

**Pipex Internet Limited**

Directors' report and financial  
statements

Registered number 5306519

For the year ended 31 December 2006

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## Directors' report

The directors present their directors' report and financial statements of Pipex Internet Limited ("the company") for the year ended 31 December 2006.

### Principal activity

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

### Enhanced business review

The results for the year ended 31 December 2006 and the financial position of the company at that date are set out on pages 6 and 7 of the financial statements.

On 1 January 2006 Pipex Internet Limited purchased the entire share capital of Pipex Broadband Limited, Freedom to Surf Limited and Freedom to Surf Consumer Services Limited. At the same date the trade, assets and liabilities of these companies were transferred to Pipex Internet Limited at fair value. On 7 September 2006, Pipex Internet Limited acquired from Cable & Wireless Access Limited the active part of the Bulldog customer base together with the Bulldog brand.

### Risk

Senior management are aware of their responsibility for managing risks within their business units. Each business unit head reports to the board on the status of these risks through management reports. Risk is regularly reviewed at board level to ensure that risk management is being implemented and monitored effectively.

The board's policy is to ensure that the business units are empowered to run their business effectively and appropriately, bearing in mind the requirements for timely decision making and commercial reality. Insurance policies are regularly reviewed to ensure these are adequate and appropriate, in line with the nature, size and complexity of the business. Standard form contracts are provided for commercial use and to assist the commercial function to negotiate within approved parameters. Through management reports, risks are highlighted and monitored to identify potential business risk areas and to quantify and address the risk wherever possible.

### Business Review

The following business review has been provided by the directors in accordance with the Companies Act. The company is disclosing the main trends and factors likely to affect the future development, performance and position of the business.

Key Performance Indicators (KPIs), which are set at group level, have been devised to allow the board and shareholders to monitor the group as a whole, as well as operating businesses within the group.

The company has financial KPIs which it monitors on a regular basis at board level and where relevant at business unit management meetings as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Revenue	£104m	£23.2m
Gross Profit Margin	34.8%	40.1%
Cash at Bank	£17.8m	£1.8m
ARPU (Broadband and Voice)	£23.95	£28.15

The company has identified in detail the various risks it faces. These include:

- the maintenance of a healthy cash balance and debt facilities to allow investment and future development;
- not rationalising cost base effectively resulting in inefficiency/duplication of effort;
- further market pressures on broadband pricing;
- failure to improve the ratio of services sold in order to drive ARPUs;
- further gross margin erosion from the impact of line rental in revenue mix.

## Directors' report (continued)

The company perceives and monitors the following major trends, opportunities and risks for the year ending 31 December 2007 and beyond:

- ensuring that the company's objectives of growing revenue and profit in line with market expectations are met, particularly given the challenges of integration,
- which the board needs to ensure are successfully implemented;
- focusing attention on continuing to improve the strength of the Pipex brand;
- improving EBITDA margins;
- maintaining revenue in a fiercely competitive market is a risk to the business. The board will continue to focus on reducing customer churn by improving service quality and increasing the average number of services taken by each customer;
- maintaining our reputation for high connection quality.

### Dividend

The directors do not recommend the payment of a dividend (2005:£nil).

### Directors and Directors' interests

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

S C Porter  
M D Read  
P Dubens

None of the directors who held office at the end of the year had any disclosable interest in the shares of the company. Directors' interests, in the ordinary shares of the ultimate holding company, Pipex Communications plc, are disclosed in the financial statements of that company.

### Employees

It is the policy of the company that there should be no unfair discrimination in recruiting and promoting staff, including applicants who are disabled. The directors are committed to maintain and develop communication and consultation processes with employees, who in turn are encouraged to develop an awareness of the issues affecting the company.

### Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the year. (2005:£nil)

### Disclosure of Information to Auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information to establish that the company's auditors are aware of that information.

## Directors' report (continued)

### 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 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

12 September 2007

## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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.

