Press Release

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COLT TELECOM GROUP PLC ANNOUNCES RESULTS FOR THE QUARTER AND YEAR ENDED 31 DECEMBER 2004

Solid fourth quarter performance; business refocused

COLT Telecom Group plc (COLT), a leading pan-European provider of business communications solutions and services said today that in the fourth quarter it had delivered a solid financial performance, had refocused the business and had begun the implementation of its new strategic plan.

HIGHLIGHTS OF THE QUARTER

- Turnover was £308.0 million compared with £303.7 million in the third quarter, an increase of 1.4%. Turnover decreased by 1.4% on a constant currency basis (0.5% excluding reductions in fixed to mobile prices)
- Gross margin before depreciation was 34.2% compared with 31.6% in the third quarter reflecting improved mix
- EBITDA [(1)] was £35.6 million compared with £33.4 million in the third quarter
- Net capital expenditure was £35.3 million
- Strong year end financial position with cash and liquid resources of £452.7 million
- Early redemption of £322.0 million of bonds with a further £80.9 million in January 2005 resulting in net interest saving of £31.1 million over the next three years
- New strategic plan defined and implementation commenced
- Further successful expansion of presence in India – 5% of workforce now in India

OVERVIEW OF THE YEAR

Turnover increased by 7% to £1,214.0 million on a constant currency basis and excluding Fitec which was disposed of in December 2003. Gross margin before depreciation declined slightly from 34.2% to 33.0%. EBITDA was £153.7 million compared with £163.4 million and pre-tax losses before exceptional items reduced by 15% to £114.6 million. Net capital expenditure was £124.7 million compared with £141.0 million. There was a free cash outflow of £9.5 million in 2004, reduced from an outflow of £30.4 million in 2003.

COLT Chairman Barry Bateman said:

“2004 was a tough year for the telecommunications industry and COLT. Nevertheless, turnover was up, losses were down and cash flow improved. We have entered 2005 in a stronger position having put in place the management team and strategic initiatives to move COLT forward to long term profitability.

“We do not anticipate any significant improvement in market conditions during 2005 but by building on the recent momentum established by the new management team we expect further progress and remain on track to be free cash flow positive on a sustainable basis during the year."

(1) EBITDA is earnings before interest, tax, depreciation, amortisation, foreign exchange and exceptional items

Commenting on progress made during the quarter Jean–Yves Charlier, Chief Executive Officer, said:

"We have delivered a solid fourth quarter performance. Whilst revenue growth between the third and fourth quarters was adversely affected by reductions in fixed to mobile prices, revenue mix improved as a result of the action we have taken to reduce the proportion of lower margin carrier revenues. This resulted in pre-depreciation gross margin improving from 31.6% to 34.2%. Whilst EBITDA rose from £33.4 million in the third quarter to £35.6 million, the improvement was tempered by an increase in SG&A costs due mainly to the further investment in our platform in India, increased personnel costs and costs associated with Sarbanes Oxley compliance.

"The business was refocused during the quarter as we put in place an enhanced set of strategic initiatives designed to re-establish COLT as an innovator and as one of the top three players in each of the metropolitan markets in which it operates across Europe. This is a three year programme and our challenge for 2005 is to begin to deliver against those initiatives by accelerating revenue growth, improving mix, improving productivity and being free cash flow positive on a sustainable basis.

"It is still early days but we have made a good start. We put in place an organisation designed to deliver our strategic objectives including a further significant move of activity to India. We launched three new Ethernet services for the corporate market, including the first Switched Ethernet VPN service in Europe, and our Secure IT service designed to meet the specific needs of the SME market. Planning is well advanced for the launch of our Voice IP service early in the second quarter."

KEY FINANCIAL DATA	**Three months ended 31 December**		**Twelve months ended 31 December**	
	2003	**2004**	**2003**	**2004**
	£ m	**£ m**	**£ m**	**£ m**
Turnover	306.3	308.0	1,166.3	1,214.0
Interconnect and network costs	(197.7)	(202.8)	(766.9)	(813.7)
Gross profit before depreciation	108.6	105.2	399.4	400.3
Gross profit before depreciation %	35.5%	34.2%	34.2%	33.0%
Network depreciation	(50.4)	(52.8)	(204.4)	(192.0)
Gross profit	58.2	52.4	195.0	208.3
Loss for the period (before exceptional items)	(23.5)	(36.8)	(134.7)	(114.6)
Loss for the period (after exceptional items)	(21.1)	(36.8)	(124.6)	(114.4)
EBITDA (1)	48.2	35.6	163.4	153.7

(1) EBITDA is earnings before interest, tax, depreciation, amortisation, foreign exchange and exceptional items.

FINANCIAL REVIEW

Unless otherwise stated all comparisons are between the quarter and year ended 31 December 2004 and 31 December 2003. Unless otherwise stated all numbers are quoted before exceptional items and at actual exchange rates.

Turnover

Turnover for the quarter was £308.0 million (2003: £306.3 million). This was an increase of 2% on a constant currency basis and excluding the turnover contributed by Fitec (which was disposed of in December 2003). Turnover for the year was £1,214.0 million (2003: £1,166.3 million). This was an increase of 7% on a constant currency basis and excluding the turnover contributed by Fitec. The increase in turnover was driven by demand for COLT's services from existing and new customers and new service introductions.

