TelecityGroup
where content meets connectivity

Telecity Group plc

Annual report and accounts 2014

Creating value in the digital economy

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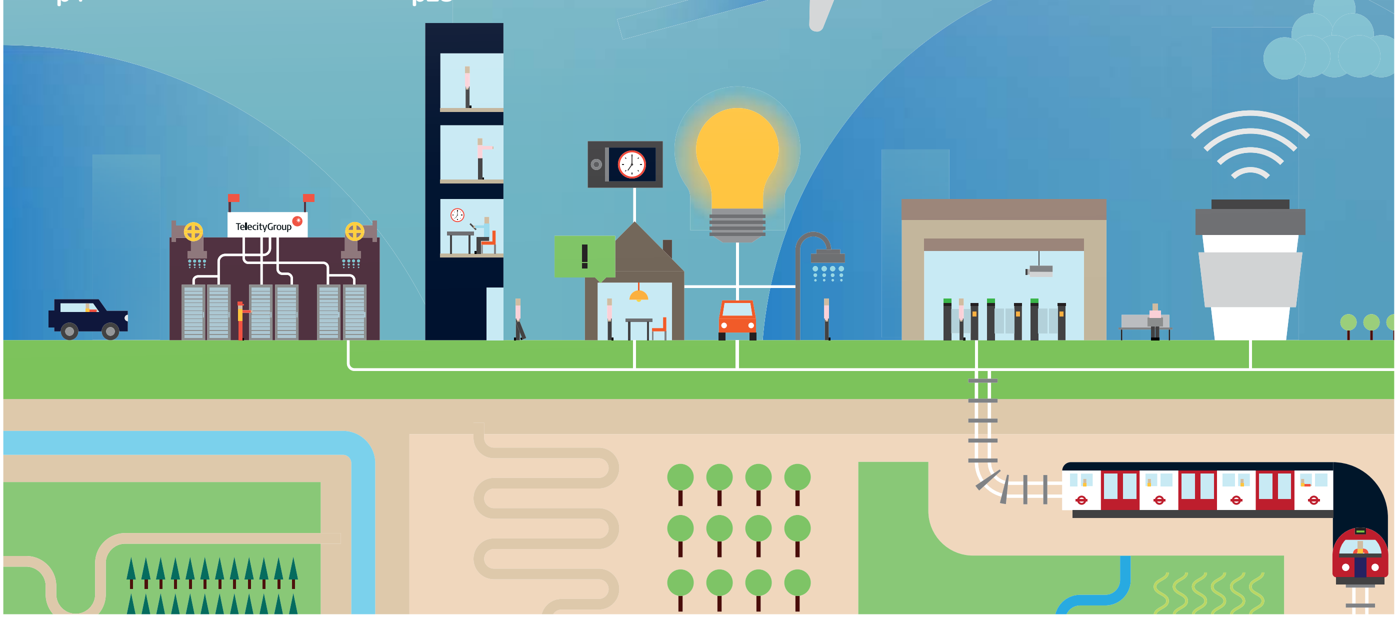


Introduction

Creating value in the digital economy

Our data centres are located in key cities across Europe, enabling us to offer customers connectivity, convenience, flexibility, resilience, cost-savings and choice.

More information is available online at: www.telecitygroup.com

Performance highlights

Financial highlights

- Revenue up 7.1% to £348.7m and up 9.2% on an organic currency neutral ('OCN') basis[1]
- Adjusted[2] EBITDA[1] up 6.8% to £163.7m and up 9.5% on an OCN basis
- Adjusted EBITDA margin stable at 47.0% (2013: 47.1%)
- Adjusted diluted earnings per share up 7.4% to 39.2p and up 10.4% on an OCN basis

Operational highlights

- Sold power percentage[1] up 130bps to 73.3%
- Significant reduction in churn rates in second half of 2014

Shareholder returns

- Proposed final dividend up 28.6% to 9.0p per share, total 2014 dividend up 28.6% to 13.5p
- Dividend payment expected to rise to 50% of EPS over the next 3 years
- Announcement of £400m 3-year share buy-back programme
- Capital structure review completed with target leverage reset to up to 3 times net debt to EBITDA
- New £600m 5-year senior debt facility signed 30 January 2015

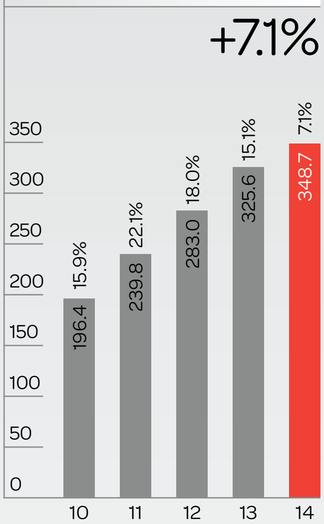
Outlook

- Positive 2015 earnings outlook confirmed, with a strong on-going focus on capital discipline
- Expect to continue to build on current strong growth rates and profitability in the medium term

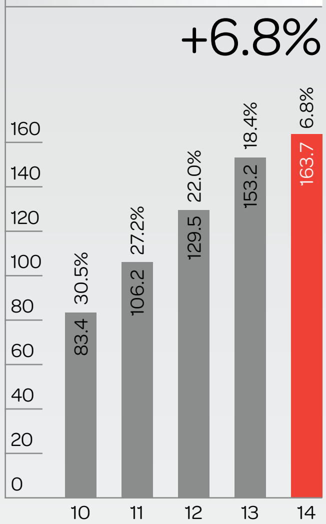
(1) Adjusted to exclude intangible asset amortisation, other financing items and exceptional items (note 3).

(2) A glossary of terms is included in note 38.

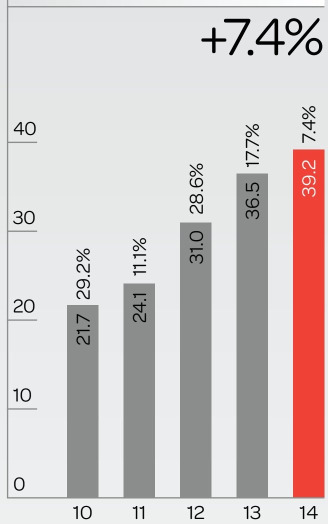
Revenue (£m)
and year on year change (%)



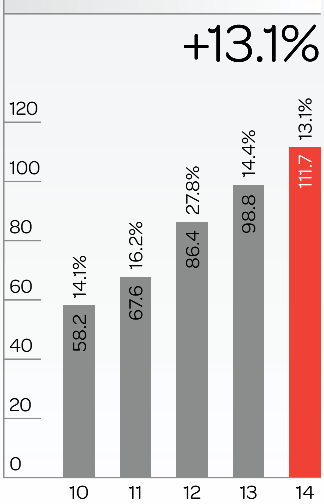
Adjusted EBITDA (£m)
and year on year change (%)



Adjusted diluted EPS (p)
and year on year change (%)



Available customer power
(MW) and year on year
change (%)



Chairman's statement

John Hughes, CBE
Executive Chairman

Disciplined growth, solid results and increased shareholder returns

TelecityGroup made further progress in 2014 with the delivery of another solid set of results, underpinned by increased discipline around capital allocation to maximise returns from our data centre estate, positioning the Company well for increased shareholder returns.

TelecityGroup enjoyed a satisfactory year in 2014, working hard to drive value from the connected data centres we have deployed across Europe.

During 2014 the Board and I remained focused on value creation for shareholders through driving the performance of the business in specific targeted areas, a focus which continues into 2015. Our priorities were profitable growth across the estate, improved discipline around capital allocation, and enhancing our approach to strategic customer relationships.

Despite the weak macroeconomic backdrop in 2014 across the Eurozone, our Rest of Europe business was particularly strong, highlighting the resilience and relevance of our business model to our customers and the robust market demand, driven by the continuing growth in the digital economy. The UK business, supported by an increased focus on sales and marketing, generated high levels of gross order wins in 2014, a trend we expect to continue going forward. The effect of these strong wins on UK revenue growth was suppressed by the previously forecast elevated levels of churn. However, they stand us in good stead for 2015 when churn is expected to reduce as we have already seen in the second half of 2014.

To capture the robust demand seen during the year we opened new capacity across the portfolio. This was predominantly focused within existing city markets where demand from customers is strong and connectivity is high. We also worked to ensure that our customer offering remains core to the European digital economy as it evolves. Our Cloud-IX platform went live during the latter part of the year, enabling us to offer our customers access to leading cloud service providers from within our data centres in a resilient, high performance and cost effective way. To develop our share of the European data centre colocation market we invested in our sales and marketing capabilities, including the establishment of a Strategic Customer Accounts Programme designed to deepen and enhance relationships with certain key customers.

The Group has not undertaken any M&A activity in 2014. Previous acquisitions are integrating well, with the exception of Turkey where it is taking longer than expected to realise its potential. Uncertainty over the performance of this business in the medium term has resulted in an impairment loss on this investment.

A full discussion of our performance in 2014 starts on page 24.

In August, we announced that Michael Tobin would be stepping down from the role of Chief Executive Officer on 31 October 2014. On behalf of the Board and former colleagues I would like to thank Mike for his service, leadership and many achievements, and I wish him every success for the future. Until his replacement has been appointed I have taken on executive responsibilities in my role as Chairman.

Eric Hageman joined the Board as a Director and Chief Financial Officer on 1 September 2014. In his short tenure, I am very pleased with the contribution Eric has made in his role.

As part of our on-going commitment to good governance a further full Board assessment has recently been completed by an external party. This included a review of areas such as composition, structure, processes and performance. The outcome of this exercise was positive, both in terms of existing good practice and informing potential enhancements to Board process.

I am pleased with the continued progress that we have made with our Corporate and Social Responsibility ('CSR') programme and governance objectives. We continue to attach a high priority to being a good corporate citizen and consequently are committed to strengthening and deepening our CSR activities.

Our board

See p44-45 for more detail >

Final dividend
9.0p

Earnings per share
39.2p

This year we undertook our first Materiality Assessment to further demonstrate that we have a robust approach to understanding both our responsibilities and the key CSR risks and opportunities facing the Company. We also undertook an extensive Group-wide anti-bribery training programme.

Our full governance review, including a report from the CSR committee, commences on page 42.

Since assuming executive responsibilities, Eric and I have undertaken a review of our capital structure, capital allocation and operational priorities. The focus has been on maximising cash generation from profitable growth, which has included increased emphasis on capital discipline and working capital to further enhance cash flow generation and consequently returns to shareholders.

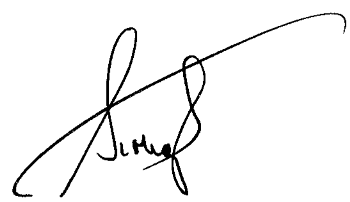
We have explored in detail how the technology and customer landscape will evolve and what role TelecityGroup will play in that landscape in the longer term. This work has reinforced our belief that we operate in an industry sector we expect to grow for the foreseeable future, and that we are located in the key European markets for our services. New bandwidth-intensive applications, the growth in enterprise outsourcing and wider technology innovation in general all ultimately drive growth and the need for underlying IT systems to be housed in highly-connected data centres. The Group's high quality assets in key European locations position us well to capture these customer trends, most notably around cloud, from both enterprise and cloud service providers; it is our aim to support the development of the cloud-enabled enterprise.

Continued evolution of the Group's sales and marketing strategy will involve a modest near term increase in our investment in systems, processes and people, particularly in the UK, as well as continued focus around our Cloud-IX platform and wider commercial capabilities, especially the Strategic Accounts Programme. However, we believe that by prioritising certain investments, implementing cost saving programmes and improving our operational efficiencies within the Group, these efforts will, in the medium term, enable the EBITDA margin to return to current levels with the opportunity for further improvement.

As a result of this work the Group has concluded that a leverage ratio of up to 3.0 times is appropriate. In order to achieve this, and in light of the future expected capital expenditure levels, the Group intends to continue its progressive dividend policy with the aim of moving towards a 50% pay-out ratio within three years and shall also initiate a £400m share buy-back programme covering the same period.

I am confident this puts the Group on very solid foundations to deliver strong shareholder returns into the future.

Finally, I would like to thank our employees, customers, suppliers and shareholders for their on-going support, as we continue to build a leading carrier-neutral data centre business in Europe.



John Hughes, CBE
Executive Chairman

10 February 2015

Overview
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Connected data centres: at the heart of the digital world

Data centres: A day in your life*

Most people don't realise how data centres impact their day-to-day lives. But from the point you wake up, you rely on services, tools, applications and content hosted in data centres and delivered over wireline and wireless networks.

07:15

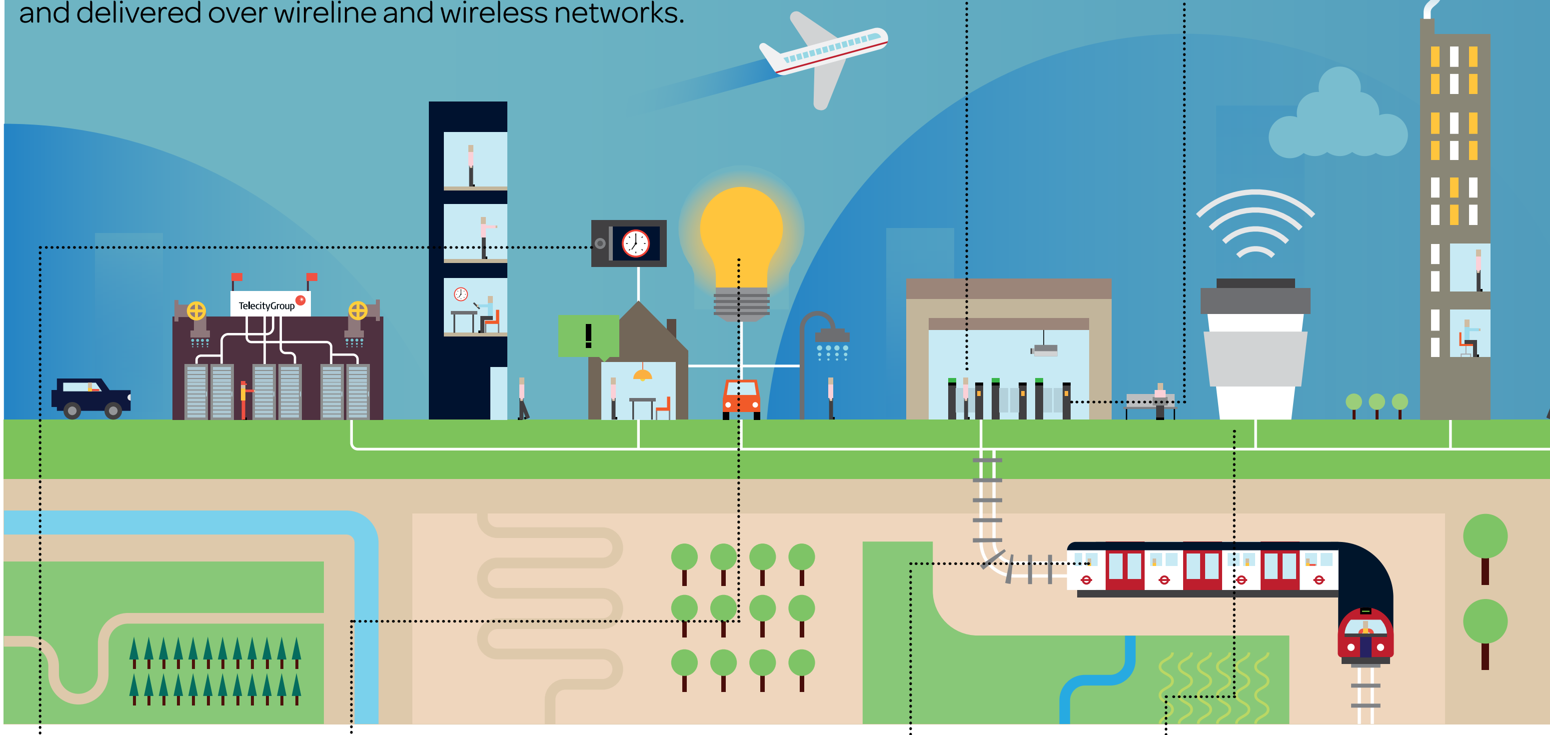
Use transportation card

Card system runs on transportation company data centre. Most stations also have wireless connectivity to a third party data centre

08:10

Exit, ticket barrier

Ticketing system retains and cancels ticket validity locally but station CCTV transmits and records 24/7, backed up by data centre



06:45

Woken by radio alarm

Some alarms are autocorrected by GPS satellite signal and managed through a secure data centre

06:46

Switch on lights and take a shower

Turn on your hot water using a smart heating app that runs in the cloud enabling you to control your heating anytime, anywhere. Your electricity account is located in a data centre, with payments made through several data centres

07:01

Check SMS rail alerts

Your mobile provider uses a data centre network for messaging, routing and billing. Train operator uses a data centre to manage rail information

07:45

Check email on train

This involves several data centres all of which have to talk to each other: the data centre serving the mobile network you are accessing, your internet service provider and your own company

08:11

Buy coffee

Pay for your coffee using your online app and receive loyalty points. Phone logs in to free Wi-Fi service in coffee shop, gathers your number, transmits and records it in their data centre for use later in targeted sales promotions and personalised service

One minute in the life of the internet

Data centres are at the heart of today's digital economy. These transactions depend on networks and IT systems, interacting in a data centre.

