

# where content meets connectivity

Telecity Group plc  
Half Year Report 2008





## highlights

- ➔ Revenue up 34.2% to £61.9m (H1 2007: £46.1m)
- ➔ Adjusted EBITDA<sup>(1)</sup> up 62.5% to £16.8m (H1 2007: £10.3m)
- ➔ Adjusted EBITDA margin up to 27.1% (H1 2007: 22.4%)
- ➔ Average revenue per occupied sq.m<sup>(2)</sup> up 22.8% to £1,587 (H1 2007: £1,292)
- ➔ Maiden Profit Before Tax of £7.0m (H1 2007: loss of £3.5m)
- ➔ Cash flow from operating activities of £21.8m (H1 2007: £3.3m)
- ➔ Earnings per share of 4.8p (H1 2007: loss of 2.2p)
- ➔ New state-of-the-art data centres opened in London and Amsterdam bringing significant new capacity online in key markets
- ➔ Significant wins and renewals in the period include Facebook<sup>®(3)</sup>, Verisign, AOL and Toys 'R Us
- ➔ New data centres announced in Paris and Milan to open during 2009

<sup>(1)</sup> Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation and exceptional items.

<sup>(2)</sup> Calculated as the revenue for the period divided by the period end occupied space.

<sup>(3)</sup> Facebook is a registered trademark of Facebook Inc.

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# operational review



**Michael Tobin** Chief Executive Officer



**Brian McArthur Muscroft** Group Finance Director

## The Company and market

TeleticityGroup has had a very successful first half year. Revenue growth is strong, with a significant increase in revenue per square metre<sup>(1)</sup> and an increase in overall utilisation. This growth has been driven by a combination of good existing customer development through the expansion of both Colocation and Value Added Services, and strong levels of new customer acquisition in all our markets.

As reported at the end of 2007, the TeleticityGroup customer base is diverse across a broad range of sectors. This dynamic continues and minimises any as yet unseen potential impact of demand fluctuations from any particular sector. This diversity of demand has been reflected in the new customer agreements signed in the first half of 2008; these customers are representative of both new and established

businesses that are looking to develop and enhance the quality of their data centre infrastructure. Furthermore, customer attrition has remained at the consistently-low levels experienced in the past.

During the period the Group signed a number of important customer renewals, including AOL, ebookers, Universal Pictures and neckermann. The Group has also signed new customer deals with Facebook<sup>®(2)</sup>, Verisign, CSC, and Digiplug. In addition, the new UK Police Central e-crime Unit (PCeU) has chosen to host its information portal in one of the Group's data centres, evidence of the quality and security levels available in TeleticityGroup facilities.

Demand from the digital economy for highly connected data centre environments is growing consistently and is the prevailing

source of overall growth for the Group. Factors driving this demand include the proliferation of digitised content such as video, movies and streaming media over the internet for domestic and business purposes. The Company is also experiencing enhanced demand from the retail and leisure sectors as they seek to maximise the opportunities created by their online presence. The significant growth in the use of increasingly bandwidth-intensive online customer interfaces has resulted in a growing number of contracts from these sectors, including an agreement with Toys 'R Us.

This core demand is being supplemented by increasing interest from the corporate enterprise market. There is a growing trend for this market group to shift its mission-critical back office business applications away from expensive, resource-intensive company-hosted environments to

➔ The first half of 2008 has been very successful for TeleticityGroup. The digital economy continues to drive sustained demand for our services and provides a significant source of growth for the business.

cost-efficient web-based platforms. All of these need to be hosted in premium, highly connected data centres such as those TeleticityGroup offers. The Group has also seen growing interest from the financial sector, a sector to which it has traditionally had little exposure, and is maximising the opportunities this presents.

#### **New capacity**

In the period, to support the Group's continued growth across Europe, new data centres were opened in London and Amsterdam, and the Group announced that it will open a new 3,000 sq.m 5 megawatt facility in Paris in the second half of 2009.

The Group has announced it will open a new data centre in Milan, its second in the city, which will offer approximately 2,000 sq.m and over 2.5 megawatts of customer capacity. The data centre will be ready for service

in the first half of 2009, when the existing Milan facility is expected to reach full utilisation, and will cost approximately €8 million to build.

This new capacity will allow the Company to meet the strong demand it sees for its services across Europe. Continued strong positive cash flows from the business, together with the Group's strong financial position and available financing, allow it to fully fund the forthcoming new build projects including Milan 2, the recently-announced new Paris data centre, and other ongoing and future expansion activities.

#### **Strategy for growth**

The Group's business strategy is to consolidate and grow its position as the premium content and connectivity hub in Europe for organisations to which the hosting of mission critical digital

infrastructure is a key factor in the future success of their businesses.