Corporate

Turnover from corporate customers for the quarter decreased by 1% to £179.9 million (2003: £181.4 million) and for the year increased by 1% to £698.3 million (2003: £692.7 million). Turnover from corporate customers represented 58% of total turnover in the quarter and year (2003: 59% in both periods). Switched turnover for the quarter decreased by 3% to £85.2 million (2003: £88.2 million) and was marginally down for the year at £336.1 million (2003: £337.0 million). Non-switched turnover for the quarter increased by 1% to £94.2 million (2003: £93.2 million) and for the year increased by 1% to £359.3 million (2003: £354.8 million).

Wholesale

Turnover from wholesale customers for the quarter increased by 3% to £128.1 million (2003: £124.9 million) and for the year increased by 9% to £515.7 million (2003: £473.6 million). Turnover from wholesale customers represented 42% of total turnover in the quarter and year (2003: 41% in both periods). Switched turnover for the quarter increased by 2% to £102.1 million (2003: £99.8 million) and for the year increased by 12% to £411.0 million (2003: £365.7 million). Included in switched turnover from wholesale customers was turnover from other telecommunications carriers of £63.9 million and £264.1 million for the quarter and year respectively (2003: £63.7 million and £238.9 million). Non-switched turnover for the quarter increased by 3% to £26.0 million (2003: £25.1 million) and for the year decreased by 3% to £104.5 million (2003: £107.6 million).

Cost of Sales

Cost of sales for the quarter increased by 3% to £255.6 million (2003: £248.1 million) and for the year increased by 4% to £1,005.7 million (2003: £971.4 million).

Interconnection and network costs for the quarter increased by 3% to £202.8 million (2003: £197.7 million) and for the year increased by 6% to £813.7 million (2003: £766.9 million). The increase for the year was driven mainly by the increase in switched minutes.

Network depreciation for the quarter increased by 5% to £52.8 million (2003: £50.4 million) and for the year decreased by 6% to £192.0 million (2003: £204.4 million). The decrease for the year reflected the effect of some assets being fully depreciated, partially offset by further investment in fixed assets to support the growth in demand for services and new service developments.

Operating Expenses

Operating expenses for the quarter increased by 12% to £78.0 million (2003: £69.6 million) and for the year increased by 1% to £277.2 million (2003: £274.5 million).

Selling, general and administrative (SG&A) expenses for the quarter increased by 15% to £69.6 million (2003: £60.3 million) and for the year increased by 5% to £246.6 million (2003: £235.9 million). SG&A expenses as a proportion of turnover for the quarter and year was 23% and 20% (2003: 20% in both periods). The increases in SG&A expenses reflected the initial costs associated with the establishment of COLT's presence in India, increased personnel costs and costs associated with Sarbanes-Oxley compliance.

Other depreciation and amortisation for the quarter decreased by 10% to £8.4 million (2003: £9.3 million) and for the year decreased by 21% to £30.5 million (2003: £38.5 million). The reductions reflected the effect of some assets being fully depreciated, partially offset by increased investment in customer service and other support systems.

Interest Receivable, Interest Payable and Similar Charges

Interest receivable for the quarter decreased by 33% to £4.4 million (2003: £6.5 million) and for the year decreased by 21% to £21.0 million (2003: £26.7 million). The decreases were as a result of reduced average balances of cash and investments in liquid resources following the redemption of some of the Company's outstanding notes during 2003 and 2004.

Interest payable and similar charges for the quarter ended 31 December 2004 decreased by 27% to £15.3 million (2003: £21.0 million) and for the year decreased by 24% to £66.8 million (2003: £88.3 million). These decreases were due primarily to the reduction in debt levels following the redemption of some of the Company's outstanding notes during 2003 and 2004.

Interest payable and similar charges for the quarter included £5.0 million (2003: £8.6 million) of interest and accretion on convertible debt and £8.9 million (2003: £12.3 million) of interest and accretion on non-convertible debt. Interest payable and similar charges for the year included £30.2 million (2003: £34.4 million) of interest and accretion on convertible debt and £35.0 million (2003: £51.7 million) of interest and accretion on non-convertible debt. Interest payable and similar charges for the quarter comprised £11.5 million and £3.8 million of interest and accretion respectively.

Gain on Redemption of Debt

Gains arising on the early redemption of £335.3 million of debt during the year were £0.2 million (2003: £7.6 million).

Exchange Gains

For the quarter there were exchange losses of £0.2 million (2003: gain of £2.3 million). For the year there were no net exchange gains or losses (2003: gain of £6.4 million). The exchange gains in the prior year were due primarily to movements in the British pound relative to the U.S. dollar on cash and debt balances denominated in U.S. dollars.

Tax on Loss on Ordinary Activities

COLT had no taxable profits in the years ended 31 December 2003 and 2004.

Financial Needs and Resources

FREE CASH FLOW	Three months ended 31 December		Twelve months ended 31 December	
	2003	2004	2003	2004
	£ m	£ m	£ m	£ m
EBITDA	48.2	35.6	163.4	153.7
Changes in working capital and provisions	(13.3)	(19.4)	(15.5)	(13.0)
Interest paid (net)	(16.0)	(7.7)	(37.3)	(25.5)
Capital expenditure	(32.7)	(35.3)	(141.0)	(124.7)
Free cash outflow	(13.8)	(26.8)	(30.4)	(9.5)

There was a free cash outflow of £26.8 million in the quarter (2003: outflow of £13.8 million) and for the year there was an outflow of £9.5 million (2003: outflow of £30.4 million). The improvement in free cash flow for the year was driven by reduced capital expenditure, reduced interest payments and lower payments against provisions.

