COMPANY NO: 3819054

Annual Report & Accounts 2004

TeleCity

Nurturing future growth

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Highlights

- Total revenue increased by 10% to £25.8m
- Fourth quarter revenue of £7.0m, an increase of 20% compared to prior year
- Full year EBITDA increased by 63% to £1.9m before exceptional items
- Retained loss improved by 29% to £6.8m
- Operating cash flow positive in the fourth quarter and, before exceptional items, operating cash flow positive for the full year
- Fully-funded following net £7.9m from fundraising
- 600th customer signed, a 32% increase over 2003
- Investment in Paris to increase capacity there by 60%

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www.telecity.com

TeleCity is a leading independent provider of data centre services in Europe, operating from nine state-of-the-art technical facilities across six European markets. These secure, controlled environments are staffed by highly skilled engineers and provide access to over 250 telecommunications and ISP networks.

TeleCity's customers are typically organisations which require the very best environments and on-site supervision to support their information technology and network infrastructure. Over six hundred businesses and other organisations use TeleCity's sites to operate their on-line activities, run business continuity and production environments and house critical back-office systems.

Owning fit-for-purpose data centre assets is only part of the picture. TeleCity's unique position in the marketplace is also due to the skills of its engineers, the processes and procedures in place, combined with the availability of unrivalled connectivity and a range of value-added support services in all of the Company's facilities.

Customers:

- DataPipe
- Electricity Supply Board (Ireland)
- Fujitsu
- Positive Internet
- Sony Computer Entertainment Europe
- Synstar
- T-Systems
- TeliaSonera
- Tullet Liberty
- UK Dept. for Education & Science
- Xpedite
- Zen Internet

Services:

- Data centre services
- Managed bandwidth & connectivity
- Backup, recovery & data storage
- Monitoring & maintenance
- Managed security
- Migration

Locations:

- Amsterdam (2)
- Dublin
- Frankfurt
- London (2)
- Manchester
- Paris
- Stockholm

Chairman's statement

Solid grounding...

"The business made significant progress in a number of different areas and, as the consistent improvement continues, I believe that 2004 will be remembered as the year in which we saw TeleCity's recovery completed and a new, re-vitalised company emerge."

Michael Hepher, Chairman

2004 was a breakthrough year for TeleCity

The business made significant progress in a number of different areas and, as the consistent improvement continues, I believe that 2004 will be remembered as the year in which we saw TeleCity's recovery completed and a new, re-vitalised company emerge.

First, TeleCity was able to report revenue growth for the first time in three years. In 2002 and 2003, the improved sales performance was offset principally by the effects of existing customers downsizing their commitments. However, in 2004, we finally saw the revenue impact of new sales overtake the impact of churn, with revenues of £25.8m representing a 10% increase over 2003's performance of £23.5m. The fourth quarter revenue of £7.0m was the largest in the Company's history.

Second, the Company was able to continue improving its profitability. The fourth quarter EBITDA performance of £0.6m was once again a record for the Company and EBITDA for the year stood at £1.9m before exceptional items, which represented a 63% improvement over the £1.1m EBITDA in 2003.

Third, we achieved the target set at the start of the year to become operationally cash-flow positive by the fourth quarter. This was an important milestone for the Company as it demonstrated the underlying profitability of our business model. Moreover, the share placing and open offer undertaken in April attracted new shareholders to the business, improving the cash position by a net £7.9m and allowing us to exit from existing overdraft arrangements.

Fourth, and perhaps most importantly, the number of customers served rose to more than 600 across Europe, with 40% of these being organisations in the enterprise, public, media and content sectors. This, coupled with the level of value-added services required by these end-users, provides firm evidence that TeleCity's market is not limited to the growth in demand for simple colocation space from telecommunications and Internet service providers.

...improving yields

TeleCity's sites provide the ideal location for many differing types of businesses, ranging from on-line transaction processing to the housing of corporate IT infrastructure.

Core capabilities: The Company has addressed the needs of both the telecommunications market and the enterprise market, where the demand for high quality data centre space combined with associated services and solutions is large, growing and untapped.

Other important events in 2004 included: the completion of the EsaT transaction at the Dublin site, making this the seventh out of TeleCity's nine sites to become EBITDA positive; significant progress in Paris with TeliaSonera, where we now house the largest on-line gaming platform in Europe, and as a consequence of that success, the initiation of the Company's first capacity expansion investment for four years.

Exceptional items for the year totalled £2.1m following a prudent re-assessment of the potential costs associated with exiting the remainder of the lease in Munich. The full year retained loss of £6.8m represents a 29% improvement from the £9.5m loss in 2003.

In addition, since the end of the year, the Board announced its intention to transfer the listing of the Company's ordinary shares from the Official List of the United Kingdom Listing Authority to AiM in April 2005. The Board believes that a listing on AiM is more appropriate for the Company's size and stage of development, and will result in a reduction in the cost of complying with continuing obligations. It will also enable the Company to move more quickly should any acquisition or other development opportunities arise in the future.

In September the Board were pleased to announce the appointment of Alan Cornish to the Board as a non-executive Director and Chairman of the Remuneration Committee.

2004 was an excellent year for TeleCity and the Board believes that the Company is well on track to meet management's positive expectations of delivering further growth and becoming free cash flow positive as a result of consistent and improving performance across the business. The promising outlook is largely due to the repositioning of the Company's core capabilities over the last two years enabling it to address the needs of both the telecommunications market and the enterprise market, where the demand for high quality data centre space combined with associated services and solutions is large, growing and untapped.

Michael Hepher, Chairman

Increasing diversity...

2004 was a good year for TeleCity with further increases in customer numbers and new business sales together with growth in revenue and EBITDA performance. The achievement of positive operating cash flows in the fourth quarter is a very significant milestone for the Company which further endorses the positive momentum in the business.

Rick Hudson, Chief Executive

Results

2004 was a good year for TeleCity as the Company began to realise the benefits of the strategy, embarked upon two years ago, to extend its portfolio of services and target markets. New business sales of £7.8m (annualised) in the year were 18% up on 2003.

Not only was the Company able to continue to deliver improved profitability at the EBITDA level, but, significantly, it was able to demonstrate top-line growth for the first time since the bursting of the Internet bubble in 2001. Total revenues for the year grew by 10% to £25.8m and EBITDA improved by 63% to £1.9m (before exceptional items). 86% of TeleCity's revenues are recurring revenues generated from approximately 1,000 contracts with terms varying between one and ten years. At the end of 2004, the average length of a TeleCity contract was two years and seven months.

The cash position of the Company also improved significantly, with the injection of £7.9m as a result of the successful Firm Placing and Placing and Open Offer in April in addition to the business becoming cash flow positive at the operating level in the fourth quarter of 2004.

TeleCity's client base grew to over 600 in 2004, with approximately half of the new customers coming from the enterprise and content sectors.

Customers

The Company continued to expand its client base in 2004 with over 140 new accounts added during the year. This takes the number of companies served by TeleCity to over 600. Over half of these new accounts are organisations outside the Company's traditional telecommunications and ISP markets. In the fourth quarter of 2004, 31% of revenue came from enterprises, integrators, public sector organisations and 'content' companies. Representative contracts in these new sectors include the UK Department for Education and Science, Virgin Wines, Suffolk County Council, Xpedite and the Electricity Supply Board in Ireland.

TeleCity has a growing number of direct relationships with clients but the full population of users of TeleCity sites is even more extensive. For example, in 2004, TeleCity in Paris helped TeliaSonera to secure the hosting of the largest on-line gaming platform in Europe for one of their customers. Similarly in The Netherlands, TeleCity became host to IC&S B.V. whose clients include Allianz N.V. and the on-line publisher SanomaUitgevers, and host to De Hypotheker, the leading Dutch mortgage broker, through the Company's relationship with Simac. In addition, an agreement with SURFnet, the Dutch national research network organisation was signed, which gave TeleCity access to the further education market.

The Company has successfully extended its approach to new market sectors without neglecting its traditional business. TeleCity remains the market leader in the ISP and telecommunications sector across Europe and serving this core sector remains a top priority. After the year-end the Company announced that TeleCity in Dublin would host the Irish Internet Exchange which means that the Company now houses the major Internet exchanges in each of its European locations.

Services

TeleCity's core value proposition is in providing a resilient environment for its clients' network and IT infrastructure. In 2004, the service portfolio continued to develop, with the addition of services that support and supplement the main data centre capability. Over 45% of new business won in the year related to these additional services (i.e. other than the provision of space and power) and as the revenue effect of these new contracts flows through they will become an increasingly significant element of the business, representing 26% of TeleCity's revenues in 2004. In the third quarter the Company launched its international LAN extension service, which links its sites in Frankfurt, Paris, London and Amsterdam, and implemented the Company's first customer on this network.

TeleCity's performance in 2004 has also confirmed an important change in the way in which the Company's contracts are now growing over time. Historically, TeleCity sold space contracts which did not change over the contract's duration. Whereas today, in the new services model, the contracts and revenues grow as the client's business grows. Further, clients in the new enterprise, public and content sectors are more inclined to contract TeleCity to provide value-added and ancillary services in addition to the provision of basic space and power.

...reaping benefits

www.telecity.com

Operations

Reflecting the increase in demand for TeleCity space, at the end of 2004 the Company initiated its first capacity expansion programme since 2000. This was the commencement of a £1.3m development of a further 5,000 ft^2 in Paris, with space starting to come on stream in the first quarter of 2005.

At the end of the year, TeleCity had a total fitted capacity of 285,000 ft^2, of which 54% had been sold or utilised. In addition, a further 52,000 ft^2 is available for fit-out.

