

121Media, Inc (“121Media” or “the Company”)

Interim results for the six month period ended 30 June 2006

121Media (EPIC: OTO and OTOM), a market leading technology firm specialising in contextual online advertising, announces its unaudited interim results for the six month period ended 30 June 2006.

Highlights:

- Anticipation of near term major partnership agreements
- Appointment of industry-leading executives
- Reorientation of core business from desktop to the ISP model
- Further development of a robust and scalable software platform
- Interim Financial results: Turnover \$1.17 million; loss after tax \$4.34 million
- Placing to raise approximately £2 million

Kent Ertugrul, Chief Executive of 121Media, said: The results we are presenting today do not reflect the future business of 121Media. The desktop advertising delivery model with which 121Media began was right for its time, but in refocusing the business towards behaviourally targeted advertising, we are positioning the Company to enjoy a share of a much larger market. Our belief in this new strategy is confirmed by substantial progress being made in several discussions with a number of large ISPs. In anticipation of a successful conclusion to these discussions, we are raising sufficient cash to allow us to comfortably meet working capital requirements in the very near term. Our strategy is both innovative and in line with the wider trends of the marketing industry. Ahead of the expected implementation of this strategy, we continue to build a world class executive team. The Directors believe that our approach and our development of market-leading contextual advertising tools has the potential to change the nature of web advertising.

For further information:

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CHAIRMAN'S STATEMENT

Results

The first half of 2006 has seen 121Media continue its transformation into a next generation Internet advertising services firm. Substantial progress has been made towards the successful delivery of a partnership strategy that places global Internet service providers ("ISPs") at the centre of the online advertising market for the first time.

121Media has made considerable investment in developing its contextual advertising technologies. It has built a robust and scalable hardware and software platform, PageSense, which is capable of delivering individually selected advertisements to Internet users in real time. We believe that this is of benefit to all operators in the online space: ISPs, advertisers, publishers and consumers.

During the period under review, we took the decision to complete the closure of our desktop advertising business, underlining our belief that the greatest value lies in the wider Internet advertising market and partnerships with ISPs.

We believe that this repositioning will soon deliver substantial shareholder value.

Inevitably, the reorientation of the business has impacted the company's short-term financial performance and our results for the 2006 interim period, therefore, do not reflect the business that 121Media currently represents, nor do they reflect its potential.

Executive Appointments

The considerable headway we have made in our strategic partnerships with ISPs and the rolling out of 121Media's next generation contextual advertising products and services will lead to a change in 121Media's corporate structure.

In anticipation of our forthcoming partnership relationships, the Directors believe it is appropriate to continue to strengthen the Company's management team to implement its structural strategy. Under this strategy, subject to final decision, it is anticipated that 121Media, Inc. will evolve into a corporate entity with subsidiaries which will operate in each territory in which 121Media trades. As a result, we have been pleased to add Hugo Drayton and Marc Rothschild to the senior team. In addition, Dave Dorman, former chairman and chief executive officer of AT&T Corporation, was appointed as an adviser in July 2006.

Marc joined us in August 2006 in the newly created role of Senior Vice President, Strategic Alliances. Before joining 121Media, Mr Rothschild was Vice President, Strategic Alliances at AOL, where he was responsible for corporate and product strategy for AOL's largest partners. He also served as Senior Counsel and Assistant General Counsel before assuming his role as VP.

Hugo, who joins us with immediate effect as CEO of the UK business, has wide-ranging experience in media and online marketing. He held senior roles at The Telegraph Group, where he was Managing Director (previously Marketing and New Media Director) and as Managing Director, Europe, of Advertising.com (the Time Warner/AOL owned digital advertising specialist and online advertising network). Hugo previously worked in Europe and South America for Coats Viyella and in Europe for Reed Telemedia. The operational centre of 121media, Inc. will remain in the UK if and when it becomes a holding company.

We note with regret that Eric Eichmann, whom we announced recently as executive vice president for operations, will be unable to join us after all, due to pressing family considerations which preclude his relocation from Washington D.C. to New York, where our US head office is located.

Financial review

In the period under review, the Group generated turnover of \$1.17 million against a figure of \$2.61 million for the same period in 2005, while our investment in the reorientation of the business raised losses after taxation to \$4.34 million against a comparative figure for the six months ended 30 June 2005 of \$1.46 million. No dividend is proposed for the period.

In order to provide the Company with the funds to meet short term working capital requirements, Cannacord Adams Limited has today placed 175,054 new common shares in the Company at £11.425, to raise approximately £2 million, before expenses.