Net cash outflow from financing for the quarter was £322.0 million (2003: outflow of £119.5 million) and net cash outflow from financing for the year was £334.7 million (2003: outflow of £142.8 million).

COLT had balances of cash and investments in liquid resources at 31 December 2004 of £452.7 million compared with £802.4 million at 31 December 2003. On 19 October 2004 all of the outstanding DM600 million 2% Senior Convertible Notes due August 2005 and the €368 million 2% Senior Convertible Notes due December 2006 were redeemed. The redemptions were at the accreted principal amount of the Notes and were funded out of cash and liquid resources. The aggregate amount payable was £322.0 million. On 21 January 2005 all of the outstanding £50 million 10.125% Senior Notes due 2007 and the DM150 million 8.875% Senior Notes due 2007 were redeemed. The redemptions were at the principal amount of the Notes and were funded out of COLT's cash and liquid resources. The aggregate amount payable was £80.9 million.

Consolidated Profit and Loss Account

	Three months ended 31 December						
	2003 Before Exceptional Items £'000	2003 Exceptional Items £'000	2003 After Exceptional Items £'000	2004 Before Exceptional Items £'000	2004 Exceptional Items £'000	2004 After Exceptional Items £'000	2004 After Exceptional Items $'000
Turnover	306,263	--	306,263	307,967	--	307,967	590,065
Cost of sales							
Interconnect and network	(197,677)	--	(197,677)	(202,797)	--	(202,797)	(388,559)
Network depreciation	(50,378)	--	(50,378)	(52,814)	--	(52,814)	(101,192)
	(248,055)	--	(248,055)	(255,611)	--	(255,611)	(489,751)
Gross profit	58,208	--	58,208	52,356	--	52,356	100,314
Operating expenses							
Selling, general and administrative	(60,339)	2,453	(57,886)	(69,610)	--	(69,610)	(133,373)
Other depreciation and amortisation	(9,284)	--	(9,284)	(8,390)	--	(8,390)	(16,075)
	(69,623)	2,453	(67,170)	(78,000)	--	(78,000)	(149,448)
Operating loss	(11,415)	2,453	(8,962)	(25,644)	--	(25,644)	(49,134)
Other income (expense)							
Interest receivable	6,532	--	6,532	4,364	--	4,364	8,361
Interest payable and similar charges	(20,988)	--	(20,988)	(15,335)	--	(15,335)	(29,381)
Exchange gain (loss)	2,329	--	2,329	(218)	--	(218)	(418)
	(12,127)	--	(12,127)	(11,189)	--	(11,189)	(21,438)
Loss on ordinary activities before taxation	(23,542)	2,453	(21,089)	(36,833)	--	(36,833)	(70,572)
Taxation	--	--	--	--	--	--	--
Loss for period	(23,542)	2,453	(21,089)	(36,833)	--	(36,833)	(70,572)
Basic and diluted loss per share	(£0.02)	£0.01	(£0.01)	(£0.02)	--	(£0.02)	($0.05)

There is no difference between the loss on ordinary activities before taxation and the retained loss for the periods stated above, and their historical cost equivalents. All of the Group's activities are continuing. The basis on which this information has been prepared is described in Note 1 to these financial statements.

Consolidated Profit and Loss Account

	Twelve months ended 31 December						
	2003 Before Exceptional Items £'000	2003 Exceptional Items £'000	2003 After Exceptional Items £'000	2004 Before Exceptional Items £'000	2004 Exceptional Items £'000	2004 After Exceptional Items £'000	2004 After Exceptional Items $'000
Turnover	1,166,318	--	1,166,318	1,214,020	--	1,214,020	2,326,062
Cost of sales							
Interconnect and network	(766,942)	--	(766,942)	(813,728)	--	(813,728)	(1,559,102)
Network depreciation	(204,417)	--	(204,417)	(191,969)	--	(191,969)	(367,813)
	(971,359)	--	(971,359)	(1,005,697)	--	(1,005,697)	(1,926,915)
Gross profit	194,959	--	194,959	208,323	--	208,323	399,147
Operating expenses							
Selling, general and administrative	(235,928)	2,453	(233,475)	(246,633)	--	(246,633)	(472,549)
Other depreciation and amortisation	(38,531)	--	(38,531)	(30,519)	--	(30,519)	(58,474)
	(274,459)	2,453	(272,006)	(277,152)	--	(277,152)	(531,023)
Operating loss	(79,500)	2,453	(77,047)	(68,829)	--	(68,829)	(131,876)
Other income (expense)							
Interest receivable	26,718	--	26,718	21,001	--	21,001	40,238
Gain on redemption of debt	--	7,589	7,589	--	205	205	393
Interest payable and similar charges	(88,295)	--	(88,295)	(66,812)	--	(66,812)	(128,012)
Exchange gain	6,388	--	6,388	4	--	4	8
	(55,189)	7,589	(47,600)	(45,807)	205	(45,602)	(87,373)
Loss on ordinary activities before taxation	(134,689)	10,042	(124,647)	(114,636)	205	(114,431)	(219,249)
Taxation	--	--	--	--	--	--	--
Loss for period	(134,689)	10,042	(124,647)	(114,636)	205	(114,431)	(219,249)
Basic and diluted loss per share	(£0.09)	£0.01	(£0.08)	(£0.08)	--	(£0.08)	($0.15)

There is no difference between the loss on ordinary activities before taxation and the retained loss for the periods stated above, and their historical cost equivalents. All of the Group's activities are continuing. The basis on which this information has been prepared is described in Note 1 to these financial statements.