## Independent auditors' report to the members of Pipex Internet Limited

We have audited the financial statements of Pipex Internet Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' funds, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether, in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*KPMG Audit Plc*  
**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
8 Salisbury Square  
London  
EC4Y 8BB

*12 September 2007* 2007

**Profit and loss account**  
*for the year ended 31 December 2006*

	<i>Note</i>	2006 £'000	Restated (Note 21) 2005 £'000
<b>Turnover</b>		104,144	23,230
Cost of sales		(67,932)	(13,918)
		<hr/>	<hr/>
<b>Gross profit</b>		36,212	9,312
Administrative expenses		(38,447)	(7,896)
		<hr/>	<hr/>
<b>Operating (loss)/profit</b>	3	(2,235)	1,416
Other interest receivable and similar income	5	301	-
Interest payable and similar charges	6	(6,788)	(747)
		<hr/>	<hr/>
<b>(Loss)/profit on ordinary activities before taxation</b>		(8,722)	669
Tax on (loss)/profit on ordinary activities	7	-	-
		<hr/>	<hr/>
<b>(Loss)/profit for the financial year</b>		(8,722)	669
		<hr/> <hr/>	<hr/> <hr/>

All of the above results relate to continuing operations.

The loss on a historical cost basis is the same as the results reported above.

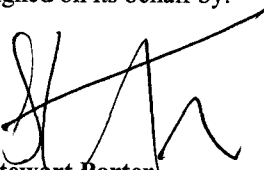
The accompanying notes on pages 9 to 21 form an integral part of the financial statements.

**Balance sheet**  
 at 31 December 2006

	Note	2006 £'000	2006 £'000	Restated (Note 21) 2005 £'000	Restated (Note 21) 2005 £'000
<b>Fixed assets</b>					
Intangible fixed assets	8		86,996		13,966
Tangible fixed assets	9		6,246		949
Investments	10		85,405		14,405
			<u>178,647</u>		<u>29,320</u>
<b>Current assets</b>					
Stock	11	46		22	
Debtors	12	95,459		3,010	
Cash at bank and in hand		17,778		1,781	
		<u>113,283</u>		<u>4,813</u>	
<b>Current liabilities</b>					
Creditors: amounts falling due within one year	13	(213,060)		(18,971)	
		<u>(213,060)</u>		<u>(18,971)</u>	
<b>Net current liabilities</b>			<u>(99,777)</u>		<u>(14,158)</u>
<b>Total assets less current liabilities</b>			<u>78,870</u>		<u>15,162</u>
<b>Creditors: amounts falling due after more than one year</b>	14		<u>(1,518)</u>		<u>-</u>
<b>Provisions for liabilities</b>	15		<u>-</u>		<u>(88)</u>
<b>Net assets</b>			<u>77,352</u>		<u>15,074</u>
<b>Capital and reserves</b>					
Called up share capital	17		1		-
Share premium	18		85,404		14,405
Profit and loss account	18		(8,053)		669
			<u>77,352</u>		<u>15,074</u>
<b>Equity shareholders' funds</b>			<u>77,352</u>		<u>15,074</u>

The accompanying notes on pages 9 to 21 form an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 12 September 2007 and were signed on its behalf by:

  
 Stewart Porter  
 Director

**Statement of total recognised gains and losses**  
*for the year ended 31 December 2006*

	2006 £'000	2005 (restated note 21) £'000
(Loss)/profit for the financial year	(8,722)	669
<b>Total recognised losses relating to the financial year</b>	<b>(8,722)</b>	
Prior year adjustment (see note 21)	(4,326)	
<b>Total losses recognised since the last annual report</b>	<b>(13,048)</b>	

**Reconciliation of movements in shareholder's funds**  
*for the year ended 31 December 2006*

	2006 £'000	2005 (restated note 21) £'000
(Loss)/profit for the financial year ( <i>originally £4,495,000 restated for prior year adjustment of £(4,326,000), see note 21</i> )	(8,722)	669
Issue of new share capital	71,000	14,405
<b>Net increase/(decrease) in shareholder's (deficit)/funds</b>	<b>62,278</b>	15,074
Opening shareholder's deficit ( <i>originally £19,400,000 funds restated for prior year adjustments of £(4,326,000), see note 21</i> )	15,074	-
<b>Closing shareholder's (deficit)/funds</b>	<b>77,352</b>	15,074

## 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 company'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 comparative information has been restated by way of a prior year adjustment. Further details are given in note 21 to the financial statements.

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.

#### *Consolidation*

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.

#### *Going concern*

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £99,777,000, 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 ultimate 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.