The Group focuses on four key areas to deliver its growth; expansion of existing customer relationships and new customer acquisition; selling additional value added services; renewing existing contracts towards prevailing market rates and the appropriate acquisition and development of data centre capacity in key markets.

- (1) Calculated as the revenue for the period divided by the period end occupied space
- (2) Facebook is a registered trademark of Facebook Inc.

# operational review

continued

## **Current trading and outlook**

Current trading is strong. Demand for premium, highly connected data centre services continues to grow, while the core market for highly connected, intra-city network independent data centres is still supply constrained, with limited new network independent data centre supply expected to come online in the foreseeable future. With its state-of-the-art data centres and new capacity coming online in central locations in key markets, TeleticityGroup is able to meet this demand and continue to command a premium price

over less-connected facilities in out-of-city sites. These factors combine to contribute to the Group's increase in revenues and profitability ahead of management's expectations.

The strong pipeline of new business, and the Group's new capacity coming online, gives the Board confidence that the Company will continue to lead in a sector that is enjoying positive ongoing growth, enabling the Group to continue to build on the momentum achieved in the first half of the year.

# financial review

➔ To support the continued growth in Europe, the Group will be opening a new facility in Milan which will offer approximately 2,000 square metres and over 2.5 megawatts of customer capacity. The new data centre, the Group's second in the city, will open in the first half of 2009 and follows the recent announcement of a new facility in Paris which will also open in H2 2009.

In the first half of 2008, demand for the Group's services continued to grow in all markets in which it operates. This, along with improvements in pricing and increased sales of Value Added Services, had a positive impact on the Group's financial performance. As a result, the Group can today report its first profit before tax.

The strengthening of the Euro against Sterling has increased the value of both revenues and costs from the overseas businesses, the financial effects of which are detailed below. In addition, the Group has recorded directly in reserves a gain of £4.0m, primarily relating to the translation of the opening balance sheets of the overseas businesses and their long-term intercompany loan balances.

Total revenue for the current period was £61.9m (H1 2007: £46.1m) an increase of 34.2%, 5.2% (£2.4m) of which is due

to the strengthening of the Euro against Sterling. At the period end, occupied space was 38,972 sq.m (H1 2007: 35,683 sq.m) and average revenue per square metre was £1,587 (H1 2007: £1,292).

Revenues from Colocation and Value Added Services have increased by 40.9% and 17.3% respectively. The growth in Value Added Services from H2 2007 to H1 2008 is 8.1%, which has continued the trend set last year. This reflects the Group's continued focus on selling additional services which now represent £15.5m (H1 2007: £13.2m) of the Group's revenues. In the near future it is expected that Colocation revenues will grow more quickly than Value Added Services due to the significant amount of capacity provided by the new builds.

UK and Ireland ('UK&I') revenues totalled £36.7m for the period (H1 2007: £30.0m) an increase of 22.4%. Additional growth was

generated by enhanced sales of Value Added Services along with increasing occupancy at higher average pricing levels.

At the period end, occupied space was 21,117 sq.m (H1 2007: 19,947 sq.m) and average revenue per occupied square metre was £1,740 (H1 2007: £1,510).

Rest of Europe ('RoE') revenues totalled £25.1m for the period (H1 2007: £16.1m), an increase of 56.1%. In addition to the rising sales of Value Added Services in all countries, growth was generated by increasing occupancy at improved pricing levels. At the period end, occupied space was 17,855 sq.m (H1 2007: 15,736 sq.m) and average revenue per occupied square metre was £1,407 (H1 2007: £1,016).

Underlying operating costs, which exclude exceptional items, have increased by £10.5m, 23.4% compared with a revenue

# financial review

continued

increase of 34.2%. £2.0m (4.5%) of the increase is due to the strengthening of the Euro against Sterling. An analysis of the underlying increase in operating costs is as follows:

- Property costs have increased by £1.4m (14.5%) mainly due to rent reviews and service charge increases.
- Electricity costs have increased by £2.0m (25.1%) in-line with increased occupancy, and related Colocation revenues, and movements in power prices. As power is generally recharged to customers this has a limited impact on the profitability of the Group.
- The annual depreciation and amortisation charge has increased by £1.2m (13.4%), the vast majority of which relates to a higher depreciation charge as the Group has continued to invest in its asset base.

- Staff costs have increased by £3.0m (32.4%) as the business continues to grow. In addition to an increase in operational headcount, the higher revenues have resulted in increased commission payments. The IPO of the Group in H2 2007 has resulted in higher staff costs at head office including expenses in respect of share-based payments.
- Other costs have increased by £2.9m (33.1%). Part of the increase is directly related to costs in connection with sales of Value Added Services. In addition, as the Group continues to invest in its asset base there has been an increase in repairs and maintenance costs. The strategy to increase revenues has led to an increase in the sales and marketing expenditure as well as the bad debt provision.