Consolidated Statement of Total Recognised Gains and Losses

	Three months ended 31 December			Twelve months ended 31 December		
	2003 £'000	2004 £'000	2004 $'000	2003 £'000	2004 £'000	2004 $'000
Loss for period	(21,089)	(36,833)	(70,572)	(124,647)	(114,431)	(219,249)
Exchange differences	2,035	11,071	21,212	31,002	(798)	(1,529)
Total recognised losses	(19,054)	(25,762)	(49,360)	(93,645)	(115,229)	(220,778)
Prior year adjustment in respect of the adoption of UITF 38 (note 1)	--	--	--	--	910	1,744
Total recognised losses since previously reported	(19,054)	(25,762)	(49,360)	(93,645)	(114,319)	(219,034)

Consolidated Reconciliation of Changes in Equity Shareholders' Funds

	Three months ended 31 December			Twelve months ended 31 December		
	2003 £'000	2004 £'000	2004 $'000	2003 £'000	2004 £'000	2004 $'000
Opening equity shareholders' funds as previously reported	880,802	773,758	1,482,520	955,010	862,698	1,652,929
Prior year adjustment in respect of the adoption of UITF 38 (note 1)	(206)	--	--	(206)	--	--
Opening equity shareholders' funds as restated	880,596	773,758	1,482,520	954,804	862,698	1,652,929
Loss for period	(21,089)	(36,833)	(70,572)	(124,647)	(114,431)	(219,249)
Issue of share capital	1,155	43	83	1,767	570	1,092
Shares to be issued	(10)	--	--	(239)	--	--
Grant of shares from Group Quest	11	55	105	11	55	105
Exchange differences	2,035	11,071	21,212	31,002	(798)	(1,529)
Closing equity shareholders' funds	862,698	748,094	1,433,348	862,698	748,094	1,433,348

Consolidated Balance Sheet

	Restated* At 31 December 2003 £'000	At 31 December 2004 £'000	$'000
Fixed assets			
Intangible fixed assets (net)	9,493	7,317	14,019
Tangible fixed assets (cost)	2,934,503	3,051,731	5,847,117
Accumulated depreciation	(1,590,218)	(1,798,229)	(3,445,407)
Tangible fixed assets (net)	1,344,285	1,253,502	2,401,710
Total fixed assets	1,353,778	1,260,819	2,415,729
Current assets			
Trade debtors	199,849	199,074	381,426
Prepaid expenses and other debtors	66,834	48,078	92,117
Investments in liquid resources	742,143	393,312	753,586
Cash at bank and in hand	60,239	59,404	113,818
Total current assets	1,069,065	699,868	1,340,947
Total assets	2,422,843	1,960,687	3,756,676
Capital and reserves			
Called up share capital	37,754	37,778	72,383
Share premium	2,315,904	2,316,665	4,438,730
Merger reserve	27,359	27,359	52,420
Shares to be issued	215	--	--
Profit and loss account	(1,518,534)	(1,633,708)	(3,130,185)
Equity shareholders' funds	862,698	748,094	1,433,348
Provisions for liabilities and charges	62,860	48,708	93,325
Creditors			
Amounts falling due within one year			
Non-convertible debt	--	81,692	156,522
Other	352,736	336,508	644,749
Total amounts falling due within one year	352,736	418,200	801,271
Amounts falling due after more than one year			
Convertible debt	700,131	382,320	732,525
Non-convertible debt	444,418	363,365	696,207
Total amounts falling due after more than one year	1,144,549	745,685	1,428,732
Total creditors	1,497,285	1,163,885	2,230,003
Total liabilities, capital and reserves	2,422,843	1,960,687	3,756,676

* Restated as a result of the adoption of UITF 38 "Accounting for ESOP trusts" as disclosed in note 1

Consolidated Cash Flow Statement

	Three months ended 31 December			Twelve months ended 31 December		
	2003 £'000	2004 £'000	2004 $'000	2003 £'000	2004 £'000	2004 $'000
Net cash inflow from operating activities	34,915	16,253	31,142	147,866	140,638	269,463
Returns on investments and servicing of finance						
Interest received	6,249	4,628	8,867	26,526	20,530	39,335
Interest paid, finance costs and similar charges	(22,303)	(12,326)	(23,617)	(63,849)	(45,965)	(88,069)
Net cash outflow from returns on investments and servicing of finance	(16,054)	(7,698)	(14,750)	(37,323)	(25,435)	(48,734)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	(32,673)	(36,072)	(69,114)	(140,973)	(129,417)	(247,963)
Sale of tangible fixed assets	--	751	1,439	--	4,721	9,045
Net cash outflow from capital expenditure and financial investment	(32,673)	(35,321)	(67,675)	(140,973)	(124,696)	(238,918)
Acquisitions and disposals						
Sale of subsidiary undertakings	912	--	--	912	--	--
Net cash sold with subsidiary	(2,944)	--	--	(2,944)	--	--
Net cash outflow from acquisitions and disposals	(2,032)	--	--	(2,032)	--	--
Management of liquid resources	141,106	351,372	673,228	187,765	343,297	657,756
Financing						
Issue of ordinary shares	1,156	43	83	1,630	570	1,092
Redemption of convertible debt	--	(322,047)	(617,042)	(9,606)	(333,659)	(639,291)
Redemption of non-convertible debt	(120,703)	--	--	(134,869)	(1,635)	(3,133)
Net cash outflow from financing	(119,547)	(322,004)	(616,959)	(142,845)	(334,724)	(641,332)
Increase in cash	5,715	2,602	4,986	12,458	(920)	(1,765)

Notes to Financial Statements

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 statements have been presented for the Group for the three and twelve months ended 31 December 2003 and 2004.

