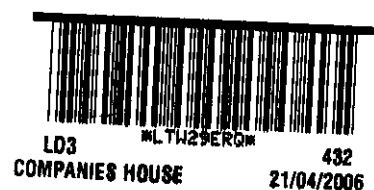


**PIPEX Communications Business
Solutions Limited**

Directors' report and financial
statements

Registered number 03152569

For the year ended 31 December 2004



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Directors' report

The directors present their annual report and the audited financial statements of PIPEX Communications Business Solutions Limited ("the company") for the year ended 31 December 2004.

Principal activity

The principal activity of the company during the year was the supply of telecommunications services.

Business review

The results for the year ended 31 December 2004 and the financial position of the company at that date are set out on pages 4 and 5 of the financial statements.

Dividend

The directors do not recommend the payment of a dividend (2003: £nil).

Directors and Directors' interests

The directors who held office during the year and since the year end are as follows:

S C Porter
P A D Dubens
M D Read

None of the directors who held office at the end of the period had any disclosable interest in the shares of the company. Directors' interests in the ordinary shares of the parent company, PIPEX Communications plc, are disclosed in the financial statements of that company. The register of director's interests is available from the address in note 19.

Auditors

During the period the directors appointed KPMG Audit Plc as auditors of the company. In accordance with section 385 of the Companies Act 1985, a resolution proposing that KPMG Audit Plc be re-appointed as auditors of the Company will be put to the Annual General Meeting.

By order of the Board



Stewart Porter

Secretary

1 Triangle Business Park,
Stoke Mandeville,
Buckinghamshire,
HP22 5BL

30 March 2006

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 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 company 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 company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of PIPEX Communications Business Solutions Limited

We have audited the financial statements on pages 4 to 16.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, 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 1985. 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.


Basis of audit 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 as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG Audit Plc
Chartered Accountants
Registered Auditor

30 MARCH 2006

Profit and loss account
for the year ended 31 December 2004

	<i>Note</i>	Year ended 31 December 2004	16 month period ended 31 December 2003
		£'000	£'000
Turnover	<i>1,2</i>	5,095	12,978
Cost of sales		(3,303)	(7,228)
Gross profit		1,792	5,750
 Administrative expenses	<i>3,4,5</i>	 (3,115)	 (9,321)
Operating loss	<i>3</i>	(1,323)	(3,571)
Other interest receivable and similar income	<i>6</i>	3	2
Interest payable and similar charges	<i>7</i>	(221)	(312)
 Loss on ordinary activities before taxation		 (1,541)	 (3,881)
Tax on loss on ordinary activities	<i>8</i>	-	12
 Loss for the financial period		 (1,541)	 (3,869)

There were no other recognised gains or losses other than the loss for the financial period.

All of the above results relate to continuing operations.

The accompanying notes on pages 7 to 16 form an integral part of the financial statements.

The results on a historic cost basis are the same as the results reported above.

Balance sheet
as at 31 December 2004

	<i>Note</i>	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Fixed assets					
<i>Intangible assets</i>					
Wireless Licence	9	4,667		4,917	
Negative Goodwill	9	(4,480)		(4,720)	
Patents	9	8		9	
			195		206
Tangible assets	10		3,065		3,438
			3,260		3,644
Current assets					
Stock		-		17	
Debtors	11	2,761		1,720	
Cash at bank and in hand		329		422	
			3,090	2,159	
Creditors: amounts falling due within one year	12	(7,190)		(4,253)	
Net current liabilities			(4,100)		(2,094)
Total assets less current liabilities			(840)		1,550
Creditors: amounts falling due after more than one year	13		(336)		(1,185)
Net (liabilities)/assets			(1,176)		365
Capital and reserves					
Called up share capital	16		17		17
Share premium account	17		2,996		2,996
Profit and loss account	17		(4,189)		(2,648)
Equity shareholder's (deficit)/funds			(1,176)		365

The accompanying notes on pages 7 to 16 form an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 30 March 2006 and were signed on its behalf by:



Stewart Porter
 Director

Reconciliation of movements in shareholder's funds
for the year ended 31 December 2004

	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000
Loss for the financial period	(1,541)	(3,869)
Net decrease in shareholder's funds	(1,541)	(3,869)
Opening shareholder's funds	365	4,234
Closing shareholder's (deficit)/funds	(1,176)	365

Notes to the 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.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (revised): 'Cash Flow Statements', the company is exempt from the requirement to prepare a cash flow statement on the grounds that its ultimate parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of PIPEX Communications plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £1,176,000, which the directors believe to be appropriate for the following reasons.

