COLT Telecom Group plc
20 October 2005

COLT Telecom Group plc announces results for the quarter ended 30 September 2005

COLT Telecom Group plc (COLT), a leading European provider of business communications, today reported another quarter of solid progress, with strong customer wins to support future revenues and positive free cash flow for the quarter.

Third quarter highlights

Compared with Q2 2005:

- Turnover decreased by 1.5% to £311.8 million, mainly reflecting the seasonality of revenue. On a constant currency basis, turnover decreased by 2.1%
- Non-switched revenues grew by 1.9% to £123.3 million
- Gross margin before depreciation increased from 33.6% to 34.6%
- Selling, general and administrative expenses were reduced by £3.7 million to £61.9 million
- EBITDA (1) increased by £5.1 million to £45.9 million
- Free cash flow (2) improved by £35.1 million, producing a cash inflow of £25.4 million
- India headcount increased by 71 to 455 whilst Europe decreased by 104 to 3,422

Compared with Q3 2004:

- Turnover increased by 2.4%. On a constant currency basis, turnover increased by 1.1% and by 3.3% after also excluding reductions in fixed to mobile prices

- Non-switched revenues grew by 4.6%
- EBITDA improved by £12.1 million despite the costs of the India transition

The Company's financial position continues to be strong, with cash and cash equivalents of £339.6 million at the end of the quarter.

COLT Chairman Barry Bateman said:

'In challenging market conditions we have continued to work hard to translate our strategy into improved results. We still need to see increased revenue growth but at the same time I am pleased to see growth in data revenues, a further improvement in EBITDA and now also positive free cash flow.'

Commenting on the results for the quarter, Jean-Yves Charlier, Chief Executive, said:

'Conditions in the European telecoms markets continue to be challenging. Whilst our voice revenues were affected by the lower seasonal activity, we grew non-switched revenues and generated a solid month of bookings in September. In addition to the major contracts that we announced earlier this month (Commerzbank and Nomura), we have just been awarded an important hosting and managed services contract in Spain valued at more than EUR 9 million over four years.

(1) EBITDA is earnings before interest, tax, depreciation, foreign exchange and debt settlement income / expense
(2) Free cash flow is cash generated from operating activities less net cash used in investing activities and net interest paid

'We are continuing to streamline and take cost out of our business. With stable margins and SG&A falling for the third successive quarter, despite substantial costs of change, we are now seeing clear benefits from our cost leadership initiatives and expect more improvement over the next two years. During the quarter we transferred 71 positions to India where our offshore office now has more than 450 people. We are on track to have 15% of the company operating out of India by the year-end.

'With stable revenues and lower costs, EBITDA improved for the fourth successive quarter. As a result of this higher EBITDA, lower capital expenditure, continued tight management of working capital and lower interest payments, we saw a £25.4 million free cash inflow. We remain confident that COLT will be free cash flow positive on a sustainable annual basis from the second half of 2005 and have therefore given notice during the quarter of our intention to retire, before its due date in 2006, approximately £132.5 million of debt.'

Financial Review

Results for the quarter are reported under International Financial Reporting Standards (IFRS). Results for comparative periods have been restated to conform to IFRS.

Total turnover

Turnover for the quarter was £311.8 million (Q2 2005: £316.7 million; Q3 2004: £304.6 million) a decrease of 2.1% over the second quarter of 2005 and an increase of 1.1% over the third quarter of 2004 on a constant currency basis. Excluding the impact of reductions in fixed to mobile prices, constant currency turnover increased by 3.3% over the third quarter of 2004. Non-switched turnover as a percentage of total turnover was 39.6% (Q2 2005: 38.2%; Q3 2004: 38.7%).

Switched turnover

Switched turnover for the quarter decreased by 3.8% to £188.0 million (Q2 2005: £195.4 million) and increased by 1.7% over the third quarter of 2004 (Q3 2004: £184.8 million). Within switched turnover the proportion of carrier was 35.3% (Q2 2005: 36.0%; Q3 2004: 36.6%). Switched turnover from corporate customers decreased by 5.6% to £79.3 million (Q2 2005: £84.1 million) and decreased by 2.0% over the third quarter of 2004 (Q3 2004: £81.0 million). Switched turnover from wholesale customers decreased by 2.4% to £108.7 million (Q2 2005: £111.3 million) and increased by 4.7% over the third quarter of 2004 (Q3 2004: £103.8 million).

Non-switched turnover

Non-switched turnover for the quarter increased by 1.9% to £123.3 million (Q2 2005: £121.0 million) and increased by 4.6% over the third quarter of 2004 (Q3 2004: £117.9 million). Non-switched turnover from corporate customers increased by 3.5% to £99.6 million (Q2 2005: £96.3 million) and increased by 9.0% over the third quarter of 2004 (Q3 2004: £91.4 million). Non-switched turnover from wholesale customers decreased by 4.3% to £23.7 million (Q2 2005: £24.8 million) and decreased by 10.5% over the third quarter of 2004 (Q3 2004: £26.5 million).