If the company was to be disposed of in the foreseeable future, the directors of the company believe that inter group balances between those entities disposed of and those remaining would be waived.

#### *Turnover*

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

#### *Goodwill*

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. The economic life of goodwill has been estimated by the directors to be 10 years, with the exception of bulldog where goodwill is being amortised over three years in line with estimated useful life of the customers acquired.

## 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:

Leasehold Improvements	Life of lease
Network Equipment	3 years
Office equipment	3 to 5 years

#### *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 assets of the company at the end of the period were all attributable to the United Kingdom. The profit before tax of the company during the period was attributable to the United Kingdom.

### 3 Operating loss

	2006	Restated (Note 21) 2005
	£'000	£'000
<i>Operating loss is stated after charging/ (crediting)</i>		
Auditors remuneration:		
- audit	-	45
- taxation services	-	18
Depreciation of tangible fixed assets (owned)	803	1,017
Depreciation of tangible fixed assets (leased)	1,717	46
Amortisation of goodwill	9,966	1,551
Provision against amounts owed by other group undertakings	-	87,288
Management recharges (receivable)/payable	(12,550)	960
Rentals payable under operating leases – land and buildings	1,028	839
Rentals payable under operating leases – other	1,088	4
Loss on disposal of fixed assets	10	-
	<hr/>	<hr/>
Reversal of previous impairment of amounts owed by other group undertakings	-	(13,204)
	<hr/>	<hr/>

Auditors' remuneration in 2006, of £45,000, was borne by a fellow group entity.

## Notes to the financial statements (continued)

### 4 Staff numbers and costs

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

	2006	2005
Full time operations staff	383	77
Executive and administrative	153	41
	<u>536</u>	<u>118</u>

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

	£'000	£'000
Wages and salaries	17,147	3,429
Social security costs	1,936	316
Pension costs	431	88
Staff costs capitalised	(908)	-
	<u>18,606</u>	<u>3,833</u>

All directors' remuneration was borne by Pipex Communications plc.

### 5 Other interest receivable and similar Income

	2006 £'000	2005 £'000
On bank balances	301	-

### 6 Interest payable and similar charges

	2006 £'000	Restated (Note 21) 2005 £'000
On bank loans	30	23
On loans from group undertakings	6,382	724
Interest payable on finance leases	186	-
Other interest payable	190	-
	<u>6,788</u>	<u>747</u>

## Notes to the Financial Statements (continued)

### 7 Taxation

	2006 £'000	Restated (Note 21) 2005 £'000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	(8,722)	669
Current tax at 30%	(2,616)	201
<i>Effects of:</i>		
Expenses not deductible for tax purposes	3,563	552
Depreciation in excess of capital allowance	(95)	65
Group relief received for nil consideration	(852)	(818)
Total current tax charge	-	-

### 8 Intangible fixed asset

	Restated (Note 21) <b>Goodwill</b> £'000
<b>Cost</b>	
At 1 January 2006	15,518
Additions (see note 19)	82,996
<b>At 31 December 2006</b>	<b>98,514</b>
<b>Amortisation</b>	
At 1 January 2006	1,552
Charge for the year	9,966
<b>At 31 December 2006</b>	<b>11,518</b>
<b>Net book value at 31 December 2006</b>	<b>86,996</b>
At 31 December 2005	13,966

The positive goodwill arising in the period is due to the acquisition of Pipex Broadband Limited, Freedom to Surf Limited, Freedom to Surf Consumer Services Limited on 1 January 2006 (amortised over ten years) and Bulldog on 7 September 2006 (amortised over three years).

## Notes to the Financial Statements (continued)

### 9 Tangible fixed assets

	Leasehold improvements £'000	Network equipment £'000	Office Equipment £'000	Total £'000
<b>Cost</b>				
As at 1 January 2006 ( <i>restated Note 21</i> )	7	1,580	41	1,628
Acquisition (note 19)	12	1,299	2,567	3,878
Additions	56	2,826	1,067	3,949
Disposals	-	-	(65)	(65)
<b>At 31 December 2006</b>	<b>75</b>	<b>5,705</b>	<b>3,610</b>	<b>9,390</b>
<b>Depreciation</b>				
As at 1 January 2006 ( <i>restated Note 21</i> )	-	667	12	679
Charge for period	24	1,400	1,096	2,520
Disposals	-	-	(55)	(55)
<b>At 31 December 2006</b>	<b>24</b>	<b>2,067</b>	<b>1,053</b>	<b>3,144</b>
<b>Net book value</b>				
<b>At 31 December 2006</b>	<b>51</b>	<b>3,638</b>	<b>2,557</b>	<b>6,246</b>
At 31 December 2005 ( <i>restated Note 21</i> )	7	913	29	949