The financial statements for the twelve months ended 31 December 2003 and 2004 and at 31 December 2003 and 2004 have been extracted from the Group's audited financial statements for those periods and do not constitute the Group's statutory accounts for those periods. The auditors have made a report on the Group's financial statements for the years ended 31 December 2003 and 2004 under Section 235 of the Companies Act 1985 which does not contain a statement under sections 237 (2) or (3) of the Companies Act and is unqualified. The statutory accounts for the twelve months ended 31 December 2003 have been filed and the statutory accounts for the twelve months ended 31 December 2004 will be filed with the Registrar of Companies.

Accounting policies and presentation applied are consistent with those applied in preparing the Group's financial statements for the year ended 31 December 2003 except for the adoption of UITF 38 "Accounting for ESOP trusts". Applying the UITF has resulted in the cost of own shares, previously reported as a fixed asset investment, being shown as a deduction from shareholders' funds. A prior year adjustment has been made to reflect this change. The aggregate impact of this adjustment on the previously reported Balance Sheet as at 31 December 2002 and 2003 is to reduce Equity Shareholders' funds by £0.2 million. In addition, £0.9 million has been included in the Statement of Total Recognised Gains and Losses being the amount charged to the Profit and Loss Account in prior years to write-down the carrying value of these shares. The adoption of UITF 38 has had no impact on the Profit and Loss Account in either 2003 or 2004.

Certain British pound amounts in the financial statements have been translated into U.S. dollars at 31 December 2004 and for the periods then ended at the rate of $1.916 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.

Notes to Financial Statements

2. Segmental information

North Region comprises Belgium, Denmark, Ireland, The Netherlands, Sweden and UK. Central Region comprises Austria, Germany and Switzerland. South Region comprises France, Italy, Portugal and Spain. These reportable segments are expected to change during 2005 as a result of the reorganisation which was announced in late 2004.

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, and bandwidth services.

Wholesale turnover includes services to other telecommunications carriers, resellers and internet service providers (ISPs). Corporate turnover includes services to corporate and government accounts.

For the three months ended 31 December 2003, 30 September 2004 and 31 December 2004, turnover by segment was as follows:

	Three months ended 31 December 2003					
	Corporate	Wholesale	North Region	Central Region	South Region	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Carrier	--	63,728	15,943	33,245	14,540	63,728
Non-carrier	88,184	36,026	35,499	59,036	29,675	124,210
Total switched	88,184	99,754	51,442	92,281	44,215	187,938
Non-switched	93,185	25,127	41,610	42,768	33,934	118,312
Other	--	13	--	13	--	13
Total	181,369	124,894	93,052	135,062	78,149	306,263

	Three months ended 30 September 2004					
	Corporate	Wholesale	North Region	Central Region	South Region	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Carrier	--	67,694	19,285	35,597	12,812	67,694
Non-carrier	81,000	36,119	33,119	59,981	24,019	117,119
Switched	81,000	103,813	52,404	95,578	36,831	184,813
Non-switched	90,727	26,343	40,726	43,293	33,051	117,070
Other	1,827	--	159	1,228	440	1,827
Total	173,554	130,156	93,289	140,099	70,322	303,710

	Three months ended 31 December 2004					
	Corporate	Wholesale	North Region	Central Region	South Region	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Carrier	--	63,938	18,626	33,364	11,948	63,938
Non-carrier	85,156	38,122	29,775	66,691	26,812	123,278
Total switched	85,156	102,060	48,401	100,055	38,760	187,216
Non-switched	94,200	25,991	40,575	45,339	34,277	120,191
Other	560	--	182	306	72	560
Total	179,916	128,051	89,158	145,700	73,109	307,967

Notes to Financial Statements

Turnover for the three months ended 31 December 2004, compared to the three months ended 30 September 2004 and 31 December 2003 and after excluding the impact of foreign exchange, is shown below:

			Compared to Q3 2004			Compared to Q4 2003	
	Q4 2004 £'000	Q4 2004 £'000	% Growth		Q4 2004 £'000	% Growth	
	Actual	Adjusted[1]	Actual	Adjusted[1]	Adjusted[2]	Actual	Adjusted[2]
Corporate							
Switched	85,156	82,962	5.1	2.4	85,698	(3.4)	(2.8)
Non-switched	94,200	91,786	3.8	1.2	94,768	1.1	1.7
Other	560	544	(69.3)	(70.2)	564	n/a	n/a
Total	179,916	175,292	3.7	1.0	181,030	(0.8)	(0.2)
Wholesale							
Carrier	63,938	62,067	(5.5)	(8.3)	64,422	0.3	1.1
Non-carrier	38,122	36,917	5.5	2.2	38,414	5.8	6.6
Total switched	102,060	98,984	(1.7)	(4.7)	102,836	2.3	3.1
Non-switched	25,991	25,309	(1.3)	(3.9)	26,153	3.4	4.1
Other	--	--	n/a	n/a	--	n/a	n/a
Total	128,051	124,293	(1.6)	(4.5)	128,989	2.5	3.3
Total							
Carrier	63,938	62,067	(5.5)	(8.3)	64,422	0.3	1.1
Non-carrier	123,278	119,879	5.3	2.4	124,112	(0.8)	(0.1)
Total switched	187,216	181,946	1.3	(1.6)	188,534	(0.4)	0.3
Non-switched	120,191	117,095	2.7	0.0	120,921	1.6	2.2
Other	560	544	(69.3)	(70.2)	564	n/a	n/a
Total	307,967	299,585	1.4	(1.4)	310,019	0.6	1.2