Cost of sales

Cost of sales for the quarter decreased by 2.6% to £251.9 million (Q2 2005: £258.5 million) and decreased by 1.0% over the third quarter of 2004 (Q3 2004: £254.4 million). Interconnect and network costs decreased by 3.0% to £204.0 million (Q2 2005: £210.2 million) and decreased by 1.8% over the third quarter of 2004 (Q3 2004: £207.8 million).

Network depreciation decreased by 0.7% to £47.9 million (Q2 2005: £48.2 million) and increased by 2.7% over the third quarter of 2004 (Q3 2004: £46.6 million).

Operating expenses

Operating expenses for the quarter decreased by 5.5% to £69.7 million (Q2 2005: £73.8 million) and decreased by 0.3% over the third quarter of 2004 (Q3 2004: £69.9 million). Selling, general and administrative (SG&A) expenses decreased by 5.6% to £61.9 million (Q2 2005: £65.6 million) and decreased by 1.7% over the third quarter of 2004 (Q3 2004: £63.0 million). SG&A expenses as a proportion of turnover were 19.9% (Q2 2005: 20.7%; Q3 2004: 20.7%). Other depreciation decreased by £0.4 million to £7.7 million (Q2 2005: £8.1 million) and increased by £0.9 million over the third quarter of 2004 (Q3 2004: £6.8 million).

Interest receivable, interest payable and similar charges

Interest receivable for the quarter decreased by £0.1 million to £2.9 million (Q2 2005: £3.0 million) and decreased by £2.7 million over the third quarter of 2004 (Q3 2004: £5.6 million). Interest payable and similar charges remained constant at £13.7 million (Q2 2005: £13.7 million) and decreased by £6.8 million over the third quarter of 2004 (Q3 2004: £20.5 million). These decreases compared to 2004 were due to the reduction in cash and cash equivalents and debt levels following the redemption of some of the Company's outstanding notes during 2004 and the first nine months of 2005.

Interest payable and similar charges for the quarter included £6.6 million (Q2 2005: £6.7 million; Q3 2004: £12.0 million) of interest and accretion on convertible debt and £6.7 million (Q2 2005: £6.6 million; Q3 2004: £8.7 million) of interest and accretion on non-convertible debt.

Tax on loss on ordinary activities

COLT had no taxable profits in the quarter nor in 2004.

Cash flow

Net movement in cash and cash equivalents for the quarter was an inflow of £1.1 million (Q2 2005: outflow of £9.5 million; Q3 2004: outflow of £14.2 million). There was a free cash flow of £25.4 million (Q2 2005: outflow of £9.8 million; Q3 2004: outflow of £1.0 million).

During the quarter, £24.7 million of the 2% Senior Convertible Notes due 2007 were redeemed early. In the first six months of 2005 all of the outstanding 10.125% Senior Notes due 2007 and the 8.875% Senior Notes due 2007 were redeemed at par for £80.9 million. In addition, we intend to redeem approximately £132.5 million of 2% Senior Convertible Notes due 2006 on 21 October 2005.

COLT had balances of cash and cash equivalents at 30 September 2005 of £339.6 million compared with £452.7 million at 31 December 2004 and £791.4 million at 30 September 2004. The decreases are primarily as a result of bond redemptions.

Financial Information

Consolidated income statement

	Three months ended 30 September		
	2004	2005	2005
	£'000	£'000	$'000
Turnover	304,565	311,781	551,728
Cost of sales			
Interconnect and network	(207,813)	(203,972)	(360,949)
Network depreciation	(46,611)	(47,891)	(84,748)
	(254,424)	(251,863)	(445,697)
Gross profit	50,141	59,918	106,031
Operating expenses			
Selling, general and administrative	(63,019)	(61,948)	(109,623)
Other depreciation	(6,835)	(7,715)	(13,652)
	(69,854)	(69,663)	(123,275)
Operating loss	(19,713)	(9,745)	(17,244)
Other income (expense)			
Interest receivable	5,600	2,884	5,104
Debt settlement income (expense)	(477)	1,596	2,824

Interest payable and similar charges	(20,482)	(13,658)	(24,169)
Exchange gain (loss)	104	(285)	(504)
	(15,255)	(9,463)	(16,745)
Loss on ordinary activities before taxation	(34,968)	(19,208)	(33,989)
Taxation	--	--	--
Loss for period	(34,968)	(19,208)	(33,989)
Basic and diluted loss per share	£(0.02)	£(0.01)	$(0.02)

All of the Group's activities are continuing. The basis on which this information has been prepared is described in Note 1 to this financial information.

