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Telecity
Annual Report and
Accounts 2001



Contents

Search :>>

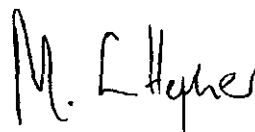
Summary	3
Operating review	4
Financial review	10
Board of Directors	14
Directors' report	16
Corporate governance statement	19
Remuneration report	21
Statement of Directors' responsibilities	24
Independent auditors' report	25
Consolidated profit and loss account	26
Consolidated balance sheet	27
Parent company balance sheet	28
Consolidated cash flow statement	29
Statement of total recognised gains and losses	30
Reconciliation of movements in equity shareholders' funds	30
Notes to the accounts	31
Notice of meeting	42
Company information	43

Summary

2001

"2001 was a difficult year for TeleCity; however, management responded quickly to the challenges by revising its business plan and significantly reducing the cost base.

We remain optimistic that with a secure financial position, a more effective sales and marketing effort and an improving level of market activity, the progress currently being made towards achieving profitability and generating cash will gain momentum."

A handwritten signature in black ink, appearing to read "M. L. Hefner".

Michael Hefner, Chairman & Chief Executive

Operating review

"The combination of terminating leases, reviewing all overhead expenditure and reducing headcount led to a 22% reduction in the overall cost base of the Company."

Overview

2001 proved to be a testing year for all companies in the technology sector with the dramatic slowdown in activity and investment becoming evident from the Spring and continuing throughout the remainder of the year. Such an abrupt change in market conditions hits a developing company hard. This was particularly so for TeleCity, coinciding as it did with the advanced stages of a major investment programme to establish a European network of high quality data centres.

The management of TeleCity responded decisively, revising its business plan and setting new targets for revenue growth and significant cost reduction.

At the same time it was clear that, to assure shareholders, customers and employees of the Company's financial strength and durability, further funding would be required. Various options were explored, including the possible merger of the Company with a competitor. However, the Board concluded that a Rights Issue, supported by the three key institutional shareholders (3i, Schroder

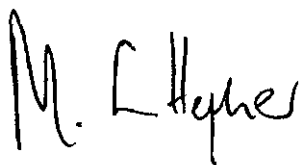
Investment Management and M&G Investment Management) was in the best interests of all the shareholders. We were pleased to report on 11 October that more than 87% of the potential new shares had been subscribed for, generating gross proceeds of £15.6m for the Company.

The support of our shareholders provides the Company with the resource to continue to develop the business and exploit the opportunities that come from the continued growth of the Internet.

The revised business plan

The key elements of the Company's revised business plan are cost and overhead reduction and the targeting of sales and marketing efforts towards selling the 190,000 square feet of fitted out space currently available. This space is a prime asset of the Company, particularly as the majority is available in the leading markets of London, Amsterdam and Frankfurt and there is no current need to acquire further leases or fit out additional space in today's sites. Indeed, we have successfully implemented another important feature of the revised business plan by exiting leases in undeveloped sites in Madrid, Brussels, Barcelona and Zurich.

The implementation of the revised business plan has been well managed to date. The combination of terminating leases, reviewing all overhead expenditure and reducing headcount led to a 22% reduction in the overall cost base of the Company from June to November 2001. Headcount was reduced by 83 positions, but these were carefully targeted to ensure that we can respond swiftly to an improving market environment. This is demonstrated by the fact that sales and marketing personnel numbers have increased from 18 in January 2001 to the current 35.



Michael Hopher, Chairman & Chief Executive

Our people remain our principal asset.

"TeleCity offered a genuine opportunity for MoneyMate to make use of a class-leading data centre infrastructure for our hosted solutions."

C. Smyth, CTO, MoneyMate

operating review cont'd

"We are beginning to see the first signs of increased enquiry levels which, if sustained, will typically translate to the receipt of orders some three to four months later."

Market conditions

The scale of the slowdown in the activity levels in technology markets, and in particular the suddenness of the decline, was unprecedented. TeleCity felt the effects towards the end of the first quarter of 2001 when it became clear that the general reduction in corporate IT roll-out programmes was undermining the willingness and ability of our target customers to commit to long-term investment. However, throughout the course of a very difficult year, Internet usage has continued to grow and this trend, coupled with the economic proposition TeleCity offers its customers in outsourcing services, means we still address a market of significant opportunity.

We reported in November, in conjunction with the release of our third quarter results, that activity levels had stabilised; now we are beginning to see the first signs of increased enquiry levels which, if sustained, will typically translate to the receipt of orders some three to four months later.

Results

The profit and loss account for the year to 31 December 2001 is dominated by the exceptional charges made at the half-year stage to reflect the change in strategy. The charges made then, which are essentially unchanged at the end of the year, accounted for the write off of fixed assets in sites which are no longer to be retained, the anticipated premiums payable to landlords to terminate the leases of those sites, and the cost of redundancies.

Turnover for the year totaled £32.6m (2000: £14.1m) and included £7.5m sales of storage equipment as part of a one-off contract. The underlying, recurring turnover therefore was £25.1m. Excluding the sale of equipment, turnover in Q4 was £6.3m, in line with that recorded in the previous quarter.

The level of EBITDA loss continues to reduce, from £3.4m in Q3 to £2.6m in Q4, as the cost reduction programme instituted in the second half of the year takes more effect. This is an encouraging trend, one I expect to continue throughout 2002.

"TeleCity has provided us with a trouble-free hosting environment. We have found their infrastructure to be extremely reliable and their engineers highly skilled and responsive"

A. Steevens, Managing Director, IS InterNed Services

The momentum over the last two quarters has been generated from the lower cost base; further reduction in the level of EBITDA loss will result from improved sales performance.

The balance sheet of the Company at the end of 2001 is sound. The Rights Issue process was rigorous in ensuring that sufficient funds were raised to see the Company through to the point where it becomes cash positive and the year end cash balance of £17.8m is significantly ahead of the cash flow forecast adopted at the time of the Rights Issue.

Customer base

TeleCity has always focused on the larger, more stable telecommunications companies and Internet Service Providers. The contract signed with Deutsche Telekom adds another 'blue chip' name to the customer list. The strength of the Company's customer base has proved valuable in the most turbulent markets when many small, developing businesses have not survived the downturn.

No material bad debts have been incurred during

2001, primarily due to the quality of the customer base but also to the very vigilant approach we maintain to credit control.

Operations

Of the eleven operational data centres, six continue to be profitable at the EBITDA level with others budgeted to reach that critical point during 2002. Inevitably the speed at which sites become EBITDA-positive has slowed in the last year with the reduced sales of space, but the data centre financial model remains the same. Once a certain level of space is occupied the increasing utilisation of engineers' time rapidly translates to profitability as a high proportion of a site's cost is fixed, being rent, depreciation and the cost of the engineers themselves.

The nature of our business, being the provision of infrastructure to our customers, and the fact that we continue to secure contracts for space over three to five years, provides a robustness and predictability to revenues even in the most difficult of markets.

"Stac chose TeleCity based on the criteria of location, cost and the in-house engineering skills at our disposal."

C. Brady, Technical Services Director, Stac Media Ltd

operating review cont'd

"The sales and marketing strategy will be focused on selling fitted out space, causing more sites to become EBITDA-positive."

Nevertheless, it remains essential to service customers to the highest standard, something TeleCity has always held as the highest priority. The fact that so many of our customers are now installed in a number of our sites is testament to the service they receive in their initial location as well as the consistency of our operations throughout the network.