The company is dependent for its working capital on funds provided to it by PIPEX Communications plc, the company's parent undertaking.

PIPEX Communications plc has indicated to the company that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

Furthermore, as with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

The directors continue to monitor the group's funding strategy and have prepared detail forecasts for future periods. These forecasts underpin the going concern basis for the group.

Turnover

Turnover comprises the value of telecommunications services provided net of value added tax. Income is recognised in the period in which the service is provided.

Intangible assets

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is capitalised and amortised through the profit and loss account over its estimated useful life.

Patents purchased by the company are amortised to nil by equal instalments over their useful economic lives.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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:

Freehold Buildings	25 years
Leasehold Improvements	Life of lease
Network Infrastructure	2 to 10 years
Office Equipment, Plant & Machinery	3 to 5 years

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.

Pension costs

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

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.

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. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as required by FRS19.

2 Segmental information

The company had a single class of business during all periods reported on and consequently does not present a segmental analysis. The net liabilities of the company at the end of each period were all attributable to the United Kingdom. The loss before tax of the company during each period was attributable to the United Kingdom.

Notes to the financial statements (continued)

3 Operating loss

	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000
<i>Operating loss is stated after charging/(crediting)</i>		
Auditors remuneration:		
- audit	18	22
- other services	3	-
Depreciation and other amounts written off tangible fixed assets (owned)	134	909
Depreciation and other amounts written off tangible fixed assets (leased)	352	328
Loss on disposal of fixed assets	46	-
Amortisation of Wireless Licence	250	83
Amortisation of positive goodwill	-	3
Amortisation of negative goodwill	(240)	(80)
Amortisation of patents	1	1
Management recharges	(238)	-
Rentals payable under operating leases - land and buildings	63	111
Rentals payable under operating leases - other	408	576

Administrative expenses also included the following exceptional items:

	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000
Impairment of goodwill	-	59
Impairment of tangible fixed assets	-	2,165
Impairment of amounts owed by other group undertakings	340	-

4 Remuneration of directors

	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000
Directors' emoluments	-	247
Compensation for loss of office	-	75
	-	322

Emoluments of the highest paid director were £nil (2003: £237,000). Directors were remunerated by PIPEX Internet Limited for the current year.

Notes to the financial statements (continued)

5 Staff numbers and costs

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

	Year ended 31 December 2004	16 month period ended 31 December 2003
Full time operations staff	39	72
Executive and Administrative	6	17
	<u>45</u>	<u>89</u>

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

	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000
Wages and salaries	1,411	3,479
Social security costs	147	295
Pension costs	35	25
	<u>1,593</u>	<u>3,799</u>

6 Other interest receivable and similar income

	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000
Bank interest receivable	3	2
	<u>3</u>	<u>2</u>

7 Other interest payable and similar charges

	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000
Interest payable on finance leases	114	110
Bank interest payable	4	5
Other interest and similar charges	103	197
	<u>221</u>	<u>312</u>

Notes to the financial statements (continued)

9 Intangible fixed assets

	Wireless Licence £'000	Positive Goodwill £'000	Negative Goodwill £'000	Patents £'000	Total £'000
Cost					
As at 1 January 2004	5,000	68	(4,800)	10	278
As at 31 December 2004	5,000	68	(4,800)	10	278
Amortisation					
At 1 January 2004	83	68	(80)	1	72
Charge/(credit) for the period	250	-	(240)	1	11
At 31 December 2004	333	68	(320)	2	83
Net book value					
At 31 December 2004	4,667	-	(4,480)	8	195
At 1 January 2004	4,917	-	(4,720)	9	206

The Wireless Licence was acquired on 10 January 2003 with the contracts, customer equipment and intellectual property of Liberty Broadband Limited. The Licence is being amortised over twenty years and is stated at a valuation determined by the directors following the acquisition of the company by PIPEX Communications plc.