The way in which TeleCity data centres are managed has always been a key differentiator for the Company as well as a source of pride. Recognition of the need for independent certification when addressing the enterprise and public sectors led the Company to embark upon a quality certification programme in the fourth quarter of 2004. To date, TeleCity's UK, Dutch, Swedish and German operations are all ISO 9001:2000 certified, and the process of gaining certification for all sites to both the ISO 9001 and ISO 17799 international standards continues.

The significant increase in new business and all of the other improvements in performance made in the year were achieved without increasing the headcount above the 165 at the start of the year. The commitment and enthusiasm of TeleCity's employees, together with their focus on customer service and quality, is seen as a principal component of the Company's winning service proposition, and there remains a full commitment to maintaining and building on this strength moving forward. This was reflected in the results of the 2004 TeleCity customer survey which showed that the Company maintained a 97% satisfaction rating across all sectors.

Outlook

The Company's overall performance in 2004 has confirmed its position as a leading independent player in the European data centre market. The Company has shown that its core assets and services are in demand from enterprises, media and public sector organisations as well as telecommunications and Internet service providers. Independent market research estimates that the market for data centre services from these new sectors will grow between 20% and 30% per annum over the next few years whilst demand from the traditional sectors is likely to grow by up to 5%. TeleCity is very well placed to benefit from the market opportunities and changing industry dynamics as they arise in 2005.

The Board is not complacent and recognises that there is still much to do, however it is confident that the encouraging trajectory of the financial results will continue, with the aim being to reach positive free cash flow early in 2006.

Rick Hudson

Rick Hudson, Chief Executive

Stimulating growth...

"Quarterly EBITDA, before exceptional items, has now improved in each of fourteen consecutive quarters."

Trading results

In the year to 31 December 2004, turnover of £25.8m increased by 10% compared to £23.5m in 2003. Almost all of this increase came from growth of the contracted and recurring turnover from customer contracts with terms of more than one year. Recurring turnover increased by 11% to £22.2m from £20.0m in 2003. Non-recurring turnover, comprising principally of the value of installation fees and ad hoc support services, increased by 4% to £3.6m.

Before exceptional items, the Group achieved a 63% increase in profitability at the EBITDA level. EBITDA for the year of £1.9m compared to a maiden positive £1.1m EBITDA in 2003. Quarterly EBITDA, before exceptional items, has now improved in each of fourteen consecutive quarters, from a £3.7m loss in Q2 2001 to a £0.6m profit in Q4 2004.

The operating loss of £6.4m has improved from the £7.6m loss in 2003, reflecting both the EBITDA improvement and a reduction in depreciation following the disposal of fixed assets in Dublin. The 29% reduction in the retained loss from £9.5m to £6.8m in addition reflects the substantial reductions in exceptional items.

Exceptional items	2004 £'000	2003 £'000
Costs and provisions in respect of onerous leases	(2,100)	(1,504)
Redundancy costs incurred	–	(190)
Exceptional operating items	**(2,100)**	**(1,694)**
Provision for loss on sale of fixed assets	–	(1,410)
Exceptional items	**(2,100)**	**(3,104)**

Munich

Discussions with the landlord of the onerous Munich lease have continued during the year. Progress has been disappointingly slow and at the year-end management reassessed its estimate of likely future costs to be incurred in securing an exit or full sub-let. A further provision of £2.1m is reflected in the profit and loss account, being the estimated discounted future costs of achieving what is anticipated to be a gradual and progressive exit.

Net interest payable

At the beginning of 2004 the Group had a secured overdraft facility of £2.5m, of which £815,000 was drawn down and included in creditors payable within one year. On 28 April 2004, following receipt of the proceeds from the Firm Placing and Placing and Open Offer, this facility was cancelled. The costs associated with the arrangement of the overdraft facility and a secured guarantee by 3i Group plc amounting to £363k (2003: £334k) have been included within net interest payable, in so far as they relate to the period. The net interest payable also includes an amount payable of £70k (2003: £70k) in respect of finance leases, and a charge of £156k (2003: £151k) relating to the effect of amortising the discount on the provision for reinstatement costs.

Taxation

The tax effect of the unrecognised tax losses for the year amounted to £1.5m (2003: £3.1m), bringing the cumulative total to £21.9m (2003: £20.4m). These losses have been carried forward to be offset against future taxable profits.
In consultation with our advisers, we continually review the tax

Josh Joshi, Finance Director

status of the Group and of each of the individual subsidiaries to ensure that the taxation position is appropriately managed and opportunities are taken for utilising losses where they arise.

Cash and cash flow

Cash balances at the beginning of the year were £2.2m, net of the bank overdraft and including £2.5m of restricted cash set aside in deposit accounts to support bank guarantees provided to certain of the Company's landlords. At 31 December 2004, cash balances totalled £8.3m and included £2.2m of restricted cash set aside in deposit accounts. The cash balances have been replenished following the completion of the Firm Placing and Placing and Open Offer of 69,230,769 new ordinary shares at 13p per share, raising £7.9m net of expenses.

Operating cash outflows in the year were £1.1m (2003: £3.5m), an improvement of 69%, which includes £1.3m (2003: £2.3m) of exceptional cash outflows relating principally to the Munich lease. Operating cash flows for Q4 2004 were a positive £0.6m, a milestone in the history of the Company. Before exceptional items, the business achieved an overall positive operating cash flow of £0.2m (2003: £1.2m cash outflow), again a significant milestone reflecting the improvements in the underlying business.

Capital expenditure was £1.5m in the year (2003: £0.6m). As at the year-end, the Board has also approved an expansion programme costing approximately £1.3m commencing in 2005 to fit out a further 5,000 ft^2 of space at the Paris site.

Treasury management

It is the Group's policy to raise finance when required for its capital expenditure and working capital requirements through a range of financial instruments comprising both equity shares and debt instruments.

At 31 December 2004 the Group had outstanding finance leases of £1.3m (2003: £1.3m) and a loan of £0.1m (2003: £0.1m). Otherwise, the Company was entirely financed through equity share capital. The Group holds cash and short-term deposits to manage its day-to-day liquidity requirements, and various items such as trade debtors and trade creditors that arise directly from its operations.

The Group has not entered into any derivative transactions relating to interest rates. Throughout the period under review, the Group's policy has been that no trading in financial instruments shall be undertaken.

The most significant financial risks faced by the Group are foreign currency risk, interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and these policies are summarised as follows.

Foreign currency risk

The Group faces currency exposures on the translation of the *trading results and net assets of its overseas subsidiaries.* Following a review of the options available in respect of the translation risks on trading results and net assets, the Group has not undertaken to hedge these exposures. The Group hedges against the risks arising from transactions in foreign currencies by entering into forward foreign currency contracts where appropriate.

...enhancing returns

2004 saw significant improvements in the financial health of the business with growth in revenue and EBITDA, improvement in operating losses, a re-structured balance sheet and the achievement of positive cash flow from operations.

Interest rate risk

The Group's current exposure to interest rate risk is on cash and short-term deposits. A proportion of the short-term deposits may be held at fixed-term rates for periods up to 6 months, depending on the short-term liquidity requirements.

Liquidity risk

The Group ensures the continuity of funding through the use of a variety of sources of finance. The Board continually monitors the liquidity position of the Group and reviews options for raising additional finance. Short-term liquidity is achieved by using current and deposit bank accounts and short-term deposits.

Accounting policies

The Board reviews the Group's accounting policies in the light of current Accounting Standards. During the year, no new Standards have come into effect that have a bearing on TeleCity's accounting policies which are consistent with those applied in 2003.

Financial control

The Board has overall responsibility for ensuring the maintenance of a system of internal control which provides reasonable assurance that financial information is reliable and that the assets of the business are safeguarded.

Separate legal entities, which are self-accounting, are established in the countries where TeleCity has operations. Local management have full profit and loss responsibility for both individual sites and overall country performance.

Such a structure requires well-developed reporting and control disciplines to be in place.

The framework of the Company's system of internal financial control is summarised below:

- A management structure exists with clearly defined lines of responsibility and the appropriate levels of delegation;
- There are established authorisation procedures for revenue and capital expenditure and customer contracts;
- Key functions such as tax, treasury, insurance risk management and legal matters are controlled centrally;
- There is a detailed budget in place against which actual performance is measured monthly and forecasts are updated regularly;
- Well established consolidation and reporting systems exist for both the statutory and monthly management accounts;
- Monthly finance and operating reviews are conducted by Group management in each reporting subsidiary on a monthly basis with a principal focus on profit and loss performance and working capital management; and
- Twice yearly, an additional finance review is conducted in each reporting subsidiary which primarily focuses on the testing of the validity of balance sheet values to ensure that the base for reported results is secure.

There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement and loss.

Josh Joshi, Finance Director

Board of Directors

Michael Hepher

Chairman
Born in 1944.
Michael Hepher was appointed non-executive Chairman in February 2000 and was also the Company's Chief Executive from May 2001 to June 2002. He is also non-executive Chairman of Lane, Clark and Peacock LLP and a non-executive director of Kingfisher plc, Canada Life UK Ltd and Catlin Group Ltd. Mr Hepher was Chairman and Chief Executive of Charterhouse plc from 1996 to 1998, Group Managing Director of BT from 1991 to 1995 and Chairman and Chief Executive of Lloyds Abbey Life plc from 1980 to 1991. Mr Hepher attended 16 Board meetings during 2004.