Outlook

Whilst we have made very considerable progress in the year to date, investments in the new business model will continue during the rest of 2006. The Board believes that significant revenues should flow from this investment in 2007 and that our anticipated strategic partnerships with ISPs will have a materially beneficial impact on our future financial performance.

We look forward to the future with great enthusiasm and are confident of the long-term prospects for 121Media.

David Svendsen
Chairman
29 September 2006

CHIEF EXECUTIVE'S REPORT

Overview

The results we are presenting today do not reflect the current or future business of 121Media. The desktop advertising delivery model with which 121Media began was right for its time, but in refocusing the business towards behaviourally targeted advertising, we are positioning the Company to enjoy a share of a much larger market. We are also doing this in a way that is both innovative and in line with the wider trends of the marketing industry. The Directors believe that our ISP partnership strategy and development of market-leading contextual advertising tools has the potential to change the nature of web advertising. The volume and diversity of advertising experiences on the web vastly outweigh those of the desktop and, at the same time, the consumer's acceptance of web advertising has ensured its role in the web experience. 121Media's desktop advertising model has been progressively wound down over the last 18 months and was finally switched off at the end of the period under review.

Our PageSense technology

We have made outstanding progress towards our goal of establishing 121Media's PageSense technology as the 'gold standard' in contextual online advertising as well as consumer privacy. The Directors believe that PageSense represents the future of digital advertising. It allows advertisers to show their messages to users based on their online behaviour rather than locking the advertising to fixed content pages. It can rapidly build up profiles rich in lifestyle and demographic data. In the old world of media this knowledge could only be extracted from surveys and questionnaires and inevitably only applied to a small sample of any given audience.

Most advertising today is still sold on the claimed behaviour of those sample groups and then crudely modeled to estimate the behaviour of an entire market. These inaccuracies reduce the potential effectiveness of advertising. 121Media's technology is innovative because it translates the content of a web page into elements which form a profile of interests for the user. Using this profile, the advertising a user sees can be customized to match his interest, greatly boosting response and increasing the value of the media space. This genuine creation of value marks a step-change in the advertising economy. It is a leap forward in sophistication from which we believe shareholders will enjoy considerable growth in value.

Developing a model for partnerships

We are now developing ways to apply our technology in new segments of the online market and deliver even more value to advertisers, media partners and ISPs.

Market dynamics

The Directors believe that the shift in audience attention from traditional media to the online space is continuing to erode the effectiveness of television, newspaper and magazine advertising. Global advertising budgets are continuing to migrate to the online environment, thus ensuring Internet advertising's role at the heart of mainstream marketing communications. In the first six months of this year, US, online advertising revenues were approximately \$7.9 billion, a new record and a 37 per cent. increase over the first half of 2005. In the UK it exceeded £1.3 billion in 2005 and the sector is on track to capture in excess of 10 per cent. of total advertising spend in 2006.

Across Europe it is clear that while each country is at a different point in its change in the media and advertising mix, the shift towards online is unstoppable. The Directors believe that the 14 quarters of record-breaking growth in UK online advertising spend is a robust indication of where other countries will follow. The Directors also believe that the demand for online advertising is yet to be fully exploited, so we expect that global appetite for 121 Media's sophisticated offerings will be strong.

Our products and services; benefits

The adoption of our PageSense technology is designed to bring benefits to all Internet users, from large corporate advertisers to the casual surfer. We are confident that the sophisticated behavioural targeting of the type PageSense makes possible will lend a new relevance to online advertising, improving the Internet browsing experience for consumers and delivering a significantly higher return on investment for advertisers.

For ISPs, PageSense offers a sustainable, scalable incremental revenue source at a time when their existing subscription based model is under heavy pressure from the advent of 'free broadband' offers. The technology boosts an ISP's bottom line by bringing it into the advertising value chain, enabling it to offer its advertisers precise behaviour-based targeting of audiences with an interest in their products.

To the advertising community, PageSense offers more accurate, focused and powerful advertising, reducing wastage and costs as advertisers will be able to develop detailed audience profiles based on real-time Internet surfing. Targeted media plans will deliver greater value for money and an increased return on investment.

For consumers, PageSense promises an improved browsing experience – more relevant advertising, as opposed simply to more advertising – with the potential for an end to irrelevant pop-ups and, over time, lower direct costs for internet access.

The benefits of PageSense are by no means confined to these audiences; web publishers, analysts and advertising agencies will also see significant improvements from the adoption of our technology. We are committed to working with all parties to realise the latent value which we believe exists within the internet business model at all levels.

Strategy

121 Media is a company in transition. The initial product we developed – the desktop model – was part of the then current generation of online advertising tools and techniques. The incredible growth in possibilities in the digital networked markets, however, means that companies like ours must reassess our business model and our focus.

