Easynet Group PLC
09 September 2005

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# Easynet Group Plc

## Interim results for the six months ended 30 June 2005

Easynet Group Plc (LSE: ESY) ('Easynet' or 'the Group'), the pan-European Broadband networking company, today announces interim results for the six months ended 30 June 2005.

Financial Highlights

- Revenue up 12% to £77.1 million (H1 2004: £68.7 million).

- Gross margin* up to 53% (H1 2004: 51%).

- EBITDA profit* of £3.3 million, (H1 2004 £3.2 million) after planned increased investment of £4m in consumer broadband

- Loss on ordinary activities before tax* of £(11.2 million), (H1 2004: loss of £9.3 million).

- Cash at £31.1 million (H1 2004 £40.1 million).

- Group cash flow positive in Q2 2005.

Operating Highlights

- Core corporate business delivering to plan.

- Significant enterprise customer wins across Europe including Kohler Mira, Paperchase, Telson, TM Lewin, Vitelsa, Peverel, Kellogg Italia S.p.A. and Diageo Italia S.p.A.

- Significant Public Sector wins in the UK including East of England Broadband for schools.

- Plans to extend Local Loop Unbundling (LLU) in the UK by up to 100 additional exchanges to approx. 350, reaching 5.8 million homes and 850,000 businesses in the U.K.

- Launch of wholesale LLU products and the signing of several contracts including OneTel (Centrica's telecommunications arm) at the end of July.

- Positioning of UK Online as a next generation broadband provider, which has had a promising start with approximately 21,000 broadband customers at the end of August.

*Throughout this announcement, unless otherwise noted, 2004 and 2005 income statement information, including EBITDA, is from continuing operations and before exceptional items, and segmental information is prior to recharging central costs. A reconciliation of EBITDA to operating loss from continuing operations is presented in Appendix 1. 2004 and 2005 income statement information, including EBITDA, is marked with an asterisk to reflect that it is from continuing operations and before exceptional items. All the information in the financial statements and in this announcement is presented under International Financial Reporting Standards 'IFRS'. Accordingly, 2004 results have been restated to reflect this. A full reconciliation of IFRS to UK GAAP is provided in Note 8 of the interim financial statements.

Commenting, Keith Todd, CBE, Chairman of Easynet Group Plc said:

'During the period, the Group continued to expand its established core corporate business around its innovative IP VPN (Internet Protocol virtual private network) solutions and won some significant new customers. Accordingly our confidence in the overall business is strong. The Ofcom review published in June 2005 has encouraged us to extend our local loop footprint further in the U.K., capitalise on our next generation network, and benefit from the rapidly developing opportunities in broadband. The Group therefore started to invest heavily in the capability set (products, provisioning, support, and systems) to handle the expected rapid increase in volumes from consumer broadband operations, both directly through UK Online and indirectly through wholesale LLUStream.  This investment is providing enhanced growth and will assist in moving the Group towards after tax profitability for the full year 2006 and beyond.'

David Rowe, Chief Executive Officer of Easynet Group Plc added:

'This has been a period of intensive development for Easynet. We started to invest in the capabilities needed to support the growth in U.K. broadband demand. Meanwhile our corporate customer business has demonstrated continued revenue growth across Europe. We also achieved positive cash flow in the second quarter. As announced in July, we will be investing in further exchange roll out in the U.K. as we seek to capture market share in the rapidly evolving next generation broadband arena. With its limited exposure to 'legacy' revenues, its IP 21st century network, local loop assets and local loop experience the company is well positioned in the evolving telecoms market place. We have a strong foundation for accelerating our plan to achieve after tax profitability for the full year 2006.'

For further information please contact:

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| | |
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An analyst meeting will be held at the offices of Easynet at 9.30am this morning at 1 Brick Lane, E1 6PU. Please contact Alix Hayward on 020 7796 4133 for further information about the meeting and to notify attendance.

Visit Easynet's website on
www.easynet.com

## OPERATING REVIEW

### Introduction

During the first half of the year the company continued to make good progress in acquiring new corporate Wide Area Network IP customers, which helped drive underlying profitability. This success is being driven by the company's ability to deliver cost effective, flexible solutions across its infrastructure. In addition the company incurred start up operational costs to test and build the capabilities necessary to enter the consumer broadband area using its own local loop infrastructure, both directly and through the wholesale channel.

The company expects the rewards for these steps to be seen in 2006 and beyond as it drives aggressively towards after tax profitability for the full year 2006.

### Contract wins

The company continues to develop its business around major corporate customer contracts across Europe.  The company made good progress in new national and pan-European customer wins as well as in additional business from existing customers. During the period Easynet signed contracts with Kohler Mira, Paperchase, Telson, TM Lewin, Vitelsa, Peverel, Kellogg Italia S.p.A. and Diageo

Italia S.p.A. Typically these customers have purchased a managed network utilising IP technologies to reduce networking costs and maximise the use of IP applications across a wide area network.

Investing in mass-market infrastructure in the U.K.

During the first half of the year, the company invested in additional capacity and capability to test and service the increased broadband demand, both through its indirect, LLUStream, and direct, UK Online, channels. The company is developing automated systems to work seamlessly with BT, as well as investing in additional network and provisioning resources.