Rick Hudson

Chief Executive Officer
Born in 1957.
Rick Hudson joined TeleCity as Chief Executive Officer in June 2002. Mr Hudson has held senior positions in the telecoms and IT industries including Chief Operating Officer of Netscalibur, and Vice President of Global Business Development at Cable & Wireless. Mr Hudson attended 16 Board meetings during 2004.

Josh Joshi

Finance Director
Born in 1967.
Josh Joshi became the Company's Finance Director in April 2003. Mr Joshi, a qualified engineer and chartered accountant, was previously Chief Financial Officer of Storm Telecommunications Limited. Prior to his employment with Storm, Mr Joshi spent eight years in the accountancy profession, predominantly with Arthur Andersen & Co, specialising in advising property and media companies. Mr Joshi attended 16 Board meetings during 2004.

Trevor Wadcock

Operations Director
Born in 1954.
Trevor Wadcock was appointed a Director in October 2001 having joined the Company a year previously. Mr Wadcock has over 28 years' experience in the field of telecommunications management. He was previously Vice President of Operations at MCI WorldCom with responsibilities for managing network operations across Europe and Asia. Mr Wadcock attended 16 Board meetings during 2004.

Eric Barton

Non-executive Director

Born in 1945.

Eric Barton joined the Board in September 1999. He is Chairman of the Audit Committee. From 1986 to 1999 he was a director of 3i plc having worked for 3i in various capacities since 1968. Mr Barton is also a non-executive director of Morse plc and Acal plc. Mr Barton attended 14 Board meetings during 2004.

Alain Legendre

Non-executive Director

Born in 1943.

Alain Legendre was appointed a Director of the Company in May 2001. He has spent most of his career with Andersen Consulting, including appointments as Managing Partner, France, Head of Software and Technology Practice, Europe and Managing Partner R&D Worldwide. He took early retirement from Andersen Consulting in January 2000, and is founder and currently CEO of a venture capital firm, Startup-performance SA and represents that company as a member of the board of La Vie.com SA. Mr Legendre attended 12 Board meetings during 2004.

Alan Cornish

Non-executive Director

Born in 1944.

Alan Cornish was appointed a Director of the Company and Chairman of the Remuneration Committee on 28 September 2004. He is also non-executive Chairman of Azzurri Communications Limited and Local Press Limited. He was previously Deputy Chairman of MORI, Group Chief Executive of Eurobell Holdings plc and CEO of Deutsche Telekom UK and has also held senior positions with Hilton International, Lowe Bell Communications Ltd and RCA Records. Mr Cornish attended 3 Board meetings during 2004.

Directors' report

The Directors present their report and the audited accounts of TeleCity plc (the 'Company') and its subsidiary companies (the 'Group') for the year ended 31 December 2004.

Principal activity

The Group's principal activity is the provision of Internet infrastructure facilities and associated services.

Review of the business and future developments

A review of the business and future developments can be found in the Chairman's statement on pages 4 to 7, the Operating review on pages 8 to 11 and the Financial review on pages 12 to 15.

Results and dividends

The results of the Group are set out on page 28. The Directors do not propose the payment of a dividend (2003: £Nil).

Directors and their interests

On 28 September 2004 Alan Cornish was appointed to the Board. No Directors resigned during the year to 31 December 2004.

The Board has established three Committees, full details of which can be found on pages 20 to 21.

Eric Barton is the senior independent non-executive Director to whom issues of concern may be conveyed.

The interests of the Directors serving at the end of the year and their families in the Company's shares were:

	31 December 2004 beneficial ordinary shares of 0.1p	31 December 2003 beneficial ordinary shares of 0.1p
Eric Barton	**213,600**	175,150
Michael Hepher	**897,870**[1]	782,486[2]
Rick Hudson	**307,691**	–
Josh Joshi	**26,919**	–
Alain Legendre	**25,835**	20,000
Trevor Wadcock	**64,588**[3]	50,000[4]

1. includes 865,537 shares held by Scotia Nominees Limited (a Jersey company) as trustee of a Jersey trust, the Maple Leaf Family Settlement, on trust for Michael Hepher and his family.
2. includes 750,153 shares held by Scotia Nominees Limited (a Jersey company) as trustee of a Jersey trust, the Maple Leaf Family Settlement, on trust for Michael Hepher and his family.
3. includes 32,294 shares held by spouse.
4. *includes 25,000 shares held by spouse.*

There have been no changes in the interests of the Directors or their families between 31 December 2004 and the date of this report.

The Company's Articles of Association (the 'Articles') state that Directors who were appointed by the Board during the year are required to retire at the next Annual General Meeting of the Company. Having so retired the Articles allow each Director to offer himself for election by shareholders. In accordance with this, Alan Cornish will retire at the Annual General Meeting and will offer himself for election by shareholders. The Articles also require that a third of the other Directors (i.e. those who were not appointed by the Board during the year) submit themselves to retirement by rotation. Directors retiring by rotation are then allowed to offer themselves for re-election by shareholders. The Directors retiring by rotation at the Annual General Meeting will be Trevor Wadcock and Alain Legendre, who, being eligible, will be seeking re-election by shareholders. As required by the 2003 FRC Combined Code in the case of the re-election of a non-executive Director, the Chairman confirms to shareholders that although a formal performance evaluation of Alain Legendre has not yet taken place his performance continues to be effective and he continues to demonstrate commitment to his role.

On 20 May 2004 the Company entered into a service contract, commencing 1 July 2004, with Maple Leaf Global Limited, a company which is controlled by Michael Hepher, which relates to the provision of Mr Hepher's services as a non-executive Director. Also on 20 May 2004, the Company entered into a service contract, commencing 1 June 2004, with Lancedale Limited, a company which is controlled by Eric Barton, which relates to the provision of Mr Barton's services as a non-executive Director.

Full details of the Directors' holdings of options to subscribe for the Company's shares and the Directors' service contracts can be found in the Remuneration report on pages 22 to 25.

Political and charitable donations

During the financial year the Group made a charitable donation of £811. No donations for political purposes were made.

Disabled employees

The Company gives full and fair consideration to applications for employment from disabled persons, taking into account the requirements of the job. If an existing employee becomes disabled, it is the Company's policy to take such steps as are practical to provide continuing employment and to assist with suitable training and career development opportunities.

Employee involvement

The Directors keep employees informed of matters affecting them and the performance of the Company through regular briefing meetings, as well as through informal briefings. Employees may be invited to participate directly in the success of the business through the Group's share option schemes.

Supplier payment policy and practice

The Group agrees terms of payment with its suppliers and makes payment in accordance with those terms, subject to suppliers' own adherence to the terms and conditions. At 31 December 2004 the Group had 58 (2003: 82) days' purchases outstanding in trade creditors. The Company has no trade creditors.

Substantial shareholdings

The Company has been notified that the following shareholders held in excess of 3% of the Company's ordinary shares as at 1 March 2005.

Shareholder	Number of shares held	% of the issued share capital
3i Group plc	122,045,779	44.85
Schroder Investment Management Limited	35,529,331	13.06
Prudential plc	18,577,824	6.83
Mike Kelly	17,703,043	6.51
HBOS plc and its subsidiaries*	13,576,985	4.99
Jupiter Asset Management Limited	12,273,677	4.51

*Insight Investment Limited

Annual General Meeting

The Annual General Meeting of the Company will be held on 16 June 2005 and the Notice of Meeting can be found on pages 44 and 45. The Special Business to be conducted at the Annual General Meeting will include Resolutions relating to the Directors' authority to allot shares and to the Directors' authority, in permitted circumstances, to disapply shareholders' pre-emption rights.

Under the provisions of section 80 of the Companies Act 1985, the Directors are not able to allot shares except with the general or specific approval of shareholders. In Resolution 7 the Directors are seeking authority to allot securities up to a maximum nominal value of £90,697. This sum, being the lesser of the unissued ordinary share capital and one third of the issued ordinary share capital of the Company, is the maximum nominal amount to which the section 80 authority may apply in accordance with the recommendations of the Association of British Insurers ('ABI').

Sections 89 and 95 of the Companies Act 1985 provide that any ordinary shares issued for cash must first be offered to existing shareholders unless shareholders' approval is obtained that this stipulation should not be applied. In Resolution 8 the Directors are seeking authority to make allotments of shares outside of such pre-emption provisions up to a maximum nominal amount of £13,604. This sum represents 5% of the issued ordinary share capital of the Company which is the maximum percentage of the Company's share capital to which pre-emption rights may be disapplied in line with ABI guidelines.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the Annual General Meeting.

On behalf of the Board
Liz Hayman, Secretary
1 March 2005

Corporate governance statement

The Company is committed to achieving high standards of corporate governance throughout the Group and to maintaining integrity and high ethical standards in all its business dealings. The Board has reviewed the Group's corporate governance arrangements in light of the 2003 FRC Combined Code (the 'Code'). The Board considers that it has complied throughout the financial period with the provisions set out in Section 1 of the Code, except that: (*references in parentheses below refer to Code provisions*)

- Michael Hepher and Alan Cornish, two non-independent non-executive Directors, are members of the Remuneration Committee. The Board believes that in view of the small number of non-executive Directors it is appropriate that all non-executive Directors should be members of the Remuneration Committee (B.2.1);
- Michael Hepher, a non-independent non-executive Director is a member of the Audit Committee (C.3.1);
- no formal performance evaluation of non-executive Directors took place during the year, however it is the Board's intention that this will occur during 2005 (A.6); and
- the Audit Committee has not reviewed arrangements by which the Company's staff may, in confidence, raise concerns about improprieties in matters of financial reporting or other matters, however, since the year-end the Board has approved an appropriate procedure which will be communicated to employees (C.3.4).