Sales and marketing

The sales and marketing strategy will be focused on selling fitted out space, at the same time improving the utilisation of engineers' time, causing more sites to become EBITDA-positive and enhancing the performance of those already profitable. Whilst this must be our primary focus we will continue to discuss additional service requirements with our customers.

Five key appointments have been made to enhance the quality of our sales and marketing effort in Germany, Ireland, Sweden and the UK. In addition, there is now a clear focus and accountability within the sales team which will result in greater awareness of sales opportunities and, increasingly, a higher conversion rate of enquiries to orders.

Board changes

A number of changes have been made to the Board during the course of the year.

In May and June, Alain Legendre and Josef Ellmauer joined the Company as non-executive Directors. Both provide invaluable experience in enhancing our knowledge of the European markets in which we operate. Alain's career with Andersen Consulting included appointments as Managing Partner, France and Head of the Software and Technology Practice,

Europe. Josef has held a number of senior executive positions at Nortel Networks in Germany, having previously been Managing Director of Sony International Europe GmbH. I am delighted that two such experienced executives are making important contributions to our Board discussions.

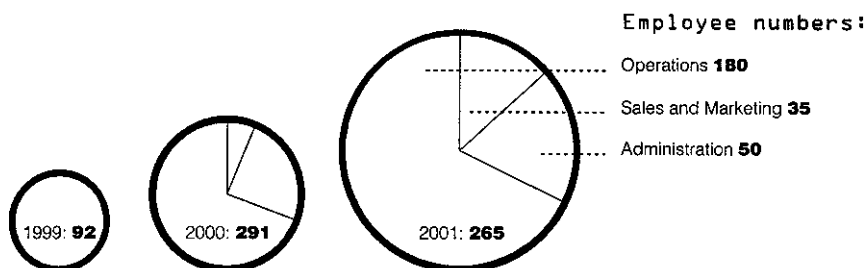
Mike Kelly left the Board at the end of August and Chris Duckworth resigned after the Extraordinary General Meeting in September. Anish Kapoor stood down as an executive Director at the end of the year but will continue as a non-executive until the end of March 2002. All three were founders of TeleCity and made a major contribution to the early development of the Company.

In October, we were pleased to announce the appointment to the Board of Trevor Wadcock, our Operations Director. Trevor joined TeleCity in October 2000, bringing a wealth of experience in the field of telecommunications management from his time at Worldcom and BT.

Glenn Tookey joined the TeleCity Board as Sales and Marketing Director in January 2001, leaving in December. I am grateful to Glenn for his efforts during that time.

The Board was very pleased to announce the appointment of Les Johns as Sales and Marketing Director. Les joined TeleCity at the beginning of January 2002, having held a number of senior executive roles in companies in the telecoms sector, most recently as UK Managing Director at Level 3.

Les's primary focus will be to drive company-wide business performance and to direct the activities of our sales teams across Europe.



From May 2001 my role has been as Chairman and Chief Executive of TeleCity. The Board believes this to be appropriate given the current size of the Company and recognising the strong, independent non-executive representation from other Board members.

After many changes over the last twelve months I believe the newly constituted Board has an excellent blend of experience to direct the business going forward.

Employees

The last year has been a very testing time for all our employees, now numbering some 265, and we have had to release a number of highly talented and dedicated people in order to bring the Company's cost base in line with the current market activity. TeleCity's people remain its principal asset; I thank each of them for their continuing commitment to the Company.

Outlook

I remain optimistic that with a secure financial position, a more effective sales and marketing effort and an improving level of market activity, the progress currently being made towards achieving profitability and generating cash will gain momentum. ■

Financial review

"The underlying turnover was £25.1m, an increase of 79% over the previous year."

Overview of results

Turnover in the year to 31 December 2001 increased 132% to £32.6m. Included in 2001 revenues is £7.5m of non-profitable sales of equipment relating to one sales contract. The underlying turnover therefore was £25.1m, an increase of 79% over the previous year. The Group's loss before tax, before exceptional items, increased from £12.3m to £20.1m, which includes a substantial increase in depreciation, from £2.9m to £8.1m, following completion of the major investment programme, and an increase in the full year EBITDA loss from £10.9m to £13.1m. However the trend in EBITDA loss during 2001 became more positive with a reduction from £3.7m in the second quarter, to £3.4m in the third and £2.6m in the final quarter. This progression was largely due to the cost reduction programme instigated by the slowdown in IT markets.

Exceptional costs

The exceptional items noted in the table below were first included in the Company's accounts at the half-year stage. They reflect the implementation of the revised business plan detailed in the Operating review.

	£'000
Write off of fixed assets	5,493
Costs and provision in respect of exiting property lease contracts	6,326
Loss on contract relating to storage equipment	986
Costs in respect of aborted raising of debt facilities	883
Redundancy costs incurred	1,584
	15,272

The write off of fixed assets follows impairment reviews at those sites which the Group has exited or is seeking to exit. The Group has exited from the Madrid, Barcelona and Zurich sites and has also reduced its capacity at the Paris site. The cost of exiting from the leases at these sites was equivalent to between 9 and 13 months' rent. The Group is seeking to exit the London 3 and Manchester 2 sites and a provision for the onerous lease commitments at these sites has also been made. The amount provided represents management's estimate of the likely premiums that will be payable to secure an exit from these leases.

The loss on contract relating to storage equipment derived from a one-off sale amounting to £7.5m at a cost of £8.5m.

The exceptional item in 2000 related to the costs of raising debt finance which was repaid in that year.

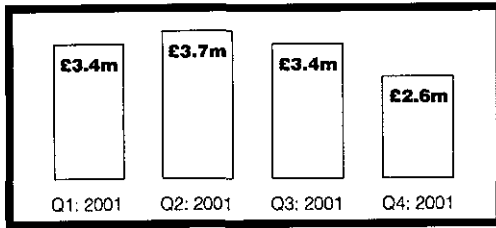
Taxation

Unrecognised tax credits for the year amounted to £6.8m, bringing the cumulative total to £11.6m. These credits are carried forward to be utilised against tax on future profits. In consultation with our advisers, considerable time has been invested in ensuring the Company has established an effective corporate structure to ensure that the taxation charge is appropriately managed and there is no inhibition to the free flow of funds across the jurisdictions in which we operate.

Cash flow

The completion of the Rights Issue of shares to existing shareholders, completed in September 2001, created an additional 130 million shares in the Company at a price of 12p per share. The Rights Issue generated total funds of £15.6m before the deduction of related expenses totaling approximately £1.4m.

EBITDA loss:



The trend in EBITDA loss during 2001 became more positive with a reduction from £3.7m in the second quarter, to £3.4m in the third and £2.6m in the final quarter.

At the year end, cash balances total £17.8m. Capital expenditure amounting to £32.2m has been incurred, almost all of which was invested in the equipping of data centres. This marks the end of the major capital expenditure programme, with ongoing requirements limited to maintenance-type spend and potentially the limited fitting out of space at individual sites where customer demand exceeds supply.

Each of our sites is leasehold, secured under an institutional-type lease with a typical life of twenty years. Our investment in a site amounts to a fundamental refurbishment of the existing building and involves floor strengthening, extensive cabling and other structural work, together with major items of plant such as generators, air conditioning and uninterruptible power supply systems.

The key element in the control of working capital continues to be the management of debtor balances. Our customer base primarily consists of larger Internet Service Providers and substantial telecommunications companies. This is of significant comfort when market conditions for our customer base are difficult. The Company maintains a very disciplined approach to credit control with all customers, and no material bad debts have been incurred during 2001. In order to secure space in our facilities, customers are required to sign contracts, most often for a five year period, with payments made quarterly in advance.