57,870
Pinterest page views

100hrs
of video are uploaded to YouTube every minute

204m
emails sent every minute

* Based on 'Datacentres: a day in your life' by Tech UK

08:50
Swipe card to enter office
Swipe card is locally controlled but the system watchdog records movements and uploads the batch files to the remote security company's data centre

09:05
Use email and book trip
Hotel and airline booking systems hosted by service providers in data centres. Your ISP data centre and several third-party service providers are involved

11.30
Check your home
Using online app and Wi-Fi enabled remote camera

13:00
Meetings and teleconferences
Use your new cloud based unified communication service to attend online meetings wherever and whenever you want to meet. Organise audio and web conferencing using email addresses and pay as you use plans

19.10
E-Book and film
Download a new movie or a book for the evening. All the content is available in the cloud hosted in a data centre. E-books are connected devices; any book you download will involve a data centre, even if it is free

20:30
Interact with friends on social media, check latest news, weather on demand
All these services are provided from content servers living in data centres, ISP, email service and search engine

09:00
Log on to company system
The company enterprise network is provided by a telecom provider and their routers and switches which route traffic are hosted in a data centre. The intranet/internet/extranet are all hosted on servers that are housed in data centres. Access may just be managed by your company's local server, but likely to be backed up in a data centre

09:20
Cash out and supermarket
Use your phone for payment using near field communications. Electronic transactions are enabled by a bank's data centre. Supermarkets use ICT data and customer data which they manage, process and store in data centres

18:30
Taxi service to station
Book taxi and pay using online payment service – all delivered through apps. Billing, live tracking services, mobile networks interconnect in the data centre

20:00
Search engine to restaurant
Review and book restaurant online, using location services, search engines, geo-mapping services located in data centres, reached over network

22:30
Check bank balance
Two data centres; ISP and online banking, databases

Google
3.98m
Google searches every minute

Facebook users shared
3.3m
pieces of content

347,222
tweets sent every minute

Instagram users posted
48,611
photos

Amazon made
$169,195
of online sales

Source: Intel Internet Minute Report, 2014; Company data

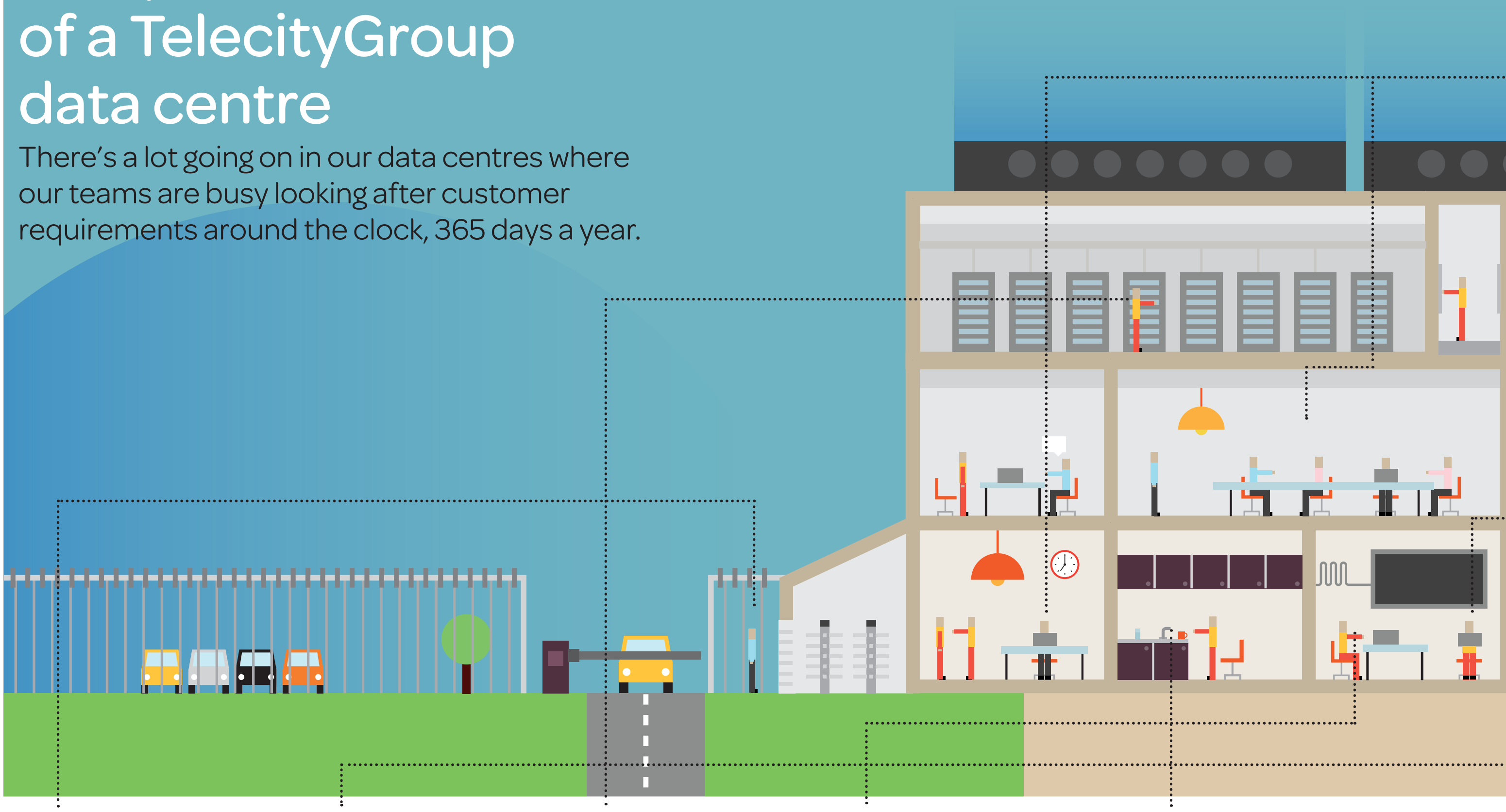
What we do

In a typical day across TelecityGroup

up to
250
customer deliveries of equipment

A day in the life of a TelecityGroup data centre

There's a lot going on in our data centres where our teams are busy looking after customer requirements around the clock, 365 days a year.



09.00
Customer service
Customer service assistant grants client access to the data centre

09.30
On-site delivery
Engineer retrieves client hardware from loading bay and delivers to build room

10.00
Quality control
Server unpacked/configured in build room following ISO 2700 quality management processes

11.00
On-site support
Client uses courtesy phone to request engineer installation

12.00
Installation work
Engineer installs customer hardware and connectivity cabling while customer relaxes in rest room

Data centres for the digital economy

Our data centres are large, industrial facilities, centrally located in strategic internet hub cities across Europe. They are built to the highest technological standards and supported by tried and tested resilience systems. In this sense they are the 'non-virtual' part of the digital economy.

We understand that outsourcing mission-critical IT systems involves trust. This governs the principles on which we design and maintain our data centres.

Data centre – core fundamentals

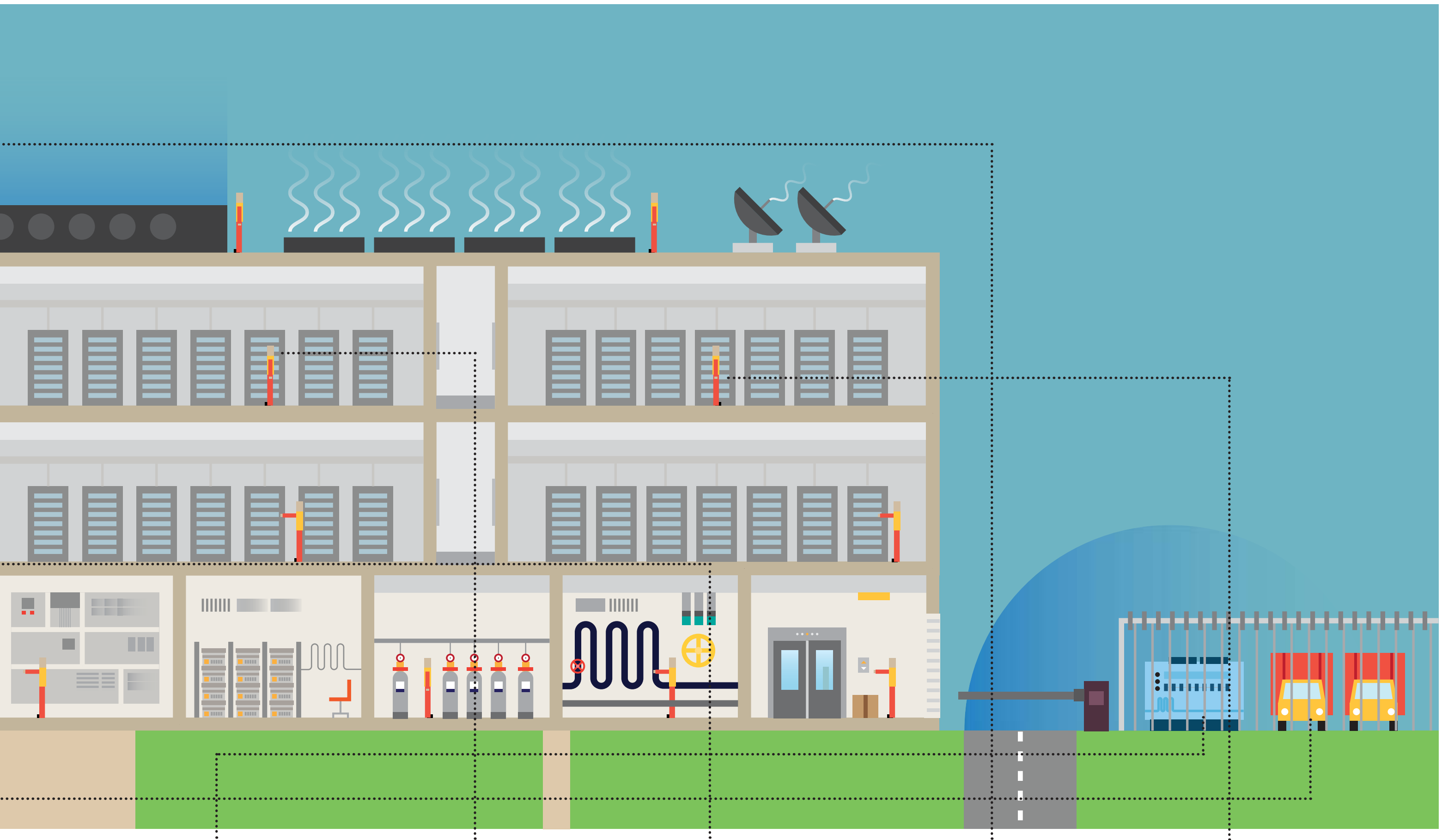
To ensure continuous operation, our data centres have access to redundant high-capacity power supplies, scalable for future expansion. Every site has Uninterruptible Power Supply ('UPS') systems and standby diesel generators capable of supporting the site indefinitely in the event of a failure of grid power.
At the simplest level a TelecityGroup data centre will ensure resilient power, the appropriate environment for IT hardware to operate most effectively (e.g. cooling and humidity control), high levels of security and fire protection.

This infrastructure is supported by the presence of round-the-clock engineering teams to manage the facility and provide customer support. Customer equipment is connected to networks and other customers via 'cross-connects', physical cable connections between equipment. All cross-connects in TelecityGroup data centres are installed and managed by our engineers.

up to
400
specific customer-generated engineering requests

up to
1,000
individual customer visits will be made

over
25,000
logical and physical checks will be made on facilities



14.00
Testing functionality
Customer tests hardware on-site. Engineers run daily resilience test on power systems

16.00
Remote support
Customer raises ticket from their offices to the data centre to request additional cabling

16.45
Monitoring systems performance
Managed services team monitors client hardware performance while Building Management System monitors the data centre

20.00
Customer service
TelecityGroup customer services team receives client access request while receiving other client alerts

01.15
Round-the-clock technical support
Facility is manned 24x7x365 to provide expert support for any alerts or requests

Energy efficiency and operational standards

We are committed to excellence and setting the benchmark in our environmental strategy and quality standards. We adhere to stringent industry standards, and we are recognised as a leader in the market in terms of environmental management and best practice. We proactively monitor a wide range of environmental metrics to ensure our build and operations processes are managed to maximise efficiency and minimise waste. Organisations choosing TelecityGroup demonstrate they are selecting an operator that puts energy efficiency and environmental management at the core of its business.

Operational and quality standards

International certifications demonstrate that best practice and high quality processes are central to our business. Customers can benchmark our commitment to quality through our adherence to established and recognised global standards. Our data centres and management systems are certified to a wide range of international standards including:

— ISO 27001 for information security management;
— ISO 9001 for quality management;
— ISO 14001 for environmental management; and
— OHSAS 18001, the assessment specification for occupational health and safety management systems.

Other certifications include ISO 22301 for business continuity management.

We are positioned at the heart of the digital economy

TelecityGroup has 39 operational data centres in key internet hub cities across Europe. Our data centres are located in areas with a high concentration of communications networks.

Our commercial leadership team


Alexandra Schless

Vice President, Western Europe

- Netherlands
- France
- Germany
- Italy


Maurice Mortell

Vice President, Emerging Markets

- Ireland
- Turkey
- Bulgaria
- Poland


Niclas Sanfridsson

Vice President, Nordics

- Sweden
- Finland


Rob Coupland

UK Managing Director

- London
- Manchester


James Tyler

Chief Commercial Officer

- Commercial strategy and business development, marketing, communications and CSR

London, UK

- Hosts primary internet exchange points
- Strong gross order wins

7 data centres | 31.3MW of customer power

Manchester, UK

- New MAN 3 data centre gaining traction
- Dual site capability with London and Dublin

4 data centres | 5.6MW of customer power

Dublin, Ireland

- Hosts key internet exchange point
- Strong demand from US cloud and internet operators

3 data centres | 9.4MW of customer power

Paris, France

- Solid demand, market conditions competitive

3 data centres | 9.0MW of customer power

Frankfurt, Germany

- Hosts a primary internet exchange point
- High value market position in an environment with low wholesale data centre pricing

2 data centres | 11.2MW of customer power

Milan, Italy

- Hosts key internet exchange point
- Growing international demand

3 data centres | 4.2MW of customer power

Stockholm, Sweden
- Hosts key internet exchange point
- Continued strong growth
- Major expansion announced

3 data centres | 11MW of customer power

Helsinki, Finland
- Gaining traction with key customers following 2012 acquisitions

5 data centres | 5.5MW of customer power

Amsterdam, Netherlands
- Hosts key internet exchange point
- Strong demand for the highly-connected AMS 5 site

5 data centres | 21.4MW of customer power

Warsaw, Poland
- Owns PLIX, the national internet exchange
- New market entry in 2013
- Exciting growth opportunity

2 data centres | 1MW of customer power

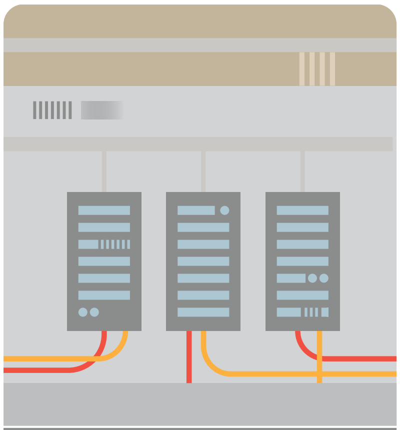
Sofia, Bulgaria
- Key regional connectivity hub
- New market entry in 2013
- Strong international demand

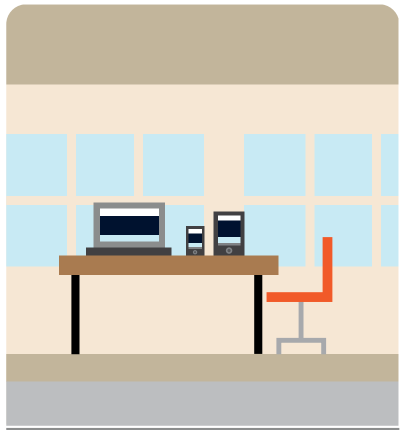
1 data centre | 1.5MW of customer power

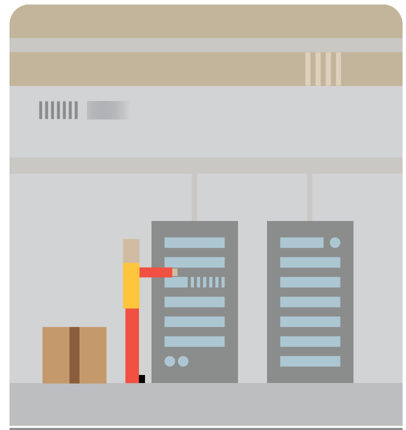
Istanbul, Turkey
- New market entry in 2013
- Growth opportunity at the crossroads of Europe and Asia

1 data centre | 0.6MW of customer power

Our customers and why they use TelecityGroup data centres





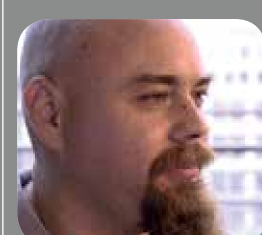


	Connectivity	Content	SI/IT services
Description	Connectivity companies are telecoms operators, including fixed line networks, mobile operators, internet service providers and content distribution networks ('CDNs'). These companies use our data centres to connect to internet exchanges, each other and their end customers, such as internet content companies.	Internet content companies represent the next largest category of our customers. They are diverse in nature and include organisations that provide digital media, such as internet video, music and gaming.	System integrators ('SI') use TelecityGroup data centres to host their customers' mission-critical IT infrastructure. SIs specialise in the provision of IT systems, services and applications and not, typically, data centres. SIs require high quality, connected data centres where they can scale their customers' operations as they grow. TelecityGroup is seeing significant growth from both global and local operators in this sector.
Group FY 2014 customer colocation revenues by sector	31%	22%	14%

What our customers say

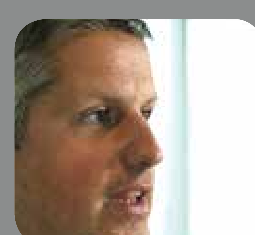
The TelecityGroup customer base incorporates many of the world's leading telecom, media, financial and IT companies.

Go online to see our customer stories, visit: www.telecity.com/videos

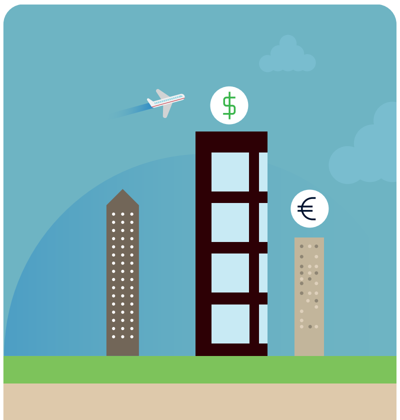


Criteo

Groupon



eTF1



Financial

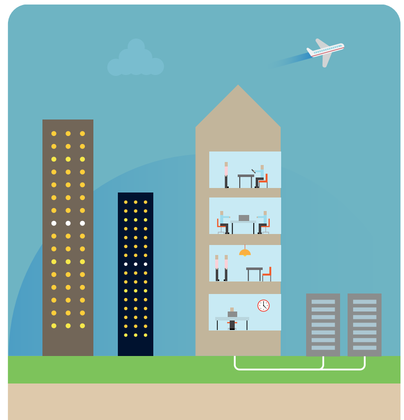
An increasingly diverse range of financial services companies choose TelecityGroup data centres in which to locate their network-intensive IT infrastructure. These customer deployments support a wide range of banking and insurance services, trading platforms and also companies' in-house IT systems.

13%

Cloud and hosting

Hosting companies and cloud services operators provide technology platforms and services that enable their customers to run their own IT in a more cost-efficient manner. Services offered by these companies are provided increasingly on an on-demand basis and can improve the IT operating performance of their end customers.

12%



Enterprise

Enterprises face the opportunities presented by emerging technologies, mobility, big data and cloud computing. Meanwhile, security, legacy infrastructures, exponential data growth and cost management underline some of the key challenges they face. Enterprises choose TelecityGroup data centres to help reduce cost, manage risk and provide scalable platforms for growth and innovation.