[1] Q4 2004 turnover has been restated using Q3 2004 exchange rates, and compared to turnover which was reported in Q3 2004
[2] Q4 2004 turnover has been restated using Q4 2003 exchange rates, and compared to turnover which was reported in Q4 2003

For the twelve months ended 31 December 2003 and 2004, turnover by segment was as follows:

	Twelve months ended 31 December 2003					
	Corporate	**Wholesale**	**North Region**	**Central Region**	**South Region**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Carrier	--	238,913	68,538	116,444	53,931	238,913
Non-carrier	336,980	126,745	138,431	214,092	111,202	463,725
Total switched	336,980	365,658	206,969	330,536	165,133	702,638
Non-switched	354,794	107,610	165,554	162,949	133,901	462,404
Other	909	367	79	918	279	1,276
Total	692,683	473,635	372,602	494,403	299,313	1,166,318

	Twelve months ended 31 December 2004					
	Corporate	**Wholesale**	**North Region**	**Central Region**	**South Region**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Carrier	--	264,091	75,913	136,971	51,207	264,091
Non-carrier	336,064	146,948	134,377	244,040	104,595	483,012
Total switched	336,064	411,039	210,290	381,011	155,802	747,103
Non-switched	359,314	104,527	162,691	171,507	129,643	463,841
Other	2,963	113	457	1,658	961	3,076
Total	698,341	515,679	373,438	554,176	286,406	1,214,020

Notes to Financial Statements

3. Loss per share

	Three months ended 31 December			Twelve months ended 31 December		
	2003 £'000	2004 £'000	2004 $'000	2003 £'000	2004 £'000	2004 $'000
Loss for period	(21,089)	(36,833)	(70,572)	(124,647)	(114,431)	(219,249)
Weighted average number of ordinary shares ('000)	1,508,922	1,511,058	1,511,058	1,507,771	1,510,853	1,510,853
Basic and diluted loss per share	(£0.01)	(£0.02)	($0.05)	(£0.08)	(£0.08)	($0.15)

4. Exceptional items

Gain on redemption of debt

During the twelve months ended 31 December 2004, the Group redeemed some of its debt for a cash outlay of £335.3 million (comprising principal of £277.3 million and accreted interest of £58.0 million), resulting in an exceptional gain of £0.2 million. During 2003, the Group redeemed some of its debt for a cash outlay of £144.5 million, resulting in an exceptional gain of £7.6 million.

Disposal of subsidiaries

In December 2003 the Group sold COLT eCustomer Solutions France SAS ("Fitec") and COLT Internet AB (Sweden Internet) for a consideration of £0.9 million and £0.3 million respectively, which gave rise to a profit on disposal of £2.2 million on Fitec and £0.3 million on Sweden Internet. In the period to December 2003, Fitec's turnover was £9.2 million and its loss after tax was £3.3 million.

5. Cash flow reconciliations

5a. Reconciliation of operating loss to net cash inflow from operating activities

	Three months ended 31 December			Twelve months ended 31 December		
	2003 £'000	2004 £'000	2004 $'000	2003 £'000	2004 £'000	2004 $'000
Operating loss	(8,962)	(25,644)	(49,134)	(77,047)	(68,829)	(131,876)
Depreciation and amortisation	59,662	61,204	117,267	242,948	222,488	426,287
Exchange differences	264	(218)	(418)	387	(162)	(310)
Profit on disposal of subsidiaries	(2,453)	--	--	(2,453)	--	--
Movement in debtors	5,661	(594)	(1,138)	20,681	20,871	39,988
Movement in creditors	(12,788)	(14,366)	(27,524)	(9,463)	(16,843)	(32,271)
Movement in provisions for liabilities and charges	(6,469)	(4,129)	(7,911)	(27,187)	(16,887)	(32,355)
Net cash inflow from operating activities	34,915	16,253	31,142	147,866	140,638	269,463

Notes to Financial Statements

5b. EBITDA reconciliation

	Three months ended 31 December			Twelve months ended 31 December		
	2003	2004	2004	2003	2004	2004
	£'000	£'000	$'000	£'000	£'000	$'000
Net cash inflow from operating activities	34,915	16,253	31,142	147,866	140,638	269,463
Adjusted for:						
Exchange differences	(264)	218	418	(387)	162	310
Movement in debtors	(5,661)	594	1,138	(20,681)	(20,871)	(39,988)
Movement in creditors	12,788	14,366	27,524	9,463	16,843	32,271
Total working capital adjustments	7,127	14,960	28,662	(11,218)	(4,028)	(7,717)
Movement in provisions for liabilities and charges	6,469	4,129	7,911	27,187	16,887	32,355
EBITDA	48,247	35,560	68,133	163,448	153,659	294,411

