

FINANCIAL REVIEW



BRIAN McARTHUR-MUSCROFT GROUP FINANCE DIRECTOR

Summary of Financial Review

- Total revenue for H1 2009 increased 33.0% to £82.2m
- EBITDA⁽¹⁾ up 75.2% to £29.4m (H1 2008: £16.8m)
- Cash flows from operating activities increased £11.2m to £32.8m (H1 2008: £21.6m)

Total revenue for the half year period increased 33.0% to £82.2m (H1 2008: £61.9m), £3.9m of the increase was due to the strengthening of the Euro against Sterling.

UK and Ireland ('UK&I') revenue grew 15.1% to £42.3m (H1 2008: £36.7m) and Rest of Europe ('RoE') revenue increased 59.0% to £39.9m (H1 2008: £25.1m). In RoE, £3.5m of the increase was due to exchange rate movements.

Revenue from Colocation and Value Added Services ('VAS') have increased by 40.7% and 9.6% respectively. Sales of VAS were £17.0m (H1 2008: £15.5m).

Due to a significant element of the Group's cost base being fixed, along with tight control of the variable element of the cost base, 61.8% of the incremental revenue flowed through to the EBITDA level. EBITDA increased 75.2% to £29.4m (H1 2008: £16.8m).

Operating costs, including depreciation and amortisation, increased 18.3% to £65.7m (H1 2008: £55.5m), with £4.0m

of the increase due to the strengthening of the Euro against Sterling.

An analysis of operating costs is as follows:

- property costs of £12.6m (H1 2008: £11.3m) represented 15.3% of revenue (H1 2008: 18.3%). The increase of £1.3m included £0.4m due to exchange rate movements. The underlying (i.e. before the effect of foreign exchange) difference of £0.9m was mainly due to additional rent and rates from the new data centres;
- electricity costs of £13.3m (H1 2008: £10.1m) represented 16.2% of revenue (H1 2008: 16.4%). The increase of £3.2m included £0.8m due to exchange rate movements. The underlying variance of £2.4m was due to increased occupancy and therefore power usage. The electricity costs for Ireland have decreased £0.5m since H1 2008 largely due to a change in contract terms through which electricity is now billed directly in respect of the largest customer;

(1) EBITDA is defined as earnings before interest, taxation, depreciation and amortisation.

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- the depreciation and amortisation charge has increased by £2.4m to £12.8m (H1 2008: £10.4m), with £0.7m due to exchange rate movements. The underlying increase was due to additional depreciation from the new data centres. Such depreciation commences when a data centre, or a part thereof, is brought into use;
- staff costs of £14.1m (H1 2008: £12.2m) represented 17.2% of revenue (H1 2008: 19.7%). The increase of £1.9m included £0.7m due to exchange rate movements. The underlying movement of £1.2m was due to an increase in headcount across the business in line with growth, annual salary increases and an increase to the share-based payment charge, partly as a result of the recent strong share price performance; and
- other costs of £12.9m (H1 2008: £11.5m) represented 15.7% of revenue (H1 2008: 18.6%). The increase of £1.4m related primarily to exchange rate movements.

Financing

The Group has a sound financial platform, including borrowing facilities which, together with expected operating cash flows, are sufficient to fund all currently announced capital expenditure.

Net finance costs for the period were £2.0m before a £0.2m foreign exchange gain on financing items (H1 2008: income £1.8m). The prior period figures include a non-cash fair value gain on an interest rate swap of £1.9m and a net foreign exchange gain in respect of financing items of £1.4m. After adjusting for these two amounts, the underlying net finance costs during H1 2008 were £1.5m.

Net finance costs for the current period comprise interest on bank loans of £1.6m, amortisation of debt arrangement fees of £0.2m and other financing costs of £0.2m.

The Group has an interest rate swap, which was put in place during 2007, that converts the interest rate on £53.0m of its borrowings from a floating LIBOR rate to a fixed interest rate of 5.205%.

Excluding non-monetary items, for example deferred income and prepayments, the Group had net current assets of £7.7m.

Taxation

The rapid growth in recent years of the Group's profitability has increased the rate at which its tax losses are being utilised. In addition, recent changes in the UK tax regime have reduced the rate at which the Group can obtain a tax deduction from its capital expenditure. As a result the Group is expecting to incur a tax charge in the current financial year at an effective rate of 6.9%. In accordance with IAS 34, this tax rate has been applied to the profit before tax for the first six months resulting in a half year tax charge of £1.0m.