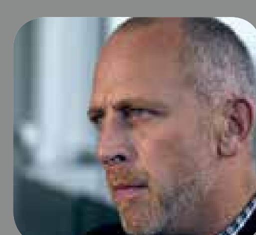
8%

Gamma Telecom

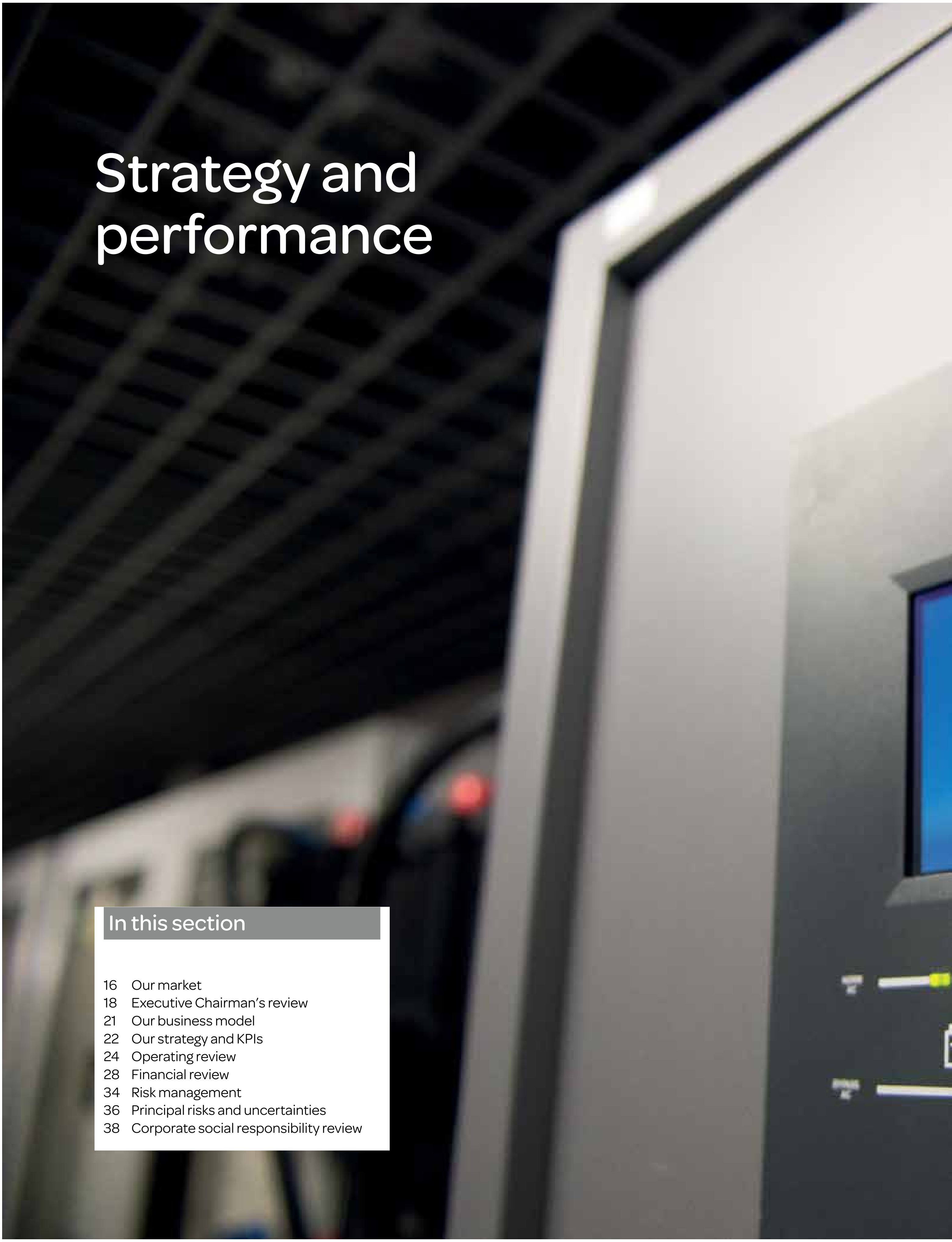
Gazprom

Markit

Microsoft



News UK



Strategy and performance

In this section

Our market

The data centre industry

The core fundamentals of the data centre industry
Data centres provide secure operational environments for organisations' IT and telecoms equipment.

The data centre industry is diverse. At their simplest level, data centres are buildings that have within them electrical and mechanical infrastructure that creates an environment in which computing and telecommunications equipment can run without interruption. As such, they provide resilient power supplies and cooling to this equipment.

Different groups of operators run data centres. Telecoms companies often operate data centres to support their networks and service offerings; property-focused companies operate data centres to service the wholesale IT outsourcing needs of large organisations; and IT services companies operate them to supply services to their customers. Increasingly, cloud service providers use highly connected data centres to locate the IT infrastructure which enables businesses to access their services. These are often called 'edge nodes'.

TelecityGroup runs carrier-neutral data centres.

Defining the 'carrier-neutral' data centre

In addition to providing space and facilities for customer IT infrastructure, carrier-neutral data centres provide organisations with direct connections to the widest choice of networks, mobile operators, Internet Service Providers ('ISPs'), Internet Exchanges, Content Distribution Networks ('CDNs'), other network service providers and Cloud Service Providers ('CSPs'), enabling them to build their own communication networks to deliver the optimum end user experiences.

The richness of connectivity in our data centres creates the ideal environment in which our network-hungry customer ecosystems can flourish.

Network service providers effectively form 'internet' or 'connectivity' hubs in our data centres. Such hubs are ideal locations for organisations that need access to a variety of connectivity services. The connectivity providers install their network routers in the data centre, enabling customers to connect to their services quickly and easily without the need for costly private networks outside of the data centre.

Depending on business needs, customers choose to use multiple carriers to build in redundancy and ensure resilience, or simply to secure the appropriate network performance required for their applications at the best price. As our customers' business needs grow they are able to switch from one provider to another, or add additional networks within the data centre with minimal disruption.

Our customers demand flexibility and control when choosing their IT service providers. At TelecityGroup our carrier-neutrality means we do not have predetermined affiliations with any specific network operators, vendors or service providers. In fact these companies are our customers.

The wide range of network services available in TelecityGroup data centres can meet the most extensive and diverse of connectivity needs, whether it's specific requirements such as geographical coverage, segment-specific or fixed and mobile services.

Data centre floor

Network operations centre

TelecityGroup's role in the industry

TelecityGroup operates data centre facilities in strategic internet hub cities across Europe. The presence of multiple national and international communications services operators in our data centres provides a wide range of connectivity options for customers.

Our data centres are places in which separate networks that make up the internet meet and where bandwidth-intensive applications, content and information and cloud services are hosted. As such, they are important network hubs, or enabling environments, of the digital economy.

Carrier-neutral data centres in Europe continue to experience strong growth in demand. This growth is driven by organisations, such as providers of internet content and cloud services, which look for data centre capacity to support the services they offer to their end users.

Data centre ecosystems

TelecityGroup's internet hubs enable the formation of various ecosystems within our data centres, often formed around groups of sector-specific companies. Ecosystems evolve due to organisations seeking to be colocated within the same facility in order to connect and transact with other community members and customers. Over time, physical links – or 'cross-connects' – multiply creating interconnected hubs of commercial, digital relationships between TelecityGroup customers and across the TelecityGroup estate.

A patching panel where customers interconnect their networks

The importance of connectivity, internet exchanges and peering

An internet exchange point ('IXP') is a physical combination of network switches and routers; a public junction point for carriers (telecoms networks service providers) and ISPs to exchange internet traffic. Networks and other organisations connect to the IXP infrastructure directly from their own hardware within the data centre.

At these 'exchange points', IXP customers (or 'members' – mostly communication service providers) accept traffic from each other and agree to carry one another's data across their networks without charge. There are typically just one or two major IXPs in each city market, with the largest of those in Europe being the Amsterdam Internet Exchange ('AMS-IX'), the London Internet Exchange ('LINX'), the German Internet Exchange ('DE-CIX') and the Swedish Internet Exchange ('Netnod'). TelecityGroup hosts these and other major IXPs across Europe.

Our acquisition of PLIX in 2013 brought with it one of the fastest growing internet exchanges in Europe. We continue to operate PLIX IXP as a standalone independent entity, while the expertise that came with that acquisition is utilised across the Group.

Network service providers also have private peering agreements between each other which enable direct network-to-network voice and data traffic exchange. Connecting into an IXP or using a physical data centre cross-connect and peering directly with another operator enables organisations to reduce their overall communications costs, while improving network performance (and therefore quality of customer experience).

In summary, the networks that make up the internet can be seen as a combination of the public networks exchanging information at the IXPs, and private peering between network providers, most of which happens within data centres.

Providing customer support

Executive Chairman's review

John Hughes, CBE
Executive Chairman

Q&A
Our strategy for delivering long-term value

In 2014, we delivered a solid set of results whilst continuing to refine the Group's strategic, operational and commercial focus.

TelecityGroup in 2014

Q Are you satisfied with TelecityGroup's performance in 2014?

A 2014 was a year of substantial change for the Group. At a management level we said goodbye to Mike Tobin who had been a key contributor to the creation and growth of TelecityGroup as we know it, building it to where it is today. At a wider organisational level we cemented the regionalised management structure introduced at the beginning of the year, which we expect to enable more streamlined and effective business management, improved customer engagement and efficiencies of scale.

In terms of trading, our gross order wins were very strong, reinforcing our belief that the demand for data centres continues to grow. We delivered a solid set of results, while expanding the Group's footprint in our existing markets. At a commercial level we made good progress with the delivery of Cloud-IX and our Strategic Accounts Programme, demonstrating our commitment to the ongoing evolution of the business.

Q Did churn play a major factor in the year?

A Notwithstanding the significant gross order wins in the UK, churn in our customer base did continue to be a constraint on growth in that market, running at levels higher than in the Rest of Europe division. In the UK this was significantly contributed to by the closure of the Prospect House facility in London and the loss of sub-lease income in our Harbour Exchange facility in the Docklands. We also disposed of a non-core, low-margin business in Finland which resulted in the loss of certain revenues. These churn events were expected and we are confident that headline churn in 2015, particularly in the UK, will return to the lower rates we have typically experienced.

Q Did your customer dynamics change? What major customers did you win?

A Our customer base continued to include the leading telecoms, internet, IT and media companies, together with organisations that require the combination of secure, resilient data centres and access to a wide range of connectivity options. Approximately three quarters of our growth came from our existing customer base. In 2014 we saw some particularly interesting wins in cloud services and bandwidth-intensive finance applications. Crucially, whether it is 'born on the internet' businesses (whose business models are 100% dependent on the internet) or more established organisations looking to take advantage of the economics of digital and online, it is our customers whose requirements evolve into needing connected data centre services as opposed to TelecityGroup having to reinvent its offering. However, we continue to evolve our go to market approach and services-set to augment the core foundation of our service.

In summary, the vertical breakdown of our customer mix doesn't tend to change radically year by year, but rather in themes across three to five years. In this regard it is the cloud which we expect to have most impact on our customers' businesses going forward.

Q **How does Cloud-IX help you capture the growth in demand for cloud services?**

A Our data centres have always been attractive locations for cloud services operators; such operators need highly-connected, resilient and secure locations in which to host their IT infrastructure in order to offer the service levels back to their end users.

As a result, our data centres across Europe host many of the leading global and regional cloud operators and we are seeing our facilities become 'cloud hubs', just as they have historically been connectivity hubs.

We launched Cloud-IX as an initiative in late 2013. Cloud-IX is a service which enables customers and cloud service providers ('CSPs') to connect in a simple, flexible, scalable and cost-effective way. The service enables customers to access the services of the CSPs present in our data centres from anywhere within the Group's estate across a secure, managed network. Simultaneously it gives those CSPs on the platform the commercially attractive proposition of being able to sell their services directly to our diverse international customer base. The service went live during 2014 and by year-end it already had a number of customers using the platform.

Q **What were the key outputs of your business review?**

A We conducted a review of the business in the fourth quarter of the year which enabled us to define our commercial focus for the mid-term. In terms of commercial outputs there were four key conclusions to this review.

First, we recognise that our core business is based on strong internal and external fundamentals. Our analysis shows that demand for colocation is strong into the mid-term. Increasing digitization and digital flows lead to growth in data centre needs, further fuelled by additional data centre outsourcing. Growth in internet traffic is driven by the increasing proliferation of 'connected' people and devices. From a system performance and commercial perspective, carrier-neutral data centres are typically selected by organisations as the location of choice for their connectivity-dependent computer hardware due to the range of networks available to which they can connect. We believe TelecityGroup is well-positioned to capture this growth.

Second, we will focus expansion on markets where we have strong market positions and see greatest demand. We have defined strategic cohorts for our assets to inform our future investment strategy, based on market attractiveness and current TelecityGroup positioning.

Third, we will continue to enhance our sales development to improve pan-European engagement with customers. We aim to nurture the customer journey; for example in 2014 we started a Strategic Account Programme to better serve the needs of our key customers. We will invest in developing deep customer insights and we will make it easier to deploy capacity across our asset base. This should help compound our competitive strength by targeting customers who truly value our offer, who will reinforce our connectivity ecosystem and who will be magnets for other customers.

Finally, we intend to develop services, such as Cloud-IX, which build on the unique nature of TelecityGroup's connected data centre estate. TelecityGroup already offers a full range of data centre related services, such as on-site engineering support and connectivity related offerings. We believe there is an opportunity to evolve our managed services platform (which already exists in our businesses in London, Dublin, Milan and Istanbul) across the Group.

In summary, we will continue to develop our service offering, improve our value proposition, help our customers in their data centre needs, increasing our customers' desire to grow with us.

Q **How has the Strategic Account Programme developed since its launch?**

A The Strategic Account Programme has made a positive impact on two levels in the business. First, the initial set of accounts which have been included on the programme have responded positively to our plans, enabling us to engage more strategically with these customers with a view to long-term mutual value creation. Secondly, the wider impact has been to generate a greater level of strategic account planning and approach in the sales teams as a whole. Our sales management is widely recognised as being expert in the industry, and we believe that the coupling of strategic planning, with their already deep insight in terms of data centre services, will be commercially compelling.

In 2015 we expect to make good progress engaging with our larger customers more strategically to enable improved longer-term planning for their mid- to long-term connected data centre requirements; we will put more energy into developing our proposition to capture growth driven by the evolving cloud services dynamic; and continue the preparation for the roll-out of an improved customer online experience to match that superior level of service which customers enjoy in our facilities across Europe.

Executive Chairman's review continued

Q What were the key operational developments during 2014?

A We continued to bring capacity online across Europe in response to customer demand, but we retained a tight focus on our investments as we do not want our build plans to outpace the rate of customer uptake. In addition to this, we are committed to operating our data centres to the highest standards. International certifications demonstrate that best practice and high quality processes are central to our business. Customers can benchmark our commitment to quality through our adherence to established and recognised global standards.

During 2014 we maintained certifications in a wide range of areas including information security management, quality management, environmental management, health and safety and management systems.

Q What new developments have you seen in the industry during 2014?

A While the core underlying demand trends of our industry remain strong, it is the increasing adoption of cloud computing that we expect to have the most important impact on the way businesses procure and utilise IT services in the future and, therefore, on their data centre strategies. TelecityGroup already hosts many of the leading global cloud operators, and our Cloud-IX service enables us to engage with enterprise about their hybrid computing strategies. We believe our offering of a high quality, connected data centre service combined with a secure and managed platform to interconnect into CSPs is compelling and positions us well for this shift.

Q What are your near and mid-term priorities for 2015 and beyond?

A TelecityGroup has been central to the European digital economy throughout its existence. In essence, we have played a major part in the development of the internet across Europe. Looking forward, our key aim is to retain this position as the internet grows and evolves, while at the same time creating value for our shareholders. We intend to do this by continuing to ensure that we have the connected data centres in the right markets, a growth programme which combines investment in assets, new services, and an improved commercial focus.

Our business model

A model designed to create sustainable value in the digital economy

Customers choose TelecityGroup because of our high quality data centre infrastructure, connectivity options, service standards and capacity to support their future growth

- Our state-of-the-art infrastructure provides customers with resilient, cost-effective and always-on environments to install their computing servers, storage and networking equipment
- We remove the burden of data centre management from organisations, enabling them to focus on their core business activities
- We offer our customers high levels of security, huge choice of connectivity and selected managed services
- We enable customers to fluently expand their footprint by designing and bringing new capacity online as it is required
- As our data centres grow, the larger our ecosystems become, thus creating new commercial communities of interest and marketplaces within each facility from which our customers can benefit

Our business model

- Our core business is designing, building and operating connected and secure data centres to the highest industry standards
- Our core asset is our data centre infrastructure focused on low latency, high connectivity, proximity and high security in strategic internet hub cities across Europe
- At the heart of our business is the concept of the 'digital ecosystem'; a highly-connected environment inside each of our data centres which is an attractive marketplace for customers
- Customers are charged primarily for locating their IT equipment within our data centres. These charges are supplemented by additional fees for power usage, engineering support, connectivity and other IT services

See p22 for more detail >

We build and operate data centre infrastructure in strategic internet hub cities across Europe

- State-of-the-art data centres for customers to install their computing servers, storage and networking equipment
- Built to the highest technological standards and supported by tried and tested resilience systems
- Resilient power and efficient cooling to ensure industry leading equipment up-time
- Strategically located facilities in areas with high concentration of communications networks. This gives proximity to power, helps maximise connectivity options for customers and makes visiting our data centres easy

...offering customers resilient and secure data centre services, low latency environments and connectivity choice...