Consolidated reconciliation of changes in equity shareholders' funds

	Three months ended 30 September		
	2004	2005	2005
	£'000	£'000	$'000
Loss for period	(34,968)	(19,208)	(33,989)
Issue of share capital	--	483	855
Shares to be issued under share option plans	497	779	1,379
Warranty fair value	(352)	107	187
Grant of shares from Group Quest	--	23	41
Cost of debt redemption allocated to equity	(11)	(2,457)	(4,348)
Exchange differences	8,029	3,420	6,052
Net changes in equity shareholders' funds	(26,805)	(16,853)	(29,823)
Opening equity shareholders' funds	764,353	627,904	1,111,139
Closing equity shareholders' funds	737,548	611,051	1,081,316

Consolidated balance sheet

	At 30 September 2004	At 31 December 2004	At 30 September 2005	
	£'000	£'000	£'000	$'000
ASSETS				
Non-current assets				
Property, plant and equipment	1,193,127	1,197,063	1,088,024	1,925,368
Intangible assets	65,976	65,783	56,864	100,626
Total non-current assets	1,259,103	1,262,846	1,144,888	2,025,994
Current assets				
Trade receivables	194,269	199,074	192,098	339,937
Prepaid expenses and other debtors	46,566	48,459	64,133	113,490
Cash and cash equivalents	791,367	452,716	339,601	600,958
Total current assets	1,032,202	700,249	595,832	1,054,385
Total assets	2,291,305	1,963,095	1,740,720	3,080,379
EQUITY				
Capital and reserves				
Share capital	2,354,400	2,354,443	2,355,163	4,167,696
Other reserves	111,245	77,543	65,309	115,571
Retained earnings	(1,728,097)	(1,733,430)	(1,809,421)	(3,201,951)
Total equity	737,548	698,556	611,051	1,081,316
LIABILITIES				
Non-current liabilities				

Convertible debt	348,963	365,579	213,234	377,339
Non-convertible debt	432,023	363,365	349,721	618,866
Provisions for liabilities and charges	48,966	48,708	37,415	66,210
Total non-current liabilities	829,952	777,652	600,370	1,062,415
Current liabilities				
Convertible debt	302,791	--	130,448	230,841
Non-convertible debt	--	81,692	--	--
Trade and other payables	421,014	405,195	398,851	705,807
Total current liabilities	723,805	486,887	529,299	936,648
Total liabilities	1,553,757	1,264,539	1,129,669	1,999,063
Total equity and liabilities	2,291,305	1,963,095	1,740,720	3,080,379

Consolidated cash flow statement

	Three months ended 30 September		
	2004 £'000	2005 £'000	2005 $'000
Net cash generated from operating activities	36,354	56,288	99,607
Cash flows from investing activities:			
Purchase of tangible fixed assets	(32,574)	(27,095)	(47,947)
Disposal of tangible fixed assets	86	130	230
Net cash used in investing activities	(32,488)	(26,965)	(47,717)

Cash flows from financing activities:			
Interest paid, finance costs and similar charges	(10,378)	(6,717)	(11,886)
Interest received	5,550	2,752	4,870
Issue of ordinary shares	--	483	855
Redemption of debt	(13,247)	(24,719)	(43,743)
Net cash used in financing activities	(18,075)	(28,201)	(49,904)
Net movement in cash and cash equivalents	(14,209)	1,122	1,986
Cash and cash equivalents at beginning of period	793,976	335,855	594,329
Effect of exchange rate changes on cash and cash equivalents	11,600	2,624	4,643
Cash and cash equivalents at end of period	791,367	339,601	600,958

Notes to the Financial Information

1. Basis of presentation and principal accounting policies

COLT Telecom Group plc ('COLT' or the 'Company'), together with its subsidiaries, is referred to as the Group. Consolidated financial information has been presented for the Group for the three months ended 30 September 2005.

The financial information for the three months ended 30 September 2005 is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial information has been prepared in accordance with the measurement principles within International Financial Reporting Standards (IFRS) that had been published by 31 December 2004 and apply to accounting periods beginning on or after 1 January 2005. The standards used are those endorsed by the EU together with those standards and interpretations that have been issued by the IASB but had not been endorsed by the EU by 30 September 2005. The 2004 comparative information has, as permitted by IFRS 1, been prepared taking advantage of the following transitional exemptions:

(i) Business combinations prior to the transition date of 1 January 2004 have not been restated.
(ii) The Company has elected to only adopt recognition and measurement criteria requirements to share based payments granted after 7 November 2002 that had not vested by 1 January 2005.
(iii) The Company has reset the cumulative translation differences for all foreign operations to £nil as at 1 January 2004.

The Company has elected to comply with IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 1 January 2004.

Further standards and interpretations may be issued that will be applicable for financial years beginning on or after 1 January 2005 or that are applicable to later accounting periods but may be adopted early. The Company's first IFRS financial statements may, therefore, be prepared in accordance with some different accounting policies from the financial information presented here.

Additionally, IFRS is currently being applied in the United Kingdom and in a large number of other countries simultaneously for the first time. Furthermore, due to a number of new and revised Standards included within the body of Standards that comprise IFRS, there is not yet a significant body of established practice on which to draw in forming opinions regarding interpretation and application. Accordingly, practice is continuing to evolve. At this preliminary stage, therefore, the full financial effect of reporting under IFRS as it will be applied and reported on in the Group's first IFRS financial statements cannot be determined with certainty and may be subject to change.