Treasury management

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

At 31 December 2001, with the exception of a small amount of debt comprising finance leases and an other loan, the Company was financed through equity share capital. The Group also 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.

Martyn Ellis, Finance Director

The Group has not entered into any derivative transactions related to interest rates. In the case of significant contracts denominated in non-sterling currencies it is the Group's policy to enter into forward foreign currency contracts in order to hedge against currency fluctuations. No forward currency contracts were in place at 31 December 2001.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The most significant risks faced by the Group in relation to its financial instruments 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 below.

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 undertaken not to hedge these exposures. The Group hedges against the risks arising from significant contracts denominated in foreign currencies by entering into forward foreign currency contracts.

It remains essential to service customers to the highest standard.

“TeleCity consistently deliver on security, engineering and customer service. No other FM company in Scotland comes close to the standards set by TeleCity and we would not hesitate to recommend them.”

C. Binnie, Managing Director, Below Zero

financial review cont'd

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 short-term liquidity requirements.

Liquidity risk

The Group has ensured the continuity of funding, primarily through the use of equity finance, most recently by means of a Rights Issue to existing shareholders in September 2001. 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 Company recognises the revenues receivable evenly over the course of its contracts which are typically five years. On occasion, substantial one-off payments are received from customers when the fit-out of a suite is made specific for their purpose. Revenues received in this form are also recognised over the course of the contract.

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.

As the Company continues to grow and extends its reach across Europe, so limited authority and responsibility has been vested in local management teams. Separate legal entities, which are self-accounting, are established in most countries and, where the business is sufficiently advanced, management teams are in place.

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 clear 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 updated regularly;
- Well established consolidation and reporting systems exist for both the statutory and monthly management accounts;
- Finance reviews conducted by Group management have been instituted in each reporting subsidiary on a twice yearly basis. The primary focus of these reviews is the testing of the validity of balance sheet values to ensure 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 mis-statement and loss. ■

M A FOO

Board of Directors

Michael Hepher

*Chairman and Chief Executive
Born in 1944.*

Michael Hepher was appointed non-executive Chairman in February 2000 and took over as the Company's Chief Executive in May 2001. He is also a non-executive director of Kingfisher plc and Canada Life, Toronto. 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.

Martyn Ellis

*Finance Director
Born in 1956.*

Martyn Ellis became a Director of the Company on 1 March 2000. Mr Ellis has held senior positions at a number of companies, including Finance Director of Whitecroft plc from 1993 to 2000, Finance Director of Mann Egerton (the largest division of Inchcape plc) from 1990 to 1993, and Finance Director of the UK division of the Campbell Foods Group from 1988 to 1990.

Les Johns

*Sales and Marketing Director
Born in 1957.*

Les Johns was appointed to the Board on 2 January 2002. He previously worked for Level 3 Communications Limited where he held a number of roles, the most recent being Vice President of European Sales and UK Managing Director. Prior to joining Level 3 he spent 10 years working for MCI Worldcom in various roles culminating in that of UK Sales Director.

Trevor Wadcock

*Operations Director
Born in 1954.*

Trevor Wadcock was appointed a Director on 22 October 2001 having joined the Company in October 2000. Mr Wadcock has over 25 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.

Eric Barton

Non-executive Director

Born in 1945.

Eric Barton joined the Board in September 1999. 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 Holdings plc, Informa Group plc, Asco Group plc and a number of other private companies in receipt of venture capital funding.

Josef Ellmauer

Non-executive Director

Born in 1950.

Josef Ellmauer was appointed a Director of the Company on 15 June 2001, bringing to the Company considerable experience of the telecommunications industry, both in Germany and across Europe. Mr. Ellmauer, who is based in Frankfurt, is currently a senior executive at Nortel Networks. Previously he was Managing Director of Sony International Europe GmbH.

Anish Kapoor

Non-executive Director

Born in 1972.

Anish Kapoor is one of the Company's founders and was, until March 2000, Finance Director and Company Secretary. Upon Mr Ellis' appointment as Finance Director Mr Kapoor was appointed Corporate Development Director. He resigned this position on 31 December 2001 but will remain on the Board as a non-executive Director until 31 March 2002. Prior to joining the Company, Mr Kapoor qualified as a chartered accountant with Coopers and Lybrand and was Group Audit Manager at Airtours plc.

Alain Legendre

Non-executive Director

Born in 1943.

Alain Legendre was appointed a Director of the Company on 18 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 was founder and CEO of a venture capital firm, Startup-performance.

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 2001.

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 Operating review on pages 4 to 9 and the Financial review on pages 10 to 13.

Results and dividends

The results of the Group are set out on page 26. The Directors do not propose the payment of a dividend (2000: £Nil).

Directors and their interests

During the year to 31 December 2001 the following changes took place in the composition of the Board:

	Appointed	Resigned
Mike Kelly		31 August 2001
Chris Duckworth		17 September 2001
Glenn Tookey	11 January 2001	10 December 2001
Alain Legendre	18 May 2001	
Josef Ellmauer	15 June 2001	
Trevor Wadcock	22 October 2001	

On 10 May 2001, Michael Hepher, who had previously been solely non-executive Chairman, also took the role of Chief Executive. At the same time Mike Kelly resigned as Chief Executive and became Deputy Chairman until his resignation from the Board on 31 August 2001.

On 31 December 2001 Anish Kapoor resigned as an executive Director but will continue on the Board as a non-executive Director until 31 March 2002.

On 2 January 2002, after the end of the period under review, Les Johns was appointed to the Board.

The Board has established three Committees, full details of which can be found on pages 19 and 20.

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 2001 beneficial ordinary shares of 0.1p	31 December 2000 beneficial ordinary shares of 0.1p
Eric Barton	175,150	56,500
Michael Hepher*	782,487	252,415
Anish Kapoor	3,459,375	3,459,375

* includes 750,154 shares held by The Bank of Nova Scotia Trust Company Channel Islands Limited (a Jersey company) as trustee of a Jersey trust, the Maple Leaf Family Settlement, on trust for Michael Hepher and his family.

There have been no changes in the interests of the Directors (or their families) between 31 December 2001 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, Alain Legendre, Josef Ellmauer, Trevor Wadcock and Les Johns will retire at the Annual General Meeting and each 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 Director retiring by rotation at the Annual General Meeting will be Martyn Ellis, who, being eligible, will be seeking re-election by shareholders.

On 7 February 2000, the Company entered into a service contract with Maple Leaf Global Limited, a company which is controlled by Michael Hepher, which related to the provision of Mr Hepher's services as a non-executive Director. The contract was terminated on 9 May 2001. On 31 August 2001, the Company entered into a further contract with Maple Leaf Global Limited for the provision of administrative and secretarial support at a cost of £24,000 plus VAT per annum. This contract is terminable by either party giving three months' notice. On 8 May 2000, the Company entered into a service contract 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 21 to 23.

Political and charitable donations

During the financial year the Group made no donations for charitable or political purposes.

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 themselves and the performance of the Company through regular briefing meetings, as well as through informal briefings. All employees are 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. In respect of contracts relating to the fitting-out of sites, contractors submit applications for payment, which are certified by the Company's Quantity Surveyors; payment is then made at the end of the month. At 31 December 2001 the Group had 21 (2000: 20) days' purchases outstanding in trade creditors. The Company has no trade creditors.

Substantial shareholdings

The Company has been notified that the following shareholders (other than Directors and their families) held in excess of 3% of the Company's ordinary shares as at 22 February 2002.