The Board of Directors

The Board as a whole is collectively responsible for the success of the Group and has established guidelines requiring specific matters to be subject to discussion by the full Board, including overall strategy, financial strategy and planning, material acquisitions, disposals, property related commitments, investments and capital projects.

At the end of the year the Board comprised three executive Directors and four non-executive Directors, two of whom are considered to be independent for the purposes of the Code. In the view of the whole Board, the non-executive Directors represent a significant factor in the Board's decision-making. The Board has nominated Eric Barton as the senior independent non-executive Director, to whom issues of concern can be conveyed.

There were 19 Board Meetings during the year. Directors receive timely and adequate information regarding the Group as necessary and in preparation for Board meetings. Directors' attendance at Board Meetings is detailed on pages 16 and 17.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are adhered to. Appointment or removal of the Company Secretary is a matter reserved for the Board. A procedure exists under which all Directors may take independent professional advice, if necessary, at the Company's expense. The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

All Directors are aware of and have access to appropriate training, including induction training on appointment, in respect of their duties as Directors.

Performance evaluation of the Board and its Committees was conducted during the year though the use of appropriate questionnaires which were completed by the Directors in confidence. The summarised conclusions of the questionnaires were discussed by the Board as a whole, as a result of which, appropriate action points were identified.

Performance evaluation of the executive Directors was conducted through an appraisal process which set meaningful and demanding objectives to be achieved during the year. No formal performance evaluation of non-executive Directors took place during the year. *Performance evaluation of the Chairman was undertaken by the non-executive Directors led by the senior independent Director.*

All Directors are required by the Articles of Association to submit themselves for re-election at least every three years.

Committees of the Board

The following Committees have been established to assist the Board in fulfilling its responsibilities.

The terms of reference of the Committees mentioned below are available on request from the Company Secretary.

Audit Committee

In monitoring the effectiveness of the Board, this Committee is responsible for: ensuring that systems which are designed to identify the nature and extent of risks facing the business from both internal and external sources and the appropriate evaluation of such risks are in place and are reviewed periodically to ensure their continuing effectiveness; ensuring that appropriate steps are taken by the Board to reduce and/or eliminate such risks; and, reviewing the effectiveness of the system of internal control.

In addition, the Committee has other responsibilities, including: ensuring that the accounts give a true and fair view of the state of affairs of the Company and the Group; making recommendations to the Board on the appointment, reappointment and removal of the external auditors and their level of remuneration; considering the independence of the external auditors including receiving annual written confirmation of such independence from them and assessing the level of non-audit fees; and, agreeing with the Company's auditors the nature and scope of the audit.

The members of the Committee during the year were Eric Barton (Chairman) and Alain Legendre who are both independent non-executive Directors of the Company and Michael Hepher, a non-independent non-executive Director. The Committee met three times during 2004 and the meetings were attended by all the members mentioned above.

Remuneration Committee

This Committee reviews and determines the Group's policy on remuneration of senior executives, controls the operation of the Company's share option schemes, including the grant of new options, and considers and approves specific remuneration packages for each of the executive Directors. The Committee has given full consideration to the principles and policies of the Code relating to remuneration matters. Fees payable to the non-executive Directors are set by the executive Directors. Details of Directors' remuneration can be found in the Remuneration report on pages 22 to 25.

The members of the Committee during the year were Michael Hepher (Chairman up to 27 September 2004), Eric Barton, Alain Legendre and, with effect from 28 September 2004, Alan Cornish (Chairman from 28 September 2004). Eric Barton and Alain Legendre are independent non-executive Directors and Michael Hepher and Alan Cornish are non-independent non-executive Directors. The Committee met five times during 2004 and the meetings were attended by all the members mentioned above with the exception of Alan Cornish who only attended the single meeting held since his appointment.

Nomination Committee

This Committee initiates a selection process for Directors, identifying suitable candidates for appointment and making recommendations to the Board regarding such appointments.

The Committee comprises Michael Hepher (Chairman), Eric Barton and Alain Legendre who are, with the exception of Michael Hepher, independent non-executive Directors of the Company. The Committee did not meet during 2004 although its functions were fulfilled by the Board as a whole.

Relations with shareholders

The Company actively promotes and maintains relationships with its shareholders, holding regular meetings with major shareholders, including presentations following the Company's interim and preliminary announcements. Detailed reports of all meetings with shareholders are made to the Board as a whole at the earliest opportunity.

The Company intends to use the Annual General Meeting to present and explain the Group's business and strategy and the Chairmen of the various Board Committees will be present and available to answer questions from shareholders.

It is intended that the Resolutions to be proposed at the Annual General Meeting, which are set out in full in the Notice of Meeting on pages 44 and 45, will be presented as separate Resolutions and will include Resolutions relating to the Report and Accounts and the Remuneration report. It is also intended that details of proxy votes on all Resolutions will be announced at the Annual General Meeting.

Internal control

The Code requires that the Board maintains a sound system of internal control to safeguard shareholders' investments and the Company's assets and should report on its review of the effectiveness of the Group's system of internal controls, which should be conducted at least annually. The review should cover all controls, including financial, operational and compliance controls and risk management. Formal guidance has been issued by the Turnbull Committee in order to assist Directors in complying with these internal control requirements (the 'Turnbull Guidance').

Certain of the Directors have carried out a review of the Turnbull Guidance and a risk control framework, which covered both UK and non-UK operations, was in place during the year to ensure compliance with the internal control requirements of the Code.

The Board believes that it has followed appropriate internal control procedures to manage risk. The Board acknowledges that it is responsible for the Group's system of internal financial control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Further details on financial control are set out in the Financial review on pages 12 to 15.

The Group does not at present have an internal audit function as the Directors do not consider that the scale of the Company's operations warrant the establishment of a separate department. The Audit Committee and the Board will continue to monitor the need for an internal audit function.

Going concern

After making enquiries, the Directors, at the time of approving the accounts, have determined that there is reasonable expectation that the Company and the Group have adequate resources to continue operating for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing the accounts.

Remuneration report

The Board presents its report on remuneration which includes all disclosures required by Section 1 of the 2003 FRS Combined Code (the 'Code'). Except as specifically referred to in the Corporate governance statement on pages 20 and 21, the Company has in all respects complied with the recommendations on remuneration within the Code

Remuneration policy

The Company's policy for the current year and subsequent years is to ensure that packages paid to Directors are competitive when compared to similar companies and to recognise the long-term growth plans of the Company whilst ensuring due consideration of short-term objectives, in order to closely align the interests of the Directors with those of the Company and its shareholders. Within these overall objectives the Company provides basic salary, benefits, an Executive Incentive Plan, share options and pension contributions. Details of performance conditions relating to the Executive Incentive Plan and the Executive Share Option Scheme can be found under the relevant headings below.

Remuneration review

During the year Directors' remuneration was reviewed by the Remuneration Committee (the 'Committee') in accordance with the terms above.

The members of the Committee present when the Directors' salaries were reviewed were Michael Hepher, Eric Barton and Alain Legendre.

Full details of the Committee can be found in the Corporate governance statement on pages 20 and 21.

Benefits

The only benefits provided to executive Directors by the Company are private health insurance, a petrol allowance and a non-pensionable cash allowance in lieu of a company car. Details of the value of benefits received by the Directors during the year can be found in the Directors' emoluments table on page 24.

Executive Incentive Plan

The Executive Incentive Plan is structured to pay executive Directors performance bonuses based on the achievement of market-visible financial targets and functional objectives as shown in the table below.

Business measure		Weighting (proportion of annual bonus)
Revenue	Achievement of budgeted revenue (not including exceptional revenue)	50%
EBITDA	Achievement of budgeted earnings	30%
Functional	Achievement of operational improvements and set service levels within the Director's area of responsibility	20%

If all the targets and objectives are met in full, the annual on-target bonus that can be achieved by a Director will be equivalent to 30% of base salary (50% for the Chief Executive). If achievement of any business measure falls below target, the corresponding bonus element is reduced. The corresponding bonus is a) zero when revenue achieved is less than 90% of target; and b) zero when EBITDA achieved is less than 80% of target. If achievement of any business measure exceeds the target, the corresponding bonus element is increased. The corresponding on-target bonus is adjusted by a) the same percentage as actual revenue is as a percentage of target revenue; and b) the same percentage as actual EBITDA is as a percentage of target EBITDA, but this ratio is capped at 130% in any event.

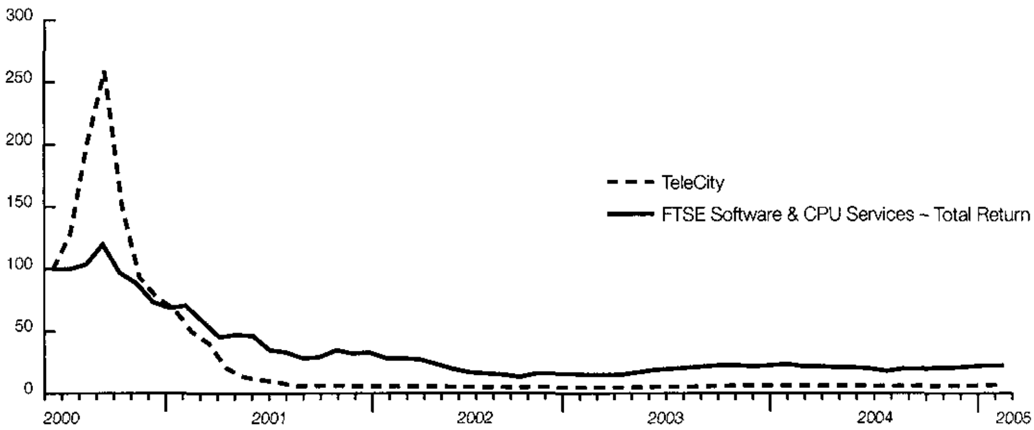
The business measures shown above were chosen because, although they are based on short-term objectives, they are compatible with the long-term aims of the Company. Details of bonuses accrued during the year can be found in the Directors' emoluments table on page 24. These bonuses have been paid after the year-end.