6. Changes in cash and investments in liquid resources

	Three months ended 31 December			Twelve months ended 31 December		
	2003	2004	2004	2003	2004	2004
	£'000	£'000	$'000	£'000	£'000	$'000
Beginning of period	934,404	791,367	1,516,259	934,882	802,382	1,537,364
Net decrease in investments in liquid resources before exchange differences	(141,106)	(351,372)	(673,228)	(187,765)	(343,297)	(657,756)
Effects of exchange differences on investments in liquid resources	3,050	8,607	16,491	40,318	(5,534)	(10,603)
Net increase in cash before exchange differences	5,715	2,602	4,986	12,458	(920)	(1,765)
Effects of exchange differences on cash	319	1,512	2,896	2,489	85	164
End of period	802,382	452,716	867,404	802,382	452,716	867,404

Notes to Financial Statements

7. Summary of differences between U.K. Generally Accepted Accounting Principles ("U.K. GAAP") and U.S. Generally Accepted Accounting Principles ("U.S. GAAP")

a. Effects of conforming to U.S. GAAP – impact on net loss

	Three months ended 31 December			Twelve months ended 31 December		
	2003	2004	2004	2003	2004	2004
	£'000	£'000	$'000	£'000	£'000	$'000
Loss for period	(21,089)	(36,833)	(70,572)	(124,647)	(114,431)	(219,249)
Adjustments:						
Deferred compensation (i), (ii)	(197)	27	52	(1,012)	337	646
Amortisation of intangibles (iii)	504	519	994	2,116	2,027	3,884
Capitalised interest, net of depreciation (iv)	(814)	(896)	(1,717)	(3,082)	(3,712)	(7,112)
Profit on sale of IRUs (v)	261	261	500	1,044	1,044	2,000
Warrants (vi)	72	259	496	199	(670)	(1,284)
Installation revenue (vii)	1,425	375	719	3,469	4,627	8,865
Direct costs attributable to installation revenue (vii)	(1,559)	--	--	(4,231)	--	--
Impairment (viii)	(2,805)	(2,806)	(5,376)	(11,221)	(11,221)	(21,499)
Payroll taxes on employee share schemes (ix)	385	(385)	(738)	385	(385)	(738)
Loss for period under U.S. GAAP before giving effect to the change in accounting policy	(23,817)	(39,479)	(75,642)	(136,980)	(122,384)	(234,487)
Cumulative effect on prior years of change in accounting policy (vii)	--	--	--	--	(72,552)	(139,010)
Loss for period under U.S. GAAP	(23,817)	(39,479)	(75,642)	(136,980)	(194,936)	(373,497)
Weighted average number of ordinary shares ('000)	1,508,922	1,511,058	1,511,058	1,507,771	1,510,853	1,510,853
Basic and diluted loss per share before giving effect to the change in accounting policy	(£0.02)	(£0.03)	($0.05)	(£0.09)	(£0.08)	($0.16)
Cumulative effect on prior years of change in accounting policy (vii)	(£0.00)	(£0.00)	($0.00)	(£0.00)	(£0.05)	($0.09)
Basic and diluted loss per share	(£0.02)	(£0.03)	($0.05)	(£0.09)	(£0.13)	($0.25)

(i) The Group acquired ImagiNet in July 1998 and Fitec in July 2001. The consideration for both of these purchases included deferred shares and payments. The final elements of the consideration were paid in July 2003.

Under U.K. GAAP, the deferred shares and payments were included in the purchase consideration. The excess purchase consideration over the fair value of assets and liabilities acquired was attributed to goodwill and is being amortised over its estimated economic life.

Under U.S. GAAP, these deferred shares and payments were excluded from the purchase consideration and recognised as compensation expense in the profit and loss account over the period in which the payments vested. Total compensation charge for the three and twelve months ended 31 December 2003 was £nil million and £0.3 million respectively. Because no payments were outstanding in the twelve months to 31 December 2004, the total compensation charge for the period was £nil.

(ii) 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%. Under U.K. GAAP no charge is taken in relation to the discount. Under U.S. GAAP, the difference between the market value of the shares on the date of grant and the price paid for the shares is charged as a compensation cost to the profit and loss account over the period over which the shares vest.

Also under U.S. 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. Variable accounting commences for all existing awards when the offer is made, and for those awards that are retained by employees because the offer is declined, variable accounting continues until the award is exercised, forfeited or expires unexercised. New awards are accounted for as variable to the extent that the previous, higher priced options are cancelled.

The total expected compensation cost is recorded within equity shareholders' funds as unearned compensation and additional paid in share capital, with unearned compensation being charged to the profit and loss account over the vesting period. The total compensation cost for the three and twelve months ended 31 December 2003 was a charge of £0.2 million and £0.7 million respectively and for the three and twelve months ended 31 December 2004 was a credit of £nil million and £0.3 million respectively.

(iii) Under U.S. GAAP, goodwill with an indefinite useful life is not amortised but is tested for impairment annually. Under U.K. GAAP goodwill is amortised on a straight line basis over its useful economic life.

The Group had unamortised goodwill of £8.5 million at 31 December 2004, which is no longer amortised under U.S. GAAP but which is assessed for impairment annually. Amortisation expense related to goodwill, under U.K. GAAP, was £0.5 million and £2.1 million for the three and twelve months ended 31 December 2003 and for the three and twelve months ended 31 December 2004 was £0.5 million and £2.0 million respectively.

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

(v) In 2000 and 2001 the Group concluded a number of infrastructure sales in the form of 20-year indefeasible rights-of-use ("IRU") with characteristics which qualify the transactions as outright sales under U.K. GAAP. Under U.S. GAAP, these sales are treated as 20-year operating leases. The adjustment reflects the recognition of profit under U.S. GAAP on the sale of IRUs concluded in prior years.