Staff and strategy

2006 has been a year of evolution and change. During the period under review, we have expanded our staffing at both operational and management level, and established larger offices in both London and New York. We are in the process of recruiting further key members for the leadership team and, following this, will continue the recruitment of commercial staff who can take the new products to market.

Summary

121 Media is positioning itself to be a primary beneficiary of the accelerating shift from offline to online advertising. As this market matures, advertisers will gravitate to smarter technology that delivers more value from the media spaces bought.

As the ISP subscription model comes under increasing pressure, a partnership with 121Media offers ISPs the opportunity to take centre stage in the online advertising market.

Withdrawing from the desktop market has had a short-term impact on our profitability but the new technology and partnership strategy represents a far bigger opportunity. I am very confident that we are now well positioned to become one of the leading players in the global online market.

We face the future with a strong sense of optimism and enthusiasm.

Kent Ertugrul
CEO
29th September 2006

Source: Interactive Advertising Bureau (IAB) / PricewaterhouseCoopers (PwC) Internet Advertising Revenues release September 2006.

**Unaudited consolidated Profit and Loss Account
for the period ended 30 June 2006**

	6 months ended 30 June 2006	6 months ended 30 June 2005 (restated)	Year ended 31 December 2005 (restated)
	\$	\$	\$
Group Turnover	1,173,803	2,606,975	5,207,136
Cost of sales	(255,137)	(280,194)	(2,171,486)
Gross Profit	918,666	2,326,781	3,035,650
Sales and administrative expenses			
General	(4,554,033)	(3,693,242)	(6,356,982)
Share based payments	(738,376)	(84,991)	(191,533)
	(5,292,409)	(3,778,233)	(6,548,515)
Operating Loss	(4,373,743)	(1,451,452)	(3,512,865)
Interest receivable and similar income	35,637	8,112	15,695
Interest payable and similar charges	-	(16,016)	(27,962)
Operating loss before taxation	(4,338,106)	(1,459,356)	(3,525,132)
Taxation on loss on ordinary activities	(2,513)	-	-
Group loss on ordinary activities after taxation	(4,340,619)	(1,459,356)	(3,525,132)
Loss per share - Basic (cent)	(0.45)	(0.20)	(0.47)
Diluted loss per share – Basic (cent)	(0.34)	(0.14)	(0.38)

**Unaudited consolidated Balance Sheet
as at 30 June 2006**

	30 June 2006	30 June 2005 (restated)	31 December 2005 (restated)
	\$	\$	\$
Fixed assets			
Tangible assets	419,798	536,877	504,803
	<u>419,798</u>	<u>536,877</u>	<u>504,803</u>
Current assets			
Debtors	554,001	1,432,165	1,975,086
Cash at bank and in hand	3,011,070	754,613	570,533
	<u>3,565,071</u>	<u>2,186,778</u>	<u>2,545,619</u>
Creditors: amounts falling due within one year	<u>(1,688,525)</u>	<u>(458,616)</u>	<u>(1,002,472)</u>
Net current assets	<u>1,876,546</u>	<u>1,728,162</u>	<u>1,543,147</u>
Total assets less current liabilities	<u>2,296,344</u>	<u>2,265,039</u>	<u>2,047,950</u>
Creditors: amounts falling due after one year	<u>(51,025)</u>	<u>-</u>	<u>(76,714)</u>
Net assets	<u><u>2,245,319</u></u>	<u><u>2,265,039</u></u>	<u><u>1,971,236</u></u>
Capital and reserves			
Called up share capital	9,878	7,503	8,190
Share premium account	11,164,574	4,846,365	6,734,601
Other reserves	830,814	780,527	663,576
Profit and loss account	<u>(9,759,947)</u>	<u>(3,369,356)</u>	<u>(5,435,131)</u>
Shareholders' funds	<u><u>2,245,319</u></u>	<u><u>2,265,039</u></u>	<u><u>1,971,236</u></u>

Unaudited Cash flow statement for the period ended 30 June 2006

	6 months ended 30 June 2006	6 months ended 30 June 2005 (restated)	Year ended 31 December 2005 (restated)
	\$	\$	\$
Net cash outflow from operating activities	<u>(1,753,829)</u>	<u>(12,725)</u>	<u>(1,921,916)</u>
Returns on investments and servicing of finance	35,637	(7,904)	(11,956)
Taxation	(2,513)	-	-
Capital expenditure and financial investment	<u>(161,174)</u>	<u>(103,085)</u>	<u>(288,321)</u>
Net cash outflow before financing	<u>(1,881,879)</u>	<u>(123,714)</u>	<u>(2,222,193)</u>
Financing	<u>4,322,416</u>	<u>-</u>	<u>1,914,399</u>
Increase/(decrease) in cash in the period	<u><u>2,440,537</u></u>	<u><u>(123,714)</u></u>	<u><u>(307,794)</u></u>