Service contracts

Service contracts for the executive Directors are open-ended and follow the recommendations of the Code. They may be terminated by six months' notice from either party. The contracts contain no specific terms allowing for compensation for loss of office. The contracts of Rick Hudson, Trevor Wadcock and Josh Joshi are dated 29 May 2002, 22 October 2001 and 4 April 2003 respectively.

Service contracts for the non-executive Directors are for fixed periods of 12 months. On expiry of the fixed period, if both parties agree, the contracts may be renewed for further periods of 12 months. In the event of non-renewal, no compensation will be payable. The contracts of Michael Hepher, Alain Legendre, Eric Barton and Alan Cornish expire on 30 June, 17 May, 31 May and 27 September respectively.

Total return to shareholders



Rebased to 100 at date of flotation

Source: DATASTREAM

Auditable information

The following information has been audited by the Company's auditors, PricewaterhouseCoopers LLP as required by Schedule 7A of the Companies Act 1985.

Pensions

In the United Kingdom, the Company operates a defined contribution (money purchase) scheme of which all of its UK resident employees, including the executive Directors, are entitled to be members. The Company's standard contribution rate for all employees, including the executive Directors, is 6.5% of basic salary including earnings above the Inland Revenue earnings cap. Employees are required to contribute not less than 5% of their basic salary. There is also another contribution rate which has been set up for employees who do not wish to make a contribution of 5% of basic salary whereby both the Company and the employee make a contribution of 3% of basic salary.

The Company also operates pension schemes for the benefit of non-UK employees, where appropriate. The terms of these schemes are comparable with the UK scheme.

Pension contributions for executive Directors are shown below:

	2004 £	2003 £
Rick Hudson	**11,700**	11,700
Trevor Wadcock	**8,450**	8,450
Total	**20,150**	20,150

Remuneration report

Directors' emoluments

The disclosures below include remuneration for the current and prior years whilst acting as Directors of the Company and of TeleCity UK Limited (where appropriate).

	Salary/fees £	Annual bonus £	Benefits £	2004 Total excluding pension contributions £	2003 Total excluding pension contributions £
Non-executive Directors					
Eric Barton	32,500	–	–	**32,500**	32,500
Alan Cornish[1]	10,462	–	–	**10,462**	–
Josef Ellmauer	–	–	–	–	11,282
Michael Hepher	70,000	–	–	**70,000**	70,000
Alain Legendre	25,000	–	–	**25,000**	25,000
Executive Directors					
Martyn Ellis	–	–	–	–	48,192
Rick Hudson	180,000	93,350	18,864	**292,214**	307,119
Josh Joshi	137,500	42,780	15,464	**195,744**	137,031
Trevor Wadcock	130,000	40,840	17,804	**188,644**	192,543
Total	585,462	176,970	52,132	**814,564**	823,667

1. Appointed on 28 September 2004.

Share Option Schemes

On 12 November 1999, the Group established the TeleCity Limited Approved and Unapproved Share Option Schemes (the 'Old Option Schemes'). On 13 April 2000, prior and subject to the Company's flotation on the London Stock Exchange, the Old Option Schemes were replaced by the TeleCity plc Approved and Unapproved Executive Share Option Schemes (the 'Current Option Schemes'). On flotation the Old Option Schemes were closed to new grants and participants' share options became options to subscribe for ordinary shares in TeleCity plc rather than in TeleCity Limited.

Company's policy on grant of share options

Share options are granted to executive Directors on appointment and thereafter on an ad hoc basis when the Board considers that it is warranted by the performance of the individual Director. There is no policy for share options to be awarded at regular intervals or at particular times in the financial calendar.

Exercise of share options

Subject to the satisfaction of performance criteria where applicable, options are normally first capable of exercise three years after the date of grant and expire ten years after the date of grant.

Under the Current Option Schemes the exercise of options is subject to the satisfaction of share price performance criteria which requires that the Company's average share price be at or above a predefined value over the 30 day period immediately prior to either the third or the fifth anniversary of the date of grant. The values to be achieved vary according to the date of the grant of the option but the value to be achieved by the fifth anniversary will always be higher than that to be achieved by the third anniversary.

The Committee has power to redefine the performance criteria from time to time and to create special performance criteria for a particular option grant. The Committee takes the view that, as has been the case with a small number of senior executives, it is necessary, in a competitive market place, to grant options in significant numbers in order to recruit and retain high quality candidates.

Statement of Directors' responsibilities

Company law requires the Directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing the accounts the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors confirm that they have complied with the above requirements in preparing the accounts.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the TeleCity plc website is the responsibility of the Directors.

The legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Independent auditors' report to the members of TeleCity plc

We have audited the accounts, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in equity shareholders' funds and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Remuneration report ('the auditable part').

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' responsibilities. The Directors are also responsible for preparing the Remuneration report.

Our responsibility is to audit the accounts and the auditable part of the Remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the auditable part of the Remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the Chairman's statement, the Operating review, the Financial review, the Directors' report, the Corporate governance statement and the unaudited part of the Remuneration report.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the auditable part of the Remuneration report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the auditable part of the Remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and of the loss and cash flows of the Group for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester

1 March 2005

Consolidated profit and loss account

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Continuing operations			
Turnover	2	**25,837**	23,536
EBITDA before exceptional items		**1,850**	1,136
Depreciation		**(6,142)**	(7,090)
Exceptional items	1	**(2,100)**	(1,694)
Operating loss	1	**(6,392)**	(7,648)
Provision for loss on sale of fixed assets	3	**–**	(1,410)
Loss before interest		**(6,392)**	(9,058)
Net interest payable	5	**(412)**	(464)
Loss on ordinary activities before taxation	2	**(6,804)**	(9,522)
Taxation	6	**–**	–
Retained loss for the year attributable to ordinary shareholders	18	**(6,804)**	(9,522)

Loss per ordinary share

Basic and diluted	8	**(2.7p)**	(4.7p)

Consolidated balance sheet

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	9	**35,831**	41,356
Current assets			
Stocks	11	**34**	35
Debtors	12	**7,222**	6,744
Cash at bank and in hand	13	**8,267**	2,968
		15,523	9,747
Creditors – amounts falling due within one year	14	**(11,397)**	(13,094)
Net current assets/(liabilities)		**4,126**	*(3,347)*
Total assets less current liabilities		**39,957**	38,009
Creditors – amounts falling due after more than one year	15	**(1,253)**	(1,350)
Provisions for liabilities and charges	16	**(6,876)**	(5,941)
Net assets		**31,828**	30,718
Capital and reserves			
Called up share capital	17	**272**	203
Share premium account	18	**119,600**	111,735
Merger reserve	18	**17,862**	17,862
Profit and loss account	18	**(105,906)**	(99,082)
Equity shareholders' funds		**31,828**	30,718

The accounts on pages 28 to 43 were approved by the Board on 1 March 2005 and signed on its behalf by

M L Hepher, Chairman

M V 'Josh' Joshi, Finance Director

Parent company balance sheet

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Investments	10	**10,205**	17,204
Current assets			
Debtors – amounts owed by Group undertakings		**21,623**	13,514
Net current assets		**21,623**	13,514
Net assets		**31,828**	30,718
Capital and reserves			
Called up share capital	17	**272**	203
Share premium account	18	**119,600**	111,735
Profit and loss account	18	**(88,044)**	(81,220)
Equity shareholders' funds		**31,828**	30,718

The accounts on pages 28 to 43 were approved by the Board on 1 March 2005 and signed on its behalf by

M L Hepher, Chairman

M V 'Josh' Joshi, Finance Director

Consolidated cash flow statement

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Net cash outflow from operations	19	**(1,105)**	(3,523)
Returns on investments and servicing of finance:			
Interest received		**232**	138
Interest paid		**(55)**	(47)
Bank overdraft and guarantee fees		**(304)**	(393)
Interest paid on finance leases		**(70)**	(70)
		(197)	(372)
Capital expenditure and financial investment:			
Purchase of tangible fixed assets		**(1,500)**	(664)
Sale of tangible fixed assets		**1,025**	41
		(475)	(623)
Net cash outflow before management of liquid resources and financing		**(1,777)**	(4,518)
Management of liquid resources	*20*	**225**	*(480)*
Financing:			
Proceeds of issue of share capital		**9,000**	2
Expenses paid in connection with finance raised		**(1,066)**	-
Repayment of other loan		**(11)**	(12)
Capital element of finance lease payments		**(78)**	(78)
Net cash outflow from financing		**7,845**	(88)
Increase/(decrease) in cash in the period		**6,293**	(5,086)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the period		**6,293**	(5,086)
Management of liquid resources		**(225)**	480
		6,068	(4,606)
Repayment of other loan		**11**	12
Capital element of finance lease payments		**78**	78
Change in net funds arising from cash flows		**6,157**	(4,516)
Translation differences		**52**	164
Movement in net funds in year		**6,209**	(4,352)
Net funds at 31 December 2003		**706**	5,058
Net funds at 31 December 2004	*20*	**6,915**	*706*

Statement of total recognised gains and losses

For the year ended 31 December 2004

	2004 £'000	2003 £'000
Loss for the financial year	**(6,804)**	(9,522)
Currency translation (losses)/gains on foreign currency net investments	**(20)**	1,690
Total recognised losses for the financial year	**(6,824)**	(7,832)

Reconciliation of movements in equity shareholders' funds

For the year ended 31 December 2004

	2004 £'000	2003 £'000
Loss for the financial year	**(6,804)**	(9,522)
Currency translation (losses)/gains on foreign currency net investments	**(20)**	1,690
Shares issued (net of issue costs)	**7,934**	2
Net increase/(decrease) in equity shareholders' funds	**1,110**	(7,830)
Opening equity shareholders' funds	**30,718**	38,548
Closing equity shareholders' funds	**31,828**	30,718

Accounting policies

The accounts have been prepared in accordance with Accounting Standards currently applicable in the United Kingdom. The principal accounting policies, which have been applied consistently, are set out below.