The increase in revenues has generated an Adjusted EBITDA for the half year of £16.8m (H1 2007: £10.3m). The Group's tight control of costs has resulted in an improved EBITDA margin of 27.1% (H1 2007: 22.4%).

Operating exceptional items of £1.2m were incurred during the period in respect of the new builds in London and Amsterdam, which relate to costs such as rent and rates during the build period.

Finance costs have decreased from £2.6m in H1 2007 to £2.2m in H1 2008. During the period, the Group incurred interest on its long-term loans of £1.7m (H1 2007: £2.6m). In addition, the Group incurred adverse foreign exchange differences of £0.3m (H1 2007: £nil) on retranslation of the long-term loan. Other interest costs of £0.2m (H1 2007: £nil) were incurred.

➔ **Cash flows from operating activities increased 18.5m to £21.8m (H1 2007: £3.3m). The strong cash performance is primarily a result of the increased Adjusted EBITDA of £16.8m (H1 2007: £10.3m) and working capital improvements.**

Finance costs have been offset by finance income of £4.0m (H1 2007: £0.9m) including a favourable movement in the fair value of the Group's interest rate swaps of £1.9m (H1 2007: £0.8m). The Group has generated bank and other interest income of £0.4m (H1 2007: £nil) from its increased cash balances. Foreign exchange gains of £1.7m (H1 2007: £nil) were incurred in respect of Euro deposits and retranslation of short and medium term intergroup loans.

Following the Group's first reported profit before tax, the carrying value of its tax assets, mainly trading losses and unclaimed capital allowances in excess of depreciation, has been reviewed. This has resulted in a deferred tax asset of £2.4m being recognised at the half year. Due to the nature of this tax credit, it has been added back when calculating the Group's adjusted earnings per share figure.

Current tax remains a minimal expense for the Group due to the availability of these trading losses and unclaimed capital allowances.

#### **Cash Flow**

Cash flows from operating activities increased 18.5m to £21.8m (H1 2007: £3.3m). The strong cash performance is primarily a result of the increased Adjusted EBITDA of £16.8m (H1 2007: £10.3m) and working capital improvements.

The Group has invested £40.1m (H1 2007: £7.1m) in capital expenditure, £37.7m of which relates to the two new builds and other fit-outs to existing buildings and £2.4m (H1 2007: £1.9m) to general capital expenditure including maintenance and sales capital expenditure.

During the period £3.0m has been repaid in respect of a term loan that forms part of the overall banking facilities (see below).

Under the terms of the agreement £3.0m is due for repayment each six months. Off-setting this, the Group has drawn down £11.2m from the revolving credit facility which has been used to finance capital expenditure.

After investment in capital, the Group has consumed £11.3m of cash during the period (H1 2007: £3.1m) resulting in period end cash balances of £26.3m (H1 2007: £7.2m) which will be used, along with the borrowing facilities described below, to finance the planned capital projects and the working capital needs of the Group.

#### **Financing**

The Group has a medium-term £122.0m financing facility in place, which is held jointly with Barclays Bank and HBOS. The facility, which is not due for renewal until October 2012, comprises a term loan of £27.0m and a revolving credit facility

# financial review

continued

## Financing continued

of £95.0m, £7.0m of which has been used to guarantee lease deposits on certain of the Group's data centres.

This facility, together with the Group's cash balances, provides sufficient financing for all currently planned capital expenditure. Despite the reduced supply in the credit markets, the Group secured this facility at a competitive rate. It is the Group's policy to hedge the interest rate exposure on the majority of the borrowings.

## Balance Sheet

The Group's intangible assets of £47.0m (H1 2007: £46.6m) comprise acquired customer contracts and goodwill that arose during the acquisition of Teleticity, Globix and Redbus. The carrying value of these assets has been reviewed during the period and no impairment is considered necessary. The increase in

value is mainly due to foreign exchange movements.

Capital expenditure of £59.5m (H1 2007: £7.1m) has been incurred during the period. Off-setting these additions is the depreciation charge for the period of £9.8m (H1 2007: £8.6m). As a significant proportion of the Group's assets are denominated in Euros, the strengthening of the Euro has resulted in a foreign exchange gain on Property, Plant and Equipment of £4.5m (H1 2007: £0.2m). This results in a period end carrying value of the Group's Property, Plant and Equipment of £157.2m (H1 2007: £97.5m).

Current trade and other receivables have increased slightly to £28.5m (H1 2007: £27.6m). The increase has been limited to 3.4% despite a 34.2% increase in revenues due to improved working capital management.