Included in the total net book value of network equipment and office equipment is £2,418,000 and £73,000 respectively (2005: £4,366,000 for network equipment and £161,000 for office equipment) in respect of assets held under finance leases. Depreciation for the year on these assets was £1,717,000 (2005: £46,000).

### 10 Investments

	2006 Shares in group undertakings £'000
<b>Cost</b>	
At 1 January 2006 ( <i>restated Note 21</i> )	14,405
Additions	71,000
<b>At 31 December 2006</b>	<b>85,405</b>
At 31 December 2005 ( <i>restated Note 21</i> )	14,405

## Notes to the Financial Statements (continued)

### 10 Investments (continued)

The company's principal subsidiary undertakings are as follows:

Name	Proportion of ordinary share capital held	Nature of business/activity
Freedom to Surf Limited	100%	Dormant
Freedom to Surf Consumer Services Limited	100%	Dormant
Pipex Broadband Limited	100%	Dormant
Accent UK Limited	100%	Non trading
*Nildram Limited	100%	Non trading
*Trinité Limited	100%	Non trading
*Trinité Services Limited	100%	Dormant

All subsidiary undertakings are registered in England and Wales.

\* All subsidiaries owned by company directly except where indicated owned by Accent UK Limited

### 11 Stock

	2006 £'000	2005 £'000
Finished goods for resale	46	22

### 12 Debtors

	2006 £'000	Restated (Note 21) 2005 £'000
Trade debtors	12,857	1,683
Amounts owed by other group undertakings	76,219	429
Other debtors	1,224	80
Prepayments and accrued income	5,159	818
	<u>95,459</u>	<u>3,010</u>

### 13 Creditors: amounts falling due within one year

	2006 £'000	Restated (Note 21) 2005 £'000
Trade creditors	19,239	1,945
Amounts owed to group undertakings	178,101	15,470
Taxation and social security	1,219	391
Obligations under finance leases	958	25
Other creditors	987	16
Accruals and deferred income	12,556	1,124
	<u>213,060</u>	<u>18,971</u>

## Notes to the Financial Statements (continued)

### 14 Creditors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Obligations under finance leases	1,518	-

The maturity of obligations under finance leases is as follows:

	2006 £000	2005 £000
Within one year	958	-
Within one to two years	928	-
Between two and five years	590	-
	<u>2,476</u>	<u>-</u>

### 15 Provisions for liabilities and charges

	Dilapidations Provision £'000
As at 1 January 2006	88
Utilised in year	(88)
	<u>-</u>
As at 31 December 2006	<u>-</u>

### 16 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land & buildings 2006 £'000	Other 2006 £'000	Land & buildings 2005 £'000	Other 2005 £'000
Operating leases which expire:				
Within one year	77	960	106	2
Within two to five years	641	128	100	-
After five years	310	-	-	-
	<u>1,028</u>	<u>1,088</u>	<u>206</u>	<u>2</u>

## Notes to the Financial Statements (continued)

### 17 Called up share capital

	2006	2005
	£	£
<b>Authorised</b>	<b>1,000</b>	<b>1,000</b>
10,000,000 ordinary shares of 0.1p each	<u>          </u>	<u>          </u>
<b>Allotted, called up and fully paid</b>		
At 1 January 146,050 (2005: nil) ordinary shares of 0.1p each	<b>146</b>	-
Issued during the year 710,000 (2005: 146,050) ordinary shares of 0.1p each	<b>710</b>	146
At 31 December 856,050 (2005: £146,050) ordinary shares of 0.1p each	<u><b>856</b></u>	<u>146</u>

On 1 January 2006 the company issued 710,000 ordinary shares of 0.1p each to Pipex Communications Plc for a total consideration of £71,000,000 in satisfaction of the purchase of Pipex Broadband Limited, Freedom to Surf Limited and Freedom to Surf Consumers Services Limited on 1 January 2006.