Local Loop expansion in the U.K.

Easynet intends to expand further its local loop footprint by up to 100 exchanges during the next 12 months giving it coverage of up to 350 exchanges covering approximately 5.8 million homes and 850,000 UK businesses. The additional exchange roll out will be based on visibility provided by pre registrations from UK Online and wholesale customer demand. This extension will also support the Company's current leased line replacement and VPN services.

Wholesale Broadband Services

The Company is encouraged by its progress in the wholesale broadband arena. Having already signed up several ISPs including Freedom to Surf, Spitfire Communications, E7Even, and EFH Broadband, the company more recently announced a contract win with OneTel Communications (the Telecoms arm of Centrica, formerly British Gas).

## UK Online

UK Online provides the company's own brand broadband consumer service, which was launched during April 2005. UK Online utilises Easynet's local loop infrastructure, which provides a low cost route to market as well as a strong platform to develop unique market propositions. UK Online has made a promising start with approximately 21,000 customers subscribing to its services at the end of August. The market for broadband is growing fast and new next generation services are expected to stimulate the market further. The company has announced beta testing of its 24Mbps product and expects to offer this across its footprint during October 2005. Investment in UK Online includes additional marketing, customer support and resources for the initial customer set up.

## Financial review

The group continues to show strong revenue growth and improved EBITDA during the period. Revenue grew from £68.7 million to £77.1 million, up 12% on the corresponding period in 2004. Revenue growth has been driven largely by New Wave business services activities (primarily the provision of broadband, network and hosting services to businesses), which grew 21% from £53.2 million in H1 2004 to £64.1 million in H1 2005. As expected, revenue from our legacy connectivity products (primarily dial termination revenue and dark fibre sales) continued to decline, from £15.4 million in H1 2004 to £12.9 million in 2005, in spite of a £850,000 payment from Global One for cancellation of a long-term network contract. The company's revenue mix continues to improve with 83% of revenue coming from 'new wave' products (compared to 78% in H1 2004). Revenue growth has been strong across both the UK and Europe, at 11% and 14% respectively. Going forward, management continues to expect strong growth in revenue, both in the UK and Europe, driven by the continued take-up of broadband and IP VPNs, on top of the company's strong base of recurring customer business. In addition, consumer and wholesale LLU revenue, which was negligible during H1 2005, will start to have a more significant impact in the second half of the year and beyond.

Gross profit* increased from £35.1 million to £40.8 million, and gross margins continued to expand, reaching 53%, compared with 51% during the same period in 2004. While gross margin pressures continue throughout the industry, management expects the company's gross margins to remain in excess of 50% going forward.

In order to support the additional volumes expected from Consumer and Wholesale LLU activities in the U.K., the company has increased administrative expenses* from £41.1 million in 2004 to £48.6 million in 2005. Having reached this new level, management expects these costs to return to low single digit growth rates going forward.

This resulted in an EBITDA* profit of £3.3 million, an increase from £3.2 million in the first half of 2004. As a result of additional amortization of intangibles as well as additional depreciation of fixed assets, both primarily associated with the acquisition of Novaxess in the Netherlands, the company's operating loss* increased from £(6.3) million in H1 2004 to £(7.8) million for the first half of 2005.

In order to better understand underlying trends, and consistent with presentation under U.K. GAAP, the company has disclosed several items as exceptional. Exceptional costs consisted of £543,000 relating to redundancy costs in the U.K. and the cost of moving the company's office and datacentre in France. The company also recorded an impairment charge of £1.4 million reflecting a write-down of equipment acquired in the Novaxess acquisition that has been made obsolete through the process of integrating Novaxess in Holland. Finally there was a net credit of £60,000 in respect of financing activity, reflecting the release of a financing accrual of £692,000 offset by a £632,000 of one-off financing costs incurred in the period.

The company's balance sheet has remained relatively unchanged since December 2004. Non-current assets have declined from £106.2 million to £103.7 million, as a result of ongoing amortisation of intangible assets and depreciation of fixed assets. During the period the company also capitalised personnel costs of £0.6 million, in relation to major back office projects supporting our new product offerings.  Trade debtors and other receivables have remained flat at £31.3 million year on year despite the increase in revenues. Current liabilities have increased from £76.5 million in December 2004 to £79.9 million in June 2005, reflecting primarily an increase in deferred revenue, which is the result of significant contract wins during the period.  Non-current liabilities, primarily consisting of obligations under finance leases and non-current deferred income remained stable at £133.1 million compared with £135.6 million at the last year-end.

Capital expenditure (fixed asset additions) of £10.7 million reflects a run rate capital expenditure level of £7.9 million plus £2.8 million in capital expenditure for local loop unbundling programme in the U.K. This investment reflects ongoing upgrades to capacity to support Consumer and Wholesale LLU activities.

The net movement in cash since year-end 2004 was a decrease of £9.2 million. EBITDA* profit of £3.3 million was offset by capital expenditure outflows of £9.7 million (which consists of fixed asset additions during the period of £10.7 million offset by net movements in capital expenditure and finance lease creditors of £1.0 million), £1.5 million outflow against current and prior-year provisions, net interest payments of £2.9 million, debt repayments of £1.1 million, working capital inflows of £3.9 million and other net cash outflows of £1.2 million.