Current trade and other payables have increased significantly to £53.2m (H1 2007: £32.8m), the majority of which is due to creditors in respect of the Group's significant capital projects.

Provisions of £7.1m (H1 2007: £6.3m) primarily relate to an onerous lease provision in respect of a property in Munich. A full provision is made in respect of this lease, however the Group continues to pursue options to mitigate the liability.

## Operational and Financial Risks

The Group's operations expose it to a variety of risks. The Directors regularly review these risks and the appropriate steps are taken to reduce or eliminate the risks and mitigate their potential impact. Page 19 of the Group's 2007 Annual Report contained a list and detailed explanation of the principal risks which the Directors considered could affect the Group. The operational risks

**Key Performance Indicators**

	<b>Six months ended 30 June 2008</b>	Six months ended 30 June 2007
Revenue (£'000)	61,861	46,109
Adjusted EBITDA (£'000)	16,752	10,308
Total fitted out space (sq.m)	48,406	46,197
Occupancy (sq.m)	38,972	35,683
Revenue per sq.m <sup>(1)</sup> (£/sq.m)	1,587	1,292

<sup>(1)</sup>Calculated as the revenue for the period divided by the period end occupied space

comprised business disruption risk, technology risk and capital expenditure risk; and the financial risks comprised credit risk, foreign currency risk, liquidity and capital management risk, interest rate risk and cost risk. Although the list was not intended to be an extensive analysis of all risks which may arise in the ordinary course of business or otherwise, in the opinion of the Directors, the risks stated at that time remain the principal risks as at 30 June 2008.

**Key Performance Indicators ('KPI's')**

The Group uses a number of KPI's to measure performance which are set out above. These KPI's have been chosen as they are considered to be the main factors underpinning the Group's performance. The capacity of our existing facilities is a constraining factor to growth, as such the Group monitors both fitted out space and occupancy. In addition, the amount of revenue generated

per square metre is used to measure the income generation of the available space.

On behalf of the Board



**Michael Tobin**  
Chief Executive Officer



**Brian McArthur Muscroft**  
Group Finance Director

# consolidated income statement

	Notes	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000
Continuing operations			
Revenue	4	61,861	46,109
Cost of sales	4	(34,054)	(28,030)
<b>Gross profit</b>		<b>27,807</b>	<b>18,079</b>
Sales and marketing costs		(3,713)	(2,199)
Administrative costs analysed:			
Depreciation and amortisation charges		(10,402)	(9,172)
Operating exceptional items	5	(1,193)	(2,876)
Other administrative costs		(7,342)	(5,572)
Total administrative costs		(18,937)	(17,620)
<b>Operating profit/(loss)</b>	4	<b>5,157</b>	<b>(1,740)</b>
Finance income		4,006	854
Finance costs		(2,172)	(2,615)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>6,991</b>	<b>(3,501)</b>
Income tax credit/(charge)	7	2,404	(48)
<b>Retained profit/(loss) for the period</b>		<b>9,395</b>	<b>(3,549)</b>
<b>Profit/(loss) per share:</b>			
basic (p)	8	4.81	(2.22)
diluted (p)	8	4.79	(2.22)
<b>Adjusted profit/(loss) per share:</b>			
basic (p)	8	4.17	(0.42)
diluted (p)	8	4.16	(0.42)

## Supplementary income statement information

<b>Adjusted EBITDA</b>		<b>16,752</b>	<b>10,308</b>
Operating exceptional items	5	(1,193)	(2,876)
<b>EBITDA*</b>		<b>15,559</b>	<b>7,432</b>
Depreciation charge	9	(9,819)	(8,607)
Intangible asset amortisation charge		(583)	(565)
<b>Operating profit/(loss)</b>		<b>5,157</b>	<b>(1,740)</b>

\* Earnings before interest, taxation, depreciation and amortisation.

# consolidated statement of recognised income and expense

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000
Currency translation differences on foreign currency net		
Investments	3,973	153
<b>Net gain recognised directly in equity</b>	<b>3,973</b>	<b>153</b>
Profit/(loss) for the period	9,395	(3,549)
<b>Total gains/(losses) recognised in period</b>	<b>13,368</b>	<b>(3,396)</b>