Notes forming part of the accounts for the period ended 30 June 2006

1 Basis of preparation

The results for the six-month period ended 30 June 2006 are unaudited. They have been prepared on accounting bases and policies that are consistent with those used in the preparation of the financial statements of the Group for the year ended 31 December 2005 and 6 months ended 30 June 2005, except as stated below.

The financial information contained in this report does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial statements for the year ended 31 December 2005 were previously audited. The financial information for the period ended 31 December 2005 differs from the audited financial statements for that year, that has been filed with the Registrar of Companies and that contains an unqualified audit report, because adjustments have been made for Financial Reporting Standard No. 20 (IFRS2). See note 6.

The financial statements have been prepared in US dollars as the majority of the group's trade occurs in this currency.

2 Profit per share

The calculation of the basic earnings per share and diluted earnings per share is based on the loss attributable to ordinary shareholders of \$4,340,619 (2005: \$3,525,132) divided by the weighted average number of shares in issue during the year.

The weighted average number of shares used in the calculations are set out below:

6 months ended 30 June 2006	6 months ended 30 June 2005	Year ended 31 December 2005
Number of Shares	Number of Shares	Number of Shares
9,546,380	7,414,022	7,491,507

3 Reconciliation of operating loss to net cash outflow from operating activities

	6 months ended 30 June 2006 \$	6 months ended 30 June 2005 \$	Year ended 31 December 2005 \$
Operating loss	(4,373,743)	(1,451,452)	(3,512,865)
Depreciation charges	245,976	242,799	560,109
Share & warrant issue/issue (costs)	-	(6,474)	-
Transfers to option reserve	286,732	82,839	203,299
Exchange difference taken to reserves	-	-	(174,221)
Decrease in debtors	1,421,085	1,209,764	566,532
Increase/(decrease) in creditors	666,121	(90,201)	435,230
Net cash outflow from operating activities	(1,753,829)	(12,725)	(1,921,916)

4 Reconciliation of net cash flow to movement in net funds

	6 months ended 30 June 2006 \$	6 months ended 30 June 2005 \$	Year ended 31 December 2005 \$
Increase/(decrease) in cash in the period	2,440,537	(123,714)	(307,794)
Cash inflow/(outflow) from decrease in debt financing	25,689	-	(95,140)
Movement in net funds in the period	2,466,226	(123,714)	(402,934)
Net funds at start of period	475,393	878,327	878,327
Net funds	2,941,619	754,613	475,393

5 Analysis of changes in net funds

	Opening balance 1 Jan 2006 \$	Cash flows \$	Closing balance 30 June 2006 \$
Cash at bank and in hand	570,533	2,440,537	3,011,070
Lease obligations	(95,140)	25,689	(69,451)
Net funds	475,393	2,466,226	2,941,619

6 Share based payments

The group issues equity-settled share-based payments to certain employees and has applied Financial Reporting Standard No. 20 (IFRS2) 'Share-based payments' for the first time.

The cost of employee share-based compensation awards is recognised as an expense. The total amount to be expensed rateably over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of non-market vesting conditions (for example, profitability and sales targets). Non-market vesting conditions are included in the assumptions about the number of options that will eventually vest. This estimate is revised at each reporting date and an adjustment is made to the profit and loss account. Fair value is measured by using the Black-Scholes pricing model, except for options with market based vesting conditions, where a binomial model is used.

Employer's taxes on the share options, comprising employers' national insurance contributions in the UK, are calculated using the market value of the company's shares at the reporting date, and pro-rated over the vesting period of the options.

The comparative results have been adjusted accordingly (*). The charges arising under FRS20 and included in the profit and loss account are:

	6 months ended 30 June 2006 \$	6 months ended 30 June 2005 * \$	Year Ended 31 Dec 2005 * \$
Share option expense	738,376	84,991	191,533

* The adjustments to the comparative results have not been audited.

As per the transitional provisions, the group has applied FRS 20 only to those options granted after 7 November 2002 and that had not yet vested at 1 January 2006.

7 Dividend

The Directors do not propose to pay an interim dividend.

- 8** Copies of this statement will be sent to shareholders and will be available from the Company's UK principal office at Golden Cross House, 8 Duncannon Street, London WC2N 4JF.