forward contracts are recognised on maturity of the underlying transaction.

At 31 December the Group had outstanding forward contracts to hedge dollar purchases as below:

	In currency		Sterling equivalent	
	2000 US\$'000	1999 US\$'000	2000 £'000	1999 £'000
Maturing within one year:				
- to cover future capital commitments	<u>580</u>	<u>-</u>	<u>388</u>	<u>-</u>

The following table sets out the Group's exposure to monetary liabilities held in non-functional currencies at 31 December 2000:

	2000 £'000	1999 £'000
US Dollar liabilities	<u>101</u>	<u>-</u>

Other than the forward contracts disclosed above there is no difference between the book and fair values of the Group's financial assets and liabilities.

14 Called up share capital

Authorised and allotted share capital

	2000 £'000	1999 £'000
Authorised		
Equity: ordinary shares of 1p each	<u>2,000</u>	<u>-</u>
Allotted, called up and fully paid		
Equity: ordinary shares of 1p each	<u>1,523</u>	<u>-</u>

On 26 June 2000 Zipcom plc issued 74,012,133 ordinary shares to acquire RadioTel Systems Limited. On 4 July 2000 the Company was admitted to the Alternative Investment Market, issuing 73,684,211 ordinary shares. On the same day the Company issued 4,567,928 shares to Collins Stewart Limited.

Share options

At 31 December 2000 rights to options over 16,184,736 ordinary shares of the Company were outstanding as follows:

Unapproved Executive Share Option Scheme

Rights to shares under option	Exercise price
8,729,851	1p
5,204,880	8p
2,250,000	(i)

(i) To be granted at the fair market value at the time of grant.

All the awards above represent rights to options which the Company is contracted to grant. The options had not been granted at 31 December 2000. All the above options will be granted under the Unapproved Executive Share Option Scheme.

The options become exercisable at the date of grant and expire ten years from that date.

At 31 December 2000 there were a further 18,023,565 shares available for grant under options.

15 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Profit and loss account £'000	Total £'000
Group					
At 1 January 2000	-	-	-	(250)	(250)
Issue of shares	1,523	13,217	-	-	14,740
Issue costs	-	(1,030)	-	-	(1,030)
Retained loss for the year	-	-	-	(2,620)	(2,620)
Movement on capital reserve *	-	-	207	-	207
	<u>1,523</u>	<u>12,187</u>	<u>207</u>	<u>(2,870)</u>	<u>11,047</u>
At 31 December 2000	<u>1,523</u>	<u>12,187</u>	<u>207</u>	<u>(2,870)</u>	<u>11,047</u>
Company					
At 1 January 2000	-	-	-	-	-
Issue of shares	1,523	13,217	-	-	14,740
Issue costs	-	(1,030)	-	-	(1,030)
Retained profit for the year	-	-	-	327	327
	<u>1,523</u>	<u>12,187</u>	<u>-</u>	<u>327</u>	<u>14,037</u>
At 31 December 2000	<u>1,523</u>	<u>12,187</u>	<u>-</u>	<u>327</u>	<u>14,037</u>

* The movement on the capital reserve represents the difference between the nominal value of Zipcom plc shares issued and the nominal value of RadioTel Systems Limited shares acquired following the acquisition of RadioTel Systems Limited by Zipcom plc.

16 Reconciliation of operating loss to operating cash flows

	2000 Total £'000	1999 Total £'000
Operating loss	(2,959)	(145)
Depreciation	15	-
Increase in debtors	(288)	(5)
Increase in creditors	511	150
Non cash charge in respect of provisions	271	-
	<u>(2,450)</u>	<u>-</u>
Net cash outflow from operating activities	<u>(2,450)</u>	<u>-</u>

17 Analysis of net funds

	1 January 2000 £'000	Cash flow £'000	31 December 2000 £'000
Cash at bank and in hand	<u>–</u>	<u>10,078</u>	<u>10,078</u>

18 Related party disclosures

As disclosed on page 14 Granger Associates Limited was a shareholder of the Company at 31 December 2000. The Company understands that Granger Associates Limited has certain shareholders in common with Granger Telecom Limited, with whom the Group has a contract to purchase radio fixed access equipment. Purchases made by the Group during the year amounted to £1,515,000. As at 31 December 2000 amounts invoiced by Granger Telecom Limited but not paid were £101,000.

Paul Maher was appointed to the Company Board on 21 November 2000. Mr Maher is a partner in Rowe and Maw, the Group's solicitor, who advised throughout the year including on the initial public offering. Since Mr Maher's appointment Rowe and Maw have provided services to the Group to the value of £11,000 of which £nil was payable at 31 December 2000.

19 Loss per share

	Year ended December 31 2000	Year ended December 31 1999 (restated)
Loss for the financial period attributable to shareholders	<u>£2,620,000</u>	<u>£145,000</u>
Weighted average number of equity shares in issue	<u>113,892,797</u>	62,128,872
Dilution effects of share options	<u>8,507,335</u>	–
Diluted weighted average number of equity shares	<u>122,400,132</u>	<u>62,128,872</u>
Basic loss per equity share	<u>2.3p</u>	<u>0.2p</u>
Diluted loss per equity share	<u>2.1p</u>	<u>0.2p</u>

The dilutive effect of share options which the Company has a contractual obligation to grant have been included in arriving at the calculation of diluted loss per equity share.

Zipcom plc

Notice is here by given that the annual general meeting of the Company will be held at 21 New Street, Bishopsgate, London, EC2M 4HR on 23 May 2001 at 11.00 am. for the transaction of the following business:

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive the Directors' report and the audited accounts for the period ended 31 December 2001 and to note that the Directors do not recommend the payment of any final dividend for that period
2. To re-elect Mr Paul Joseph Maher as a Director
3. To re-elect Mr Colin Mckee as a Director
4. To re-elect Mr Stewart Charles Porter as a Director
5. To re-elect Mr Grahame Robert Purvis as a Director
6. To re-elect Mr Jon Richards as a Director
7. To re-appoint Messrs KPMG Audit plc as auditors and authorise the Directors to determine their remuneration.

By order of the Board



S C Porter

Director and Secretary

Dated 30 April 2001

20 Black Friars Lane

London EC4V 6HD

Notes

- (a) Any member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a member. Forms of proxy should be lodged with the Company's Registrars, IRG plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ not later than 48 hours before the time for which the meeting is convened. Completion of the appropriate form of proxy does not prevent a member from attending and voting in person if he/she is entitled to do so and so wishes.
- (b) Members are informed that a register of all interests of each Director and his family in each class of share capital of the Company and its subsidiaries and copies of all contracts of service of more than one year's duration of any Director with the Company or any of its subsidiaries are available for inspection at the Registered Office of the Company during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the close of the meeting and, on the day of the meeting, at the place of the meeting from at least 15 minutes prior to the meeting until its conclusion.

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