Outlook

The company's corporate business continues to perform to plan, and due to the previously announced additional investment in consumer service the board expects to reach similar levels of EBITDA profitability for 2005 as last year. The company is driving rapidly towards after tax profitability, which is expected for the full year 2006.

The board looks to the future with confidence.

Appendix 1

Reconciliation of EBITDA from continuing operations before exceptional items to operating loss from continuing operations

| | 6 months to 30 June 2005 £'000 | Six mo |
|---|---|---|
| EBITDA from continuing operations before exceptional items | 3,253 | |
| Exceptional items | (1,860) | |
| Depreciation | (9,754) | |
| Amortisation of other intangible assets | (1,133) | |

| | |
|---|---|
| Share option expenses | (143) |
| Share of associate losses | - |
| Operating loss from continuing operations (including acquisitions) | (9,637) |

1. Basis of preparation

The consolidated interim financial statements are for the six months ended 30 June 2005. They have been prepared in accordance with current International Financial Reporting Standards (IFRSs), including IFRS 1, 'First-time Adoption of International Financial Reporting Standards', because they are part of the period covered by the Group's first IFRS financial statements for the year ended 31 December 2005. The interim financial statements are unaudited but have been reviewed by the auditors and their report is set out on page 20.

The policies set out below have been consistently applied to all the periods presented. In accordance with IFRS 1 the Group is entitled to a number of voluntary and mandatory exemptions from full restatement. The main exemptions that have been adopted by the Group are as follows:

Business combinations

Business combinations made prior to 1 January 2004 have not been restated to comply with IFRS 3 'Business Combinations'.

Share-based payments

IFRS 2 'Share-based Payments' has only been applied to awards granted after 7

November 2002 that were unvested as at the date of transition to IFRS on 1 January 2004, in respect of equity settled share-based payment transactions for services received.

Cumulative translation differences

Cumulative translation differences for all foreign operations are deemed to be nil at 1 January 2004. Any gain or loss on a subsequent disposal of any foreign operation therefore excludes translation differences arising prior to 1 January 2004.

The Group's consolidated financial statements were prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP) until 31 December 2004. UK GAAP differs in some areas from IFRS. In preparing the 2005 consolidated interim financial statements, management has amended certain accounting and valuation methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments as disclosed in note 8, and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity and its net income and cash flows are shown below.

The interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that either are endorsed by the EU and effective at 30 June 2005 or are expected to be endorsed and effective at 31 December 2005, the Group's first annual reporting date at which it is required to use adopted IFRSs. In addition, the adopted IFRSs that will be effective in the annual financial statements for the year ending 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 December 2005.

The comparative figures for the year ended 31 December 2004, prior to the adjustments required on transition to IFRS as described below and set out in note 8, have been extracted from the Group's financial statements, a copy of which has been delivered to the Registrar of Companies. The auditors' report on those statements was unqualified and did not include a statement under Section 237(2) or (3) of the Companies Act 1985. The interim financial information does not constitute statutory accounts as defined under Section 240 of the Companies Act 1985.

The impact of the adoption of IFRS on the Group's accounting policies and disclosures is set out below:

- IAS 1 'Presentation of Financial Statements' and IAS 7 'Cash Flow Statements' have affected the overall presentation and certain disclosures.

- IAS 12 'Income Taxes' has no effect on the current tax charge in the income statement and current tax assets and liabilities in the balance sheet.

The deferred tax charge in the income statement and the deferred tax liability in the balance sheet are affected because IAS 12 prohibits discounting of deferred tax balances and recognises deferred tax on intangible assets acquired as part of a business combination.

- IAS 14 'Segment Reporting' has no material effect on the Group's disclosures. The Group continues to operate in only one business segment being that of the provision of internet access, data communication and related services, and this has been identified as the Group's primary segment. Geography is the Group's secondary segment.

- Under IAS 17 'Leases', lease payments under operating leases have been recognised as an expense on a straight line basis over the lease term, whereas under UK GAAP lease payments on certain property leases were recognised on an alternative basis.

- The adoption of IAS 19 'Employee Benefits' has resulted in accruals for accumulated compensated absences. Under UK GAAP there was no such accrual.

- The adoption of IAS 21 'The Effects of Changes in Foreign Exchange Rates' has resulted in a change in the accounting policy for translating the results of foreign subsidiaries into sterling. Under UK GAAP the results presented in the profit and loss account, cash flow and related notes were translated at closing rate. Under IFRS, the results are translated at the average rate for the period.

- Under IAS 28 'Investments in Associates', the Group is required to treat its business interests in Italy and Switzerland as associates (prior to becoming subsidiaries on acquisition in December 2004 and January 2005 respectively) and not fixed asset investments as under UK GAAP, as the Group had the power to exercise significant influence over the financial and operating decisions of these entities as a result of the contractual rights held by the Group. Consequently the Group is required to equity account for its associated undertakings and to recognise its share of losses in the associates up to point at which the Group's interest is reduced to zero.