Accounting policies and presentation applied are therefore not consistent with those applied in preparing the Group's financial statements for the year ended 31 December 2004 due to the transition from UK GAAP to IFRS. Details of changes in accounting policies and their financial impact are set out in notes 7 and 8.

Certain British pound amounts in the financial information have been translated into U.S. dollars at 30 September 2005 and for the periods then ended at the rate of $1.7696 to the British pound, which was the noon buying rate in the City of New York for cable transfers in British pounds as certified for customs purposes by the Federal Reserve Bank on such date. Such translations should not be construed as representations that the British pound amounts have been or could be converted into U.S. dollars at that or any other rate.

2. Segmental information

The Group operates in a single business segment, telecommunications, and in the geographical areas shown below.

The reported segments are Germany, UK, France and Strategic Markets. Strategic Markets comprises Austria, Belgium, Denmark, Ireland, Italy, The Netherlands, Portugal, Spain, Sweden and Switzerland.

Switched turnover comprises services that involve the transmission of voice, data or video through a switching centre. Non-switched turnover includes managed and non-managed network services, bandwidth services and voice traffic which is delivered in a digital form (IP Voice).

For the three months ended 30 September 2005, 30 June 2005 and 30 September 2004, turnover and result by segment were as follows:

	Three months ended 30 September 2005				
	Germany	UK	France	Strategic Markets	Total
	£'000	£'000	£'000	£'000	£'000
Carrier	28,369	7,748	5,218	24,952	66,287
Non-carrier	57,294	20,245	15,806	28,372	121,717

Total switched	85,663	27,993	21,024	53,324	188,004
Non-switched	34,527	30,555	17,610	40,637	123,329
Other	--	--	--	448	448
Turnover by segment	120,190	58,548	38,634	94,409	311,781
Operating result by segment	(4,465)	(1,532)	(677)	(3,071)	(9,745)

	Three months ended 30 June 2005				
	Germany	UK	France	Strategic Markets	Total
	£'000	£'000	£'000	£'000	£'000
Carrier	28,124	9,153	5,269	27,840	70,386
Non-carrier	57,250	21,854	17,243	28,656	125,003
Total switched	85,374	31,007	22,512	56,496	195,389
Non-switched	34,361	29,641	17,411	39,631	121,044
Other	--	--	--	225	225
Turnover by segment	119,735	60,648	39,923	96,352	316,658
Operating result by segment	(6,084)	(5,418)	(1,080)	(2,976)	(15,558)

	Three months ended 30 September 2004				
	Germany	UK	France	Strategic Markets	Total
	£'000	£'000	£'000	£'000	£'000
Carrier	31,195	7,270	2,965	26,264	67,694
Non-carrier	53,961	25,032	14,745	23,381	117,119
Total switched	85,156	32,302	17,710	49,645	184,813
Non-switched	32,967	27,764	17,916	39,278	117,925
Other	1,117	--	--	710	1,827
Turnover by segment	119,240	60,066	35,626	89,633	304,565
Operating result by segment	(7,952)	(6,928)	(959)	(3,874)	(19,713)

In addition, for the three months ended 30 September 2005, 30 June 2005 and 30 September 2004, turnover by customer segment is presented below. Corporate turnover includes services to corporate and government accounts. Wholesale turnover includes services to other telecommunications carriers, resellers and internet service providers.

	Three months ended 30 September 2005		
	Corporate	Wholesale	Total
	£'000	£'000	£'000
Carrier	--	66,287	66,287
Non-carrier	79,344	42,373	121,717
Total switched	79,344	108,660	188,004
Non-switched	99,596	23,733	123,329
Other	325	123	448
Turnover	179,265	132,516	311,781

	Three months ended 30 June 2005		
	Corporate	Wholesale	Total
	£'000	£'000	£'000
Carrier	--	70,386	70,386
Non-carrier	84,068	40,935	125,003
Total switched	84,068	111,321	195,389
Non-switched	96,254	24,790	121,044
Other	97	128	225
Turnover	180,419	136,239	316,658

	Three months ended 30 September 2004		
	Corporate	Wholesale	Total
	£'000	£'000	£'000
Carrier	--	67,694	67,694
Non-carrier	81,000	36,119	117,119
Total switched	81,000	103,813	184,813

Non-switched	91,405	26,520	117,925
Other	1,827	--	1,827
Turnover	174,232	130,333	304,565

Turnover for the three months ended 30 September 2005, compared to the three months ended 30 June 2005 and 30 September 2004 and after excluding the impact of foreign exchange, is shown below:

	Q3 2005	Q3 2005	Compared to Q2 2005 % Growth		Q3 2005	Compared to Q3 2004 % Growth	
	£'000 Actual	£'000 Adjusted (1)	Actual	Adjusted (1)	£'000 Adjusted (2)	Actual	Adjusted (2)
Corporate							
Switched	79,344	78,964	(5.6)	(6.1)	78,414	(2.0)	(3.2)
Non-switched	99,596	99,116	3.5	3.0	98,413	9.0	7.7
Other	325	322	n/a	n/a	321	n/a	n/a
Total	179,265	178,402	(0.6)	(1.1)	177,148	2.9	1.7
Wholesale							
Carrier	66,287	65,893	(5.8)	(6.4)	65,327	(2.1)	(3.5)
Non-carrier	42,373	42,108	3.5	2.9	41,736	17.3	15.6
Total switched	108,660	108,001	(2.4)	(3.0)	107,063	4.7	3.1
Non-switched	23,733	23,614	(4.3)	(4.7)	23,442	(10.5)	(11.6)
Other	123	122	n/a	n/a	121	n/a	n/a
Total	132,516	131,737	(2.7)	(3.3)	130,626	1.7	0.2
Total							
Carrier	66,287	65,893	(5.8)	(6.4)	65,327	(2.1)	(3.5)
Non-carrier	121,717	121,072	(2.6)	(3.1)	120,150	3.9	2.6
Total switched	188,004	186,965	(3.8)	(4.3)	185,477	1.7	0.4
Non-switched	123,329	122,728	1.9	1.4	121,854	4.6	3.3

Other	448	446	n/a	n/a	443	n/a	n/a
Total	311,781	310,139	(1.5)	(2.1)	307,774	2.4	1.1

(1) Q3 2005 turnover has been restated using Q2 2005 exchange rates, and compared to turnover which was reported in Q2 2005
(2) Q3 2005 turnover has been restated using Q3 2004 exchange rates, and compared to turnover which was reported in Q3 2004

3. Loss per share

	Three months ended 30 September		
	2004	2005	2005
	£'000	£'000	$'000
Loss for period	(34,968)	(19,208)	(33,989)
Weighted average of ordinary shares ('000)	1,511,021	1,512,241	1,512,241
Basic and diluted loss per share	£(0.02)	£(0.01)	$(0.02)

4. Reconciliation of net loss to cash generated from operations

	Three months ended 30 September		
	2004	2005	2005
	£'000	£'000	$'000
Loss for the period	(34,968)	(19,208)	(33,989)
Exchange differences	(104)	285	504
Interest payable	20,482	13,658	24,169
Interest receivable	(5,600)	(2,884)	(5,104)
Debt settlement expense (income)	477	(1,596)	(2,824)
Depreciation	53,446	55,606	98,400
Share option charge	497	779	1,379
Movement in debtors	272	11,693	20,692
Movement in creditors	6,001	1,693	2,996

Movement in provisions	(3,303)	(3,453)	(6,112)
Exchange differences	(846)	(285)	(504)
Cash generated from operations	36,354	56,288	99,607

5. EBITDA reconciliation

	Three months ended 30 September		
	2004	2005	2005
	£'000	£'000	$'000
Cash generated from operations	36,354	56,288	99,607
Movement in debtors	(272)	(11,693)	(20,692)
Movement in creditors	(6,001)	(1,693)	(2,996)
Total working capital adjustments	(6,273)	(13,386)	(23,688)
Movement in provisions	3,303	3,453	6,112
Exchange differences	846	285	504
Share option charge	(497)	(779)	(1,379)
EBITDA	33,733	45,861	81,156

6. Free cash flow reconciliation

	Three months ended 30 September		
	2004	2005	2005
	£'000	£'000	$'000
EBITDA	33,733	45,861	81,156
Movement in debtors	272	11,693	20,692
Movement in creditors	6,001	1,693	2,996
Movement in provisions	(3,303)	(3,453)	(6,112)
Exchange differences	(846)	(285)	(504)
Share option charge	497	779	1,379
Interest paid	(10,378)	(6,717)	(11,886)
Interest received	5,550	2,752	4,870
Capital expenditure	(32,488)	(26,965)	(47,717)
Free cash inflow (outflow)	(962)	25,358	44,874

7. Summary of the consolidated income statement differences between U.K. Generally Accepted Accounting Principles ('UK GAAP') and International Financial Reporting Standards ('IFRS')

A reconciliation and explanation of the difference between the consolidated income statements for the three months ended 30 September 2004 is shown below:

	Three months ended 30 September 2004		
	UK GAAP	Effect of transition to IFRS	IFRS
	£'000	£'000	£'000
Turnover (i)	303,710	855	304,565
Cost of sales			
Interconnect and network	(207,813)	--	(207,813)
Network depreciation	(46,611)	--	(46,611)
	(254,424)	--	(254,424)
Gross profit	49,286	855	50,141
Operating expenses			
Selling, general and administrative (ii)	(62,522)	(497)	(63,019)
Other depreciation and amortisation (iii)	(7,337)	502	(6,835)
	(69,859)	5	(69,854)
Operating loss	(20,573)	860	(19,713)

Other income (expense)			
Interest receivable	5,600	--	5,600
Debt settlement income (expense) (iv)	205	(682)	(477)
Interest payable and similar charges (iv)	(16,882)	(3,600)	20,482)
Exchange loss	104	--	104
	(10,973)	(4,282)	(15,255)
Loss on ordinary activities before taxation	(31,546)	(3,422)	(34,968)
Taxation	--	--	--
Loss for period	(31,546)	(3,422)	(34,968)
Basic and diluted loss per share	£(0.02)	£(0.00)	£(0.02)

(i) Installation fees revenue recognition - Under IFRS, all installation fees are taken to the profit and loss account over the expected length of the customer relationship period. Under UK GAAP the revenue was recognised in the same period as the related costs.