- High level of security and fire protection to secure customers' mission-critical IT equipment
- Each TelecityGroup data centre offers significant connectivity options and we are constantly seeking to enhance the choice and availability of networks to customers
- Managed services for customer ease-of-use

...which enables the creation of customer ecosystems, driving the attraction of our data centres to other prospective customers

- Highly-connected environments, attracting more customers through the multiple internet connectivity and cloud service providers that are colocating in our data centres
- New digital marketplaces through the combination of connectivity and customers with shared network requirements

Overview
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Our strategy and key performance indicators(1)

Strategic objectives

Continue core business based on strong internal and external fundamentals

Demand for colocation is growing at between 8-10% per annum: Increasing digitization and increasing digital flows lead to growth in data centre needs, further fuelled by additional data centre outsourcing and the growth of cloud adoption

TelecityGroup is well-positioned to capture this growth. For example, our connected data centres providing the 'edge' location for cloud service providers and for content providers looking to extend their customer base and usage across more networks

Focus expansion on markets where we see greatest demand

We have defined three strategic cohorts for our assets to inform our future investment strategy, based on market attractiveness and current TelecityGroup positioning

The three cohorts are 'invest and grow established markets', 'lay foundations for future growth' and 'nurture disciplined value management'

Enhance sales development to improve pan-European engagement with customers

We aim to nurture the customer journey: we have started a strategic account management program to better serve the needs of our key customers. We will continue to improve customer insight and business analytics

We will target customers who will reinforce our connectivity ecosystem or who will be magnets for other customers

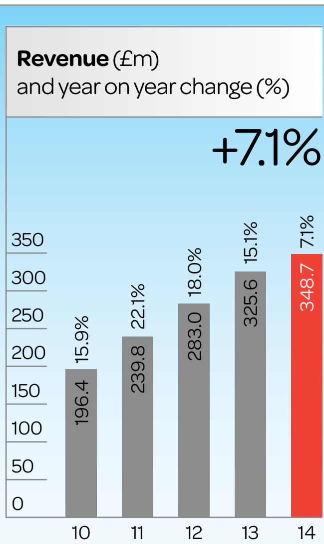
Develop services, such as Cloud-IX, which build on the unique nature of TelecityGroup's connected data centre estate

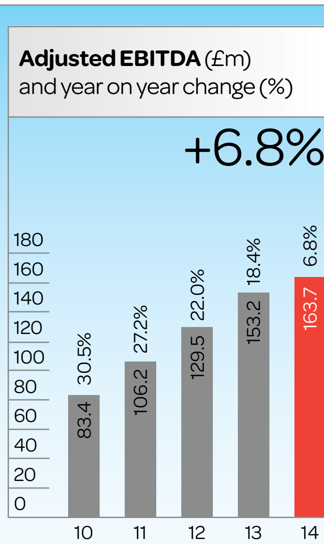
TelecityGroup offers a range of services including facility services support, connectivity services (such as Cloud-IX) and other managed IT services

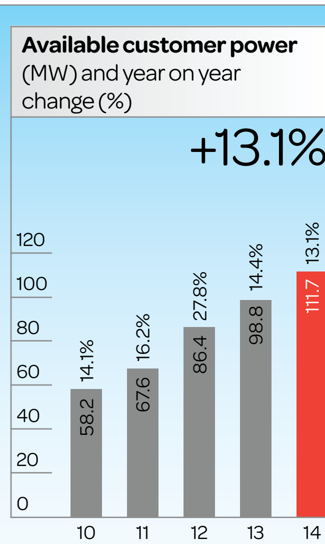
We will continue to develop our service offering, improving our value proposition, helping our customers in their evolving data centre needs, which helps increase customer retention

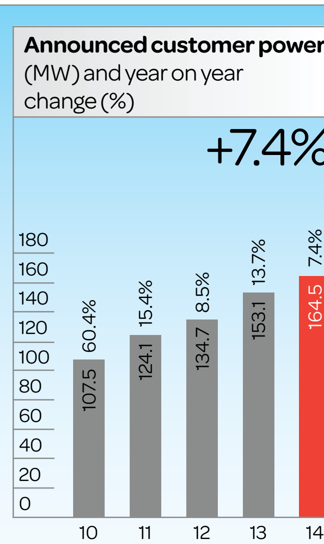
(1) A full glossary of terms, including detailed calculation definitions of the KPIs, is included in note 38.

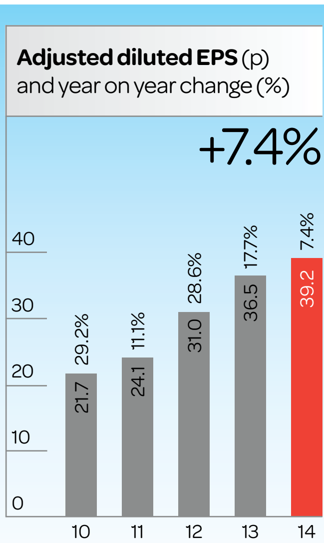
Key performance indicators

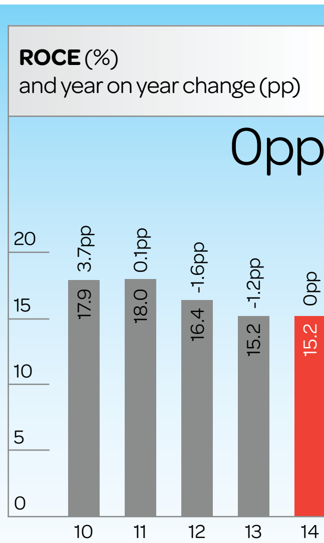


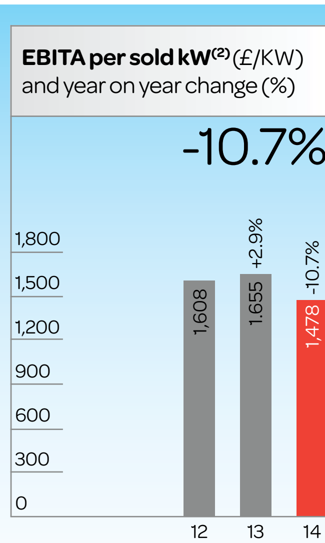


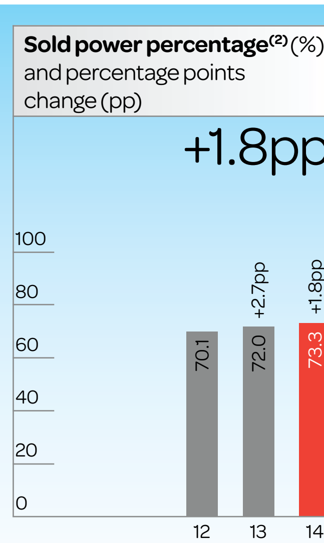












(2) These KPIs were reported for the first time in 2013 with one year of comparative information.

Operating review

Group performance and outlook

TelecityGroup experienced good trading conditions in 2014 and delivered solid financial results.

Group overview

TelecityGroup experienced good trading conditions in 2014 and delivered solid financial results. We met all the guidance metrics given at the beginning of the year, with healthy growth in revenue, a robust margin performance and a disciplined approach to capital expenditure.

The integration of the Bulgarian and Polish businesses acquired in 2013 is progressing well. We expect these businesses, which also incorporate the largest Polish internet exchange, to make good contributions in the medium term, both through the growth that they deliver locally and also the new expertise that they have brought to the Group. Whilst we continue to recognise the long-term potential of the Turkish market, the upgrade and integration of the acquired business has taken longer than we originally expected. Our expectation of the medium-term performance of this business has reduced and as a result an impairment charge has been made in respect of this investment. We continued to make good progress in Finland during the year, on both operational and commercial fronts and have implemented actions to ensure that the business continues to improve in 2015. Any future inorganic expansion will be assessed against both organic investment and returns to shareholders.

In addition, and as communicated at the Capital Markets Day in September, the Group has conducted a full review of its capital structure, allocation and returns which are detailed in this report.

Group review

A summary of the Group performance is contained in the table below:

	Year ended 31 December 2014	Year ended 31 December 2013	Change	Organic currency neutral[(1)] Change
Revenue (£m)	**348.7**	325.6	7.1%	9.2%
Adjusted EBITDA (£m)	**163.7**	153.2	6.8%	9.5%
Adjusted EBITDA margin (%)	**47.0**	47.1	(10)bps	20bps
Adjusted diluted EPS (pence per share)	**39.2**	36.5	7.4%	10.4%
DPS (pence per share)	**13.5**	10.5	28.6%	28.6%
Churn (annual percentage)	**9.4**	9.0	40bps	60bps
Capital expenditure (£m)	**129.3**	117.3	10.2%	13.3%

Demand for carrier-neutral data centres remains robust across TelecityGroup's markets. The Group saw a 14.8% increase in the level of gross order wins in 2014 with good contributions from both the UK and Rest of Europe businesses.

During the year, TelecityGroup continued to experience incremental demand from a broad base of customer sectors, with the strongest demand coming from our content and connectivity customers, in particular in Amsterdam, Dublin and London. As in previous years, the majority of TelecityGroup's organic order book growth was driven by new and extended orders from its existing customer base.

The Group continues to focus on optimising the utilisation of available capacity within the existing portfolio, whilst simultaneously increasing the rigour and discipline around the delivery of incremental capacity. The Group's key focus over the past year and looking into the future is to ensure capacity is brought on line in markets where existing capacity is approaching full occupancy, where TelecityGroup has a strong market position

Premium infrastructure

Expert staff

(1) A glossary of terms is included in note 38.

and where there is a robust pricing and demand outlook. At the year end the Group sold power percentage[1] had increased by 130bps to 73.3% (2013: 72.0%).

The increase in the sold power percentage was achieved at the same time as we increased year-on-year available customer power[1] by 13.1% to 111.7MW (2013: 98.8MW) due to a 15.1% increase in year-on-year MWs under contract to our customers. During the year, significant additions of available customer power included 5.0MW in Amsterdam, 2.6MW in Stockholm, 2.4MW in Frankfurt and 1.9MW in Helsinki to fulfil an existing customer commitment and 1.0MW in Sofia. The previously announced closure of Prospect House in London reduced available customer power by 0.5MW, which was offset by small additions elsewhere in the portfolio. Details of more minor capacity additions are contained in the segmental performance section.

At the year end total announced customer power[1] increased 7.4% to 164.5MW (2013: 153.1MW). Whilst each element of this potential investment was tested against the Group's investment criteria at the planning stage, these assessments will be updated at the prevailing market and trading conditions before any investments are actually contractually committed.

Market pricing has held up well over the course of 2014 and pricing has shown an overall marginal increase on 2013 levels. However, the Group's blended average price has reduced as the majority of growth has come from our newer sites. These newer sites tend to command marginally lower prices, due to stage of maturity, but are still able to achieve attractive returns on investment due to operational and construction efficiencies.

In addition to the blend effect of sales, revenue per sold kW[1] has been impacted by foreign exchange movements and non-trading items, comprising the closure of the non-core Finnish operations and the reduction in sub-lease income at Harbour Exchange. Whilst the total reduction in revenue per sold kW in 2014 was 9.6% to £4,531 (2013: £5,012), the effect of foreign exchange movements and non-trading items was 3.1% and 2.1% respectively. Of the remaining movement, the blend effect is 4.9% offset by a small increase in underlying pricing of 0.5%. The largest contributors to the blend effect of sales in 2014 were Amsterdam 5 and Helsinki 4.

The trends described above for revenue per sold kW flow through to EBITA per sold kW[1] due to the stable EBITDA margin. The increase in depreciation year-on-year, described below, contributed a further 1.1% reduction resulting in EBITA per sold kW for the current year of £1,478 (2013: £1,655).

Segmental performance

United Kingdom ('UK')

A summary of the UK performance is contained in the table below:

	Year ended 31 December 2014	Year ended 31 December 2013	Movement	Underlying[(a)] movement
Revenue (£m)	**146.9**	143.9	2.1%	5.3%
EBITDA (£m)	**69.4**	69.1	0.4%	2.2%
EBITDA margin (%)	**47.2%**	48.0%	(80)bps	(140)bps

(a) Adjusted for the closure of Prospect House and the reduction in Harbour Exchange sub-lease income.

TelecityGroup's UK business encompasses strong positions in London and Manchester. London is one of the world's primary internet hubs and Manchester is the UK's second-largest internet hub, positioning the UK business well for the continued growth in the digital economy.

The UK business has made solid progress during the year with gross order wins increasing 9.6% compared to the prior year. These order wins were well distributed across the UK's three markets of London Docklands, London Powergate and Manchester. The wins were particularly strong in the core London Docklands market, where growth came both from the expansion of existing customers and deployments by new customers, underlining the continued attractiveness of this market for connected businesses.

Wins also continued to be strong at the London Powergate site, driven by demand from enterprises as they evolve their requirements and leverage the evolving cloud-based ecosystem at the site. This site is one of the division's key locations producing growth and margins in excess of the divisional average. The UK's managed services capabilities provides a differentiated offering for enterprises who are increasingly attracted to the opportunities

Key performance indicators ('KPIs')

	2014	2013	Change
Revenue (£'000)	**348,695**	325,550	7.1%
Adjusted EBITDA (£'000)	**163,726**	153,239	6.8%
Adjusted diluted earnings per share (pence)	**39.2**	36.5	7.4%
Return on capital employed (%)	**15.2**	15.2	–
Available customer power (MW)	**111.7**	98.8	13.1%
Announced customer power (MW)	**164.5**	153.1	7.4%
Sold power percentage (%)	**73.3**	72.0	130bps
EBITA per sold kW (£)	**1,478**	1,655	-10.7%

(1) A glossary of terms is included in note 38.

Operating review continued

for hybrid IT deployments, which include elements ranging from owned IT equipment to public cloud services.

Churn remained elevated in the UK throughout 2014, but reduced in the second half of the year, as we had expected. The total annualised churn rate was 14.1% (2013: 6.9%), which included the closure of a small data centre in London (Prospect House) in the first half of the year and a reduction in sub-lease income at Harbour Exchange. Excluding these amounts the underlying churn rate was 10.1% (2013: 6.5%). The underlying increase relates mainly to customers returning underutilised capacity at contract renewal, due to factors including previous over-ordering, and data centre services consolidation following customers merging or being acquired. Whilst this elevated churn has suppressed revenue growth in 2014, we expect growth rates to improve in the medium term as order wins remain at solid levels, and churn rates reduce. Increased focus on churn mitigation commenced in 2014, including more sophisticated account planning, which has begun to drive improvements.

Revenue increased 2.1% to £146.9m (2013: £143.9m). A number of items impacted revenue growth including the closure of Prospect House and the reduction in sub-lease income from the Harbour Exchange site. Adjusting for these items, the underlying revenue growth was 5.3%. Sub-leases at Harbour Exchange with an annual value of £3.3m were exited at the end of Q3 2014, the full-year effect of this will be incurred in 2015.

Adjusted EBITDA increased marginally by 0.4% to £69.4m (2013: £69.1m), reflecting the 2.1% revenue growth being offset by a 3.7% increase in operating costs. Increased operating costs of £77.6m (2013: £74.8.m) were driven by a combination of an increase in power costs due to a higher cost per unit and volume usage from new and existing customers, along with an increase in staff costs mainly driven by increased commissions due to the sales performance. Partly offsetting these increases was a reduction in property costs following the closure of Prospect House.

TelecityGroup's UK available power decreased 1.3% to 36.8MW (2013: 37.3MW) following the previously announced closure of Prospect House. Further additions to London Powergate and Manchester are expected during 2015.

Carrier-neutral digital ecosystems

(1) A glossary of terms is included in note 38.

At the year end, 68.1% (2013: 67.1%) of available customer power was sold to customers. Revenue per sold kW decreased by 2.1% to £5,871 (2013: £5,997) mainly due to the blend effect of sites. On an underlying basis, adjusting for the reduction in sub-lease income and the closure of Prospect House, revenue per sold kW increased by 0.3%, reflecting a stable pricing environment. EBITA per kW decreased by 5.4% to £2,045 (2013: £2,161) as a result of the reduction in EBITDA margin.

Rest of Europe ('RoE')

A summary of the RoE performance is contained in the table below:

	Year ended 31 December 2014	Year ended 31 December 2013	Movement	Underlying[(a)] movement
Revenue (£m)	**201.8**	181.6	11.1%	16.5%
EBITDA (£m)	**94.3**	84.1	12.1%	17.2%
EBITDA margin (%)	**46.8**	46.3	50bps	30bps

(a) Adjusted for foreign exchange, acquisitions and the closure of Finnish non-core businesses.

TelecityGroup's RoE business encompasses market positions in Amsterdam, Dublin, Frankfurt, Helsinki, Istanbul, Milan, Paris, Sofia, Stockholm and Warsaw. The largest of these markets in terms of 2014 revenue and EBITDA contribution to the Group are Amsterdam, Stockholm, Dublin and Frankfurt.

The RoE division experienced strong trading conditions in 2014. Gross order wins have increased 24.4% year-on-year on a currency neutral basis, with Amsterdam, Dublin and Stockholm continuing to be particularly strong. Frankfurt has also had a good year due in part to a significant expansion of an existing financial services customer. The very strong sales in AMS5 during 2014 will recede as this site reaches practically full capacity. Future sales growth is expected to be generated from the AMS6 site which shall become operational during 2015.

Customer churn levels decreased to 6.0% (2013: 10.6%). Similar to the UK, second half churn was lower than the first half of the year.

Revenue increased 11.1% to £201.8m (2013: £181.6m) and on an underlying basis[(a)] revenue increased 16.5%. Whilst the absolute increase in revenue was £20.2m, on an underlying basis it was £28.4m, with the largest contributors being Amsterdam £11.1m, Dublin £3.8m, Stockholm £3.4m and Frankfurt £2.5m. The reported results of all the businesses were affected by the strengthening of Sterling, especially Sweden where the average exchange rate has moved 10.8% from 2013 to 2014.

Adjusted EBITDA increased by 12.1% to £94.3m (2013: £84.1m) and on an underlying basis[(a)] EBITDA increased 17.2%. Whilst the absolute increase in EBITDA was £10.2m, on an underlying basis it was £13.8m, with the largest contributors being Amsterdam £8.2m, Dublin £1.4m, Stockholm £1.4m and Frankfurt £1.2m.

Available customer power increased 21.8% to 74.9MW (2013: 61.5MW) due to additional announced capacity being brought online in all locations with the exception of Ireland and Italy. The most material components of this have been mentioned in the Group Review, with smaller elements relating to Paris (0.5MW), Warsaw (0.5MW) and Istanbul (0.2MW). These were partially offset by a reduction of 0.8MW in Milan for which additional investment was needed to maintain the existing capacity. Based on the current capacity in Milan this additional investment was not deemed necessary at this time. At the year end 75.9% (2013: 75.0%) of available customer power was sold to customers.

Revenue per sold kW decreased 12.4% to £3,886 (2013: £4,434), on a currency neutral basis the decrease was 5.1% as a result of changes to site mix. EBITA per sold kW similarly decreased 11.3% to £1,205 (2013: £1,358) and decreased 5.1% on a currency neutral basis.

2015 and Medium Term Outlook

The Group's full year 2014 results met all the guidance metrics given at the outset of the year and are summarised in the table below:

	2014 Guidance	2014 Actual
Organic currency neutral revenue growth (%)	9 – 11%	9.2%
EBITDA margin (%)	Stable (2013: 47.1%)	47.0%
Capital expenditure (£m)	£110-130m	£129.3m
Annual churn rate (%)	7.5 – 9.5%	9.4%

Following a review of the market and TelecityGroup's position within it, the Group continues to be encouraged by the outlook for the carrier neutral data centre market in Europe and believes that TelecityGroup's assets are well positioned to capture this demand as it materialises. The Group intends to target future investment where returns are maximised from the combination of local market conditions and the Group's particular strengths in that location.

Due to the expected higher growth rate in the UK and phasing of capacity in Amsterdam, 2015 organic currency neutral revenue growth is expected to be similar to that achieved this year.