- The adoption of IFRS 2 'Share-based Payment' has resulted in a change in the accounting policy for share-based payments. Under UK GAAP, the provision of share-based payments to employees resulted in a charge in the income statement where options were issued at a discount to market value at the date of grant. Under IFRS 2 and the transitional exemption permitted by IFRS 1, the Group has recognised a charge reflecting the fair value of all outstanding equity settled share-based awards granted to employees after 7 November 2002 that were outstanding as at 1 January 2004. The fair value has been calculated using the Black-Scholes option pricing model and is charged to the income statement over the relevant option vesting period.

- The adoption of IFRS 3 'Business Combinations', IAS 36 'Impairment of Assets' and IAS 38 'Intangible Assets' have resulted in a change in the accounting policy for goodwill. Under UK GAAP, goodwill was amortised on a straight line basis over its estimated useful life of up to 20 years and assessed for an indication of impairment at each balance sheet date. In accordance with the provisions of IFRS 3, the Group ceased amortisation of goodwill from 1 January 2004. Accumulated amortisation as at 31 December 2003 has been eliminated with a corresponding decrease in the cost of goodwill. From 1 January 2004 onwards goodwill is tested annually for impairment.

IFRS 3 requires intangible assets acquired as part of a business combination to be separately identified from goodwill. In March and December 2004, the Group acquired businesses in the Netherlands and Italy which gave rise to such intangible assets, and this has resulted in a reclassification from goodwill to intangible assets in 2004. The intangible assets arising have been amortised from the date of acquisition over their estimated useful lives.

The remaining standards are either not applicable to the business or have no material effect on the Group's policies.

The revised accounting policies now followed by the Group are shown in note 2.

2. Accounting policies

Accounting convention

The financial statements have been prepared and in accordance with International Financial Reporting Standards (IFRS).

Group accounts

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (defined as where the Group has the power to exercise control), together with the Group's share of the results of its associates (defined as where the Group has the power to exercise significant influence but not control). All inter-company transactions and balances have been eliminated. The results of businesses acquired or sold are included in the income statement from, or up to, the date control passes.

On acquisition, the assets and liabilities of a subsidiary including intangible assets acquired are measured at their fair values at the date of acquisition. Any excess or deficiency of the cost of acquisition over or below the fair values of the identifiable net assets acquired is recognised as goodwill.

Investments in associates are accounted for using the equity method. If the Group's share of losses in an associate equals or exceeds its investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Revenue recognition

Revenue represents the value of goods and services supplied and is stated net of value added tax. Revenue is recognised when there is evidence of an arrangement, collectibility is reasonably assured, and the delivery of the product or service has occurred.

For contracts for the sale of dark fibre, contracted income is recognised over the life of the contract in proportion to the cost of services performed, which is estimated as straight-line over the life of the contract.

Other contracted income is spread over the contract period in proportion to the value of service provided.

Reciprocal transactions

Reciprocal transactions are transactions where the Group provides capacity under Indefeasible Rights of Use (IRU) agreements to other telecommunication companies at approximately the same time that the Group purchases capacity or facilities from these same companies.  The Group enters into reciprocal transactions only when they are considered to be a core component of the expansion of the Group's UK infrastructure and as such the Directors consider that there is clear commercial justification for each transaction.  Amounts receivable as part of reciprocal transactions are recorded at fair value as deferred revenue and recognised in line with the Group's dark fibre revenue recognition policy detailed above. Capacity acquired as part of these transactions is recorded within tangible fixed assets and depreciated through cost of sales on a straight-line basis over the term of the relevant agreement.

Goodwill

Goodwill represents the excess of the cost of acquisition of a business combination over the Group's share of the fair value of identifiable net assets, including intangible assets acquired, of the business acquired at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. At the date of acquisition the goodwill is allocated to cash generating units for the purpose of impairment testing and is tested at least annually for impairment.

Gains and losses on disposal of a business include the carrying amount of goodwill relating to the business sold in determining the gain or loss on disposal.

## Other intangible assets

### Licences, patents and trademarks

Intangible assets, when acquired separately from a business, are carried at cost less accumulated amortisation and any impairment losses. Amortisation is provided on a straight line basis to allocate the cost of the asset over its estimated useful life.

### Intangible assets acquired as part of a business combination

Intangible assets acquired as part of a business combination are capitalised separately from goodwill at fair value, and amortised on a straight line basis over their estimated useful lives, less any impairment losses.

### Research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

## Impairment

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. In addition, goodwill is tested at least annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate that reflects the asset specific risks and the time value of money.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on property, plant and equipment is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation used are mainly as follows:

| | |
|---|---|
| Structural leasehold improvements | Over the period of the lease |
| Other lease hold improvement, office equipment and fixtures | The lower of the remaining period of the five years |
| Cable and ducting | 2.5% - 20% per annum |
| Electronic equipment | 14% - 50% per annum |

The assets' residual values and useful lives are reviewed at least at each balance sheet date.

Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories represent finished goods held for resale.

Trade receivables and payables

Trade receivables are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts. Trade payables are stated at their fair value.