(ii) Share option schemes - Under UK GAAP, COLT did not suffer a profit and loss charge in respect of its share option plans. Under IFRS 2 'Share based payments' the Group is required to charge the profit and loss account with the fair value of the options issued. The adjustment represents the charge calculated using the Black-Scholes method, which is then spread over the vesting period. An exemption applies for options which were granted prior to 7 November 2002.

(iii) Goodwill - Under IFRS, goodwill is not subject to annual amortisation but there is a requirement for an annual impairment review. Any impairment so identified will be charged immediately to the income statement. The difference represents the reversal of the 2004 goodwill amortisation.

(iv) Convertible debt - Under IAS 32 'Financial instruments: Disclosure and presentation' the interest charge on convertible debt is increased to equal the interest charge on equivalent debt which does not have conversion rights.

Under UK GAAP, COLT included the liability in respect of the convertible debt within long term creditors. Under IFRS it is necessary to allocate the convertible debt between that which is deemed to relate to debt and that which is deemed to relate to the conversion rights. The element of the debt which relates to the conversion rights has been classified in Other Reserves in Equity Shareholders' Funds in the Group's balance sheet.

Under IFRS the gain or loss on early redemption of debt since 1 January 2004 is required to be restated. Upon early redemption of debt under IFRS the cost of redemption is allocated between that relating to the debt and equity elements. The difference between the cost of redemption allocated to debt and the carrying value of the debt is reported in the profit and loss account for the period as the debt settlement income/expense. The cost of the redemption allocated to equity is reported in the convertible debt reserve.

8. Summary of consolidated balance sheet differences between U.K. Generally Accepted Accounting Principles ('UK GAAP') and International Financial Reporting Standards ('IFRS')

A reconciliation and explanation of the difference between consolidated balance sheets as at 30 September 2004 is shown below:

	As at 30 September 2004		
	UK GAAP	Effect of transition to IFRS	IFRS
	£'000	£'000	£'000

ASSETS			
Non-current assets			
Property, plant and equipment (i)	1,249,904	(56,777)	1,193,127
Intangible assets (i) (iii)	7,691	58,285	65,976
Total non-current assets	1,257,595	1,508	1,259,103
Current assets			
Trade receivables	194,269	--	194,269
Prepaid expenses and other debtors (v)	46,444	122	46,566
Cash and cash equivalents	791,367	--	791,367
Total current assets	1,032,080	122	1,032,202
Total assets	2,289,675	1,630	2,291,305
EQUITY			
Capital and reserves			
Share capital	2,354,400	--	2,354,400
Other reserves (viii)	27,359	83,886	111,245
Retained earnings (vii)	(1,608,001)	(120,096)	(1,728,097)
Total equity	773,758	(36,210)	737,548
LIABILITIES			
Non-current liabilities			
Convertible debt (vi)	367,110	(18,147)	348,963
Non-convertible debt	432,023	--	432,023
Provisions for liabilities and charges	48,966	--	48,966
Total non-current liabilities	848,099	(18,147)	829,952
Current liabilities			
Convertible debt (vi)	315,866	(13,075)	302,791

Trade and other payables (iv)	351,952	69,062	421,014
Total current liabilities	667,818	55,987	723,805
Total liabilities	1,515,917	37,840	1,553,757
Total equity and liabilities	2,289,675	1,630	2,291,305

(i) Software assets - IFRS requires that certain software assets be classified as intangible assets whilst under UK GAAP they were classified as tangible assets.

(ii) Share option schemes - Under IFRS 2 'Share based payments' the potential shares which could be issued under share option schemes are included in other reserves as 'Shares to be issued' (see (vii) and (viii) below).

(iii) Goodwill - Under IFRS, subsequent to the date of transition, goodwill is not subject to annual amortisation but there is a requirement for an annual impairment review. This adjustment is the reversal of the 2004 goodwill amortisation.

(iv) Installation fees revenue recognition - Under IFRS all installation fees are taken to the profit and loss account over the expected length of the customer relationship period. This results in an increase in deferred revenue within creditors.

(v) Warrants fair value - Under UK GAAP, warrants received from suppliers which give COLT the right to subscribe for shares in the suppliers had no value attributed to them. Under IFRS, they are recorded on the balance sheet within other debtors at their fair value. The movement in the value of the warrants is recorded as a movement in reserves.

(vi) Convertible debt - Under UK GAAP, COLT included the liability in respect of the convertible debt within long term creditors. Under IFRS it is necessary to allocate the convertible debt between that which is deemed to relate to debt and that which is deemed to relate to the conversion rights. The element of the debt which relates to the conversion rights has been classified in Equity Shareholders' Funds in the Group's balance sheet. The impact on the carrying value of debt shown in creditors is partially offset by the increased accretion under IFRS. As the debt is Euro denominated and its carrying value has changed the foreign exchange gain or loss taken to reserves has also been adjusted.