"CASH FLOWS FROM OPERATING ACTIVITIES INCREASED £11.2M TO £32.8M (H1 2008: £21.6M). THE STRONG CASH PERFORMANCE IS PRIMARILY A RESULT OF THE INCREASED EBITDA OF £29.4M (H1 2008: £16.8M) AND FURTHER WORKING CAPITAL IMPROVEMENTS."

At 31 December 2008, the Group recognised a deferred tax asset in respect of trading losses and capital allowances totalling £5.4m (H1 2008: £2.4m). During the period, the Group has offset current tax charges through the use of these assets. Further deferred tax assets were recorded during the period resulting in a period end deferred tax asset of £5.4m. As the deferred tax asset at the end of the period is consistent with the balance recognised at 31 December 2008, there is no net charge for deferred tax in the period (H1 2008: credit £2.4m).

Cash flow

Cash flows from operating activities increased £11.2m to £32.8m (H1 2008: £21.6m). The strong cash performance is primarily a result of the increased EBITDA of £29.4m (H1 2008: £16.8m) and further working capital improvements.

Payments made during the period relating to net financing costs and taxation were £2.2m (H1 2008: £1.3m). The Group has invested £52.3m (H1 2008: £41.3m) in capital expenditure, £46.9m (H1 2008: £38.9m) of which relates to new builds and other fit-outs to existing buildings and £5.4m (H1 2008: £2.4m) to other capital expenditure including maintenance and sales capital expenditure.

During the period £3.0m has been repaid in respect of the term loan that forms part of the overall banking facilities. Under the terms of the banking agreement £3.0m is due for repayment each six months. Off-setting this are additional draw downs from the facility of £9.2m to finance capital expenditure.

At the end of the period the Group had net debt (including finance leases) of £47.2m (H1 2008: £15.6m).

Balance sheet

The Group's intangible assets, which have a book value of £46.0m (H1 2008: £47.0m), comprise acquired customer contracts and goodwill that arose during the acquisition of TeleCity, Globix and Redbus. The decrease in value of the assets is due to amortisation of £0.6m during the period and changes in foreign exchange rates.

Additions to property, plant and equipment of £56.8m (H1 2008: £60.7m) has been incurred during the period and the depreciation charge for the period was £12.2m (H1 2008: £9.8m). As a significant proportion of the Group's assets are denominated in Euros, the strengthening of Sterling has resulted in a foreign exchange downward movement on property, plant and equipment of £16.8m (H1 2008: gain £4.5m). This results in a period end carrying value of the Group's property, plant and equipment of £233.8m (H1 2008: £159.1m).

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Current trade and other receivables have decreased by £7.5m to £21.0m (H1 2008: £28.5m). Trading receivables have decreased by £5.6m to £12.5m (H1 2008: £18.1m) after an increase in value due to foreign exchange movements of £0.5m. Further improved billing and credit control procedures across the Group have resulted in trade debtors reducing despite increasing revenue. The remainder of the reduction relates to reduced prepayments in respect of capital items.

Current trade and other payables have increased by £5.0m to £58.2m (H1 2008: £53.2m), including a foreign exchange movement of £1.5m. £2.3m of the increase relates to the higher deferred income balance as a result of revenue growth. Other payables have increased due to higher sales tax and an accrual for corporation tax.

Current and non-current provisions for other liabilities and charges of £7.1m (H1 2008: £7.1m) primarily relate to an onerous lease provision in respect of a property in Munich.

Operational and financial risks

In carrying out its business, the Group is exposed to a variety of risks. The most significant factors impacting TelecityGroup's future performance are the Group's ability to open incremental space to meet demand and manage all its operations effectively. The Directors regularly review the broader risks facing the business and appropriate steps are taken to reduce or eliminate the risks and mitigate their potential impact. Page 15 of the Group's 2008 Annual Report contained a list and detailed explanation of the principal risks which the Directors considered could affect the Group. The operational risks comprised business disruption risk, technology risk and capital expenditure risk. The financial

risks comprised credit risk, foreign currency risk, liquidity and capital management risk, interest rate risk and cost risk. Although the list was not intended to be an extensive analysis of all risks which may arise in the ordinary course of business or otherwise, in the opinion of the Directors, the risks stated at that time remain the principal risks as at 30 June 2009.

On behalf of the Board



Michael Tobin
Chief Executive Officer



Brian McArthur-Muscroft
Group Finance Director