Continued evolution of the Group's sales and marketing strategy will involve a modest near-term increase in investment in systems, processes and people, particularly in the UK, as well as continued focus around the Cloud-IX platform and wider commercial capabilities, in particular the Strategic Accounts Programme. However, the Group believes that prioritising certain investments, implementing cost saving programmes and improving operational efficiencies will, in the medium term, enable the EBITDA margin to maintain at current levels with upside opportunities.

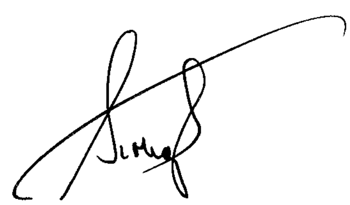
The Group's demand-driven capital expenditure is expected to be in the range of £100m to £120m for 2015 with all capital investment projects being subject to a more rigorous and disciplined appraisal process, and assessed against returns to shareholders. Possible M&A investment shall be assessed under the same criteria as organic opportunities.

As a result, management issues the following guidance for 2015 and the medium term[(2)]:

	2015 Guidance	Medium Term[(2)]
Organic currency neutral revenue growth (%)	Stable (FY14: 9.2%) range 8 –10%	9 – 12 %
EBITDA margin (%)	Stable (FY14: 47.0%) with slight downside pressure from investment	Returning to 2014 levels with upside opportunities
Capital expenditure (£m)	£100-120m	Trending towards £100m
Annual churn rate (%)	6.0 – 8.0%	Trending towards 6%

The above financial performance will be supported by a capital structure which is both sustainable and delivers significant benefits to shareholders. Following a detailed review, the Group has concluded that a leverage ratio of up to 3.0 times is appropriate. In order to achieve this, and in light of the capital expenditure guidance given above, the Group intends to continue its progressive dividend policy with the aim of moving towards a 50% pay-out ratio within three years and shall also initiate a £400m share buy-back programme covering the same period.

I am confident that the Group is well positioned to deliver strong shareholder returns into the future.



John Hughes, CBE
Executive Chairman

10 February 2015

(1) A glossary of terms is included in note 38.

(2) Defined as 3 to 5 years.

Financial review

Eric Hageman
Chief Financial Officer

A solid performance

TelecityGroup has delivered a solid set of financial results whilst increasing capital investment efficiency and returns.

Introduction

The Group achieved a solid set of financial results during 2014 and delivered against the guidance given at the beginning of the year. Specifically revenue growth, on an organic currency neutral basis, was 9.2% (2013: 9.5%), EBITDA margin remained stable at 47.0% (2013: 47.1%), the annual churn rate, including one-off items, was 9.4% (2013: 9.0%) and cash capital expenditure was £129.3m (2013: £117.3m).

This has been achieved whilst undertaking a detailed review of the Group's capital structure, capital allocation and capital returns strategy. Following this review, the Directors have determined that due to the strong and visible nature of both the Group's operations and the market in which it operates, a leverage ratio of up to 3.0 times net debt to EBITDA should be maintained. In support of this the Group has expanded and extended its current financing structure to a £600m five-year senior debt facility, taking advantage of the current lower interest rate environment to reduce the incremental cost of borrowing.

Alongside the Group's more disciplined approach to investment, as previously outlined to the market and covered in more detail in the outlook section of the Operational Review, the Board today announces the intention to both increase the dividend pay-out ratio towards 50% over a three year period and also return to shareholders £400m through share repurchases during the same period.

Through an optimised and more efficient balance sheet, a disciplined capital investment process, continued top line growth and increased focus on cash generation, the Group is well placed to generate strong total shareholder returns in the future.

Adjusted diluted EPS 2014 (pence)	Adjusted EBITDA 2014
39.2p	£163.7m

Review of results

Each of the following sections discusses the Group's adjusted results, i.e. before the effect of adjusting items. The adjusting items are discussed later in this review and a reconciliation between the adjusted and statutory results is contained in note 2.

A significant component of the adjusting items are exceptional items which are summarised here and discussed in more detail in the 'adjusting items' section below. SadeceHosting in Turkey, acquired in 2013, has so far performed below expectations. Whilst we remain encouraged with respect to the long-term prospects of this business and action is being taken to improve performance, an impairment loss and associated costs of £12.0m has been recognised in these accounts. In addition, onerous lease provisioning increased by £3.1m in the year, mainly as a result of a historical lease in Munich which was not used as a data centre; a business review was initiated resulting in professional fees of £1.8m; and incremental costs of £1.6m associated with the departure of an Executive Director have arisen.

(1) A glossary of terms is included in note 38.

Revenue

TelecityGroup principally derives its revenue from charging customers a recurring fee for access to secure, resilient power to the customers' IT and network equipment located in the Group's data centres ('colocation fee'). The fee is normally charged per kilowatt ('kW') of power that the customer has access to. In addition to the colocation fee, customers are charged for the actual power used, along with any additional services that they require. Such services include the provision of network services, IT managed services and first line engineering support, including the initial set up and installation of customers' IT and network infrastructure.

The Group's total revenue growth in 2014 was 7.1% and on an organic currency neutral(1) basis it was 9.2%, as the strengthening of Sterling against other operating currencies was partially offset by the full-year contribution of prior year acquisitions. This increase was largely driven by an 18.5% increase in the average kW under contract to customers during the year, offset by a reduction from the total revenue derived from each such kW, reflecting site sales mix.

The Group maintains a balance between profitability and revenue growth when negotiating terms with customers, and seeks to maximise overall returns to the Group.

The Group had a good year of gross order wins in 2014 with particularly pleasing results in Amsterdam, Dublin, and Stockholm. The UK business also generated strong gross order wins that were 9.6% higher than the previous year.

Churn

As expected, the Group annual churn(1) rate for 2014 was elevated and totalled 9.4% (2013: 9.0%). As previously reported, this included £1.6m relating to the planned disposal of non-core businesses in Finland, which had been acquired as part of the Academica acquisition in 2012 and £3.0m relating to the closure of the Prospect House data centre in London. Churn was further impacted by the exit of non-data-centre tenants from part of the Harbour Exchange estate, resulting in a loss of sub-lease income. Underlying churn on an annualised basis, after adjusting for these non-recurring items was 7.3% (2013: 8.2%).

As commented on in the Operating Review, the previously forecast elevated churn levels in the UK resulted in an annual churn rate of 14.1% (2013: 6.9%) and the underlying churn rate was 10.1% (2013: 6.5%). UK Churn rates are expected to reduce in 2015, a trend that has already been seen in the second half of 2014.

Churn rates in Rest of Europe reduced to 6.0% (2013: 10.6%). This includes the disposal of the non-core businesses in Finland referred to above. The underlying churn rate was 5.2% (2013: 9.5%). Rest of Europe churn rates are expected to remain relatively stable in the near term.

Annual price increases on the Group's existing order book vary across the locations and services offered, but were typically at low single digit levels, reflecting the recent relatively low inflationary environment of many of the markets in which the Group operates. Total price increases form a minor percentage of the increase in revenue during the year.

Summary adjusted income statement

	2014 £m	2013 £m	Growth %
Revenue	**348.7**	325.6	7.1%
Adjusted operating costs	**(185.0)**	(172.4)	7.3%
Adjusted EBITDA	**163.7**	153.2	6.8%
Depreciation	**(49.9)**	(45.7)	9.2%
Adjusted EBITA	**113.8**	107.5	5.8%
Net finance costs	**(8.9)**	(9.0)	-1.0%
Adjusted profit before tax	**104.9**	98.5	6.5%
Adjusted tax charge	**(25.2)**	(24.3)	3.6%
Adjusted profit after tax	**79.7**	74.2	7.4%
Adjusted diluted EPS (pence)	**39.2**	36.5	7.3%
Adjusted EBITDA margin (%)	**47.0%**	47.1%	(10)bps

(1) A glossary of terms is included in note 38.

Financial review continued

Operating costs

The Group has a relatively predictable cost base, which is kept under constant review to ensure tight control is maintained. Operating costs, excluding depreciation, increased 7.3% to £185.0m (2013: £172.3m). The increase is a result of organic growth of £15.3m and the full-year impact of M&A activity in 2013 of £2.6m, offset by foreign exchange movements of £5.2m. A review of the major cost categories follows.

Power costs of £50.6m (2013: £47.2m) represented 14.5% of revenue (2013: 14.5%). The increase of £3.4m was principally due to higher usage from new and existing customers and an increased total unit cost in certain countries. The Group recharges customers for the cost of power directly used by their equipment, together with the associated supporting infrastructure power costs, for example cooling. The UK Government has recently enacted legislation that will provide a Climate Change Agreement for Data Centres. The Group has become a participant in the Climate Change Agreement, meaning that it will stop paying the Carbon Reduction Commitment ('CRC') tax in exchange for committing to certain energy efficiency targets. Included within power costs for the year are CRC tax related charges of £1.2m, which are recharged to customers. This will not recur in 2015.

Staff costs of £49.9m (2013: £46.4m) represented 14.3% of revenue (2013: 14.3%). Excluding the impact of foreign exchange movements, the increase was £4.8m. Of this increase, £0.5m related to the full-year effect of M&A activity, £1.4m was due to an increase in headcount within the Group's on-going operations, and £0.8m was due to changed vesting assumptions relating to share based payments in the prior year. The underlying increase of £2.1m was due to sales commission payments and annual salary increases.

Property costs of £40.9m (2013: £40.3m) represented 11.7% of revenue (2013: 12.4%). Of the £0.6m increase, £0.6m related to the full-year effect of M&A activity in 2013 and £2.5m related to additional rent and rates associated with the delivery of capacity at the Group's on-going operations. Offsetting the increase was £0.8m due to foreign exchange movements, and £1.8m relating to the exit from the Prospect House site in London.

Other costs, comprising operational maintenance costs, sales and administrative costs and cost of sales of services, were £43.6m (2013: £38.4m) and represented 12.5% of revenue (2013: 11.8%). The increase of £5.2m was mainly due to costs associated with an increase in sales of non-colocation services and the impact of the acquisitions in 2013, which derive a larger portion of their income from non-colocation activities than the rest of the Group most notably in Turkey and Finland.

EBITDA

EBITDA increased 6.8%, or £10.5m, to £163.7m (2013: £153.2m). On an organic currency neutral basis EBITDA growth was 9.5%. Adjusted EBITDA margin remained stable at 47.0% (2013: 47.1%).

Depreciation

Depreciation increased 9.2% to £50.0m (2013: £45.8m). Excluding the impact of foreign exchange, the increase was £5.9m. This was largely due to additional depreciation from data centre expansions of £6.5m and the full effect of acquisitions in the previous year of £0.6m, offset by £1.2m due to the closure of Prospect House in the previous year. For new builds, depreciation commences when a data centre, or a part thereof, is brought into use. The largest data centre expansions that in 2014 have contributed to the increase in depreciation are Amsterdam 5, London Powergate, Harbour Exchange and Dublin 3.

On exit of the Prospect House lease, the Group incurred dilapidation expenses that were £0.3m less than the previously held provision resulting in a one-off credit to the UK depreciation charge in the year. The depreciation charge in respect of Prospect House in 2013 was £0.9m.

Depreciation represented 5.9% (2013: 6.1%) of the average cost of depreciable assets (i.e. excluding assets in the course of construction). The reduction is due to the impact of the Prospect House closure described above.

EBITA

Adjusted EBITA increased 5.8% to £113.8m (2013: £107.5m) in line with the growth in adjusted EBITDA and depreciation. UK adjusted EBITA reduced 1.3% to £51.2m (2013: £51.9m) and RoE adjusted EBITA increased 12.5% to £62.6m (2013: £55.6m). UK adjusted EBITA margin decreased 120bps to 34.8% (2013: 36.0%) and RoE adjusted EBITA margin increased 40bps to 31.0% (2013: 30.6%). On an organic currency neutral basis[1] adjusted Group EBITA increased 8.6%.

Net finance costs

Net finance costs were £8.9m (2013: £9.0m) and comprised net cost of borrowings of £8.0m (2013: £8.2m), loan commitment fees of £0.7m (2013: £0.6m) and net other finance costs of £0.2m (2013: £0.3m).

Net cost of borrowings comprise gross cost of borrowings of £11.7m (2013: £13.6m) less capitalised interest of £3.7m (2013: £5.4m). The Group is required under IFRS to capitalise interest on the borrowings that fund assets in the course of construction. The reduction in capitalised interest is due to a reduction in the average value of assets in the course of construction and a reduction in the cost of borrowing described below.

The decrease in the gross cost of borrowings was a result of a 3.4% increase from £315.0m to £325.6m in average borrowings during the year, offset by a 70bps reduction in the gross interest rate[1], largely due to a reduction in the rate of interest linked to lower leverage and the replacement of expired interest rate swap agreements at lower rates. The Group's cost of drawn debt[1] during the year was 3.0% (2013: 3.5%). The gross interest rate[1] was 3.6% (2013: 4.3%).

(1) A glossary of terms is included in note 38.

Interest accrues on the Group's borrowings at LIBOR, or equivalent, plus a margin. At the year end, the Group had interest rate swaps in place that converted the interest rate on 80.5% (2013: 89.8%) of borrowings from a floating rate to a fixed rate. The year-end valuation of the interest rate swaps is included on the balance sheet under the heading of derivative financial instruments.

Taxation

The adjusted tax charge for the year was £25.2m (2013: £24.3m), representing 24.0% (2013: 24.7%) of adjusted profit before tax. There has been a slight decrease in the Group's weighted average tax rate due to the impact of a higher corporate tax deduction in respect of share options. This has been augmented by the reduced corporation tax rate in the UK, growth of the Group's share of profits in lower tax countries including the businesses acquired in 2013, and an increased focus on tax efficiencies.

Earnings

Adjusted profit after tax increased 7.4% to £79.7m (2013: £74.2m), resulting in an increase in adjusted diluted earnings per share ('adjusted EPS') of 7.4% to 39.2p (2013: 36.5p). Adjusted EPS is calculated based on adjusted profit after tax and a reconciliation between the adjusted and unadjusted profit is given in note 2. The average diluted number of shares has increased from to 203.4m (2013: 203.1m) due to the grant of awards under the Group's LTIP and sharesave schemes.

Dividends

An interim dividend of 4.5p per ordinary share (2013: 3.5p) was paid on 19 September 2014. The Board is proposing a final dividend of 9.0p per ordinary share (2013: 7.0p) which, should it be approved by shareholders, increases the total dividend per share in respect of the year by 28.6% to 13.5p (2013: 10.5p) or £27.4m (2013: £21.3m) in total.

Subject to shareholder approval, the final dividend will be paid on 24 April 2015 to shareholders on the register on 20 March 2015. The final dividend has not been recognised as a liability in these financial statements and will, should it be approved by shareholders, be recognised as a movement in shareholders' equity in the year to 31 December 2015.

Adjusting items

The Group presents adjusted results, in addition to the statutory results, as the Directors consider that they provide a useful indication of underlying performance. The items that are excluded from the adjusted results are exceptional items, intangible asset amortisation and other finance items. A reconciliation between the adjusted and statutory results is given in note 2.

Exceptional items of £18.5m (2013: £5.2m) comprised impairment and associated costs in respect of the Turkish business, SadeceHosting, acquired in 2013, of £12.0m, an increase in the provision for onerous leases of £3.1m (2013: £1.2m), costs in respect of a business review of £1.8m (2013: £nil) and costs of £1.6m (2013: £0.8m) associated with the departure and recruitment of an Executive Director.

The Group believes that potential exists within the Turkish colocation market. Turkey is a fast-developing market, with the prospect of becoming a major internet hub, due both to its large and rapidly growing domestic digital economy and its strategic location between Europe and Asia. The current business has yet to capture this demand and whilst progress has been made, the Group is focused on improving performance further. Following the production of a revised business plan, the discounted cash flows of this plan indicate the need for a reduction in the carrying value of this business, resulting in an impairment charge and associated costs of £12.0m.

Following a review of certain non-data-centre property leases for which the Group seeks to mitigate the lease costs through sub-leasing, it was considered appropriate to increase the provisions held in respect of these properties. The increase to the provision was offset by a credit of £0.3m occurring on the final exit of the small Prospect House data centre in London, for which a provision of £1.2m was made in 2013. This increase in provision does not change the future cash flows of the business.

During the year the Group commissioned certain external advisors to assist with a detailed business review. The associated fees of £1.8m were assessed to be exceptional on grounds of their size and non-recurring nature.

During the year the departure of the Chief Executive Officer was announced. Costs in excess of those that would have ordinarily been incurred during his employment have been recognised as exceptional. These include any directly attributable incremental costs, for example, recruitment fees.

Intangible asset amortisation for the year was £5.2m (2013: £5.0m). The increase was due to the full year effect of the acquisitions in 2013.

Other financing items were a charge of £0.1m in the current year (2013: £0.1m credit) and relate to net foreign exchange gains and losses on financing items including borrowings, cash and inter-company loans. The Group seeks to minimise this figure by matching the currency of its financial assets and liabilities in each country.

The tax effect of the above items is similarly considered an adjusting item, resulting in a total adjusted tax credit of £3.9m (2013: £1.1m).

(1) A glossary of terms is included in note 38.

Financial review continued

Cash flow

Cash inflow from operating activities reduced 2.9% to £124.9m (2013: £128.6m). Included within this figure were cash outflows in respect of current and prior year exceptional items totalling £6.0m. Adjusting for these items and movements in foreign exchange, the underlying growth in cash flows from operating activities was £8.8m, or 6.8%.

Operational capital expenditure increased 27.2% to £32.2m (2013: £25.3m) resulting in operating free cash flows of £92.7m (2013: £103.2m). All of the established businesses in the Group were cash generative at this level, with particularly strong inflows from the UK and the Netherlands. Operational capital expenditure comprised maintenance capex of £16.3m (2013: £10.9m), sales capex of £13.7m (2013: £10.6m) and general capex of £2.2m (2013: £3.9m).

Cash flow on investment activities totalled £97.0m (2013: £134.5m). The majority of the investment was made in Amsterdam, Dublin, Helsinki, London and Stockholm. The prior year investment activities included M&A spend of £42.6m.

As a result of payment of the 2013 final dividend of 7.0p per share, totalling £14.2m, and the 2014 interim dividend of 4.5p per share, totalling £9.1m, along with other smaller items and after the effect of movements in foreign exchange rates, net debt increased by £12.6m during the year (2013: £50.1m).

Capital structure and net debt

Total debt at 31 December 2014 was £344.1m (2013: £327.5m), comprising bank borrowings of £325.7m (2013: £307.1m) and finance leases of £18.3m (2013: £20.4m). During the year, the Group drew down £30.7m (2013: £42.7m) under its bank facility and £1.8m of deferred arrangement costs were amortised. These increases were partially offset by foreign exchange revaluation of the Group's non-Sterling denominated borrowings. With respect to finance leases, the Group received proceeds of £2.9m (2013: £12.6m) from sale and leaseback arrangements, and repaid £4.9m (2013: £4.0m) of finance lease borrowings.