(vii) Adjustment to retained earnings - The impact of the adjustments on retained earnings is as follows:

	As at 30 September 2004 £'000
Share option scheme (note ii)	(3,456)
Retranslation reserve disclosed within Other Reserves under IFRS	11,869
Goodwill (note iii)	1,508
Installation fees revenue recognition (note iv)	(69,062)
Convertible debt (note vi)	(60,955)
	(120,096)

(viii) Adjustment to other reserves - The impact of the adjustments on other reserves is as follows:

	As at 30 September 2004 £'000
Share option scheme (note ii)	3,456
Retranslation reserve disclosed within Other Reserves under IFRS	(11,869)
Convertible debt (note vi)	93,509
Warranty fair value (note v)	122
Impact of convertible debt on retranslation reserve (note vi)	(1,332)

83,886

9. Summary of differences between IFRS and US Generally Accepted Accounting Principles ('US GAAP')

a. Effects of conforming to US GAAP - impact on net loss

	Three months ended 30 September		
	2004	2005	2005
	£'000	£'000	$'000
Loss for period under IFRS	(34,968)	(19,208)	(33,989)
Share based compensation (i)	938	837	1,481
Capitalised interest, net of depreciation (ii)	(810)	(1,042)	(1,844)
Profit on sale of IRUs (iii)	261	261	462
Warrants (iv)	(352)	107	189
Impairment (v)	(2,805)	(2,805)	(4,964)
Convertible debt (vii)	4,282	333	589
Loss for period under US GAAP	(33,454)	(21,517)	(38,076)
Weighted average number of ordinary shares ('000)	1,511,021	1,512,241	1,512,241
Basic and diluted loss per share	(£0.02)	(£0.01)	($0.03)

b. Effects of conforming to US GAAP - impact on net equity

	As at 30 September	
	2005	2005
	£'000	$'000
Equity shareholders' funds under IFRS	611,051	1,081,316
Deferred compensation (i)	(10,583)	(18,728)
Unearned compensation (i)	(14)	(25)
Additional paid in share capital (i)	10,597	18,752
Capitalised interest, net of depreciation (ii)	31,232	55,268

Deferred profit on sale of IRUs (iii)	(15,896)	(28,130)
Impairment (v)	73,533	130,124
Amortisation of intangibles (vi)	6,016	10,646
Convertible debt (vii)	(8,499)	(15,040)
Payroll taxes on employee share schemes (viii)	350	619
Equity shareholders' funds under US GAAP	697,787	1,234,802

(i) The Group operates an Inland Revenue approved Savings-Related Share Option Scheme ('SAYE Scheme'). Under this scheme, options may be granted at a discount of up to 20% of market value. Under IFRS, the P&L charge is calculated on the basis of the fair value of the options granted, and is spread over the vesting period of the options. Under US GAAP, the P&L charge is calculated as the difference between the market value of the shares on the date of grant and the option price, and this is also spread over the vesting period of the options. Also under US GAAP, an employer's offer to enter into a new SAYE contract at a lower price causes variable accounting for all existing awards subject to the offer.

The Group also operates a Group Share Plan (the 'Option Plan') under which options are granted to key employees of the Group. Under IFRS, the P&L charge is calculated on the basis of the fair value of the options granted and is spread over the vesting period of the options. Under US GAAP, no P&L charge is required to be recorded, although a pro forma disclosure of the Group's result as if a charge had been calculated under SFAS 123 'Accounting for Stock-Based Compensation' is given in note 9c.

(ii) Under IFRS, the Group does not capitalise interest. Under US GAAP, the estimated amount of interest incurred on capital projects is included in fixed assets and depreciated over the lives of the related assets.

(iii) In 2000 and 2001, the Group concluded a number of infrastructure sales in the form of 20-year indefeasible rights-of-use ('IRUs'). Under IFRS, these transactions were accounted for as outright sales. Under US GAAP, these transactions are treated as 20-year operating leases.

(iv) The Group has received warrants from certain suppliers. Under IFRS, these warrants are carried at fair value, and subsequent changes in fair value are reflected in reserves. Under US GAAP, these warrants are also recorded at fair value, but subsequent changes are reflected in the profit and loss account.

(v) During 2002, the Group recorded a charge in respect of the impairment of goodwill, other intangible assets, network and non-network assets. Under IFRS, being the grandfathered UK GAAP position, this charge was £551.0 million. Under US GAAP, the charge was £443.8 million. The assets which were impaired under IFRS but not impaired under US GAAP continue to be depreciated under US GAAP.

(vi) The Group acquired ImagiNet in July 1998, with the purchase consideration including deferred shares and payments. On transition to IFRS, the ImagiNet goodwill was frozen at its amortised value on 1 January 2004 and it is now subject to an annual impairment test. This goodwill includes the deferred shares and payments which were included in the calculation of the purchase consideration. Under US GAAP, this goodwill was amortised until 31 December 2001 and after this date amortisation ceased and the goodwill is now tested annually for impairment. The deferred shares and payments were excluded from the purchase consideration under US GAAP and were recognised as compensation expense in the profit and loss accounts over the periods in which the payments vested.