Shareholder	Number of shares held	% of the issued share capital
3i Group plc	97,718,549	48.73
Prudential plc (M&G)	31,739,613	15.83
Schroder Investment Management Ltd	31,302,449	15.61
Mike Kelly	18,544,382	9.25

Annual General Meeting

The Annual General Meeting of the Company will be held on 17 May 2002 and the Notice of Meeting can be found on pages 42 and 43. The Special Business to be concluded 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 8 the Directors are seeking authority to allot securities up to a maximum nominal value of £66,837. 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').

Directors' report

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 9 the Directors are seeking authority to make allotments of shares outside of such pre-emption provisions up to a maximum nominal amount of £10,025. 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.

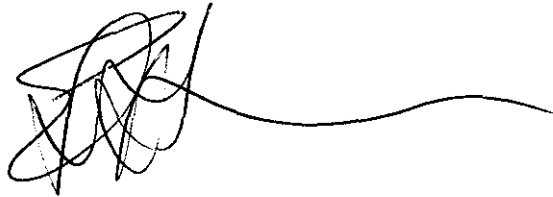
Auditors

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

On behalf of the Board

Liz Hayman, Secretary

22 February 2002

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

Corporate governance statement

The Company is committed to achieving high standards of corporate governance throughout the Group and to integrity and high ethical standards in all its business dealings. The Board considers that it has complied throughout the financial period with the provisions set out in Section 1 of the Combined Code (the 'Code'), except in three instances. First, as shown in the Remuneration report, the Company has granted share options in single large amounts to a small number of senior executives and intends to do so in respect of Les Johns. The Board believes that it is necessary, in order to recruit and retain high quality candidates in a highly competitive environment, to grant a substantial number of options on initial appointment. Second, since 10 May 2001, the Company has combined the posts of Chairman and Chief Executive in one person. The Board believes that this position is fully justified in terms of the size of the Board and of the Company. The decision to make this appointment was discussed fully with the Company's major shareholders who gave their support to the Board's intentions. The Board has a strong and independent non-executive element with a recognised senior member. Third, since 10 May 2001 the Company's Audit Committee has comprised two non-executive Directors, rather than three as required by the Code. The Board feels that, given the size of the Board, the independent functioning of the Audit Committee has not been jeopardised by having two rather than three members.

The Board of Directors

The Board has established guidelines requiring specified 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 four executive Directors and four non-executive Directors, three of whom are considered to be independent for the purposes of the Combined 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 can be conveyed.

The Board has twelve scheduled meetings per year and meets otherwise as required. Directors receive timely and adequate information regarding the Group as necessary and in preparation for Board meetings. All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are adhered to. A procedure exists under which all Directors may take independent professional advice, if necessary, at the Company's expense.

All Directors are aware of and have access to appropriate training in respect of their duties as Directors.

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.

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. The Committee is also responsible for ensuring that appropriate steps are taken by the Board to reduce and/or eliminate such risks.

In addition, the Committee has other responsibilities including agreeing with the Company's auditors the nature and scope of the audit and reviewing the effectiveness of the system of internal control and reporting on this to the Board of Directors.

The Committee comprises Eric Barton (Chairman) and Alain Legendre who are both independent non-executive Directors of the Company. For the purposes of the Audit Committee held on 14 February 2002 only, the Board appointed Anish Kapoor as a member of the Committee.

Remuneration Committee

This Committee reviews and determines the Group's policy on remuneration of senior executives and controls the operation of the Company's share option schemes including the grant of new options. The Committee considers and approves specific remuneration packages for each of the executive Directors. Although Michael Hephner is invited to attend meetings of the Committee he does not remain during any discussion regarding his own position or remuneration.

The Committee comprises Eric Barton (Chairman), Alain Legendre and Josef Elmauer who are all independent non-executive Directors of the Company. The Committee has given full consideration to the principles and policies of the Code relating to remuneration matters and to Schedule A of the Code.

Corporate governance statement

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 21 to 23.

Nominations Committee

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

The Committee comprises Eric Barton (Chairman), Alain Legendre and Josef Ellmauer who are all independent non-executive Directors of the Company and Michael Hepher, the Chairman and Chief Executive.

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.

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 42 and 43, will be presented as separate Resolutions and will include a Resolution relating to the Report and Accounts. 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 maintain a sound system of internal control to safeguard shareholders' investment 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, throughout the year to 31 December 2001, the following framework, which covers both UK and non-UK operations, was in place to ensure compliance with the internal control requirements of the Code:

- a risk control framework document, incorporating a risk database, has been maintained, monitoring the key risks within the Company. Each key risk has been assigned a Risk Owner. The database has been substantially amended during 2001 to reflect the changes in the Company's business plan with risks being reassigned where necessary following the reductions in headcount;
- a prioritised action plan is maintained, containing mitigation plans and dates by which Risk Owners aim to correct identified control weaknesses;
- the Risk Working Group established in 2000 has not formally convened during 2001 due to the changes in the Company's business plan and the consequent personnel changes. It is intended that senior management will meet quarterly to review and update the risk database and a report will then be presented by the Finance Director to the Audit Committee and the Board.

The Board believes that it has followed appropriate internal control procedures to manage risk and that the framework outlined above enables the Board to report that there is a formal and ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This framework has been in place for the whole of the year under review and until the date of the Annual Report.

Further details on financial control are set out in the Financial review on pages 10 to 13.

The Group does not at present have an internal audit function as the Directors do not consider that the scale of its operations warrants the establishment of a separate department. The Audit Committee and the Board will continue to monitor the need for an internal audit function as the size and complexity of the business grows.

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 the Combined Code (the 'Code') and Schedule B thereto. Except as specifically referred to in the Corporate governance statement on pages 19 and 20, the Company has in all respects complied with the recommendations on remuneration within the Code.

Remuneration policy

The Company's policy is to ensure that packages paid to Directors are competitive when compared to similar companies and 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 the shareholders. Within this overall objective the Company provides basic salary, benefits, an Executive Incentive Plan, share options and pension contributions.

Basic salary

Salaries are reviewed annually by the Remuneration Committee (the 'Committee') in accordance with the terms above and in light of external professional advice. In addition, the Committee takes account of market rates and both the Company and the individual's performance for the relevant financial period.

Full details of the Committee can be found in the Corporate governance statement on pages 19 and 20.

Benefits

The only benefits available are private health insurance and the provision of a company car (or a non-pensionable cash allowance in lieu of a company car). Details of the value of benefits received by the Directors can be found in the Directors' emoluments table on page 22.

Executive Incentive Plan

The Executive Incentive Plan, which was introduced for the financial period to 31 December 2001 is structured to pay executive Directors a bonus upon successful achievement of revenue growth, budget management and operational targets. Although the criteria under which such bonuses become payable are based on short-term objectives, these objectives are compatible with the long-term aims of the Company. During the year to 31 December 2001 bonuses were paid to executive Directors as referred to in the table on page 22. Bonuses are not pensionable.

Pension contributions

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 agreed to make a contribution to a personal pension scheme set up for the benefit of Glenn Tookey (during the period of his employment by the Company) at the rate of 6.5% of his basic salary.

The Company has during the year introduced 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:

	Year to 31 December 2001 £	Year to 31 December 2000 £
Anish Kapoor	7,800	2,166
Mike Kelly†	7,800	3,467
Glenn Tookey†	13,772	—
Trevor Wadcock†	1,517	—

† appointed and/or resigned during the period. Full details can be found in the Directors' report on page 16.

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.