Cash at 31 December 2014 was £27.2m (2013: £23.2m). Where possible, the Group seeks to use surplus cash to repay borrowings under the Group's revolving credit facility.

Net debt at 31 December 2014 was £316.8m (2013: £304.3m). The increase of £12.5m during the year is principally due to net cash outflows before financing activities of £4.4m and £23.3m of dividends paid. These outflows are partially off-set by £16.4m of foreign exchange retranslation of net debt as a result of the relative weakening of the Euro and Swedish Krona against Sterling during the year. Approximately 50% of the Group's borrowings are denominated in these currencies.

As a result of continued strong operating cash generation and the growth in EBITDA in the year, the leverage ratio reduced slightly to 1.9 times (2013: 2.0 times).

As mentioned previously, following a review of the Group's capital structure the Board has determined that a net debt to EBITDA ratio of up to 3.0 times is appropriate.

In support of this leverage target, on 30 January 2015 the Group refinanced its existing senior debt facility, putting in place a new term loan and revolving credit facility totalling £600m which matures in 2020. This new facility replaces the existing £400m facility that was due to expire in September 2018.

The new facility is provided by the Group's existing banking group, Barclays, HSBC, Lloyds Banking Group and RBS.

The margin on the new facility, which is linked to leverage levels, has reduced by 25bps compared to the existing facility.

Capital allocation

The Group's policy is to only invest capital when there is forecast customer demand and a clear need for additional inventory. Returns and profitability are modelled and ranked against other opportunities at regular intervals prior to committing any capital. Factors such as pricing, local market conditions, the general economic environment and the ability of the Group to capture the potential of the market are considered before making any investment decision.

Wherever possible, the Group leverages the inherent advantages of existing capacity, including established connectivity, customer ecosystems and build cost efficiency, by expanding or building close to existing sites.

Once an optimal site expansion or new build site has been identified, a detailed investment case is produced to assess a number of financial metrics including the pre-tax internal rate of return. Each investment case is assessed and ranked against both other investment opportunities and other uses of capital, including returns to shareholders. Only those investment cases that have compelling investment potential and strong internal rates of return ('IRR') are initiated, typically the Group targets an IRR in excess of 20%.

Inorganic investment is assessed in the same way and the Group intends to be highly selective about any potential acquisitions. Any inorganic expansion is assessed against both organic investment and returns to shareholders.

Return on capital employed[1] ('ROCE') for the year was 15.2% (2013: 15.2%), and is expected to decrease slightly in the near term due to the phasing of capital investment in the current year.

(1) A glossary of terms is included in note 38.

Balance sheet

The Group has a robust, well-financed balance sheet. Wherever possible, the Group minimises its interest charge by using surplus cash to repay borrowings classified as long-term liabilities, as such it is normal for the Group's current liabilities to exceed its current assets. This trend is further enhanced as deferred income, a non-cash item, makes up a significant part of current liabilities. A review of the major components of the balance sheet follows.

The Group's intangible assets had a book value of £157.8m (2013: £179.1m). They comprise acquired customer contracts and goodwill. The reduction is due to amortisation of acquired customer contracts, the impairment in respect of the Turkish business and foreign exchange movements.

The carrying value of property, plant and equipment was £704.0m (2013: £661.9m). Balance sheet additions of £121.9m (2013: £115.6m) were made during the year. The depreciation charge for the year was £50.0m (2013: £45.8m). As a significant proportion of the Group's capital assets are denominated in Euros, the relative strengthening of Sterling against the Euro since 31 December 2013 resulted in a foreign exchange decrease in the net book value of property, plant and equipment of £29.6m (2013: £3.0m increase).

Current trade and other receivables were £43.6m (2013: £40.6m) and increased due to organic growth of the business. Year-end debtor days were 33 (2013: 32) with the slight increase being due to collections from a number of customers falling over the year end. The Group's trade receivables risk is reduced as customers are generally billed, and pay, in advance of services being provided.

Current trade and other payables were £50.9m (2013: £61.5m). The timing of capital expenditure payments accounts for a £8.7m decrease, with year-end capital creditors being £5.5m (2013: £14.2m).

Deferred income was £62.7m (2013: £64.1m), split between current of £43.4m (2013: £45.4m) and non-current of £19.3m (2013: £18.7m). The decrease includes the impact of foreign exchange movements and the amortisation of certain long-term customer prepayments and lease incentives. The balance represented 18.0% (2013: 19.7%) of revenue for the year.

Provisions for other liabilities and charges were £6.8m (2013: £7.5m), split between current of £0.9m (2013: £3.7m) and non-current of £5.9m (2013: £3.8m). The decrease of £0.7m largely relates to the utilisation of previously recognised dilapidations and onerous lease provisions in respect of Prospect House, partially offset by an increase to a historical lease on a property in Munich which was not used as a data centre.

Equity

Equity shareholders' funds increased during the year by £18.4m to £427.6m and comprised total comprehensive income of £38.1m (2013: £66.1m) offset by transactions with owners of £19.7m (2013: £13.8m).

Total comprehensive income comprised retained profits of £59.7m (2013: £65.2m), a decrease recorded directly in equity relating to currency translation on the Group's foreign currency net investments of £20.1m (2013: £1.2m) and a fair value decrease in the Group's interest rate swaps, net of tax, of £1.6m (2013: £2.1m increase).

Transactions with owners comprised share-based payment credits and share capital items. In accordance with accounting standards, the share-based payment expense, included within retained profits, of £3.1m (2013: £3.1m) is added back to reserves along with the associated tax of £nil (2013: £0.1m). The Group received a net amount of £0.5m (2013: £0.2m) in respect of shares purchased and issued under the share option schemes, and paid out £23.3m (2013: £17.2m) in respect of dividends.

Eric Hageman
Chief Financial Officer

10 February 2015

(1) A glossary of terms is included in note 38.

Risk management

Risk identification, reporting and management framework

Risk management is at the heart of our business and forms part of business as usual at all levels.

TelecityGroup risk strategy

The Board considers that the Group should have a low threshold for risk as its operations are by definition of a high risk nature unless properly mitigated through effective design and high operational standards. All risks are initially assessed on an unmitigated basis, both in terms of probability and magnitude and then the operational and financial controls are applied accordingly to result in a mitigated score which is continually monitored.

Risks to our employees and to other people who enter our sites are identified as a separate category and are monitored and reviewed irrespective of mitigating factors.

The impact and probability assessments indicated on page 35 are the original unmitigated figures and should not be taken as indicating the actual levels of risk following the day to day controls applied by the Group.

How TelecityGroup manages risk

The Group's operations expose it to a variety of risks. Effective management of these risks is essential to the delivery of the Group's business plans and strategic objectives, as well as ensuring the maximisation of shareholder return. The Group's approach is geared towards early identification of key risks; mitigating or removing those risks and responding quickly and effectively should a risk crystallise.

The Group is committed to the protection of its assets, whether they are physical, financial, human or reputational in nature. Effective risk management assists the Group in delivering its growth strategy, which aims to deliver controlled, sustainable and profitable growth.

The Board has overall responsibility for ensuring that risk is appropriately managed across the Group.

Board

- Sets strategic objectives
- Approves risk governance structure and sets the risk appetite
- Sets delegation of authority
- Receives and reviews Group Risk Register
- Receives and reviews Audit Committee reports on risk governance and internal controls

Audit Committee

- Considers adequacy of risk management and internal control framework
- Receives and reviews reports from the Risk Committee
- Receives and reviews reports from independent assurance providers

Risk Committee/Executive Board

- Conducts continual review of risks and risk controls
- Concludes on treatment of risks
- Reviews and reports on risk to the Audit Committee and Board

Risk Working Group

- Reviews detailed risks from Countries to identify common risks
- Provides practical assistance to risk owners, in terms of knowledge and resources

Independent assurance

- Internal audit
- External audit
- Quality standards and Business Continuity audit
- Insurer and property risk surveyors

Business unit

- Management and employees are responsible for the identification, management and reporting of local risks
- Maintains local risk registers
- Implements risk mitigation plans
- Assesses the effectiveness of daily controls

Continuous risk process

Identification sources

- Business units
- Health and safety audits
- Fire safety audits
- Business continuity audits
- Property and equipment risk surveys
- Company secretarial
- External advisors

Business risk management

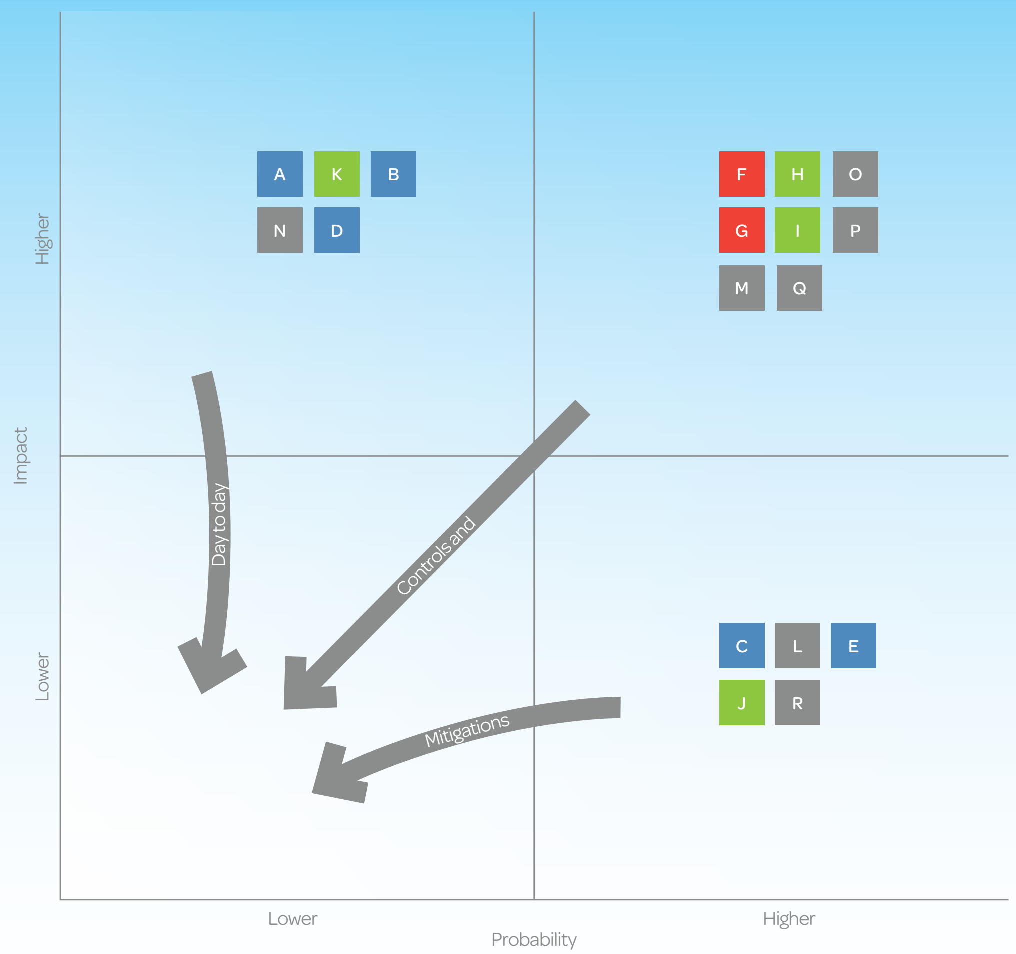
The responsibility for risk identification, analysis, evaluation, mitigation, reporting and monitoring rests with line management. This responsibility is discharged under the guidance of the Risk Committee/Executive Board ('RC'), comprising the executive Directors as well as other senior managers. The RC meets regularly to consider all areas of risk to which the Group is exposed and appropriate steps are taken to reduce or eliminate the risks or mitigate their potential impact.

The principal tool used by the RC to monitor and report risk is the risk register. The Group maintains risk registers at a country level which consolidate to form the Group Risk Register. The Group Risk Register is submitted to the Audit Committee and the Board for review at each meeting.

The risks contained in the risk registers are rated as to their probability of occurrence and potential impact which for Group purposes are aligned to standard Group values. Every risk is assigned to an appropriate senior manager. All current mitigating actions are recorded and any further action required is also documented. The Risk Working Group ('RWG') which comprises the Heads of Department at Group level assists risk owners with ensuring the resources are available to complete their actions in a timely fashion and to ensure that learnings from each event are communicated across the Group.

An analysis of our identified principal risks and uncertainties for 2014, which are largely consistent with prior years, is included on pages 36 and 37.

Principal risks: raw (unmitigated) probability & impact



Strategic risks
- A Over-supply/pricing
- B Electricity providers unable to match capacity requirements
- C Lease expiration
- D Future customer requirements
- E Lack of suitable acquisitions

People risks
- F Employee health and safety
- G Contractor/customer health and safety

Operational risks
- H New-build contractors cause delays
- I Infrastructure failure
- J Environment and regulatory changes
- K Technology changes

Financial risks
- L Electricity pricing volatility
- M Acquisitions do not deliver expected benefits
- N Credit risk
- O Liquidity risk
- P Interest rate volatility
- Q Capital risk
- R Foreign currency risk

See p36 for more detail >

Principal risks and uncertainties

The Group has identified the following principal risks and uncertainties in relation to the Group's financial and operational performance in 2014.

These risks are not intended to be an extensive analysis of all risks that may arise in the ordinary course of business or otherwise. Each risk has been allocated as either affecting the business strategically, operationally, financially or where there is a risk to personal safety. The Group's approach to risk management is discussed on pages 34 and 35.

Strategic risks

	Risk	Potential impact	Mitigation
A	An over-supply of carrier-neutral data centre capacity in Europe could lead to pricing pressure	Expected returns on investment may not be achieved Reduction in future profitability and cash flow through loss of custom	Medium to long-term market analysis is conducted to establish supply and demand dynamics Careful monitoring of the competitive landscape
B	Electricity providers may not be able to provide further capacity in markets where the Group expects to expand	Limits expansion and therefore growth	Long-term planning with electricity providers to ensure available capacity
C	The Group may not be able to secure the properties that it leases for periods that match the expected life of the data centre	Inability to provide services to customers Increased rate of write-off of building infrastructure assets Reduction in future profitability and cash flow	Long-term planning in conjunction with property landlords
D	The complex nature of data centres mean that building an efficient facility requires an understanding of the nature of future customer requirements	Should those future customer requirements change over time the impact may be a shortage of the appropriate sales inventory ie in the wrong place, the wrong size or of the wrong type	Regular review of the profile of customer orders and our power and space inventory against budget/forecast together with a feedback loop into the build team to ensure facilities are fit for purpose
E	The Group may not be able to find suitable acquisition targets	Longer lead time to enter new markets Inability to deliver on one of the pillars of the strategy	The Group works closely with its extensive network of advisors and other third parties in order to identify potential opportunities

People risks

	Risk	Potential impact	Mitigation
F	The Group operates complex data centres containing a variety of electrical and mechanical equipment and which have to be staffed and maintained by our employees	An employee could sustain an injury whilst working on site	Well documented processes and procedures in the H&S manual H&S manager ensures appropriate training of staff is conducted Regular audits are conducted both internally and externally to check adequacy of H&S measures First aiders appointed and appropriate training qualifications obtained
G	The Group operates complex data centres which have to be available to customers' representative to install and maintain their equipment	A contractor or a customer representative could injure themselves whilst conducting business on site	In addition to the above procedures, for external contractors no work is permitted on site or in high risk areas without a method statement being approved and a permit to work issued

Operational risks

	Risk	Potential impact	Mitigation
H	New data centre builds or upgrades to existing data centres could suffer from delays, cost overruns or contractor failure	Capacity may not be available when customers demand it Returns on investment may not be optimised Impact on future profitability and cash flow	Skilled and experienced internal personnel employed Detailed investment appraisal and thorough reviews Each major capital project is managed by a project board and challenged at Board level Extensive due diligence is performed on contractors
I	The physical infrastructure of a data centre could fail	Damage to customers' businesses leading to a reduction in future profitability and cash flow Damage to the Group's reputation	Effective initial design resilience High operational standards to prevent fall-over including maintenance regime and testing, staff training and other operational controls Disaster recovery plan is in place and regularly tested Incident management procedures are in place
J	The industry within which the Group operates is subject to continual environmental and regulatory challenges	Existing systems and infrastructure may not be compatible with future environmental requirements Regulatory changes could increase the cost of doing business	The Group has an environmental strategy which assists the Group in influencing the direction of new regulation Certification to the appropriate environmental standard and practices The Group works closely with regulators
K	The market within which the Group operates could be subject to material technological or operational change	Systems and infrastructure may not be compatible with new technologies or operational techniques which could limit the Group's ability to serve customers Reduction in future profitability and cash flow	Close monitoring of industry news and developments Attendance at appropriate industry events Working with existing customers to understand their strategies and changing needs

Financial risks

	Risk	Potential impact	Mitigation
L	Electricity pricing could be subject to severe volatility	Recovery of increased costs may not be possible or may be delayed thereby reducing future profitability and cash flows	The Group engages specialist consultants to assist in purchasing of power A number of purchasing strategies reduce the effects of market volatility
M	Acquisitions may not deliver the expected results	Financial, operational or strategic goals may not be realised Reduction in future profitability and cash flows	Due diligence and planning along with the execution of programmes designed to minimise risk of failure Maximising synergies
N	Credit risk – Customers may not pay when required to or not at all	Reduction in future profitability and cash flows	Up-front billing Credit checks on potential and existing customers performed Rigorous debt collection procedures No individual customer concentration
O	Liquidity risk – The Group may not have access to sufficient funds	Funding of future projects may be limited to internal cash generation	Maintain adequate capital reserves and banking facilities Forecasting short, medium and long-term cash requirements and monitoring headroom
P	Interest rate risk – Borrowings incur variable interest rates based on market rates which could fluctuate significantly	Costs could increase thereby reducing future profitability and cash flows	Interest rate swaps employed which convert floating rates to fixed
Q	Capital risk – The Group may not have an appropriate capital structure	May impact shareholder value through pricing of shares in the open market	Management of leverage Maintain sufficient cash balances to fund short-term working capital Manage dividend policy and repayment of debt
R	Foreign currency risk – The Group trades in a number of European countries and could experience significant fluctuations in exchange rates	Adverse effect on future cash flows Adverse effect on reported results	Each Country's revenue and costs are predominantly incurred in the local currency Significant capital projects are financed in the currency of the relevant Country Specific strategy not to hedge reporting risk

Corporate social responsibility review

Driving continuous improvement

At TelecityGroup we are committed to responsible business practices and endeavour to deliver sustainable value for our shareholders and wider stakeholders.