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with the Companies Act 1985.

Basis of consolidation

The accounts of the parent company and all subsidiaries are included in the consolidated accounts and are made up to 31 December 2004.

Turnover

Turnover represents the value of goods and services supplied to customers during the period, excluding value added tax. Where invoices are raised in advance for contracted services, the revenue is spread over the period of the service. Revenue earned from the fitting-out of customers' suites is spread over the course of the related contract on a straight line basis. The spreading of revenue gives rise to deferred *income in the balance sheet.*

Tangible fixed assets

The cost of tangible fixed assets comprises their purchase cost, together with the incidental costs of installation and commissioning. These costs include external consultancy fees and internal employment and travel costs which are directly and exclusively related to the underlying assets.

Leasehold improvements include the discounted cost of restoring leasehold premises to their original condition at the end of the lease, which is depreciated over the duration of the relevant lease. The discount is calculated as the difference between the long-term inflation *rate and the 10 year bond rate in each country, with the discount being amortised in future years through interest.*

Depreciation is calculated from the date an asset becomes available for use, so as to write off the cost of the asset over its expected useful economic life. The principal annual rates used for this purpose are:

Leasehold improvements	10% straight line
Plant and machinery	10% straight line
Office equipment	25% straight line

Provision is made for tangible fixed assets within operating businesses where the present value of expected future cash flows, discounted *at the Group's weighted average cost of capital, is less than the carrying value.*

Stocks

Stocks are stated at the lower of cost and net realisable value.

Finance and operating leases

Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown within obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding.

Costs in respect of operating leases are charged on a straight line basis over the term of the lease. Benefits received by the Group as an incentive to sign the lease are spread on a straight line basis over the lease term or, if provided in the lease, the period to the first review date on which the rent is expected to be adjusted to the prevailing market rate.

Provision is made for onerous leases by estimating the likely future lease costs until the lease expires, taking into account income receivable from sub-letting. The costs are discounted at the Group's weighted average cost of capital.

Pensions

The Group operates a defined contribution group personal pension arrangement for all employees, including the executive Directors. Contributions are made in accordance with the scheme rules and are expensed to the profit and loss account as incurred.

Deferred taxation

Deferred taxation is provided in full on all material timing differences. Deferred tax assets are only recognised to the extent that their recoverability is regarded as more likely than not.

Foreign currencies

Assets and liabilities denominated in overseas currencies are translated into sterling at rates of exchange prevailing on the balance sheet date. The results of overseas subsidiaries are translated at average rates for the year. Differences on exchange arising from the retranslation of the net investment in overseas subsidiaries, including long-term inter-company loans, are taken to reserves and reported in the statement of total recognised gains and losses. Exchange differences relating to transactions are taken to the profit and loss account in the period in which they arise.

Notes to the accounts

1. Operating loss

	2004			2003		
	Before exceptional items £'000	**Exceptional items £'000**	**Total £'000**	Before exceptional items £'000	Exceptional items £'000	Total £'000
Turnover	**25,837**	**–**	**25,837**	23,536	–	23,536
Cost of sales	**(19,878)**	**–**	**(19,878)**	(18,150)	–	(18,150)
Gross profit	**5,959**	**–**	**5,959**	5,386	–	5,386
Selling and distribution costs	**(3,150)**	**–**	**(3,150)**	(3,105)	–	(3,105)
Administrative expenses	**(7,866)**	**(2,100)**	**(9,966)**	(8,487)	(1,694)	(10,181)
Other operating income – rent received	**765**	**–**	**765**	252	–	252
Net operating expenses	**(10,251)**	**(2,100)**	**(12,351)**	(11,340)	(1,694)	(13,034)
Operating loss	**(4,292)**	**(2,100)**	**(6,392)**	(5,954)	(1,694)	(7,648)

The exceptional items included in operating loss are all attributable to continuing operations. The exceptional items are analysed as follows:

	2004 £'000	2003 £'000
Costs and provisions in respect of exiting onerous lease contracts	**(2,100)**	(1,504)
Redundancy costs incurred	**–**	(190)
Exceptional operating costs	**(2,100)**	(1,694)

The costs and provisions in respect of exiting onerous lease contracts relate to management's estimate of the likely discounted future costs to be incurred on the Munich lease until it is fully sub-let.

The operating loss is after charging:	**2004 £'000**	2003 £'000
Depreciation:		
Tangible owned fixed assets	**6,042**	6,995
Tangible fixed assets held under finance leases	**93**	95
Loss on disposal of fixed assets	**7**	–
Operating lease costs:		
Plant and machinery	**35**	20
Other	**5,200**	4,828
Auditors' remuneration for:		
Audit services	**120**	118
Non-audit services – taxation advice	**46**	56

In addition, payments to the auditors in 2004 amounting to £207,000, in relation to the issue of shares, were included in share issue costs deducted from the share premium account.

2. Analysis of turnover, loss and net assets

The Directors consider that the Group's activities consist of one class of business, namely the provision of Internet infrastructure facilities and associated services.

The analysis by geographic origin of the Group's activities is as follows:

	2004			2003		
	Turnover £'000	**Loss £'000**	**Net assets £'000**	Turnover £'000	Loss £'000	Net assets £'000
United Kingdom	**12,758**	**(2,593)**	**12,128**	12,807	(2,194)	13,594
Rest of Europe	**13,079**	**(3,799)**	**12,785**	10,729	(6,864)	16,418
	25,837	**(6,392)**	**24,913**	23,536	(9,058)	30,012
Net interest receivable	**–**	**(412)**	**–**	–	(464)	–
Interest bearing assets less liabilities	**–**	**–**	**6,915**	–	–	706
Group turnover, loss before tax and net assets	**25,837**	**(6,804)**	**31,828**	23,536	(9,522)	30,718

The analysis of turnover by geographic destination is equivalent to the analysis by geographic origin.

3. Provision for loss on sale of fixed assets

The provision for loss on sale of fixed assets of £1,410,000 in 2003 related to the Dublin site where a decision was taken prior to 31 December 2003 to dispose of the majority of the site's fixed assets while retaining the right of use of these assets. An agreement was completed on 2 June 2004, prior to the accounts for 2003 being signed, and a provision for loss on disposal was made at 31 December 2003 for the difference between the agreed selling price and the net book value of the relevant assets.

4. Employee information

	2004 Number	2003 Number
The average number employed by the Group within each category of persons *including executive Directors was:*		
Operations	**106**	103
Sales and administration	**59**	62
	165	165
	£'000	£'000
The costs incurred in respect of these employees were:		
Wages and salaries	**7,386**	7,424
Social security costs	**1,280**	1,162
Other pension costs	**259**	250
	8,925	8,836

There are no material amounts outstanding or prepaid in the current or previous years in respect of pension contributions.

Details of Directors' remuneration, pension contributions and share options are included in the Remuneration report on pages 22 to 25.

5. Interest

	2004 £'000	2003 £'000
Interest receivable on bank and other short-term deposits	**232**	138
Interest payable on bank overdraft and other loans	**(55)**	(47)
Bank overdraft and guarantee fees	**(363)**	(334)
Interest payable on finance leases	**(70)**	(70)
Amortisation of discount on provision for reinstatement costs	**(156)**	(151)
Total interest payable and similar charges	**(644)**	(602)
Net interest payable and similar items	**(412)**	(464)

Notes to the accounts

6. Taxation

There is no taxation payable and no provision is required for deferred taxation for the current or previous periods as the Group has tax losses in several jurisdictions available to carry forward and offset against future trading profits. The unrecognised deferred tax asset, which arises in a number of jurisdictions, is analysed as follows:

	2004 £'000	2003 £'000
Tax losses and short-term timing differences	**21,191**	21,525
Depreciation in excess of capital allowances	**746**	(1,157)
	21,937	20,368

7. Retained loss for the year

As permitted by section 230 of the Companies Act 1985 a profit and loss account for the parent company is not presented. The parent company's loss for the year amounted to £6,824,000 (2003: £7,832,000).

8. Loss per ordinary share

The loss per ordinary share is based on the loss for the year £6,804,000 (2003: £9,522,000) and a weighted average of 250,763,444 (2003: 204,008,975) ordinary shares in issue during the year (as adjusted for the effect of the bonus element of share issues). As the impact of issuing potential ordinary shares is anti-dilutive, the diluted loss per ordinary share is equivalent to the basic loss per share.