	2001					2000
	Salary/fees £	Annual bonus £	Benefits £	Compensation for loss of office £	Total excluding pension contributions £	Total excluding pension contributions £
Non-executive Directors						
Eric Barton	34,596	–	–	–	34,596	22,535
Christopher Duckworth†	15,625	–	–	–	15,625	15,000
Josef Ellmauer†	13,542	–	–	–	13,542	–
Michael Hepher (to 9 May 2001)	24,979	–	–	–	24,979	62,732
Alain Legendre†	15,524	–	–	–	15,524	–
Executive Directors						
Martyn Ellis	140,000	16,800	10,924	–	167,724	149,190
Michael Hepher (from 10 May 2001)	128,271	–	–	–	128,271	–
Anish Kapoor	120,000	36,000	14,951	30,000	200,951	118,788
Mike Kelly†	120,000	–	9,766	155,583	285,349	174,933
Glenn Tookey†	183,014	–	19,773	120,000	322,787	–
Trevor Waddock†	22,684	12,000	3,111	–	37,795	–
Total	818,235	64,800	58,525	305,583	1,247,143	543,178

† appointed and/or resigned during the period. Full details can be found in the Directors' report on page 16.

As noted in the Directors' report, Les Johns was appointed to the Board on 2 January 2002, after the period under review, and consequently he did not receive any payment or benefits from the Company during the year to 31 December 2001. Mr. Johns receives an annual basic salary of £140,000 from the Company with a target performance related bonus entitlement of £70,000. Mr. Johns also receives other benefits similar to those received by the other executive Directors including a contribution to the Company's personal pension plan equivalent to 6.5% of his basic salary.

Long-term awards

On 12 November 1999, the Group established the TeleCity Limited Approved and Unapproved Executive 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 TeleCity Limited as had previously been the case.

Other than the Current Option Schemes, the Company does not currently operate any other form of long-term incentive scheme.

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.

Options granted under the Old Option Schemes are not subject to the satisfaction of performance criteria.

Under the Current Option Schemes, the exercise of options granted before 28 September 2001, is subject to the satisfaction of a performance criterion which requires that total shareholder return over a three year period must not be less than the median total shareholder return achieved during the same period by the constituent companies of the Software and Computer Services and Telecommunication sectors of the FTSE 250 Index (the 'First Performance Criterion'). The exercise of options granted on or after 28 September 2001 is subject to the satisfaction of performance criteria which require either that the Company's average share price over the 30 day period immediately prior to the third anniversary of the grant of the option is at least 29 pence, or that the Company's average share price over the 30 day period immediately prior to the fifth anniversary of the grant of the option is at least 42 pence (the 'Second Performance Criteria').

The Committee has the power to redefine the performance criteria from time to time and to create special performance criteria for a particular option grant.

No options under either the Old Option Schemes or the Current Option Schemes were exercised by Directors during the period.

Options to subscribe for the Company's shares held by Directors including those granted during the year are shown below:

	Options held at 31 December 2000 at 0.12p each**	Options held at 22 October 2001 (date of appointment) at 379.1p each**	Options granted during the year at 12.8p each	Total options held at 31 December 2001	Earliest date of exercise	Expiry date
Martyn Ellis						
– approved	812,231			812,231	17 March 2003	16 March 2010
– unapproved	90,232			90,232	currently exercisable	16 March 2010
Total	902,463			902,463		
Michael Hepher						
– approved			234,375 [†]	234,375	28 September 2004	27 September 2011
– unapproved			2,890,625 [†]	2,890,625	28 September 2004	27 September 2011
Total			3,125,000	3,125,000		
Trevor Wadcock						
– approved		7,912		7,912	23 October 2003	22 October 2010
– unapproved		165,515		165,515	23 October 2003	22 October 2010
– approved			43 [†]	43	28 September 2004	27 September 2011
– unapproved			599,957 [†]	599,957	28 September 2004	27 September 2011
Total		173,427	600,000	773,427		

* adjusted by rights issue ratio of 248/143.

† held at date of appointment.

1. No Performance Criteria.

2. First Performance Criterion.

3. Second Performance Criteria.

4. Special Performance Criterion: the successful refinancing of the Company.

In addition to the options shown in the table above, during the year, 1,277,483 options were granted to Glenn Tookey. These share options lapsed when Mr Tookey's employment by the Company ceased.

It is the Committee's intention to approve the grant of 750,000 options at 11.58 pence each (259,067 approved and 490,933 unapproved) over the Company's ordinary shares to Les Johns on 22 February 2002; these options will be exercisable between 22 February 2005 and 21 February 2012 and will be subject to the Second Performance Criteria.

During the year, the Committee has also approved the grant of 888,671 options to persons other than the Directors in numbers determined by the Committee by reference to the level of earnings of the employees concerned and taking account of practice amongst other listed companies and competitors.

The market price of the Company's shares at the end of the year was 13 pence. During the year the closing mid-market price ranged between 640 pence and 11 pence.

Service contracts

Service contracts for executive Directors follow the recommendations of the Code.

Michael Hepher's service contract is for a fixed period which expires on 30 June 2002, after which time the contract will be terminable by three months' notice from either party.

Service contracts for the other executive Directors, including that of Les Johns whose contract commenced after the end of the period under review, may be terminated by the Company giving a Director not more than 12 months' notice or by a Director giving the Company not less than 6 months' notice.

Service contracts for the non-executive Directors are, with the exception of that of Anish Kapoor, 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 Mr Legendre, Mr Barton and Mr Ellmauer expire on 17 May, 31 May and 14 June 2002 respectively.

Mr Kapoor's contract is for a three month fixed period to 31 March 2002 and contains no renewal provisions.

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 those accounts the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 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 profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in equity shareholders' funds and the related notes.

Respective responsibilities of Directors and auditors

The Directors' responsibility 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.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Accounting Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and are 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 or the Listing Rules 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 Operating review, the Financial review, the Directors' report, the Corporate governance statement and the Remuneration report.

We review whether the Corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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. 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 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 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Manchester

22 February 2002

Consolidated profit and loss account

For the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
Continuing operations			
Turnover	3	32,628	14,053
Operating loss before exceptional items		(21,228)	(13,805)
Exceptional items	2	(15,272)	(430)
Operating loss	2, 3	(36,500)	(14,235)
Net interest receivable	5	1,108	1,549
Loss on ordinary activities before taxation		(35,392)	(12,686)
Taxation	6	—	—
Loss on ordinary activities after taxation		(35,392)	(12,686)
Preference share appropriations	7	—	(1,080)
Retained loss for the year attributable to ordinary shareholders	19	(35,392)	(13,766)
Loss per ordinary share			
Basic and diluted	9	(25.2p)	(12.6p)

Consolidated balance sheet

As at 31 December 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Tangible assets	10	74,105	55,832
Current assets			
Stocks	12	38	3,693
Debtors	13	7,013	10,008
Cash at bank and in hand	14	17,794	47,042
		24,845	60,743
Creditors – amounts falling due within one year	15	(17,950)	(17,155)
Net current assets		6,895	43,588
Total assets less current liabilities		81,000	99,420
Creditors – amounts falling due after more than one year	16	(102)	(60)
Provisions for liabilities and charges	17	(4,443)	–
Net assets		76,455	99,360
Capital and reserves			
Called up share capital	18	201	71
Share premium account	19	111,735	97,749
Merger reserve	19	17,862	17,862
Profit and loss account	19	(53,343)	(16,322)
Equity shareholders' funds		76,455	99,360