# consolidated balance sheet

	Notes	30 June 2008 £'000	31 December 2007 £'000	30 June 2007 £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets		46,976	46,868	46,628
Property, plant and equipment	9	157,213	103,008	97,482
Deferred income taxes	7	2,440	—	—
Derivative financial instruments		1,379	—	699
Trade and other receivables		2,969	2,992	2,466
		<b>210,977</b>	<b>152,868</b>	<b>147,275</b>
<b>Current assets</b>				
Derivative financial instruments		469	—	460
Trade and other receivables		28,512	36,739	27,578
Cash and cash equivalents		26,310	36,961	7,153
		<b>55,291</b>	<b>73,700</b>	<b>35,191</b>
<b>Total assets</b>		<b>266,268</b>	<b>226,568</b>	<b>182,466</b>
<b>Capital and reserves</b>				
Share capital	10, 11	396	396	330
Share premium account	11	176,637	176,637	102,456
Other reserves	11	4,369	316	(328)
Retained losses	11	(17,772)	(26,993)	(22,929)
<b>Total equity</b>	11	<b>163,630</b>	<b>150,356</b>	<b>79,529</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Borrowings		33,264	25,531	59,377
Obligations under finance leases		1,137	990	1,093
Derivative financial instruments		—	77	—
Provisions for other liabilities and charges		6,478	5,994	5,486
		<b>40,879</b>	<b>32,592</b>	<b>65,956</b>
<b>Current liabilities</b>				
Trade and other payables		53,203	36,060	32,764
Borrowings		7,265	6,416	3,105
Obligations under finance leases		204	278	253
Derivative financial instruments		474	39	—
Provisions for other liabilities and charges		613	827	859
		<b>61,759</b>	<b>43,620</b>	<b>36,981</b>
<b>Total liabilities</b>		<b>102,638</b>	<b>76,212</b>	<b>102,937</b>
<b>Total equity and liabilities</b>		<b>266,268</b>	<b>226,568</b>	<b>182,466</b>

# consolidated cash flow statement

	Note	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000
<b>Cash inflow from operating activities</b>	12	<b>21,778</b>	3,286
Interest received		445	48
Interest paid		(1,709)	(1,868)
Interest element of finance lease payments		(38)	(36)
Taxation paid		(36)	(48)
<b>Net cash inflow from operating activities</b>		<b>20,440</b>	1,382
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(40,058)	(7,135)
<b>Net cash used in investing activities</b>		<b>(40,058)</b>	(7,135)
<b>Cash flows from financing activities</b>			
Net proceeds on issue of ordinary share capital		135	119
Repayment of obligations under finance leases		(9)	(82)
Proceeds from borrowings		11,153	3,641
Repayment of borrowings		(3,000)	(1,000)
<b>Net cash inflow from financing activities</b>		<b>8,279</b>	2,678
<b>Net decrease in cash and cash equivalents</b>		<b>(11,339)</b>	(3,075)
Effects of foreign exchange rate change		688	71
<b>Cash and cash equivalents at beginning of period</b>		<b>36,961</b>	10,157
<b>Cash and cash equivalents at end of period</b>		<b>26,310</b>	7,153

# notes to the financial statements

## 1. General information

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is Masters House, 107 Hammersmith Road, London, W14 0QH.

The Company has its primary listing on the London Stock Exchange.

This condensed consolidated half year financial information, which comprises the Operational Review, the Financial Review, the Consolidated Income Statement, the Consolidated Statement of Total Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and notes 1 to 12 to the financial statements, does not comprise statutory accounts within the meaning of section 240 of the Companies Act 1985 (section 434 of the Companies Act 2006). Statutory accounts for the year ended 31 December 2007 were approved by the Board of directors on 7 March 2008 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 237 of the Companies Act 1985 (section 498 of the Companies Act 2006).

This condensed consolidated half year financial information has been reviewed, not audited.

## 2. Basis of preparation

This condensed consolidated half year financial information for the six months ended 30 June 2008 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The condensed consolidated half year financial information, which includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with IFRSs as adopted by the European Union.

This condensed consolidated half year financial information, including the responsibility statement in the preceding paragraph made in accordance with DTR 4.2.10 (1), was approved on behalf of the Board by Michael Tobin and Brian McArthur Muscroft on 29 July 2008.

## 3. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial period beginning 1 January 2008, but are not currently relevant for the Group.

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'.
- IFRIC 12, 'Service concession arrangements'.
- IFRIC 14, 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial period beginning 1 January 2008 and have not been early adopted:

- IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail.
- IAS 23 (amendment), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group as the Group currently applies a policy of capitalising borrowing costs that are directly attributable to the construction of capital assets.
- IFRS 2 (amendment), 'Share-based payment', effective for annual periods beginning on or after 1 January 2009. This amendment is not expected to have a material impact on the Group due to the number of shares under option relating to the Group's SAYE schemes.

# notes to the financial statements

continued

## 3. Accounting policies continued

- ⊕ IFRS 3 (amendment), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.
- ⊕ IAS 1 (amendment), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. Management is in the process of evaluating any necessary changes to the accounts under the revised disclosure requirements of this standard.
- ⊕ IAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to IAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group does not have any puttable instruments.
- ⊕ IFRIC 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. Management is evaluating the effect of this interpretation on its revenue recognition.