9. Tangible fixed assets

	Leasehold improvements £'000	Plant and machinery £'000	Office equipment £'000	Total £'000
Cost:				
At 1 January 2004	53,640	31,585	3,007	88,232
Exchange differences	(165)	(98)	3	(260)
Additions	990	465	317	1,772
Disposals	(5,139)	(2,334)	(5)	(7,478)
At 31 December 2004	**49,326**	**29,618**	**3,322**	**82,266**
Accumulated depreciation:				
At 1 January 2004	33,769	10,928	2,179	46,876
Exchange differences	(139)	(1)	10	(130)
Charge for the year	2,767	2,888	480	6,135
Disposals	(5,092)	(1,349)	(5)	(6,446)
At 31 December 2004	**31,305**	**12,466**	**2,664**	**46,435**
Net book value:				
At 31 December 2004	**18,021**	**17,152**	**658**	**35,831**
At 31 December 2003	19,871	20,657	828	41,356

The net book value of tangible fixed assets includes an amount of £1,090,000 (2003: £1,189,000) in respect of assets held under finance leases.

10. Fixed asset investments

Subsidiary companies	Shares £'000	Loans £'000	Total £'000
Cost:			
At 1 January 2004	65	102,869	102,934
Loan repaid	–	(102,869)	(102,869)
New loan	–	121,819	121,819
At 31 December 2004	**65**	**121,819**	**121,884**
Provisions:			
At 1 January 2004	65	85,665	85,730
Provided in year	–	25,949	25,949
At 31 December 2004	**65**	**111,614**	**111,679**
Net book value:			
At 31 December 2004	**–**	**10,205**	**10,205**
At 31 December 2003	–	17,204	17,204

On 31 December 2004 TeleCity plc was the beneficial owner of all the issued share capital of the following companies:

Name of undertaking	Country of incorporation	Principal activity
TeleCity UK Limited	United Kingdom	Internet infrastructure
TeleCity BV	Netherlands	Internet infrastructure
TeleCity GmbH	Germany	Internet infrastructure
TeleCity Sverige AB	Sweden	Internet infrastructure
TeleCity SAS	France	Internet infrastructure
TeleCity Ireland Limited	Ireland	Internet infrastructure
TeleCity Internet Exchange SL*	Spain	Non-trading
TeleCity Internet Exchange AG*	Switzerland	Non-trading
TeleCity NV*	Belgium	Non-trading
TeleCity Investments Limited	United Kingdom	Non-trading
TeleCity Finance Limited	United Kingdom	Non-trading
TeleCity Holdings Limited	United Kingdom	Non-trading

* In liquidation

Other than TeleCity UK Limited, TeleCity Investments Limited and TeleCity Holdings Limited, which are owned directly by TeleCity plc, these companies are owned by TeleCity UK Limited.

Other than TeleCity UK Limited, the share capital of the subsidiary companies comprises ordinary shares. The shares in TeleCity UK Limited comprise the following: ordinary; 'A' ordinary; 'B' ordinary; 9% redeemable preference; 6% 'B' redeemable preference; 10% 'C' redeemable preference; and variable rate 'D' redeemable preference.

11. Stocks

	2004 £'000	2003 £'000
Goods held for resale	**34**	35

Notes to the accounts

12. Debtors

	2004 £'000	2003 £'000
Trade debtors	**3,101**	2,726
Other debtors	**1,968**	1,918
Prepayments and accrued income	**2,153**	2,100
	7,222	6,744

Other debtors include £1,808,000 (2003: £1,807,000) in respect of rent deposits which are recoverable in more than one year.

13. Cash at bank and in hand

	2004 £'000	2003 £'000
Cash at bank and in hand available on demand	**6,031**	506
Pledged deposit accounts	**2,236**	2,462
	8,267	2,968

The pledged deposit accounts represent accounts which are pledged to other parties and are not available for use by the Group.

14. Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Bank overdraft payable on demand	**–**	815
Other loan (see note 15)	**14**	13
Obligations under finance leases	**85**	84
Trade creditors	**3,310**	4,021
Other taxation and social security costs	**850**	806
Other creditors	**508**	509
Accruals	**2,468**	2,440
Deferred income	**4,162**	4,406
	11,397	13,094

The secured bank overdraft, which bore interest at 1.5% over the Bank of Scotland base rate, was repaid on 28 April 2004.

15. Creditors: amounts falling due after more than one year

	2004 £'000	2003 £'000
Other loan	**80**	93
Obligations under finance leases	**1,173**	1,257
	1,253	1,350

The other loan bears interest at 7.5% p.a. and is repayable in equal monthly instalments including interest. The loan will be fully repaid on 1 August 2010.

The future minimum payments to which the Group is committed under finance leases is as follows:

	2004 £'000	2003 £'000
In one year or less	**152**	152
Between one and five years	**608**	609
After five years	**912**	1,066
	1,672	1,827
Interest element	**(414)**	(486)
	1,258	1,341

16. Provisions for liabilities and charges

	Onerous leases £'000	Reinstatement costs £'000	Total £'000
At 1 January 2004	2,824	3,117	5,941
Exchange differences	(47)	–	(47)
Provided in year	2,100	–	2,100
Utilised	(1,261)	(13)	(1,274)
Amortisation of discount	–	156	156
At 31 December 2004	**3,616**	**3,260**	**6,876**

The provision for onerous leases relates to the estimated discounted future costs of leases on sites which the Group has exited (see note 1). The discount will be amortised through interest in the profit and loss account.

The provision for reinstatement costs represents management's estimate of the discounted cost of reinstating leasehold properties at the end of leases in accordance with the lease contracts. The leases expire over a range of 6 to 20 years. The discounted cost has been added to the cost of leasehold improvements and is being depreciated over the period of the leases. The discount is amortised through interest in the profit and loss account.

17. Share capital

Authorised	**Number**	**£'000**
Ordinary shares of 0.1p each		
At 1 January 2004 and 31 December 2004	**400,000,000**	**400**

Allotted, called up and fully paid		
Ordinary shares of 0.1p each		
At 1 January 2004	202,861,006	203
Allotted during the year	69,232,902	69
At 31 December 2004	**272,093,908**	**272**

Following approval by shareholders at an Extraordinary General Meeting held on 19 April 2004, 69,230,769 ordinary shares with a nominal value of 0.1 pence per share were issued for 13 pence, generating consideration of £9,000,000.

In addition, 2,133 shares were issued as a result of exercise of share options. Consideration received for these shares was £2.

Options over ordinary shares granted to Directors and employees and which were outstanding at 31 December 2004 are detailed in the table below. The exercise price and number of ordinary shares subject to option have been re-stated following the Rights Issue in September 2001.

Date of grant	*Period during which options are/were capable of exercise* from	to	*Exercise price per each ordinary share* of 0.1p £	**No. of ordinary shares subject to option 2004**	No. of ordinary *shares subject* to option 2003
31/12/99	currently	30/12/09	0.00115	**399,040**	399,040
17/03/00	17/03/03	19/09/04	0.00115	**–**	5,333
17/03/00	17/03/03	07/10/04	0.00115	–	2,133
17/03/00	currently	16/03/10	0.00115	**64,704**	64,704
28/09/01	currently	27/03/05	0.128	**3,125,000**	3,125,000
28/09/01	28/09/06	27/09/11	0.128	**800,000**	800,000
30/05/02	30/05/05	29/05/12	0.095	**400,000**	400,000
19/06/02	19/06/05	18/06/12	0.078	**1,500,000**	1,500,000
02/09/02	02/09/05	01/09/12	0.045	**100,000**	100,000
10/06/03	10/06/06	09/06/13	0.067	**750,000**	1,000,000
				7,138,744	7,396,210

Notes to the accounts

17. Share capital (continued)

The movement in share options is analysed as follows:

	Number
At 1 January 2004	7,396,210
Granted during the year	–
Exercised during the year	(2,133)
Lapsed during the year	(255,333)
At 31 December 2004	**7,138,744**

18. Reserves

Group	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2004	111,735	17,862	(99,082)	30,515
Premium on shares issued	8,931	–	–	8,931
Expenses paid thereon	(1,066)	–	–	(1,066)
Translation differences	–	–	(20)	(20)
Retained loss for the year	–	–	(6,804)	(6,804)
At 31 December 2004	**119,600**	**17,862**	**(105,906)**	**31,556**

Parent				
At 1 January 2004	111,735	–	(81,220)	30,515
Premium on shares issued	8,931	–	–	8,931
Expenses paid thereon	(1,066)	–	–	(1,066)
Retained loss for the year	–	–	(6,824)	(6,824)
At 31 December 2004	**119,600**	**–**	**(88,044)**	**31,556**

19. Reconciliation of operating loss to net cash outflow from operations

	2004 £'000	2003 £'000
Operating loss	**(6,392)**	(7,648)
Depreciation including profit and loss on disposal	**6,142**	7,090
Movement in provision for liabilities and charges	**826**	(386)
Decrease/(increase) in stocks	**1**	(12)
(Increase)/decrease in debtors	**(631)**	247
(Decrease) in creditors	**(1,051)**	(2,814)
Net cash outflow from operations	**(1,105)**	(3,523)

20. Analysis of movement in net funds

	1 January 2004 £'000	Cash flow £'000	Exchange movements £'000	Non-cash movements £'000	31 December 2004 £'000
Cash at bank available on demand	506	5,478	47	–	**6,031**
Bank overdraft payable on demand	(815)	815	–	–	**–**
	(309)	6,293	47	–	**6,031**
Liquid resources	2,462	(225)	(1)	–	**2,236**
Finance leases due within one year	(84)	78	5	(84)	**(85)**
Loan due within one year	(13)	11	1	(13)	**(14)**
Finance leases due after more than one year	(1,257)	–	–	84	**(1,173)**
Loan due after more than one year	(93)	–	–	13	**(80)**
Total net funds	706	6,157	52	–	**6,915**

Liquid resources comprise pledged deposit accounts.