Cash and cash equivalents

Cash and cash equivalents as disclosed in the balance sheet comprises cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, and includes cash and cash equivalents not readily available for the general purposes of the Group as disclosed in note 7. For the purposes of the cash flow statement cash and cash equivalents also includes bank overdrafts as disclosed in note 7.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value of the proceeds received, net of direct issue costs. Finance charges are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Rentals payable under operating leases are charged to the income statement on a straight line basis. The aggregate benefit of incentives are recognised as a reduction of rental expense over the lease term on a straight line basis, unless another systematic basis is representative of the time pattern of the Group's benefit from the use of the leased asset.

Vacant leasehold property and onerous contract provisions

Provisions are established for lease contracts and other contractual obligations that are deemed onerous, to the extent of the value of the estimated future net cost. Such provisions are discounted where the time value of money is material. The unwinding of the discount is presented within finance costs.

Deferred taxation

Deferred tax is provided on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their corresponding tax bases, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which temporary differences can be utilised.

Deferred tax is calculated using tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Movements in deferred tax are charged or credited in the income statement, except when they relate to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the income statement.

The assets and liabilities of foreign subsidiaries are translated into sterling at the closing rate of exchange, and income and expense items are translated at the average exchange rates for the period. Exchange differences arising from 1 January 2004 are recognised as a separate component of shareholders' equity. On disposal of a foreign operation any cumulative exchange differences held in shareholders' equity are transferred to the consolidated income statement as a component of the gain or loss on disposal.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to their contractual arrangements and are revalued at each period end. The income or expense arising on valuation is dealt with in the income statement.

Employee benefits

The Group contributes to defined contribution schemes for the benefit of its directors and employees. Contributions to these schemes are charged in the period in which they become payable.

For accumulating compensated absences, employee benefits are recognised in the period when the employees render service that increases their entitlement to future compensated absences.

Share based payments

The fair value of share based remuneration is determined at date of grant and recognised as an expense in the income statement on a straight line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of a Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. All share based remuneration is equity settled.

Exceptional items

Items that are both material and non-recurring are presented as exceptional items in note 4. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Events that may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, restructuring of businesses, litigation and asset impairments.

Consolidated income statement

for the six months ended 30 June 2005 (unaudited)

| | Note | Six months to 30 June 2005 £'000 | Six mo |
|---|---|---|---|
| Revenue | 3 | 77,078 | |
| Cost of sales | | (37,306) | |
| Gross profit | | 39,772 | |
| Administrative expenses | | (49,409) | |
| Share of loss after tax of associates | | - | |
| Operating loss | 3 | (9,637) | |
| Finance income | | 511 | |
| Finance costs | | (3,970) | |
| Loss on ordinary activities before taxation | | (13,096) | |
| Tax credit on loss on ordinary activities | 5 | 1,620 | |
| Retained loss for the financial period transferred to reserves | | (11,476) | |
| Basic and diluted loss per share (pence) | 6 | (9.5)p | |

The above results relate to continuing operations.

Consolidated balance sheet

as at 30 June 2005 (unaudited)

| | 30 June 2005 £'000 | 30 |
|---|---|---|
| Non-current assets | | |
| Goodwill | 18,642 | |
| Other intangible assets | 9,828 | |
| Property, plant and equipment | 74,120 | |
| Trade and other receivables | 1,134 | |
| Interest in associates | - | |
| | 103,724 | |
| Current assets | | |
| Inventories | 1,516 | |
| Trade and other receivables | 31,303 | |
| Cash and cash equivalents | 31,122 | |
| | 63,941 | |
| Total assets | 167,665 | |
| Current liabilities | | |
| Trade and other payables | 44,946 | |
| Deferred income | 33,302 | |
| Borrowings | 1,356 | |
| Obligations under finance leases | 320 | |
| | 79,924 | |
| Net current (liabilities) assets | (15,983) | |

| | |
|---|---|
| Non-current liabilities | |
| Other payables | 4,190 |
| Deferred income | 51,458 |
| Borrowings | 2,196 |
| Obligations under finance leases | 59,463 |
| Provisions | 13,126 |
| Deferred tax liabilities | 2,624 |
| | 133,057 |
| Total liabilities | 212,981 |
| | |
| Net liabilities | (45,316) |
| | |
| Shareholders' equity | |
| Called up share capital | 4,807 |
| Share premium account | 70,539 |
| Merger and other reserves | 74,044 |
| Currency translation reserve | (718) |
| Retained losses | (193,988) |
| Equity shareholders' deficit | (45,316) |

Consolidated statement of changes in equity

for the six months ended 30 June 2005 (unaudited)

| | Six months to 30 June 05 £'000 | Six mon |
|---|---|---|
| Effect of foreign exchange rate changes on translation of foreign operations | (1,795) | |

| | |
|---|---|
| Loss for the financial period | (11,476) |
| Total recognised expense for the period | (13,271) |
| Shares issued in the financial period | - |
| Share-based payments charge | 143 |
| Net change in equity shareholders' deficit | (13,128) |
| Balance at the beginning of the financial period | (32,188) |
| Balance at the end of the financial period | (45,316) |