## 4. Segmental information

### (a) Primary reporting format - geographic segments

At 30 June 2008, the Group is organised into two main geographic segments: the United Kingdom ('UK') and Ireland and the Rest of Europe. The segment results are as follows:

	Six months ended 30 June 2008			Six months ended 30 June 2007		
	UK and Ireland £'000	Rest of Europe £'000	Total £'000	UK and Ireland £'000	Rest of Europe £'000*	Total £'000
Revenue	36,747	25,114	61,861	30,020	16,089	46,109
Cost of sales	(20,789)	(13,265)	(34,054)	(18,267)	(9,763)	(28,030)
Gross profit	15,958	11,849	27,807	11,753	6,326	18,079
Depreciation and amortisation charges	(4,946)	(5,456)	(10,402)	(4,593)	(4,579)	(9,172)
Operating exceptional items	(613)	(580)	(1,193)	(534)	218	(316)
Other operating expenses	(5,581)	(5,474)	(11,055)	(5,192)	(2,579)	(7,771)
	4,818	339	5,157	1,434	(614)	820
Unallocated exceptional items			–			(2,560)
Operating profit/(loss)			5,157			(1,740)
Finance income			4,006			854
Other finance costs			(2,172)			(2,615)
Profit/(loss) before tax			6,991			(3,501)
Income tax			2,404			(48)
Profit/(loss) for the period			9,395			(3,549)
Segment assets	141,986	109,547	251,533	105,480	75,318	180,798
Unallocated assets			14,735			1,668
Total assets			266,268			182,466
Segment liabilities	(27,365)	(30,678)	(58,043)	(19,303)	(17,694)	(36,997)
Unallocated liabilities			(44,595)			(65,940)
Total liabilities			(102,638)			(102,937)
Capital expenditure	30,385	9,673	40,058	2,972	4,163	7,135

Segment assets consist primarily of property, plant and equipment, intangible assets, trade and other receivables and cash and cash equivalents. Segment liabilities comprise trade and other payables and provisions for other liabilities and charges. Unallocated amounts comprise items such as Group borrowings, deferred tax assets and derivative financial instruments.

\*The comparative information has been re-presented to allocate central costs across the two segments. Previously central costs had been allocated entirely to UK and Ireland. The information in respect of the current period has been presented on this basis.

**4. Segmental information** continued**(b) Secondary reporting format - business segments**

	<b>Six months ended 30 June 2008 £'000</b>	Six months ended 30 June 2007 £'000
Revenue		
Colocation	<b>46,389</b>	32,915
Value Added Services	<b>15,472</b>	13,194
	<b>61,861</b>	46,109

**5. Exceptional items**

Exceptional items comprise:

	<b>Six months ended 30 June 2008 £'000</b>	Six months ended 30 June 2007 £'000
Costs in respect of new builds	<b>1,193</b>	—
Transaction-related expenses	—	1,965
Integration costs	—	1,142
Release of provision for onerous leases	—	(375)
Debt restructuring costs	—	144
	<b>1,193</b>	2,876

The costs in respect of new builds comprise rents, rates and other overhead costs in respect of the Group's three data centre projects, Powergate, Amsterdam 4 and Paris 3. Such costs are classified as exceptional during the build phase.

In the prior period, the transaction related expenses arose during the Group's Initial Public Offering and relate mainly to legal and professional fees. Integration costs, including redundancy costs, were incurred following the acquisitions of Redbus Interhouse plc and Globix Holdings (UK) Limited. The release of provisions for onerous leases relate to a lease over a property in Munich and a property in London. During the period, the estimate of the discounted future amounts payable on these properties was reduced.

**6. Expenses by nature**

	<b>Six months ended 30 June 2008</b>			Six months ended 30 June 2007		
	<b>Adjusted* £'000</b>	<b>Exceptional £'000</b>	<b>Total £'000</b>	Adjusted* £'000	Exceptional £'000	Total £'000
Property costs	<b>11,291</b>	<b>1,193</b>	<b>12,484</b>	9,857	(375)	9,482
Electricity costs	<b>10,149</b>	—	<b>10,149</b>	8,110	—	8,110
Depreciation and amortisation charges	<b>10,402</b>	—	<b>10,402</b>	9,172	—	9,172
Staff costs	<b>12,160</b>	—	<b>12,160</b>	9,184	289	9,473
Other costs	<b>11,509</b>	—	<b>11,509</b>	8,650	2,962	11,612
	<b>55,511</b>	<b>1,193</b>	<b>56,704</b>	44,973	2,876	47,849

\*adjusted for exceptional items.