Approved by the Board on 22 February 2002 and signed on its behalf by

M L Hopher, Chairman and Chief Executive

M A Ellis, Finance Director

M L Hopher

M A Ellis

Parent company balance sheet

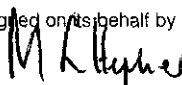
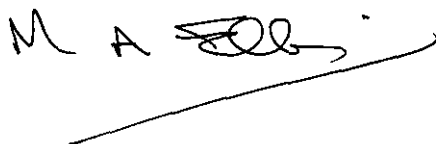
As at 31 December 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Investments	11	98,065	98,194
Current assets			
Debtors	13	14,356	1,076
Creditors – amounts falling due within one year	15	(657)	(345)
Net current assets		13,699	731
Net assets		111,764	98,925
Capital and reserves			
Called up share capital	18	201	71
Share premium account	19	111,735	97,749
Profit and loss account	19	(172)	1,105
Equity shareholders' funds		111,764	98,925

Approved by the Board on 22 February 2002 and signed on its behalf by

M L Hopher, Chairman and Chief Executive

M A Ellis, Finance Director

Consolidated cash flow statement

For the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
Net cash outflow from operations	20	(12,579)	(9,179)
Returns on investments and servicing of finance:			
Interest received		1,184	2,177
Interest paid		(14)	(711)
Interest paid on finance leases		(18)	(35)
		1,152	1,431
Taxation		-	-
Capital expenditure and financial investment:			
Purchase of tangible fixed assets		(32,181)	(51,531)
Sale of tangible fixed assets		5	15
		(32,176)	(51,516)
Net cash outflow before management of liquid resources and financing		(43,603)	(59,264)
Management of liquid resources		24,387	(38,000)
Financing:			
Proceeds of issue of share capital		15,565	129,750
Repayment of share capital		-	(17,713)
New bank loans raised		-	17,500
Repayment of bank loans		-	(17,500)
New loan raised		112	-
Repayment of other loan		-	(572)
Capital element of finance lease payments		(144)	(155)
Expenses paid in connection with finance raised		(1,032)	(9,650)
Net cash inflow from financing		14,501	101,860
(Decrease)/increase in cash in the period	21	(4,715)	4,396
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the period		(4,715)	4,396
Management of liquid resources		(24,387)	38,000
		(29,102)	42,396
New bank loans raised		-	(17,500)
Repayment of bank loans		-	17,500
New loan raised		(112)	-
Repayment of other loan		-	572
Capital element of finance lease payments		144	155
Change in net funds arising from cash flows		(29,070)	43,123
Translation differences		(146)	56
Movement in net funds in year		(29,216)	43,179
Net funds at 31 December 2000		46,843	3,664
Net funds at 31 December 2001	21	17,627	46,843

Statement of total recognised gains and losses

For the year ended 31 December 2001

	2001 £'000	2000 £'000
Loss for the financial year	(35,392)	(12,686)
Currency translation differences on foreign currency net investments	(1,629)	474
Total recognised losses recognised since last period	(37,021)	(12,212)

Reconciliation of movements in equity shareholders' funds

For the year ended 31 December 2001

	2001 £'000	2000 £'000
Loss for the financial year	(35,392)	(12,686)
Preference share appropriations	–	(1,080)
	(35,392)	(13,766)
Currency translation differences on foreign currency net investments	(1,629)	474
Preference share appropriations	–	1,080
Shares issued (net of issue costs)	14,116	120,185
Preference shares repaid	–	(17,713)
Net (decrease)/increase in equity shareholders' funds	(22,905)	90,260
Opening equity shareholders' funds	99,360	9,100
Closing equity shareholders' funds	76,455	99,360

Notes to the accounts

1 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.

Basis of consolidation

As permitted by Financial Reporting Standard No. 6, the consolidated accounts have been prepared in accordance with the principles of merger accounting. The comparative figures for 31 December 2000 comprise the combined accounts of TeleCity plc and TeleCity UK Limited. The accounts of the parent company and its subsidiaries are made up to 31 December 2001.

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 in each country and the 10 year bond rate, with the discount unwinding 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:

Other leasehold improvements	10% straight line
Plant and machinery	10% straight line
Office equipment	25% straight line

Stocks

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

Establishment costs

All costs incurred in relation to securing new sites are expensed to the profit and loss account as incurred.

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.

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 at appropriate rates on all material timing differences using the liability method to the extent that, in the opinion of the Directors, there is a reasonable probability that a liability will crystallise in the foreseeable future.

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

2 Operating loss

	2001			2000		
	Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
Turnover	25,128	7,500	32,628	14,053	–	14,053
Cost of sales	(26,191)	(8,486)	(34,677)	(13,148)	–	(13,148)
Gross (loss)/profit	(1,063)	(986)	(2,049)	905	–	905
Selling and distribution costs	(4,232)	–	(4,232)	(934)	–	(934)
Administrative expenses	(15,933)	(14,286)	(30,219)	(13,776)	(430)	(14,206)
Net operating expenses	(20,165)	(14,286)	(34,451)	(14,710)	(430)	(15,140)
Operating loss	(21,228)	(15,272)	(36,500)	(13,805)	(430)	(14,235)

Exceptional items

The exceptional items are all attributable to continuing operations. The exceptional items in 2001 are analysed as follows:

	£'000
Write off of fixed assets	5,493
Costs and provision in respect of exiting property lease contracts	6,326
Loss on contract relating to storage equipment	986
Costs in respect of aborted raising of debt facilities	883
Redundancy costs incurred	1,584
	15,272

The write off of fixed assets follows impairment reviews at those sites which the Group has exited or is seeking to exit. The Group has exited from the Madrid, Barcelona and Zurich sites and has also reduced its capacity at the Paris site. The cost of exiting from the leases at these sites was equivalent to between 9 and 13 months' rent. The Group is seeking to exit the London 3 and Manchester 2 sites and a provision for the onerous lease commitments at these sites has also been made (see note 17). The amount provided represents management's estimate of the likely premium that will be payable to secure an exit from these leases.

The loss on contract relating to storage equipment derived from a one-off sale amounting to £7,500,000 at a cost of £8,486,000.

The exceptional item in 2000 related to the costs of raising debt finance which was repaid in that year.

The operating loss is after charging:

	2001 £'000	2000 £'000
Depreciation:		
Tangible owned fixed assets	8,106	2,778
Tangible fixed assets held under finance leases	35	47
Operating lease costs:		
Plant and machinery	117	–
Other	8,505	4,673
Auditors' remuneration for:		
Audit services	61	73
Non-audit services – taxation advice	142	276
– consultancy services	168	88

The contract for consultancy services in 2001 was awarded to PricewaterhouseCoopers after conducting a formal tender process.

In addition, payments to the auditors, in relation to the issue of shares, amounting to £342,000 (2000: £371,000), have been included in share issue costs deducted from the share premium account.

3 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:

	2001			2000		
	Turnover £'000	Operating loss £'000	Net assets £'000	Turnover £'000	Operating loss £'000	Net assets £'000
United Kingdom	24,416	(18,144)	17,043	10,830	(7,165)	21,230
Rest of Europe	8,212	(18,356)	41,785	3,223	(7,070)	31,287
	32,628	(36,500)	58,828	14,053	(14,235)	52,517
Net interest receivable	–	1,108	–	–	1,549	–
Interest bearing assets less liabilities	–	–	17,627	–	–	46,843
Group turnover, loss before tax and net assets	32,628	(35,392)	76,455	14,053	(12,686)	99,360

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

4 Employee information

	2001 Number	2000 Number
The average number employed by the Group within each category of persons including executive Directors, was:		
Operations	203	105
Sales and administration	103	89
	306	194
	£'000	£'000
The costs incurred in respect of these employees were:		
Wages and salaries	11,478	6,541
Social security costs	1,657	811
Other pension costs	299	86
	13,434	7,438

Details of Directors' remuneration, pension contributions and share options are included in the Remuneration report on pages 21 to 23.