Consolidated cash flow statement

for the six months ended 30 June 2005 (unaudited)

| | Six months to 30 June 05 | Six mon |
|---|---|---|
| Cash flows from operating activities | £'000 | |
| Operating loss on ordinary activities before financing and tax | (9,637) | |
| Share of loss after tax of associates | - | |
| Amortisation of other intangible fixed assets | 1,133 | |
| Depreciation and impairment of property, plant and equipment | 10,698 | |
| Loss (profit) on sale of tangible fixed assets | 338 | |
| Amounts charged to administrative expenses in respect of employee share schemes | 143 | |
| Operating cash flow before changes in working capital and provisions | 2,675 | |
| Decrease (increase) in working capital | 3,945 | |
| Decrease in provisions | (938) | |
| Operating cash flow before taxation payments | 5,682 | |
| Income taxes paid | (24) | |
| Net cash inflow (outflow) from operating activities | 5,658 | |

Cash outflows in respect of exceptional items in the six months ended 30 June 2005 amounted to £1,466,000 (interim 2004 outflows - £5,329,000; full year 2004 inflows - £3,908,000)

| | |
|---|---|
| Cash flows from investing activities | |
| Acquisition of businesses, net of cash and overdrafts acquired | (367) |
| Investments in associates | - |
| Purchase of other intangible assets | (581) |
| Purchase of property, plant and equipment | (9,740) |
| Proceeds from the sale of property, plant and equipment | 199 |
| Interest received | 499 |
| Net cash used in investing activities | (9,990) |
| | |
| Cash flows from financing activities | |
| Interest paid on bank loans and overdraft | (251) |
| Interest element of finance lease rentals | (3,183) |
| Issues of ordinary shares | - |
| Repayment of capital element of finance leases | (245) |
| Repayment of bank loans | (822) |
| Net cash used in financing activities | (4,501) |
| Net decrease in cash and cash equivalents | (8,833) |
| | |
| Cash and cash equivalents at the beginning of the period | 40,251 |
| Effect of foreign exchange rate changes | (334) |
| Cash and cash equivalents at the end of the period (note 7) | 31,084 |

3. Segmental analysis

Business is the Group's primary segment. The consolidated entity operates in one business segment being that of internet access and data communication services. As a result, no additional business segment information is required to be provided. The Group's secondary segment is geography. The segment results by geography are shown below.

All results are from continuing operations.

| | Six months en | |
|---|---|---|
| | Including inter-segment revenue | Inte |
| Revenue by geographic region | £'000 | |
| United Kingdom | 42,105 | |
| Continental Europe | 37,037 | |
| Total | 79,142 | |

| | Six months en | |
|---|---|---|
| | Including inter-segment revenue | Inte |
| Revenue by geographic region | £'000 | |
| United Kingdom | 37,780 | |
| Continental Europe | 32,377 | |
| Total | 70,157 | |

| | Year ended 3 | |
|---|---|---|
| | Including | Inte |

| Revenue by geographic region | inter-segment revenue £'000 |
|---|---|
| United Kingdom | 78,127 |
| Continental Europe | 66,345 |
| Total | 144,472 |

| Operating (loss) profit by geographic region | Six months to 30 June 05 £'000 | Operat Six 3 |
|---|---|---|
| United Kingdom | (263) | |
| Continental Europe | (4,404) | |
| | (4,667) | |
| Central costs | (3,110) | |
| Exceptional operating items (note 4) | (7,777) | |
| | (1,860) | |
| Operating loss | (9,637) | |

4. Exceptional items

| | Six months to 30 June 05 £'000 | Six 3 |
|---|---|---|

| | |
|---|---|
| Operating exceptional charges (credits) | |
| Restructuring and reorganisation costs | 543 |
| Financing activity | (60) |
| Impairment and loss on disposal of property, plant and equipment | 1,377 |
| Total operating exceptional charges | 1,860 |

The restructuring and reorganisation charges primarily consist of redundancy costs of £303,000 in the UK and office and datacentre move costs of £240,000 in France.  In 2004 the restructuring and reorganisation charges consisted of £1,157,000 of integration costs for businesses acquired, of which £578,000 were incurred in the first six months of the year, redundancy costs of £344,000 offset by £577,000 adjustments to restructuring provisions.

In the six months ended 30 June 2005 there were one-off financing costs of £632,000 offset by the release of a financing accrual of £692,000 no longer required.

Network upgrade and integration work in the Netherlands resulted in certain tangible fixed assets becoming redundant, giving rise to the impairment and loss on disposal reported.

5. Tax credit on loss on ordinary activities

| | Six months to 30 June 05 £'000 | Six 3 |
|---|---|---|
| UK | - | |
| Overseas | 1,620 | |
| Total tax credit | 1,620 | |

The overseas tax credits primarily relate to the movement in deferred tax liabilities arising in the Group's overseas subsidiaries.

6. Loss per share

Basic and diluted loss per share is calculated by reference to a retained loss for the period of £11,476,000 (interim 2004 - loss of £9,531,000; full year 2004 - loss of £16,184,000), and a weighted average of 120,169,000 ordinary shares (interim 2004 - 116,593,000 ordinary shares; full year 2004 - 118,390,000 ordinary shares) in issue during the period. The impact of share options is anti-dilutive for each period presented and has therefore been excluded from the calculation of diluted weighted average number of shares.