(vi) The Group has received warrants from certain suppliers in the ordinary course of business. Under U.K. GAAP, warrants are treated as financial assets and recorded at the lower of cost or fair value. Hence for U.K. GAAP purposes the warrants have been recognised at nil. Under U.S. GAAP, the warrants are recorded at fair value with unrecognised gains and losses reflected in the profit and loss account.

(vii) Under U.K. GAAP, customer installation revenue is recognised in the same period as the related costs. Under U.S. GAAP, such installation revenue is recognised over the expected customer relationship period.

Under U.S. GAAP, the Group has historically applied a policy of also deferring attributable direct costs up to the level of associated revenue and recognising them over the customer relationship period. The Group has now changed this accounting policy to expensing these costs as incurred. This change has been presented as though it took effect from 1 January 2004.

The Group has decided to change this accounting policy to reflect the way that the business is now being monitored and run by senior management. Additionally, the Group will be adopting IFRS from 1 January 2005. Under IFRS, only certain attributable directs costs are allowed to be deferred and the Group has elected that the best representation of its current business is to expense such costs.

The cumulative effect of the change on the opening retained earnings of £72.6 million has been recorded as a charge to the current year loss for the period under U.S. GAAP. The effect of the change in accounting policy for the current year is to increase the loss for the period under U.S. GAAP by £68.1 million (being the net of the impact on opening retained earnings of £72.6 million and the reduction in the amount of costs which would have been deferred under the old policy in 2004 of £4.5 million).

Notes to Financial Statements

The disclosure below reflects the pro forma impact on loss for the period, under U.S. GAAP, of the change in accounting policy assuming it had been applied retroactively in 2003 and 2004.

	Three months ended 31 December			Twelve months ended 31 December		
	2003	2004	2004	2003	2004	2004
	£'000	£'000	$'000	£'000	£'000	$'000
Loss for period under U.S. GAAP	(22,258)	(39,479)	(75,642)	(132,749)	(122,384)	(234,487)
Basic and diluted loss per share	(£0.01)	(£0.03)	($0.05)	(£0.09)	(£0.08)	($0.16)

(viii) During the quarter ended 30 September 2002, the Group recorded charges of £443.8 million under U.S. GAAP to reflect the impairment of goodwill, network and non-network fixed assets, resulting in a GAAP difference of £107.2 million at that time. For the three and twelve months ended 31 December 2004 depreciation in the amount of £2.8 million and £11.2 million was recorded in respect of the assets which had not been impaired for U.S. GAAP purposes.

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

b. Effects of conforming to U.S. GAAP – impact on net equity

	At 31 December 2004	
	£'000	$'000
Equity shareholders' funds under U.K. GAAP	748,094	1,433,348
U.S. GAAP adjustments:		
Deferred compensation (i), (ii)	(10,429)	(19,982)
Unearned compensation (i), (ii)	(39)	(75)
Additional paid in share capital (i), (ii)	10,468	20,057
Amortisation of intangibles (iii)	8,043	15,410
Warrants (vi)	381	730
Impairment (viii)	81,948	157,012
Profit on sale of IRUs (v)	(16,679)	(31,957)
Capitalised interest, net of depreciation (iv)	34,167	65,465
Deferred profit on installations (vii)	--	--
Deferred installation revenue (vii)	(68,687)	(131,604)
Approximate equity shareholders' funds under U.S. GAAP	787,267	1,508,404

(i) - (viii) See note a. for description and adjustment.

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

At 31 December 2004 the Group had certain options outstanding under its Option Plan. 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 31 December 2004 would have been £41.2 million ($78.9 million).

8. International Financial Reporting standards

COLT will be required to report under International Financial Reporting standards ("IFRS") for quarterly reporting with effect from the quarter ending 31 March 2005.

Additional Information

Operating statistics

	Q4 03	Q3 04	Q4 04	Growth Q4 04 - Q4 03	Growth Q4 04 - Q3 04
Customers (at end of quarter)					
North Region	5,708	5,724	5,740	1%	0%
Central Region	6,838	7,960	7,870	15%	-1%
South Region	7,019	6,041	6,204	-12%	3%
	19,565	19,725	19,814	1%	0%
Customers (at end of quarter)					
Corporate	18,581	18,518	18,614	0%	1%
Wholesale	984	1,207	1,200	22%	-1%
	19,565	19,725	19,814	1%	0%
Switched minutes (million) (for quarter)					
North Region	1,541	1,425	1,421	-8%	0%
Central Region	3,480	3,580	3,875	11%	8%
South Region	1,041	1,060	1,301	25%	23%
	6,062	6,065	6,597	9%	9%
Private wire VGEs (000) (at end of quarter)					
North Region	10,433	12,619	12,710	22%	1%
Central Region	11,274	15,623	15,795	40%	1%
South Region	4,906	6,431	7,859	60%	22%
	26,613	34,673	36,364	37%	5%
Headcount (at end of quarter)					
North Region	1,541	1,544	1,489	-3%	-4%
Central Region	1,393	1,330	1,271	-9%	-4%
South Region	932	929	908	-3%	-2%
India	0	86	201	n/a	134%
	3,866	3,889	3,869	0%	-1%

North Region comprises Belgium, Denmark, Ireland, The Netherlands, Sweden and UK. Central Region comprises Austria, Germany and Switzerland. South Region comprises France, Italy, Portugal and Spain. Customers represent the number of customers who purchase network and data solutions products. Headcount comprises active employees excluding temporary and contract workers.

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.

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