600,000 ordinary shares were allotted for the purchase of Pipex Broadband Limited at a consideration of £60,000,000 of which the nominal value of £600 was credited to share capital, and the balance of £59,999,400 was credited to the share premium account.

105,000 ordinary shares were allotted for the purchase of Freedom to Surf Limited at a consideration of £10,500,000 of which the nominal value of £105 was credited to share capital, and the balance of £10,499,895 was credited to the share premium account.

5,000 ordinary shares were allotted for the purchase of Freedom to Surf Consumers Services Limited at a consideration of £500,000 of which the nominal value of £5 was credited to share capital and the balance of £499,995 was credited to share premium account.

### 18 Share premium and reserves

	Share premium	Profit and loss account	Total
	£'000	£'000	£'000
At 1 January 2006 (restated, see note 21)	14,405	669	15,074
Shares issued during the year	70,999	-	70,999
Retained loss for the year	-	(8,722)	(8,722)
At 31 December 2006	<u>85,404</u>	<u>(8,053)</u>	<u>77,351</u>

## Notes to the Financial Statements (continued)

### 19 Acquisitions

#### Summary

Below is a summary of the acquisitions made by Pipex Internet Limited in the year ended 31 December 2006.

	<b>2006 £'000</b>
Fair Value of Liabilities Acquired	(1,628)
Goodwill	82,996
	81,368
Consideration	81,368
Satisfied by:	
Intercompany Loan	71,000
Cash	10,313
Costs of acquisition	55
	<b>81,368</b>

#### (a) Pipex Broadband Limited

On 1 January 2006 Pipex Internet Limited purchased the entire share capital of Pipex Broadband Limited at fair value. At the same date the trade, assets and liabilities of the company were transferred to Pipex Internet Limited at fair value.

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

	<b>Fair value £'000</b>
Fixed Assets	3,585
Stock	20
Debtors	95,486
Cash	1,508
Creditors (falling due within one year)	(102,409)
<b>Net liabilities</b>	<b>(1,810)</b>
<b>Goodwill</b>	<b>61,810</b>
<b>Consideration</b>	<b>60,000</b>
Satisfied by:	
Intercompany loan	60,000

## Notes to the Financial Statements (continued)

### 19 Acquisitions (continued)

#### (b) Freedom to Surf Limited

On 1 January 2006 Pipex Internet Limited purchased the entire share capital of Freedom to Surf Limited at fair value. At the same date the trade, assets and liabilities of the company were transferred to Pipex Internet Limited at fair value.

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

	Fair value £'000
Fixed Assets	293
Stocks	15
Debtors	1,697
Cash	1,019
Creditors (falling due within one year)	(2,591)
Creditors (falling due after one year)	(156)
<b>Net assets</b>	<u>277</u>
<b>Goodwill</b>	<b>10,223</b>
<b>Consideration</b>	<u><b>10,500</b></u>
Satisfied by:	
Intercompany loan	<u><u>10,500</u></u>

#### (c) Freedom to Surf Consumer Services Limited

On 1 January 2006 Pipex Internet Limited purchased the entire share capital of Freedom to Surf Consumer Services Limited at fair value. At the same date the trade, assets and liabilities of the company were transferred to Pipex Internet Limited at fair value.

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

	Fair value £'000
Debtors	57
Creditors (falling due within one year)	(23)
Creditors (falling due after one year)	(129)
<b>Net liabilities</b>	<u>(95)</u>
<b>Goodwill</b>	<b>595</b>
<b>Consideration</b>	<u><b>500</b></u>
Satisfied by:	
Intercompany loan	<u><u>500</u></u>

## Notes to the Financial Statements (continued)

### 19 Acquisitions (continued)

#### (d) Bulldog

On 7 September 2006, Pipex Internet Limited acquired from Cable & Wireless Access Limited the active part of the Bulldog customer base together with the Bulldog brand. Initial consideration was £12,000,000, in cash. In January 2007, the number of active customers acquired was reviewed and the consideration lowered to £10,313,000.

Acquisition costs were £55,000 giving rise to goodwill of £10,368,000. Goodwill is being amortised over three years in line with the estimated useful life of the customers acquired. The current year amortisation charge is £1,151,000.