(vii) The Group has issued convertible debt. Under IFRS, this debt has been split between the element which relates to debt and the element which is deemed to relate to conversion rights. The element which relates to the conversion rights is classified in equity. Additionally, the interest charge is increased to equal the interest charge on equivalent debt which does not have conversion rights. Under US GAAP, the whole liability is included within creditors, and the interest charge equals the coupon rate plus accretion.

Under IFRS the gain or loss on early redemption of debt since 1 January 2004 is required to be restated. Upon early redemption of debt under IFRS the cost of redemption is allocated between that relating to the debt and equity elements. The difference between the cost of redemption allocated to debt and the carrying value of the debt is reported in the profit and loss account for the period as the debt settlement income/expense. The cost of the redemption allocated to equity is reported in the convertible debt reserve.

(viii)The Group operates a number of employee share schemes on which it incurs employer payroll taxes. Under IFRS, the cost of employer payroll taxes is recognised over the period from the date of grant to the end of the performance period. Under US GAAP, the cost is recognised when the tax obligation arises.

c. Effects of conforming to U.S. GAAP - stock options

As permitted by SFAS No.123, 'Accounting for Stock-Based Compensation', the Group elected not to adopt the recognition provisions of the standard and to continue to apply the provisions of Accounting Principles Board Opinion No.25, 'Accounting for Stock Issued to Employees,' in accounting for its stock options and awards. Had compensation expense for stock options and awards been determined in accordance with SFAS No.123, the Group's loss for the three months ended 30 September 2005 would have been £21.6 million ($38.1 million).

Additional Information

Operating statistics

	Q3 04	Q2 05	Q3 05	Growth Q3 05 - Q2 05	Growth Q3 05 - Q3 04
Customers (at end of quarter)					
UK	2,796	2,892	2,836	(2%)	1%
Germany	7,753	7,678	7,749	1%	--
France	3,103	3,033	2,990	(1%)	(4%)
Strategic Markets	7,982	8,869	8,872	--	11%
	21,634	22,472	22,447	--	4%

Customers (at end of quarter)					
Corporate	20,427	21,251	21,208	--	4%
Wholesale	1,207	1,221	1,239	1%	3%
	21,634	22,472	22,447	--	4%
Switched Minutes (million) (for quarter)					
UK	933	1,040	991	(5%)	6%
Germany	3,312	3,484	3,377	(3%)	2%
France	642	1,017	967	(5%)	51%
Strategic Markets	1,178	1,445	1,448	--	23%
	6,065	6,986	6,783	(3%)	12%
Private Wire VGEs (000) (at end of quarter)					
UK	10,287	11,326	12,257	8%	19%
Germany	12,217	12,883	13,860	8%	13%
France	3,186	4,790	5,248	10%	65%
Strategic Markets	8,983	11,347	12,184	7%	36%
	34,673	40,346	43,549	8%	26%
Headcount (at end of quarter)					
UK	1,162	1,071	1,065	(1%)	(8%)
Germany	1,086	990	921	(7%)	(15%)
France	432	402	396	(1%)	(8%)
Strategic Markets	1,123	1,063	1,040	(2%)	(7%)
India	86	384	455	18%	n/a
	3,889	3,910	3,877	(1%)	--

Strategic Markets comprises Austria, Belgium, Denmark, Ireland, Italy, Netherlands, Portugal, Spain, Sweden and Switzerland. Customers represent the number of customers who purchase network and data solutions products. VGEs are the comparable number of voice circuits, of 64 kilobites per second, each approximately equivalent in capacity to the non-switched circuit being measured. Headcount comprises active employees excluding temporary and contract workers.

Certain comparative figures for customer numbers for Germany and Strategic Markets have been restated due to changes in customer classifications.

Forward Looking Statements

This report contains 'forward looking statements' including statements concerning plans, future events or performance and underlying assumptions and other statements which are other than statements of historical fact. COLT Telecom Group plc wishes to caution readers that any such forward looking statements are not guarantees of future performance and certain important factors could in the future affect the Group's actual results and could cause the Group's actual results for future periods to differ materially from those expressed in any forward looking statement made by or on behalf of the Group. These include, among others, the following: (i) any adverse change in the laws, regulations and policies governing the ownership of telecommunications licenses, (ii) the ability of the Group to expand and develop its networks in new markets, (iii) the Group's ability to manage its growth, (iv) the nature of the competition that the Group will encounter and (v) unforeseen operational or technical problems. The Group undertakes no obligation to release publicly the results of any revision to these forward looking statements that may be made to reflect errors or circumstances that occur after the date hereof.

Enquiries:

COLT Telecom Group plc

Luke Glass
Director Corporate Communications
Email:
luke.glass@colt.net
Tel: +44 (0) 20 7390 3681

Gill Maclean
Head of Corporate Communications
Email:
gill.maclean@colt.net

Tel: +44 (0) 20 7863 5314