Our CSR strategy

As an international and expanding business we recognise that we have a role to play in managing and meeting some of the challenges that we face as a society. We are committed to driving our business in a way that is responsible, ensures our own business sustainability and meets the expectations of our stakeholders.

Our business strategy is centred on delivering high quality data centres that drive value for our customers. Proactively managing our material, social, environmental and governance issues is essential to the commercial success of our business and creating lasting value for all our stakeholders. In 2011, we conducted a review that resulted in the setting of five-year goals relating to the most material corporate responsibility issues facing the Group and the impacts our business has on its stakeholders. Over the last 12 months, we have made good progress against these goals and the majority of our CSR performance targets have been met.

We recognise that listening to our stakeholders, and responding to their relevant concerns, is important in keeping our strategy relevant and effective. This year we undertook a materiality assessment to update our understanding of the issues facing the Group. This involved conducting a series of interviews with key internal and external stakeholders. As a result, we have identified four material issues which are most important to drive business success and are of greatest interest to our stakeholders.

Our material issues

Energy efficiency

The data centre industry has a vital role to play in creating a more environmentally-efficient economy. TelecityGroup's business growth has a direct impact on its energy usage. By virtue of the Group's scale and expertise, IT equipment housed in TelecityGroup data centres is more efficient to run than if it were hosted in organisations' smaller proprietary server rooms.

Throughout 2014, we focused our environmental management performance on the continued introduction of energy monitoring and targeting systems while installing more sophisticated metering systems and energy analysis. Our certification to ISO 50001, a best practice energy management standard, is progressing well across the Group. In addition to the sites already certified (UK, France and Group Head Office), Ireland was successful in achieving ISO 50001 certification during 2014.

(1) Carbon Usage Effectiveness ('CUE'), is a metric developed by The Green Grid and commonly used by data centres globally to assess carbon efficiency.

Planned certification for Italy and Netherlands will take place in 2015.

In 2014, we also recertified to the Carbon Trust Standard in the UK and achieved a best in sector score of 92.5% for Carbon Management.

We have reported on all greenhouse gas emission sources for which TelecityGroup is responsible and on which we are required to report under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. The Group's total emissions in 2014 (as externally audited by a third-party emissions[(1)] specialist) were 238,305 tonnes CO_2 equivalent. The CUE [(1)] intensity ratio of 0.655 $kgCO_2e/kWh$ was a deterioration from our 2013 result. As a consequence this led to the targeted 3% reduction in like-for-like CUE performance from the 2013 level being missed. As indicated in the 2013 Annual Report, there has been a worsening of grid emission factors in certain countries due to increased use of carbon emitting raw energy sources (e.g. coal) for power generation. This is shown notably in the UK which accounts for approximately 45% of the Group's carbon emissions, and where the grid emission factor has deteriorated by approximately 10%. For 2014, TelecityGroup has reported a full year of carbon figures which include the full year impact of our emerging market locations. These locations have more carbon-intense grid emissions factors (e.g. in Bulgaria the CO_2e factor is 37 times greater than in Sweden) and have a significant impact on annualised Group CUE results.

Energy security of supply

Energy accounts for a significant proportion of our spend with suppliers, and energy security of supply has been identified as a material issue for our business. Risk to the security of energy supply has the ability to impact both our business and the data centre industry as a whole, which could have significant wider implications on macro-economic growth. Some energy grids are nearing full capacity and it is expected that security of supply will become increasingly important in the medium to long term. As such, backup generators with standalone fuel supplies are in place across all our facilities to ensure that should a break in supply occur, we have sufficient contingency measures in place for independent power generation. We conduct regular testing and maintenance of energy backup systems. Additionally, we are in regular dialogue with our energy suppliers and energy regulators about the energy security in our markets.

Data security

Data security is of vital importance to our customers. While our services focus primarily on the provision and maintenance of data centre environments, it is important that we proactively mitigate information security risks. We have established a robust Group Security Policy which all employees receive training on. The policy is monitored and enforced by the Group security team, and is subject to regular internal and external audits.

Furthermore, we have obtained certification to the information security standard ISO 27001, and conduct regular and rigorous security testing and monitoring of our IT systems and networks across all sites.

Customer satisfaction

The customer is at the heart of everything TelecityGroup does in designing, building and operating data centres across Europe.

Our success is predicated on providing capacity to support our customers' long-term business growth. We seek to engage and work closely with our customers to understand their needs to provide a flexible service that meets their objectives, both in terms of business performance and their own corporate responsibilities.

We are committed to achieving the highest levels of customer satisfaction and we closely monitor the Group's performance in this area. In 2014, our customer survey indicated that 92% of customers are either satisfied or very satisfied with the level of service that TelecityGroup provides, above our target of 90%. The Group seeks to maintain this level of customer satisfaction and is committed to continuing to report on this measure in the future.

Our wider responsibilities

Ethics and compliance

We are committed to maintaining the highest ethical, professional and legal standards. As well as a Group-wide Code of Ethics, we have a comprehensive set of policies which set out our approach to issues such as whistleblowing, anti-bribery, quality, health and safety and the environment. The Group compliance function is responsible for monitoring compliance against our policies.

During 2014, we strengthened our systems in this area and rolled out anti-bribery training to 722 people, which accounts for 93% of our employees, across nine countries – UK & Head Office, Sweden, Finland, Ireland, France, Italy, Netherlands, Germany and Bulgaria. In 2015, we plan to extend this training across our operations in Poland and Turkey.

Employees

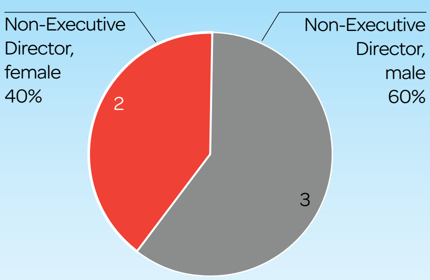
At TelecityGroup we understand the importance of developing a highly skilled and committed workforce, and recognise this as a vital factor in our continuing success. The Group offers employees at all levels a range of training and learning opportunities. We firmly believe that by investing in our employees and ensuring they have the necessary skill sets, we can motivate and retain the highest standards and continue excellence across the business.

Our annual employee engagement survey was again completed in 2014, with 87% of employees taking part. Workforce satisfaction rose by 2% in 2014 with 79% of respondents agreeing with the statement that they 'enjoy working for TelecityGroup'. This is just below our target of 80%.

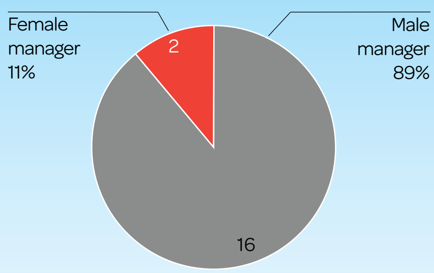
As an equal opportunities employer, diversity in all areas is a priority for TelecityGroup. We treat all employees equally regardless of race or colour; ethnic or national origin; age; gender; sexual orientation; marriage and civil partnership; gender identity and/or expression; religion or belief; physical ability/ disability or other protected characteristics as relevant in a country. We continually investigate ways in which to attract diversity into the organisation with a focus on merit-based selection and promotion. Two aspects of diversity that are particularly important on our Board are female and non-UK representation. These aspects are measured firstly with reference to our non-executive Directors, and secondly with reference to our senior management including the executive Directors.

Board and employee diversity

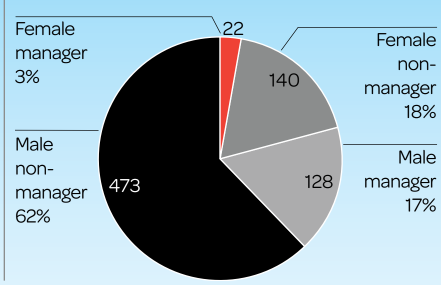
Non-Executive Directors by gender (excluding Executive Chairman)



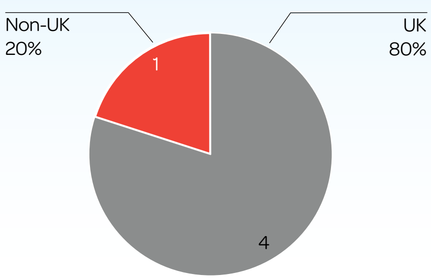
Group and country managers by gender (including Executive Chairman)



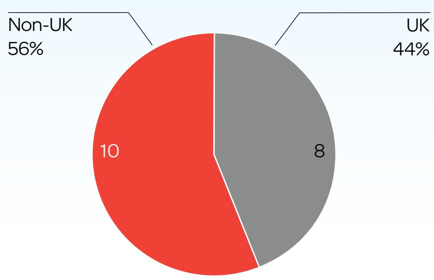
All employees gender by job level (including Executive Chairman)



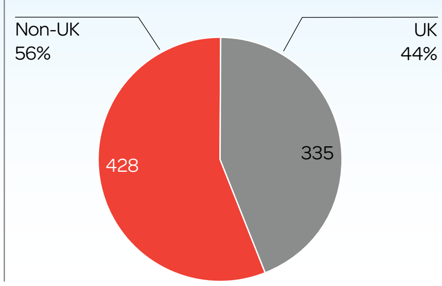
Non-Executive Directors by citizenship (excluding Executive Chairman)



Group and country managers by citizenship (including Executive Chairman)



All employees by citizenship (including Executive Chairman)



Governance

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Governance review introduction

Introductions to our corporate governance reviews in previous years have noted that implementation of our corporate governance is ever evolving in a similar way to the Group's strategy itself. This has been particularly the case in 2014 which saw a number of changes in the Group. Our ethos of best practice in corporate governance being best practice in business has helped guide these changes.

This ethos remains a fundamental element of our aim to maximise shareholder value over the long term. We continue to develop our governance arrangements to ensure that the Group can both capitalise on the many opportunities from which it benefits and rise above any challenges it encounters.

What our ethos means in practice is that:

— We have enhanced the governance arrangements in the Group to help support and guide the great entrepreneurial drive and ambition that our people have: appropriate controls and processes that help inform decisions, manage their implementation and enable their review where appropriate;

— Our Directors lead from the top in setting the tone as well as the direction of the Group's strategy and management: as the Group grows, so the importance of cascading our principles through the business increases; and

— As areas for improvement are identified, they are embraced as opportunities to be more successful in the future, to do things better than we have done in the past, and to ensure that all our stakeholders – including shareholders, employees and customers – can benefit from all that the Group can offer.

Overview

There have been five particularly notable developments in this area for TelecityGroup in 2014:

1. We undertook a thorough and successful search process to recruit a high calibre Chief Financial Officer for the Group. This resulted in the appointment of Eric Hageman to this role. The process for his appointment is summarised in the report of the Nominations Committee which commences on page 67.
2. We commenced the process for recruitment of a similarly high calibre Chief Executive Officer following the departure of Mike Tobin from that role. This process is being conducted in a similar manner to that for Eric's recruitment. John Hughes agreed to assume executive responsibilities until commencement of the new CEO.
3. As part of commencement of implementation of the succession planning for our two longest serving non-executive Directors, the Board appointed Claudia as our new Senior Independent Director.
4. We oversaw the continued development of our Group management structure as it is positioned for the ongoing growth and development of our business.
5. In conjunction with reviews of our management and operations, we obtained external views on the operation and effectiveness of our Board as part of the Group as a whole; and arranged for Egon Zenhder, who facilitated evaluation of the Board in the prior year, to conduct a follow-up review to their previous work. A summary of their work is set out in the Nominations Committee Report which commences on page 67.

As in prior years, our Board and Committees each set themselves specific objectives at the beginning of the year. These objectives were particular to last year, are ongoing from year to year, or are being developed over a number of years. Achievement of these objectives in 2014, and those for the coming year, are summarised in the introductory sections of their individual reports later in this review.

UK Code compliance

The Board considers that the Company has complied throughout 2014 in all respects with all the relevant recommendations of the UK Corporate Governance Code (the 'UK Code'). We have included throughout this governance review all of the main principles of the UK Code that apply to the Company. For readers wishing to review the UK Code in more detail, it can be found on the Financial Reporting Council website at www.frc.org.uk.

On behalf of the Board

John Hughes, CBE
Executive Chairman

Claudia Arney
Senior Independent
non-executive Director

10 February 2015

Governance calendar for 2014

The overall calendar of meetings of the Board and its Committees for 2014 is shown below:

	Full report	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Board (main meetings)	p46		●		●		●		●		●	●	
Board (conference calls)	p46				●				●		●		●
Audit Committee	p52	●	●					●				●	
CSR Committee	p57		●				●		●			●	
Nominations Committee	p67		●		●		●	●			●	●	
Remuneration Committee[5]	p71	●	●●						●●		●	●	
AGM					●								

Specific calendars for the Board and its Committees are shown in their individual reports within this review.

Meeting attendance by Directors 2014

The attendance of Directors at the meetings of the Board and its Committees is shown below:

● Attended ◐ Attended all or part of meeting as invitee ○ Absent

	Board meetings	Board calls	Audit Committee	CSR Committee	Nominations Committee	Remuneration Committee[2][5]
John Hughes	●●●●●●	●●●●		●●●●	●●●●●●	◐◐
Eric Hageman[1]	◐●●	●●	◐		◐	
Claudia Arney	●●●●●●	●●●●	●●●●	●●●●	●●●●●●	●●●●●●●
Simon Batey	●●●●●●	●●●●	●●●●	◐◐	●●●●●●	●●●●●●●
Maurizio Carli	●●●●●●	●●●●	●●●●	●●●●	●●●●●●	●●●●●●●
Nancy Cruickshank[2]	●●●●●●	●●●●	◐◐●●	●●●●	●●●●●●	●●●●●●●
John O'Reilly	●●●●●●	●●●●	●●●●	◐	●●●●●●	●●●●●●●
Michael Tobin[3]	●●●●	●○		●●●	◐◐◐	◐◐◐
Brian McArthur-Muscroft[4]			◐			

(1) Eric Hageman was appointed to the Board in September 2014.

(2) Nancy Cruickshank was appointed as a member of the Audit Committee following its meeting in February 2014.

(3) Mike Tobin stepped down from the Board in August 2014.

(4) Brian McArthur-Muscroft stepped down from the Board at the end of January 2014.

(5) John Hughes and Michael Tobin did not attend meetings of the Remuneration Committee whilst it was considering matters in relation to their own remuneration.

All Directors on the Board at that time attended the AGM.

John Hughes, CBE
Executive Chairman

Claudia Arney
Senior independent non-executive Director

Our Board

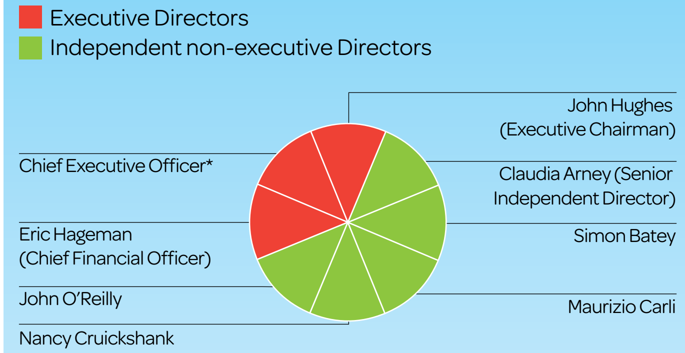
	John Hughes CBE	Eric Hageman	Claudia Arney
Role	**Executive Chairman**, leading the Board of Directors and, until commencement of the new CEO, leading the management of the Group and the development of its strategy. He is also Chairman of the Nominations and CSR Committees.	**Chief Financial Officer**, leading the planning and implementation of financial strategy for the Group and working with the Executive Chairman on its wider operations.	**Senior Independent Non-Executive Director**, and a member of the Audit, Remuneration, Nominations and CSR Committees.
Appointment date	October 2007	September 2014	March 2013
Experience	More than 30 years' experience leading complex, high technology businesses operating at a global level. Significant experience of managing growth companies, especially those supplying complex solutions and services to business customers; of mergers and acquisitions; of international/channel expansion; and of development of leadership teams. Held senior executive positions at Thales Group, latterly executive vice president and chief operating officer, responsible for an organisation with over 25,000 people; Lucent Technologies where his responsibilities included being president of its worldwide GSM and UMTS businesses; and Hewlett Packard. Until 2010, non-executive chairman of Intec Telecom Systems plc and a non-executive director of Chloride Group plc; until 2011 a non-executive director of Vitec Group plc.	Came to TelecityGroup from Royal KPN NV, following a 9 year career at the company. His most recent role was as a member of the Board of Management and Chief Financial Officer. During his tenure, held a number of senior executive positions at KPN, including CFO of KPN Mobile International, CEO of KPN Belgium and Head of M&A and IR. Before joining KPN, spent 9 years in London working in Equity Capital Markets at ABN AMRO Bank and in Corporate Finance at Deutsche Bank.	Was Group Managing Director of Emap Inform from 2008-2010 with responsibility for the Media and Public Sector businesses. Focused on transforming the predominantly advertising funded print trade publishing business in to a subscription based digital data and information business. Previously a Director of the Enterprise and Growth Unit at HM Treasury and responsible for many of the policy issues which affect business including competition, regulation and productivity. Has also worked at Goldman Sachs, Pearson, the Financial Times and Mckinsey.
External appointments	Non-executive Chairman of Spectris plc, Sepura plc and JUST EAT plc. Non-executive Director of CSG Systems International, Inc.	None.	Non-Executive Director of Halfords PLC, and Which? Chair of The Public Data Group (comprising Ordnance Survey, The Met Office, Land Registry and Companies House). A member of the Advisory Board of the Shareholder Executive, and Huawei.
Charitable and other	Ambassador for the Alzheimer's Society. Supporter of the Mahogany Opera Group. Awarded the CBE for services to international telecommunications in the Queen's 2011 New Year Honours List. Awarded an honorary Doctor of Science in 2014 in recognition of his contribution to the communications and technology sector and to the wider business community by The University of Hertfordshire. Holds a BSc in Electrical and Electronic Engineering.	Holds an MBA from the London Business School and an MSc in Business Economics from Maastricht University in the Netherlands.	Not-for-profit roles include Membership of the Business Advisory Council of the Said Business School at Oxford University, and Chairing the Bedales Grants Trust Fund.