### 20 Pensions

The company does not operate an occupational pension scheme but makes a percentage 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 £431,000 (2005: £88,000).

### 21 Prior Year Adjustment

On 1 January 2005, the company entered into a sales agreement with GNX Limited ('GXN') under which the shares in Pipex Communications Services Limited ('PCSL') were to be acquired for £1,618,000. Immediately after acquiring PCSL's shares, the trade and assets of PCSL were to have been transferred to the company for consideration of £1,618,000; and PCSL's liabilities were to have been assumed by the company for no consideration. The company had previously accounted for the acquisition of PCSL's trade and assets, and the assumption of PCSL's liabilities, as a business combination, resulting in goodwill of £88,906,000 being recorded. However, since approving last year's financial statements, the directors have received legal advice that the acquisition of PCSL's shares was void. A consequential effect is that the transfer of PCSL's trade and assets to the company, and the company's assumption of PCSL's liabilities, was also void. In these financial statements, the prior year's figures have been restated to remove the accounting entries relating to the purchase of shares in PCSL, the transactions and balances arising from PCSL's trade, and the liabilities which remain with PCSL.

None of these adjustments has any tax impact.

## Notes to the Financial Statements (continued)

### 21 Prior Year Adjustment (continued)

#### Impact on Balance Sheet

	As previously stated at 31 December 2005 £'000	Prior year Adjustment £'000	Restated at 31 December 2005 £'000
<b>Fixed assets</b>			
Intangible fixed assets	93,982	(80,016)	13,966
Tangible fixed assets	1,645	(696)	949
Investments	16,023	(1,618)	14,405
	<u>111,650</u>	<u>(82,330)</u>	<u>29,320</u>
<b>Current assets</b>			
Stock	22	-	22
Debtors	31,320	(28,310)	3,010
Cash at bank and in hand	6,934	(5,153)	1,781
	<u>38,276</u>	<u>(33,463)</u>	<u>4,813</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	(130,438)	111,467	(18,971)
<b>Net current liabilities</b>	<u>(92,162)</u>	<u>78,004</u>	<u>(14,158)</u>
<b>Total assets less current liabilities</b>	<u>19,488</u>	<u>(4,326)</u>	<u>15,162</u>
<b>Provisions for liabilities and charges</b>	<u>(88)</u>	<u>-</u>	<u>(88)</u>
<b>Net assets</b>	<u>19,400</u>	<u>(4,326)</u>	<u>15,074</u>
<b>Capital and reserves</b>			
Called up share capital	-	-	-
Share premium	14,405	-	14,405
Profit and loss account	4,995	(4,326)	669
<b>Equity shareholders' funds</b>	<u>19,400</u>	<u>(4,326)</u>	<u>15,074</u>

## Notes to the Financial Statements (continued)

### 21 Prior Year Adjustment (continued)

#### Impact on Profit and loss account

	As previously stated for the year ended 31 December 2005 £'000	Prior year adjustment £'000	Restated for the year ended 31 December 2005 £'000
Turnover	24,651	(1,421)	23,230
Cost of sales	(14,635)	717	(13,918)
<b>Gross profit</b>	<b>10,016</b>	<b>(704)</b>	<b>9,312</b>
Administrative expenses	(4,116)	(3,780)	(7,896)
<b>Operating profit</b>	<b>5,900</b>	<b>(4,484)</b>	<b>1,416</b>
Interest payable and similar charges	(905)	158	(747)
<b>Profit on ordinary activities before taxation</b>	<b>4,995</b>	<b>(4,326)</b>	<b>669</b>
Tax on profit on ordinary activities	-	-	-
<b>Profit for the financial year</b>	<b>4,995</b>	<b>(4,326)</b>	<b>669</b>

### 22 Post Balance Date Event

As at the date of approval of the accounts, the parent company, Pipex Communications plc, has announced a conditional sale of part of its business; the company is included in the part of the business that relates to the sale.

### 23 Immediate and ultimate parent company

The company's immediate and ultimate parent company is Pipex Communications plc, a company incorporated in England and Wales.

The largest and smallest 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:

Pipex Communications plc  
 1 Triangle Business Park  
 Stoke Mandeville  
 Buckinghamshire  
 HP22 5BL

[www.pipex.com](http://www.pipex.com)