5 Interest

	2001 £'000	2000 £'000
Receivable:		
Bank and other short-term deposits	1,140	2,201
Payable:		
Bank loans	–	(560)
Other loans	(14)	(57)
Finance leases	(18)	(35)
	(32)	(652)
Net interest receivable	1,108	1,549

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 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:

	2001 £'000	2000 £'000
Tax losses and short-term timing differences	14,876	6,526
Capital allowances in excess of depreciation	(3,230)	(1,661)
	11,646	4,865

7 Preference share appropriations

	2001 £'000	2000 £'000
Dividends:		
Redeemable preference shares	—	38
'B' redeemable preference shares	—	338
'C' redeemable preference shares	—	176
	—	552
Amortisation of issue costs	—	528
	—	1,080

Preference share appropriations in 2000 comprised amounts relating to all classes of redeemable preference shares to 22 June 2000, when the shares were redeemed.

8 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 £1,277,000. (Period from incorporation to 31 December 2000: profit of £858,000).

9 Loss per ordinary share

The loss per ordinary share is based on the loss for the year, after preference share appropriations, of £35,392,000 (2000: £13,766,000) and a weighted average of 140,238,777 (2000: 109,398,173) ordinary shares in issue during the year (as adjusted for the effects of Rights and Bonus 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.

10 Tangible fixed assets

Group	Leasehold improvements £'000	Plant and machinery £'000	Office equipment £'000	Total £'000
Cost:				
At 1 January 2001	39,202	17,326	2,499	59,027
Exchange differences	(1,201)	(477)	(44)	(1,722)
Additions	22,280	8,267	2,938	33,485
Disposals	(2,640)	–	(844)	(3,484)
At 31 December 2001	57,641	25,116	4,549	87,306
Accumulated depreciation:				
At 1 January 2001	1,892	829	474	3,195
Exchange differences	(87)	(44)	(18)	(149)
Charge for the year	4,965	2,190	986	8,141
Provisions	4,723	–	770	5,493
Disposals	(2,640)	–	(839)	(3,479)
At 31 December 2001	8,853	2,975	1,373	13,201
Net book value:				
At 31 December 2001	48,788	22,141	3,176	74,105
At 31 December 2000	37,310	16,497	2,025	55,832

Additions to leasehold improvements include £2,943,000 in respect of the discounted cost of reinstating leasehold premises at the end of their leases (see note 17).

The net book value of tangible fixed assets includes an amount of £265,000 in respect of assets held under finance leases (2000: £300,000).

Notes to the accounts

11 Fixed asset investments

Parent	Subsidiary companies		
	Shares £'000	Loans £'000	Total £'000
Cost:			
At 1 January 2001	65	98,129	98,194
Redemption premium	-	4,740	4,740
At 31 December 2001	65	102,869	102,934
Provisions:			
At 1 January 2001	-	-	-
Provided in year	-	4,869	4,869
At 31 December 2001	-	4,869	4,869
Net book value:			
At 31 December 2001	65	98,000	98,065
At 31 December 2000	65	98,129	98,194

On 31 December 2001 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
TeleCityItalia srl	Italy	Non-trading
TeleCity Investments Limited	United Kingdom	Holding company
TeleCity Finance Limited	United Kingdom	Group finance company
TeleCity Holdings Limited	United Kingdom	Non-trading

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.

12 Stocks

	Group	
	2001 £'000	2000 £'000
Goods held for resale	38	3,693

13 Debtors

	Group		Parent	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Trade debtors	3,277	3,354	-	-
Amounts owed by group undertakings	-	-	14,356	1,076
Other debtors	2,171	5,232	-	-
Prepayments and accrued income	1,565	1,422	-	-
	7,013	10,008	14,356	1,076

14 Cash at bank and in hand

	Group	
	2001 £'000	2000 £'000
Cash at bank available on demand	4,181	9,042
Deposit accounts pledged to Bank of Scotland (see note 24)	1,821	3,000
Funds held in liquidity unit trust	11,792	35,000
	17,794	47,042

15 Creditors: amounts falling due within one year

	Group		Parent	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Other loan (see note 16)	10	—	—	—
Obligations under finance leases	55	139	—	—
Trade creditors	4,113	3,516	—	—
Other taxation and social security costs	1,242	409	—	—
Other creditors	223	247	—	—
Accruals	5,597	5,621	657	345
Deferred income	6,710	7,223	—	—
	17,950	17,155	657	345

16 Creditors: amounts falling due after more than one year

	Group	
	2001 £'000	2000 £'000
Other loan (see below)	102	—
Obligations under finance leases	—	60
	102	60

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.

17 Provisions for liabilities and charges

Group	Property leases £'000	Reinstatement costs £'000	Total £'000
At 1 January 2001	—	—	—
Provided in year	6,326	2,943	9,269
Utilised	(4,826)	—	(4,826)
At 31 December 2001	1,500	2,943	4,443

The provision for property leases at 31 December 2001 represents management's estimate of the likely premium to secure an exit from the London 3 and Manchester 2 leases (see note 2).

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 9 to 23 years. The discounted cost has been added to the cost of leasehold improvements and will be depreciated over the period of the leases (see note 10). The discount will unwind through interest in the profit and loss account.

Notes to the accounts

18 Share capital

Authorised	Number	£'000
Ordinary shares of 0.1p each		
At 1 January 2001	100,000,000	100
Created during the year	300,000,000	300
At 31 December 2001	400,000,000	400

A resolution to increase the authorised share capital was approved at an Extraordinary General Meeting held on 17 September 2001.

Allotted, called up and fully paid

Ordinary shares of 0.1p each		
At 1 January 2001	70,795,326	71
Allotted during the year	129,714,390	130
At 31 December 2001	200,509,716	201

The consideration received for shares allotted during the year was £15,565,000.

Options over ordinary shares granted to Directors and employees and which were outstanding at 31 December 2001 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 capable of exercise from to		Exercise price per each ordinary share of 0.1p £	No. of ordinary shares subject to option 2001	No. of ordinary shares subject to option 2000
31/12/99	31/12/02	30/12/09	0.001	1,586,421	2,100,723
17/03/00	17/03/03	16/03/10	0.001	1,348,860	1,418,969
17/03/00	currently	16/03/10	0.001	90,232	94,712
11/08/00	11/08/03	10/08/10	8.811	45,791	48,778
23/10/00	23/10/03	22/10/10	3.791	173,427	173,427
30/11/00	30/11/03	29/11/10	3.791	279,760	329,880
11/12/00	11/12/03	10/12/10	3.344	52,028	52,028
01/06/01	01/06/04	31/05/11	0.588	8,671	-
28/09/01	28/09/04	27/09/11	0.128	4,605,000	-
				8,190,190	4,218,517

The movement in share options is analysed as follows:

	Number
At 1 January 2001	4,218,517
Granted during the year	5,891,154
Exercised during the year	(15,572)
Lapsed during the year	(1,903,909)
At 31 December 2001	8,190,190