**7. Income tax credit/(charge)**

Following the Group's first reported profit before tax, the carrying value of its tax assets, mainly trading losses and unclaimed capital allowances in excess of depreciation, has been reviewed. This has resulted in a net deferred tax asset of £2,440,000 being recognised at the half year and a corresponding credit to income tax.

# notes to the financial statements

continued

## 8. Profit/(loss) per share – basic and diluted

Basic profit/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of Ordinary shares in issue during the period.

	<b>Six months ended 30 June 2008</b>	Six months ended 30 June 2007*
Profit/(loss) attributable to equity holders of the Company (£'000)	<b>9,395</b>	(3,549)
Weighted average number of shares in issue ('000)	<b>195,368</b>	160,188
Basic profit/(loss) per share (p)	<b>4.81</b>	(2.22)

\*The comparative information has been re-stated following the capital restructure described in note 10.

Diluted profit/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of Ordinary shares in issue during the period adjusted for the weighted average effect of share options outstanding during the period.

	<b>Six months ended 30 June 2008</b>	Six months ended 30 June 2007
Profit/(loss) attributable to equity holders of the Company (£'000)	<b>9,395</b>	(3,549)
Weighted average number of shares in issue ('000)	<b>196,032</b>	160,188
Diluted profit/(loss) per share (p)	<b>4.79</b>	(2.22)

\*The comparative information has been re-stated following the capital restructure described in note 10.

The adjusted profit/(loss) per share is presented as the Directors consider it provides an additional indication of the underlying performance of the Group. Adjusted profit/(loss) per share is calculated by adding back the exceptional items (note 5) and the deferred tax credit (note 7) to the retained profit/(loss) for the period as shown below:

	<b>Six months ended 30 June 2008 £'000</b>	Six months ended 30 June 2007 £'000
Profit/(loss) attributable to equity holders of the Company	<b>9,395</b>	(3,549)
Add back exceptional items	<b>1,193</b>	2,876
Add back deferred tax credit	<b>(2,440)</b>	—
Adjusted profit/(loss) attributable to equity holders of the Company	<b>8,148</b>	(673)

**9. Property, plant and equipment**

	Leasehold improvements £'000	Plant and machinery £'000	Office equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2007	72,603	92,315	5,887	170,805
Exchange differences	(90)	323	8	241
Additions	3,162	3,439	535	7,136
<b>At 30 June 2007</b>	<b>75,675</b>	<b>96,077</b>	<b>6,430</b>	<b>178,182</b>
At 1 January 2008	93,656	96,018	7,387	197,061
Exchange differences	7,514	1,200	233	8,947
Additions	57,346	2,027	144	59,517
<b>At 30 June 2008</b>	<b>158,516</b>	<b>99,245</b>	<b>7,764</b>	<b>265,525</b>
<b>Depreciation</b>				
At 1 January 2007	37,891	30,482	3,633	72,006
Exchange differences	(60)	143	4	87
Charge for the period	2,790	5,279	538	8,607
<b>At 30 June 2007</b>	<b>40,621</b>	<b>35,904</b>	<b>4,175</b>	<b>80,700</b>
At 1 January 2008	54,423	34,724	4,906	94,053
Exchange differences	3,615	662	163	4,440
Charge for the period	7,425	1,802	592	9,819
<b>At 30 June 2008</b>	<b>65,463</b>	<b>37,188</b>	<b>5,661</b>	<b>108,312</b>
<b>Net book value</b>				
<b>At 30 June 2008</b>	<b>93,053</b>	<b>62,057</b>	<b>2,103</b>	<b>157,213</b>
At 31 December 2007	39,233	61,294	2,481	103,008
At 30 June 2007	35,054	60,173	2,255	97,482

The Group has capital commitments in respect of in progress projects at the period end of £25,001,000 (31 December 2007: £31,505,000; 30 June 2007: £464,000).

# notes to the financial statements

continued

## 10. Share capital

	30 June 2008 £'000	31 December 2007 £'000	30 June 2007 £'000
<b>Authorised</b>			
Nil 'A' (31 December 2007: nil; 30 June 2007: 10,000,000) shares of £0.01 each	—	—	100
Nil 'B' (31 December 2007: nil; 30 June 2007: 10,000,000) shares of £0.01 each	—	—	100
Nil 'C' (31 December 2007: nil; 30 June 2007: 16,000,000) shares of £0.01 each	—	—	160
Nil 'D' (31 December 2007: nil; 30 June 2007: 490,100) shares of £0.01 each	—	—	5
Nil 'E' (31 December 2007: nil; 30 June 2007: 1,525,000) shares of £0.01 each	—	—	15
Nil 'F' (31 December 2007: nil; 30 June 2007: 610,000) shares of £0.01 each	—	—	6
Nil Ordinary (31 December 2007: nil; 30 June 2007: 61,374,900) shares of £0.01 each	—	—	614
496,431,508 Ordinary (31 December 2007: 496,431,508; 30 June 2007: nil) shares of £0.002 each	993	993	—
	<b>993</b>	<b>993</b>	<b>1,000</b>