Loss before exceptional items is disclosed to give a clearer understanding of underlying trading performance.

Basic loss per share may be reconciled to loss per share before exceptional items as follows:

| | Six months to 30 June 05 | | Six |
|---|---|---|---|
| | £'000 | p | £'00 |
| Loss and loss per share before exceptional items | (9,616) | (8.0) | (8,953 |
| Exceptional items | (1,860) | (1.5) | (578 |
| Loss and basic loss per share | (11,476) | (9.5) | (9,531 |

7. Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the cash flow statement:

| | Six months to 30 June 05 | Six |
|---|---|---|
| Cash and cash equivalents per balance sheet | 31,122 | |
| Overdrafts | (38) | |
| | 31,084 | |

Cash totalling £847,000 (30.6.04 - £1,461,000, 31.12.04 - £1,077,000) is unavailable to the Group and held in escrow accounts for the future settlement of liabilities, £4,734,000 (30.6.04 - £2,867,000, 31.12.04 - £3,808,000) relates principally to guarantees, and is not readily available for the general purposes of the Group.

8. Adoption of IFRS in 2005

Reconciliation of loss

| | Note | As at 30 June 2004 (comparable interim period under UK GAAP) | | | (end of |
|---|---|---|---|---|---|
| | | Under UK GAAP | Effect of transition to IFRS | Under IFRS | Under G |
| | | £'000 | £'000 | £'000 | £' |

| | | | | | |
|---|---|---|---|---|---|
| Turnover | a | 68,474 | 217 | 68,691 | 144, |
| Cost of sales | b | (33,469) | (118) | (33,587) | (68,4 |
| Gross profit | | 35,005 | 99 | 35,104 | 75, |
| Administrative expenses | c,d,e,f,g,h | (42,801) | 1,138 | (41,663) | (89,6 |
| Share of loss after tax of associates | j | - | (256) | (256) | |
| Operating loss | | (7,796) | 981 | (6,815) | (13,9 |
| Net finance costs | k, l | (3,092) | 16 | (3,076) | (5,5 |
| Loss on ordinary activities before taxation | | (10,888) | 997 | (9,891) | (19,5 |
| Tax credit (charge) on loss on ordinary activities | m, n | 181 | 179 | 360 | 1, |
| Retained loss for the financial period transferred to reserves | | (10,707) | 1,176 | (9,531) | (18,4 |
| Basic and diluted loss per share (pence) | | (9.2) p | 0.1 p | (8.2) p | (15.6 |

| | | |
|---|---|---|
| Loss UK GAAP | | (10,707) |
| Foreign exchange translation rate differences (IAS 21) | a | 217 |
| Foreign exchange translation rate differences(IAS 21) | b | (118) |
| Share based payment (IFRS 2) | c | 261 |
| Brick Lane lease (IAS 17) | d | (176) |
| Employee benefits (IAS 19) | e | (55) |
| Foreign exchange translation rate differences (IAS 21) | f | (131) |
| Goodwill not amortised after date of transition (IAS 36) | g | 1,296 |

| | | |
|---|---|---|
| Intangible assets amortisation and capitalisation (IAS 38) | h | (57) |
| Investment in associates - share of losses (IAS 28) | j | (256) |
| Financial instruments (IAS 39) | k | 17 |
| Foreign exchange translation rate differences (IAS 21) | l | (1) |
| Deferred tax on Novaxess (IAS 12) | m | 178 |
| Foreign exchange translation rate differences (IAS 21) | n | 1 |
| | | 1,176 |
| Loss IFRS | | (9,531) |

8. Adoption of IFRS in 2005 (continued)

Reconciliation of equity

| | At 1 January 2004 (date of transition) | | | At 30 June 2004 (comparable interim period under UK GAAP) | | |
|---|---|---|---|---|---|---|
| | Under UK GAAP | Effect of transition to IFRS | Opening IFRS Balance Sheet | Under UK GAAP | Effect of transition to IFRS | IFR Balanc Shee |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £' |

| | | | | | | |
|---|---|---|---|---|---|---|
| Non-current assets | | | | | | |
| Goodwill | 5,851 | - | 5,851 | 23,102 | (4,759) | 18, |
| Other intangible assets | 530 | - | 530 | 279 | 9,714 | 9, |
| Property, plant and equipment | 61,399 | - | 61,399 | 74,307 | - | 74, |
| Trade and other receivables | 738 | - | 738 | 1,064 | - | 1, |
| Investments in associates | 8 | - | 8 | 375 | (256) | |
| | 68,526 | - | 68,526 | 99,127 | 4,699 | 103, |
| Current assets | | | | | | |
| Inventories | 847 | - | 847 | 896 | - | |
| Trade and other receivables | 39,710 | - | 39,710 | 47,006 | 17 | 47, |
| Cash and cash equivalents | 71,908 | - | 71,908 | 40,112 | - | 40, |
| | 112,465 | - | 112,465 | 88,014 | 17 | 88, |
| Total assets | 180,991 | - | 180,991 | 187,141 | 4,716 | 191, |
| Current liabilities | | | | | | |
| Trade and other payables | 48,825 | - | 48,825 | 47,420 | 55 | 47, |
| Deferred income | 25,327 | - | 25,327 | 28,372 | - | 28, |
| Borrowings | - | - | - | 2,716 | - | 2, |
| Obligations under finance leases | 324 | - | 324 | 187 | - | |
| | 74,476 | - | 74,476 | 78,695 | 55 | 78, |
| Net current (liabilities) / assets | 37,989 | - | 37,989 | 9,319 | (38) | 9, |
| Non-current liabilities | | | | | | |
| Other payables | 942 | 2,521 | 3,463 | 1,046 | 2,697 | 3, |
| Deferred income | 55,028 | - | 55,028 | 53,058 | - | 53, |
| Borrowings | - | - | - | 2,852 | - | 2, |
| Obligations under finance leases | 59,469 | - | 59,469 | 59,394 | - | 59, |