21. Financial commitments

The Group has annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Expiring within one year	**37**	–	–	–
Expiring within two to five years	**276**	–	**105**	87
Expiring after five years	**6,838**	7,077	**–**	–
	7,151	7,077	**105**	87

22. Capital commitments

Capital expenditure that has been contracted for but has not been provided in the accounts amounts to £156,000 (2003: £18,000).

23. Contingent liabilities

Financial guarantees granted by the Group's banks in respect of operating leases amount to £1,940,000 (2003: £1,940,000). *The value of these guarantees is held in deposit accounts which are pledged to the banks.*

24. Financial instruments

An explanation of the Group's objectives and policies with regard to derivatives and other financial instruments is set out in the Financial review on pages 12 to 15.

The disclosures below exclude short-term debtors and creditors, with the exception of the analysis of currency exposure.

Interest rate and currency profile of financial liabilities

2004	Fixed rate £'000	Floating rate £'000	Non-interest bearing £'000	**Total £'000**
Sterling	–	**2,717**	–	**2,717**
Euro	**1,352**	**4,010**	–	**5,362**
Swedish krona	–	**149**	–	**149**
Total	**1,352**	**6,876**	–	**8,228**

2003				
Sterling	–	3,414	89	3,503
Euro	1,447	376	2,735	4,558
Swedish krona	–	142	–	142
Total	1,447	3,932	2,824	8,203

			2004			*2003*
	Average interest rate of fixed rate liabilities %	**Average period to maturity of fixed rate liabilities Years**	**Average period to maturity of non-interest bearing liabilities Years**	Average interest rate of fixed rate liabilities %	Average period to maturity of fixed rate liabilities Years	Average period to maturity of non-interest bearing liabilities Years
Sterling	**–**	**–**	**–**	–	–	0.8
Euro	**5.2**	**10.6**	**–**	5.2	11.6	1.5
Average	**5.2**	**10.6**	**–**	5.2	11.6	1.5

The floating rate liabilities, comprise the provision for onerous leases, which is discounted at the Group's weighted average cost of capital, and the provision for reinstatement costs, which is discounted at the difference between the long-term inflation rate and the 10 year bond rate in each country.

Notes to the accounts

24. Financial instruments (continued)

Interest rate and currency profile of financial assets

Floating rate	2004 £'000	2003 £'000
Sterling	**5,541**	1,425
Euro	**2,283**	1,442
Swedish krona	**443**	101
	8,267	2,968

Floating rate financial assets earn interest based on relevant national LIBOR equivalents.

Currency exposure

The value of net monetary assets held by operations in currencies other than their local currency is as follows:

2004	Sterling £'000	Euro £'000	Other £'000	Total £'000
Functional currency of operations				
Sterling	**–**	**1,303**	**–**	**1,303**
Euro	**31**	**–**	**–**	**31**
Swedish krona	**114**	**51**	**6**	**171**
	145	**1,354**	**6**	**1,505**

2003				
Functional currency of operations				
Sterling	–	1,190	(3)	1,187
Euro	58	–	–	58
Swedish krona	91	26	–	117
	149	1,216	(3)	1,362

Maturity of financial liabilities

2004	Bank overdraft £'000	Finance leases £'000	Other loan £'000	Provisions £'000	Total £'000
Within one year or on demand	**–**	**85**	**14**	**1,018**	**1,117**
Between one and two years	**–**	**88**	**15**	**759**	**862**
Between two and five years	**–**	**291**	**52**	**1,249**	**1,592**
After five years	**–**	**794**	**13**	**3,850**	**4,657**
	–	**1,258**	**94**	**6,876**	**8,228**

2003					
Within one year or on demand	815	84	13	1,369	2,281
Between one and two years	–	88	14	1,455	1,557
Between two and five years	–	292	49	–	341
After five years	–	877	30	3,117	4,024
	815	1,341	106	5,941	8,203

24. Financial instruments (continued)

Borrowing facilities

The Group did not have any undrawn committed borrowing facilities at 31 December 2004. At 31 December 2003, the Group had an undrawn facility of £1,685,000 relating to an overdraft facility of £2,500,000. This facility was cancelled on 28 April 2004.

Fair values of financial assets and liabilities

The fair values of financial assets and liabilities, determined by discounting expected cash flows of current interest and exchange rates, are not materially different to the book values.

There are no unrecognised or deferred hedges.

25. Related party transactions

At the beginning of the year, TeleCity UK Limited had an overdraft facility amounting to £2,500,000 with the Bank of Scotland. 3i Group plc *(3i), a substantial shareholder in the Company, provided a guarantee relating to the liabilities arising from the facility. Under the terms of* the guarantee, TeleCity UK Limited paid 3i arrangement and other fees of £100,000 during the year (2003: £275,000) and 3i took security over certain assets and undertakings of the Group.

On 28 April 2004, the facility was cancelled and the guarantee and charges were released.

Notice of meeting

Notice is hereby given that the Annual General Meeting (the 'Meeting') of TeleCity plc (the 'Company') for the year 2005 will be held at Bellerive House, 3 Muirfield Crescent, London, E14 9SZ at 10.30 a.m. on Thursday 16 June 2005.

The Business of the Meeting will be:

Ordinary business

1. To receive and adopt the Directors' report and the audited accounts for the year ended 31 December 2004.

2. To approve the Remuneration report for the year ended 31 December 2004.

3. To elect Alan Cornish, who retires under Article 117 of the Company's Articles of Association, as a Director of the Company.

4. To re-elect Trevor Wadcock, who retires under Article 112 of the Company's Articles of Association, as a Director of the Company.

5. To re-elect Alain Legendre, who retires under Article 112 of the Company's Articles of Association, as a Director of the Company.

6. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to fix the auditors' remuneration.

Special business

To consider and, if thought fit, pass the following Resolutions, Resolution 7 being proposed as an Ordinary Resolution and Resolution 8 as a Special Resolution:

7. That for the purposes of section 80 of the Companies Act 1985 (the 'Act') (and so that expressions used in this resolution shall bear the same meaning as in the said Section) the Directors be and they are hereby generally unconditionally authorised to exercise all powers of the Company to allot relevant securities up to a maximum aggregate nominal value of £90,967, being not more than one third of the Company's issued share capital at 1 March 2005, provided that:

(i) this authority will expire at the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution or 15 months after the passing of this resolution, whichever is the earlier, except to the extent that the same is renewed or extended on or before that date;

(ii) the Company may prior to the expiry of such period make any offer or agreement which would or might require relevant securities to be allotted under this authority after it expires and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution; and

(iii) the authority hereby given shall be in substitution for any existing authorities under section 80 of the Act.

8. That, subject to the passing of Resolution 7, in accordance with section 95(1) of the Act, the Directors of the Company be and they are hereby authorised to make allotments of equity securities (as defined in section 94(2) of the Act) for cash pursuant to the general authority conferred upon them in accordance with section 80 of the Act by Resolution number 6 above as if section 89(1) of the Act did not apply to any such allotments so that:

(i) reference to allotment in this resolution shall be construed in accordance with section 94(3) of the Act; and

(ii) the power conferred by this Resolution shall enable the Company to make any offer or agreement before the expiry of the period stated in (b) below which would or might require equity securities to be allotted after the expiry of the said power and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding the expiry of such power;

PROVIDED however that the power conferred by this Resolution shall:

(a) be limited:

(i) to the allotment of equity securities which are offered to all the holders of issued ordinary shares of the Company (at a date selected by the Directors of the Company) where the equity securities respectively allotted to the holders of ordinary shares are as nearly as practicable in proportion to the number of ordinary shares held by them respectively but such exclusions and other arrangements that the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or any legal or practical difficulties under the laws of any territory or the requirements of any regulatory body or stock exchange;

(ii) to the allotment (otherwise than pursuant to sub-paragraph (a)(i) above) of equity securities up to an aggregate nominal value of £13,604 being not more than 5% of the Company's issued ordinary share capital at 1 March 2005; and

(b) expire at the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution or 15 months from the passing of this resolution whichever is the earlier except to the extent that the same is renewed or extended on or before that date.

By order of the Board
Liz Hayman, Secretary
1 March 2005

Notes

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. To be valid, the form of proxy, duly executed, together with any power of attorney or other authority under which it is executed, must be deposited with Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA no later than 48 hours before the Meeting. Completion and return of the form of proxy will not prevent a member attending the Meeting and voting in person if he or she so wishes. A form of proxy for use at the above Meeting is enclosed herewith.

2. Pursuant to the Uncertificated Securities Regulations 1995, the Company has specified that only those shareholders registered in the Register of Members of the Company at 10.30 a.m. on Tuesday 14 June 2005 will be entitled to attend and vote at the Meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the Register of Members after 10.30 a.m. on Tuesday 14 June will be disregarded in determining the rights of any person to attend and vote at the Meeting.

3. Copies of the Register of the Directors' Interests in the share capital of the Company, and the Directors Service Agreements are available for inspection at the registered office of the Company during normal business hours on any business day (Saturdays, Sundays and public holidays excepted).

Company information

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3819054

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Company Secretary

Liz Hayman

Registrars

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www.northernregistrars.co.uk

Auditors

PricewaterhouseCoopers LLP
Manchester

Bankers

Barclays Bank PLC
London