	30 June 2008 £'000	31 December 2007 £'000	30 June 2007 £'000
<b>Allotted</b>			
Nil 'A' (31 December 2007: nil; 30 June 2007: 10,000,000) shares of £0.01 each	—	—	100
Nil 'B' (31 December 2007: nil; 30 June 2007: 10,000,000) shares of £0.01 each	—	—	100
Nil 'C' (31 December 2007: nil; 30 June 2007: 11,291,709) shares of £0.01 each	—	—	113
Nil 'E' (31 December 2007: nil; 30 June 2007: 1,165,728) shares of £0.01 each	—	—	12
Nil 'F' (31 December 2007: nil; 30 June 2007: 475,213) shares of £0.01 each	—	—	5
198,092,373 Ordinary (31 December 2007: 198,092,373; 30 June 2007: nil) shares of £0.002 each	396	396	—
	<b>396</b>	<b>396</b>	<b>330</b>

The Ordinary shares carry no right to fixed income and each Ordinary share carries one vote at general meetings.

On 19 October 2007, the shareholders of the Company passed resolutions to sub-divide and re-classify each of the classes of issued share capital to Ordinary shares of £0.002. The shares in issue at that time along with the number of Ordinary shares into which they were converted is shown below:

Class of share	Number of previous class of shares (‘000)	Number of Ordinary shares (‘000)
A	10,000	50,000
B	10,000	50,000
C	11,292	56,459
E	1,166	3,166
F	475	1,488
		<b>161,113</b>

During the period 170,000 shares were issued following the exercise of share options. All shares were issued from the Company's Employee Benefit Trust ('EBT').

**11. Statement of changes in equity**

	Share capital £'000	Share premium account £'000	Retained losses £'000	Own shares £'000	Cumulative translation reserve £'000	Total £'000
At 1 January 2007	325	102,342	(19,476)	—	(481)	82,710
Loss for the period	—	—	(3,549)	—	—	(3,549)
Credit to equity for share-based payments	—	—	96	—	—	96
Currency translation differences on foreign currency net investments	—	—	—	—	153	153
Issue of shares	5	114	—	—	—	119
<b>At 30 June 2007</b>	<b>330</b>	<b>102,456</b>	<b>(22,929)</b>	<b>—</b>	<b>(328)</b>	<b>79,529</b>
At 1 January 2008	396	176,637	(26,993)	(4,447)	4,763	150,356
Profit for the period	—	—	9,395	—	—	9,395
Credit to equity for share-based payments	—	—	300	—	—	300
Currency translation differences on foreign currency net investments	—	—	—	—	3,973	3,973
Fair value movement on cash flow hedge	—	—	(474)	—	—	(474)
Issue of shares	—	—	—	80	—	80
<b>At 30 June 2008</b>	<b>396</b>	<b>176,637</b>	<b>(17,772)</b>	<b>(4,367)</b>	<b>8,736</b>	<b>163,630</b>

Own shares held by the Group represent 2,632,000 (2007: nil) shares in Teleticity Group plc. All shares are held by the EBT.

The EBT is a discretionary trust for the benefit of employees and the shares held are used to satisfy some of the Group's obligations to employees for share options and long-term incentive plans.

Currency translation differences on foreign currency net investments arise from the retranslation of the net investments in overseas subsidiaries, including long-term inter-company loans which are considered part of the Group's investment in its subsidiaries.

**12. Cash flow from operating activities**

Reconciliation of profit/(loss) on ordinary activities before taxation to net cash inflow from operating activities:

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000
Profit/(loss) on ordinary activities before taxation	6,991	(3,501)
Add finance costs	2,172	2,615
Less finance income	(4,006)	(854)
Depreciation charge	9,819	8,607
Intangible asset amortisation	583	565
Share-based payments	300	96
Movement in receivables	3,118	(1,556)
Movement in payables	2,758	(1,757)
Movement in provisions	(198)	(825)
Exchange movement	241	(104)
<b>Net cash inflow from operating activities</b>	<b>21,778</b>	<b>3,286</b>

# independent review report

to Teledy Group plc

## Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008, which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Recognised Income and Expense, Consolidated Cash Flow Statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

## Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

## PricewaterhouseCoopers LLP

Chartered Accountants, London  
29 July 2008

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Tony Hunter

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