| | | | | | | |
|---|---|---|---|---|---|---|
| Provisions | 16,440 | - | 16,440 | 15,302 | - | 15, |
| Deferred tax liabilities | - | - | - | 2,106 | 3,535 | 5, |
| | 131,879 | 2,521 | 134,400 | 133,758 | 6,232 | 139, |
| Total liabilities | 206,355 | 2,521 | 208,876 | 212,453 | 6,287 | 218, |
| Net liabilities | (25,364) | (2,521) | (27,885) | (25,312) | (1,571) | (26,8 |
| Shareholders' equity | | | | | | |
| Called up share capital | 4,463 | - | 4,463 | 4,805 | - | 4, |
| Share premium account | 351,594 | (288,973) | 62,621 | 361,828 | (288,973) | 72, |
| Merger and other reserves | 11,682 | 63,279 | 74,961 | 12,031 | 61,104 | 73, |
| Currency translation reserve | - | - | - | - | (132) | (1 |
| Retained losses | (393,103) | 223,173 | (169,930) | (403,976) | 226,430 | (177,5 |
| Equity shareholders' deficit | (25,364) | (2,521) | (27,885) | (25,312) | (1,571) | (26,8 |

8. Adoption of IFRS in 2005 (continued)

Reconciliation of equity (continued)

| | At 1 January 2004 (date of transition) | At 30 June 2 (comparable inte period under UK GA |
|---|---|---|
| | Effect of transition to IFRS £'000 | Effect of transition I £' |
| Total equity UK GAAP | (25,364) | (25,3 |

| | | |
|---|---|---|
| Brick Lane lease (IAS 17) | (2,521) | (2,6 |
| Acquisition deferred tax adjustment (IAS 12) | - | |
| Employee benefits (IAS 19) | - | ( |
| Investment in associates - share of losses (IAS 28) | - | (2 |
| Goodwill not amortised after date of transition (IAS 36) | - | 1, |
| Intangible assets amortisation and capitalisation (IAS 38) | - | ( |
| Unrealised gains/losses on forward FX contracts (IAS 39) | - | |
| Total adjustments to equity | (2,521) | (1,5 |
| Total equity IFRS | (27,885) | (26,8 |

Additional explanation of movements in reserves

During 2004 it was identified that the premium on shares issued in respect of two prior year acquisitions had not been treated in accordance with Section 131 of the Companies Act 1985 - Merger relief. This was corrected in the published 2004 annual report and accounts.

The premium on shares issued on the acquisition of Easynet Telecommunications Ltd (formerly ipsaris Ltd) in 2001 was incorrectly recorded within the share premium account. As a result an adjustment has been made to reallocate the £288,973,000 premium to the merger reserve in the brought forward balances at 1 January 2004. In addition, a transfer from the merger reserve to retained losses of £215,474,000 has been recorded reflecting the impact of the 2001 impairment of assets acquired within Easynet Telecommunications Ltd and depreciation in respect of those assets recorded within retained losses in the period between acquisition in 2001 and 31 December 2003, and the goodwill on acquisition written off to retained losses in that period.

In addition, impairment and amortisation charges in respect of the goodwill created on the acquisition of Easynet S.A.S (formerly Easynet S.A.) in 1999 had not previously been offset against the merger reserve created on acquisition. As a result a transfer from the merger reserve to retained losses of £10,281,000 has been recorded.

Finally, to reflect the depreciation on the ipsaris network, Novaxess fixed assets and intangible assets in 2004, £1,914,000 has been reallocated from retained losses to the merger reserve at 30 June 2004, and as at 31 December 2004 an adjustment of £765,000 has been recorded to reflect the change in depreciation and amortisation charge in 2004 on these assets as a result of the transition to IFRS.

INDEPENDENT REVIEW REPORT TO EASYNET GROUP PLC (the 'Company')

Introduction

We have been instructed by the Company to review the consolidated financial information of the Company and its subsidiaries (together, the 'Group') for the six months ended 30 June 2005 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the cash flow statement and related notes 1 to 8. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

International Financial Reporting Standards

As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with International Financial Reporting Standards (' IFRS') as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Deloitte & Touche LLP
Chartered Accountants
London