The carrying value of positive goodwill arising on the purchase of the business of Absolute-E.com Limited on 1 November 2000, was reviewed by the directors following the acquisition of the company by PIPEX Communications plc and impaired in full. This goodwill was previously being amortised over twenty years.

Negative goodwill arose on the acquisition of the assets of Liberty Broadband Limited on 10 January 2003. This negative goodwill is being released over a period of twenty years.

Patents are amortised over ten years.

Notes to the financial statements (continued)

10 Tangible fixed assets

	Freehold Buildings	Leasehold Improvements	Network Infrastructure	Office Equipment Plant and Machinery	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As 1 January 2004	2,354	748	4,200	362	7,664
Additions	33	-	126	-	159
Disposals	-	-	(767)	(56)	(823)
At 31 December 2004	2,387	748	3,559	306	7,000
Depreciation					
At 1 January 2004	414	724	2,940	148	4,226
Disposals	-	-	(767)	(10)	(777)
Charge for the period	86	24	242	134	486
At 31 December 2004	500	748	2,415	272	3,935
Net book value					
At 31 December 2004	1,887	-	1,144	34	3,065
At 31 December 2003	1,940	24	1,260	214	3,438

Included in the total net book value of £3,065,000 are assets of £770,000 held under finance leases as follows: Network Infrastructure £770,000 (2003: £1,014,000) and Office Equipment Plant and Machinery £nil (2003: £17,000). Depreciation for the period on these assets was £346,000 (2003: £322,000) and £6,000 (2003: £6,000) respectively.

Notes to the financial statements (continued)

11 Debtors

	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000
Trade debtors	647	1,475
Amounts owed by other group undertakings	653	-
Prepayments and accrued income	1,461	163
Other debtors	-	82
	<u>2,761</u>	<u>1,720</u>

12 Creditors: amounts falling due within one year

	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000
Bank loans and overdrafts	1,973	1,879
Obligations under finance leases and hire purchase agreements (see note 14)	825	484
Trade creditors	1,267	896
Amounts owed to other group undertakings	2,130	279
Taxation and social security	115	258
Other creditors	107	30
Accruals and deferred income	773	427
	<u>7,190</u>	<u>4,253</u>

13 Creditors: amounts falling due after one year

	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000
Obligations under finance leases and hire purchase agreements (see note 14)	336	1,185

Notes to the financial statements (continued)

14 Finance Leases

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000
Within one year	825	484
In the second to fifth years	336	1,185
	<u>1,161</u>	<u>1,669</u>

15 Operating leases

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

	Short leasehold property	Other	Short leasehold property	Other
	Year ended 31 December 2004 £'000	Year ended 31 December 2004 £'000	16 month period ended 31 December 2003 £'000	16 month period ended 31 December 2003 £'000
Within one year	-	305	15	362
Within two to five years	48	-	48	70
	<u>48</u>	<u>305</u>	<u>63</u>	<u>432</u>

16 Called up share capital

Authorised and allotted share capital

	Year ended 31 December 2004 £	16 month period ended 31 December 2003 £
Authorised		
20,000 ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>
Allotted, called up and fully paid		
17,450 ordinary shares of £1 each	<u>17,450</u>	<u>17,450</u>

Notes to the financial statements (continued)

17 Reserves

	Share Premium £'000	Profit and loss £'000
At 1 January 2004	2,996	(2,648)
Retained loss for the period	-	(1,541)
At 31 December 2004	2,996	(4,189)

18 Pensions

The company does not operate an occupational pension scheme but makes a contribution of qualifying salary to certain employees' personal pension schemes. The amount charged to the profit and loss account in respect of such contributions was £35,000 (2003: £25,000). The outstanding contributions at 31 December 2004 to the pension scheme were £nil (2003: £nil).

19 Immediate and ultimate parent company

The immediate and ultimate parent company is PIPEX Communications plc, incorporated in England and Wales.

As noted in the Directors' report, the group in which the results of the company are consolidated is that headed by PIPEX Communications plc. The consolidated accounts of this group are available to the public and may be obtained from:

1 Triangle Business Park,
 Stoke Mandeville,
 Buckinghamshire,
 HP22 5BL