19 Reserves

Group	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2001	97,749	17,862	(16,322)	99,289
Premium on shares issued	15,435	—	—	15,435
Expenses paid thereon	(1,449)	—	—	(1,449)
Translation differences	—	—	(1,629)	(1,629)
Retained loss for the year	—	—	(35,392)	(35,392)
At 31 December 2001	111,735	17,862	(53,343)	76,254
Parent				
At 1 January 2001	97,749	—	1,105	98,854
Premium on shares issued	15,435	—	—	15,435
Expenses paid thereon	(1,449)	—	—	(1,449)
Retained loss for the period	—	—	(1,277)	(1,277)
At 31 December 2001	111,735	—	(172)	111,563

20 Reconciliation of operating loss to net cash outflow from operations

	2001 £'000	2000 £'000
Operating loss	(36,500)	(14,235)
Expenses paid in connection with debt finance raised	—	430
Depreciation including profit and loss on disposal	8,141	2,856
Provision against fixed assets	5,493	—
Movement in provision for liabilities and charges	1,500	—
Decrease/(increase) in stocks	3,653	(3,660)
Decrease/(increase) in debtors	2,815	(6,444)
Increase in creditors	2,319	11,874
Net cash outflow from operations	(12,579)	(9,179)

21 Analysis of movement in net funds

	1 January 2001 £'000	Cash flow £'000	Exchange movements £'000	31 December 2001 £'000
Cash at bank available on demand	9,042	(4,715)	(146)	4,181
Liquid resources	38,000	(24,387)	—	13,613
Finance leases due within one year	(139)	84	—	(55)
Loan due within one year	—	(10)	—	(10)
Finance leases due after more than one year	(60)	60	—	—
Loan due after more than one year	—	(102)	—	(102)
	(199)	32	—	(167)
Total net funds	46,843	(29,070)	(146)	17,627

Liquid resources comprise pledged deposit accounts, available on release of guarantees given by Bank of Scotland, and funds held in a liquidity unit trust which are available at not less than 24 hours notice.

Notes to the accounts

22 Financial commitments

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

	Land and buildings		Other	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Expiring within one year	22	–	15	–
Expiring within two to five years	–	–	160	219
Expiring after five years	7,020	11,186	–	–
	7,042	11,186	175	219

23 Capital commitments

Capital expenditure that has been contracted for but has not been provided in the accounts amounts to £1,445,000 (2000: £18,139,000).

24 Contingent liabilities

Financial guarantees granted by Bank of Scotland in respect of operating leases amount to £1,821,000 (2000: £5,488,000). TeleCity UK Limited has given counter indemnities in respect of these guarantees. £1,821,000 (2000: £1,200,000) in respect of these guarantees is held in deposit accounts which are pledged to the bank.

25 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 10 to 13.

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

	2001			2000
	Fixed rate £'000	Floating rate £'000	Non-interest bearing £'000	Fixed rate £'000
Sterling	55	2,415	1,500	199
Euro	112	399	–	–
Swedish krona	–	129	–	–
Total	167	2,943	1,500	199

	2001		2000	
	Average interest rate of fixed rate liabilities %	Average period to maturity of fixed rate liabilities Years	Average interest rate of fixed rate liabilities %	Average period to maturity of fixed rate liabilities Years
Sterling	15.5	0.5	15.5	1.5
Euro	7.5	9.0	–	–
Average	10.1	6.2	15.5	1.5

The non-interest bearing liability has no fixed maturity date.

The floating rate liabilities, which comprise the provision for reinstatement of leasehold properties, are discounted at local currency long-term corporate bond rates.

All financial liabilities in 2000 are at fixed rates.

25 Financial instruments (continued)

Interest rate and currency profile of financial assets

	2001	2000
	Floating rate £'000	Floating rate £'000
Sterling	15,286	40,680
Euro	2,118	4,838
Swedish krona	387	1,485
Swiss franc	3	39
	17,794	47,042

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:

	2001			
Functional currency of operations	Sterling £'000	Euro £'000	Other £'000	Total £'000
Sterling	~	1,427	28	1,455
Euro	10	~	25	35
Other	64	31	~	95
	74	1,458	53	1,585

	2000			
Functional currency of operations	Sterling £'000	Euro £'000	Other £'000	Total £'000
Sterling	~	557	(38)	519
Euro	429	~	~	429
Other	2	90	~	92
	431	647	(38)	1,040

Maturity of financial liabilities

	2001				2000
	Finance leases £'000	Other loan £'000	Provisions £'000	Total £'000	Finance leases £'000
No fixed maturity date	~	~	1,500	1,500	~
Within one year or on demand	55	10	~	65	139
Between one and two years	~	10	~	10	60
Between two and five years	~	36	~	36	~
After five years	~	56	2,943	2,999	~
	55	112	4,443	4,610	199

Borrowing facilities

The Group did not have any undrawn committed borrowing facilities at 31 December 2001 or 31 December 2000.

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. At 31 December 2000 the fair value of forward foreign currency contracts was £128,000. No forward foreign currency contracts were held at 31 December 2001.

There are no unrecognised or deferred hedges.

Notice of meeting

Notice is hereby given that the Annual General Meeting (the 'Meeting') of TeleCity plc (the 'Company') for the year 2002 will be held at Bellerive House, 3 Muirfield Crescent, London, E14 9SZ at 9.30 a.m. on Friday 17 May 2002.

The Business of the Meeting will be:

Ordinary business

1. To receive and adopt the Directors' Report and the audited financial statements for the year ended 31 December 2001.
2. To elect Alain Legendre, who retires under Article 117 of the Company's Articles of Association, as a Director of the Company.
3. To elect Josef Ellmauer, who retires under Article 117 of the Company's Articles of Association, as a Director of the Company.
4. To elect Trevor Waddock who retires under Article 117 of the Company's Articles of Association, as a Director of the Company.
5. To elect Les Johns, who retires under Article 117 of the Company's Articles of Association, as a Director of the Company.
6. To re-elect Martyn Ellis, who retires under Article 112 of the Company's Articles of Association, as a Director of the Company.
7. To reappoint PricewaterhouseCoopers as auditors and to authorise the Directors to fix the auditors' remuneration.

Special business

To consider and, if thought fit, pass the following Resolutions, Resolution 8 being proposed as an Ordinary Resolution and Resolution 9 as a Special Resolution:

8. 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 £66,837, being not more than one third of the Company's issued share capital at 22 February 2002, 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.

9. That, subject to the passing of resolution 8, 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 10 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;

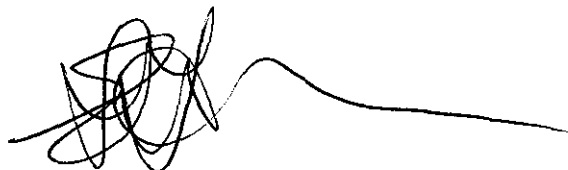
(ii) to the allotment (otherwise than pursuant to sub-paragraph (a)(i) above) of equity securities up to an aggregate nominal value of £10,025 being not more than 5% of the Company's issued ordinary share capital at 22 February 2002; and

(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

22 February 2002



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 Northern Registrars Limited, 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 9.30 a.m. on Wednesday 15 May 2002 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 9.30 a.m. on Wednesday 15 May 2002 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 will be available for inspection at the registered office of the Company and at Eversheds, London Scottish House, 24 Mount Street, Manchester M2 3DB during normal business hours on any business day (Saturdays, Sundays and public holidays excepted) from the date of this Notice up to and including the date of the Annual General Meeting.

Company information

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3819054

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Company Secretary:

Liz Hayman

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Auditors:

PricewaterhouseCoopers
Manchester

**Financial Advisers &
Stockbrokers:**

Goldman Sachs International
London

Bankers:

Bank of Scotland
Manchester