Simon Batey	Maurizio Carli	Nancy Cruickshank	John O'Reilly
Non-Executive Director, Chairman of the Audit Committee and a member of both the Remuneration and Nominations Committees.	**Independent Non-Executive Director**, and a member of the Audit, Remuneration, Nominations and CSR Committees.	**Independent Non-Executive Director**, and a member of the Audit, Remuneration, Nominations and CSR Committees.	**Independent Non-Executive Director**, Chairman of the Remuneration Committee and a member of both the Audit and Nominations Committees.
October 2007	May 2011	March 2013	October 2007
Over 20 years' experience in senior finance roles with particular experience in the construction and utility industries. Qualified Chartered Accountant, having spent the first 12 years of his career at Armitage and Norton (now part of KPMG), latterly as a partner of the firm. Between 2000 and 2006, group finance director of United Utilities plc. From 2006 until 2007, chief financial officer of Thames Water Utilities Limited. From 1987 to 2000, worked for AMEC plc, initially as deputy group finance director and then, from 1992, as group finance director. A non-executive director of Arriva plc from 2003 to 2010 and has also served as a non-executive director of THUS Group plc. A member of the Postal Services Commission, responsible for the regulation of the UK postal services sector from 2010 until 2011.	Significant experience of managing high growth European organisations with direct insight into cloud computing related businesses. Role at VMWare extends to strategic planning, business operations and the management of key functions including sales channels, services and marketing, continuing to grow the region at high pace. Previously at Google on a short-term assignment; spent five years at Business Objects as senior vice president and general manager, EMEA, being responsible for sales, pre-sales, marketing, finance, customer support and global services. Spent 19 years at IBM, latterly as vice president of software group for IBM EMEA and previously vice president and general manager for IBM's Tivoli Systems Division, and held sales and sales management positions in the government, education and healthcare sectors for IBM Italy.	Worked for Condé Nast in marketing and advertising becoming commercial director of Condé Nast online in 1995. In 2001 launched Handbag.com – which was sold to Hearst in 2006, continuing on after the buy-out to oversee their portfolio of web properties. In 2008 joined VideoJug and in May 2009 moved to the Telegraph Media Group (TMG) as executive Director, Digital Development. From April 2012 to March 2013, was launch CEO of Weve, leading a team that secured clearance from the EC for the UK's leading mobile operators (EE, Vodafone and Telefonica) to launch a media & mCommerce JV in the UK. Successfully launched the business in November 2012 and Weve now provides a form of blueprint for other collaborations like this in various international markets.	Particular experience in eCommerce, marketing, public relations, public affairs, property and business development. Experience within the highly regulated betting and gaming sector includes being a founder director and former vice chairman of the Remote Gaming Association. Until 2010, managing director of remote betting and gaming at Ladbrokes, joining the Ladbrokes plc board following the completion of the sale of the Hilton International hotels division in February 2006. Led the Ladbrokes eGaming division from its establishment in 2001 until 2010, with responsibility for international development, including Ladbrokes' growing retail joint venture in Spain, and oversaw Ladbrokes' core bookmaking function.
A Non-executive Director of Gulf Marine Services plc since March 2014 and Non-executive Director of Blackrock New Energy Investment Trust plc since 2010.	Corporate senior vice president and general manager EMEA for VMWare, the global leader in virtualisation and cloud infrastructure, responsible for managing the EMEA region.	Founder and CEO of MyShowcase.com, a beauty retailer that champions female entrepreneurialism.	Managing director of Coral Interactive, the online and telephone betting and gaming arm of Gala Coral Group until 2014.
Fellow of the Institute of Chartered Accountants and has an MA in Geography from Oxford University.	Holds a BSc in Electronic Engineering from the Politecnico di Milano in Italy.		Holds a first class honours degree in Business.

Report of the Board

Membership of the Board

The UK Code provides that independent non-executive Directors should comprise at least half of the Board, excluding the Chairman.



* Michael Tobin stepped down from the role as Chief Executive Officer on 24 August 2014 and a replacement is being sought.

- In addition, the Chief Commercial Officer, the Group Financial Controller and other members of the senior management team are invited to give presentations at Board meetings;
- External speakers are also invited to present at meetings, usually on a matter of strategic interest.

Specific objectives achieved in 2014

- Focused on shareholder value creation, reviewed strategy in the light of changing external climate and developed/rolled-out its updated equity story based on the changing environment;
- Considered strategy and consequent group organisation to better align with changing market trends, including country/region organisation and go-to-market strategy;
- Initiated detailed strategic planning process;
- Recruited and integrated new CFO;
- Acted on key findings of Board assessment and investor expectations; and
- Focused even more deeply on information and infrastructure security.

Specific objectives set for 2015

- Continue to focus on shareholder value creation, to review Group strategy in the light of changing external climate and to develop/roll-out its updated equity story based on the changing environment;
- Recruitment and integration of a new CEO;
- Complete the strategic planning process and implement its findings and consequent group organisation, go-to-market strategy and enhanced solutions offerings including Cloud-IX;
- Act on all key findings of the Board assessment; and
- Continue to focus even more deeply on information and infrastructure security.

UK Code Principles:

'Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.'

'There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.'

'The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.'

John Hughes, CBE
Executive Chairman

It is an essential part of the ongoing success of any business that it should be led by directors with the relevant skills, knowledge and experience to do so. Their contributions should then be maximised.

As Chairman of the Board, this is what I aim for in TelecityGroup. It is, and will remain key to the ongoing success of our business.

As part of this, my colleagues on the Board:

- Contribute a wealth and range of knowledge, experience and skill sets to the Board, our Committees and more widely in the Group; and
- Have been appointed to our Board and Committees, over a period of years, ensuring their memberships are progressively refreshed and a range of perspectives in Board discussions is maintained.

Details of our individual Directors and when we were appointed to the Board are shown in our biographies on pages 44 and 45. A diagram showing the progressive timing of our appointments is included in my report as Chairman of the Nominations Committee on page 69. The introductory sections of the reports of our Committees later in this governance review show when their members were appointed.

In this report, I summarise our activities in the past year as a Board.

Developments during the year

Building on the developments in previous years and taking account of the results of the Board evaluation last year, we have sought to continue the process of constant improvement in the way the Board operates:

During the year, we appointed Eric Hageman as our new Chief Financial Officer. The process for Eric's recruitment is commented on in my report as Chairman of the Nominations Committee on pages 67 and 68. We have maximised the value from his appointment as quickly as practical through a comprehensive induction programme commented on further in the diagram on page 68 and drawing on his breadth of skills and experience. Areas in which Eric has already provided valuable input to the Board have included our reviews of shareholder value creation and the development and roll out of the Group's updated equity story.

We maintained our focus on long-term strategy at each main Board meeting and obtained the input of external consultants on this.

These discussions included further development of the Group's ongoing plans for growth and innovation in terms of both go to market and organisational strategies in the context of changes in business landscape and the development of the Group commented on in the Strategic Report.

In our reviews of strategy in the latter part of the year, we focused even more on shareholder value creation and development of the Group's equity story for roll-out to investors.

At several main Board meetings, we also reviewed the ongoing development of the Group's IT and infrastructure security.

Whilst we view the process of enhancement as continuing to evolve as the Group develops, Egon Zehnder in their evaluation of the Board (commented on further on page 70 in my report as Chairman of the Nominations Committee) indicated that the Board was performing well overall.

Division of responsibilities

Clarity of the responsibilities of, and constructive working relationships amongst, our Directors are at the heart of our Board achieving its maximum potential. Most important in these are the responsibilities of, and clarity between, the roles of Chief Executive Officer and Chairman. As recommended by the UK Code, we have a clear written division of responsibilities between these roles. Following the departure of Mike Tobin as Chief Executive Officer during the year, I assumed responsibility for this role in addition to that as Chairman. Mindful of this dual role, Claudia Arney, our Senior Independent Director, has agreed to provide additional oversight of Board processes pending my handing back my current executive responsibilities after the appointment of a new Chief Executive. This has included Claudia chairing discussions on particular decisions where I felt my dual role might have given me undue influence in these. A summary of the individual responsibilities, and those of our Senior Independent Director and Company Secretary, undertaken in 2014 is given in the diagram below.

Division of Board responsibilities

Chairman

- Agreed with the executive Directors subjects for particular consideration by the Board during the year.
- Provided strategic insight from his wide-ranging business experience and contacts built up over many years.
- With the other members of the Nominations Committee: worked with the Chief Executive Officer on the recruitment of our new Chief Financial Officer; and led the process for the recruitment of a new Chief Executive Officer.
- Assumed executive responsibilities on the departure of the Chief Executive Officer.
- Sought additional oversight from the Senior Independent Director whilst undertaking that dual role.
- Met with major shareholders on both strategic and governance matters.

Chief Executive Officer

- Worked with the Chairman in agreeing subjects for particular consideration by the Board during the year.
- Led the business and the rest of the management team.
- Responsibilities assumed by the Chairman until a new Chief Executive Officer is appointed.
- Led the ongoing development of the Group's strategy with input from the rest of the Board and its advisors.
- Was the principal public face of the Group with shareholders, customers, suppliers and the industry generally.
- Brought matters of particular significance or risk to the Board for discussion and consideration if appropriate.
- Led the recruitment process for the new Chief Financial Officer.

Effective division of responsibilities and Board operation

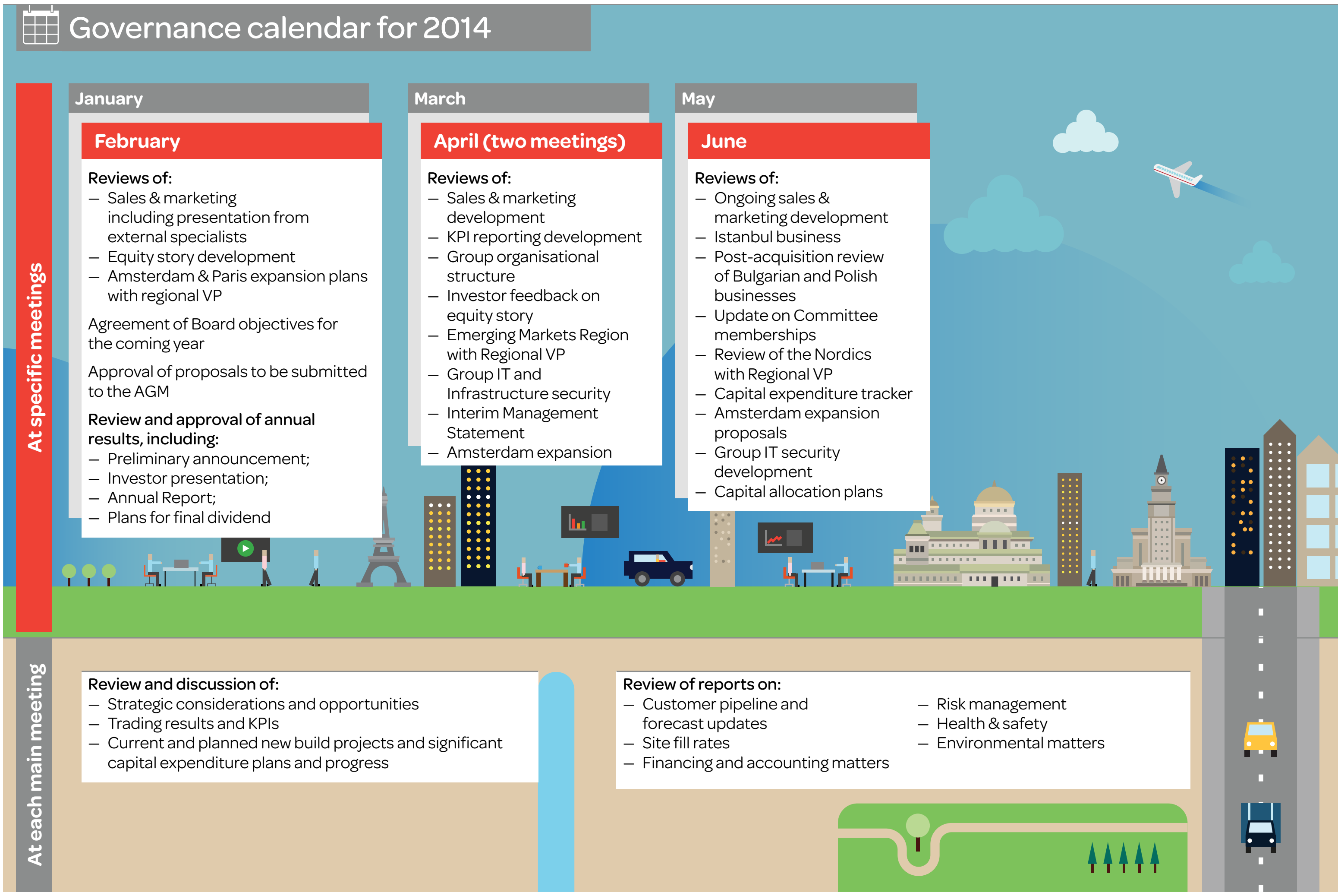
Senior Independent Director

- Led the evaluation of the Chairman following on from the results of the externally facilitated evaluation of the Board.
- Provided input to the Board on governance matters.
- With the Chairman, assisted the Nominations Committee in developing the job specification for the recruitment of the new Chief Executive Officer and in the recruitment process.
- Provided additional governance oversight during the period when the Chairman and Chief Executive roles were combined.

Company Secretary

- Secretary to the Board and each of its Committees, reporting directly to their Chairmen.
- Assisted the Chairman and executive Directors in bringing the matters they had determined appropriate for consideration during the year onto specific meeting agendas.
- Kept the Board and its Committees informed on governance matters, advising on these through their Chairmen.
- Assisted in the induction of the Chief Financial Officer following his appointment to the Board.

Report of the Board continued



Board meetings

As shown above in the governance calendar for 2014, we hold six main Board meetings each year at two-monthly intervals. These meetings, together with any meetings of our Committees, are generally held in London over a period equivalent to approximately one day.

Twice this year, we met at one of the Group's other locations in Helsinki and Amsterdam, where we toured the existing facilities, as well as meeting local management.

When appropriate for specific matters, we also meet (usually by telephone conference) between main meetings.

We have a schedule of matters specifically reserved to the decision of the Board. We have designed this to ensure that the decisions of the greatest significance are considered by our Board as a whole.

A high level summary of key matters considered and decided at each Board meeting and strategy meeting during 2014 is shown in the governance calendar above.

The day-to-day management of the Group's business is delegated to operational management within defined authority limits. This includes approval of customer and supplier contracts and routine capital expenditure within those limits. Between Board meetings, the non-executive Directors and I keep in touch on key matters and I involve the Board as a whole where I feel this is appropriate.

The operation of the business is reported on to the Board as set out on page 50.

Maximising Director contributions

I seek to maximise the contribution of our Directors at and, where appropriate, outside Board and Committee meetings on an ongoing basis.

I chair our Board and Nominations and CSR Committee meetings in a way that ensures full and open discussions, as my fellow Chairmen of our other Committees do with their meetings.

July

August (two meetings)

Reviews of:
- Long-term strategic planning
- Developments in Turkey
- Appointment of Claudia Arney as Senior Independent Director
- Western Europe Region with Regional VP
- London Docklands operations
- Power usage efficiency
- CRM system

Review and approval of half year results, including:
- Report of the Audit Committee
- Announcement
- Investor presentation
- Declaration of interim dividend

Agreement for Chief Executive Officer to step down

September

October (two meetings)

Reviews of:
- UK Region with Regional VP
- Investment & infrastructure services
- Investor feedback from half-year results
- Performances from recent acquisitions

Strategy Meeting including:
- Industry landscape
- Strategy development
- Presentations by management & external advisers

Review and approval of:
- Interim Management Statement

November

Reviews of:
- Strategic planning
- Equity messaging
- Expected full-year outcome
- Capital expenditure optimisation
- Amsterdam business
- Future plans for Stockholm
- Strategic updates with external advisers
- Operating & Capital Expenditure with external advisers
- Operating plans & Budget with regional Vice-Presidents
- Non-executive Directors' fees
- Plans for Board evaluation

December

Reviews of:
- 2015 Budget
- Capital structure and financing plans

Review and discussion of:
- Investor relations & feedback
- Corporate communications
- Minutes of previous meetings
- Reports on implementation of actions agreed at previous meetings

UK Code Principle:

'The board should use the AGM to communicate with investors and to encourage their participation.'

Induction of new Chief Financial Officer

Building upon the process developed for the last time new Directors were appointed, a thorough induction process was undertaken to maximise the contribution of Eric Hageman as the Group's new Chief Financial Officer as quickly as possible.

The induction process was ongoing through, and completed within, the first couple of months following the announcement of his appointment. This ensured that he received information both in advance of the first Board meeting he attended and also with the benefit of having attended that meeting.

On appointment

The Group's new CFO received a comprehensive briefing prepared by the Company Secretary to supplement the information on the Group's business provided during recruitment including:

- Board minutes for the previous year.
- Key papers from the last Board meeting.
- Key papers from previous Board meetings remaining relevant.
- Key brokers' reports on the Group.
- Key Group policies.
- Governance information in relation to the Company, including the role of the Board, its Committees, the Chairman and the Chief Executive Officer.
- Guidance for Directors of British public companies generally including under law, the UK Code and the rules of the UK Listing Authority.

Following appointment

Partly before and partly following commencement in the role the Group's new CFO separately conducted:

- Business briefing meetings with the Chief Executive Officer and Chairman.
- Meetings with members of the Group and regional management team.
- Visits to a number of the Group's data centres.
- Meetings with the Group's Auditors and financial, legal and other advisors.

Report of the Board continued

How the Board operates

The Chairman, along with the CFO and Company Secretary, has established Board processes designed to maximise its performance. Key aspects of these are shown below:

- The Chairman and Company Secretary meet towards the beginning of each year to agree an overall calendar of subjects to be discussed by the Board during the year.
- Board meetings are timetabled to ensure adequate time for discussion of each agenda item for that particular meeting.
- Discussions at Board meetings are held in a collaborative atmosphere of mutual respect and open discussion allowing for questions, scrutiny and constructive challenge where appropriate.
- Full debates on key matters allow decisions to be taken by consensus (although any dissenting views would be minuted accordingly).
- The development of strategy is led, pending the appointment of a new Chief Executive Officer, by the Chairman together with the CFO with input, challenge, examination and ongoing testing from the non-executive Directors.
- Group strategy is reviewed by the Board throughout the year, with particular strategic matters being reviewed and updated as appropriate at each main meeting.
- Good working relationships exist between non-executive Directors and non-Board members of the senior management, which are encouraged by the Chairman and CFO.
- Members of the senior management team draw on the collective experience of the Board, including its non-executive Directors.
- Comprehensive reporting packs are provided to the Board, which are designed to be clear, accurate and analytical, whilst avoiding excess and unnecessary information.
- Reporting packs are distributed in advance of Board meetings, enabling them to be as up-to-date as possible whilst allowing sufficient time for their review and consideration in advance of the meeting.
- Clarification or amplification of reports is sought in advance of, or at, meetings as appropriate. Once goals have been set and actions agreed, the Board receives regular reports on their implementation.
- Comprehensive management accounts with commentary and analysis are distributed to the Board on a monthly basis.
- The Board reviews the Group's risk register at each of its main meetings and challenges this where appropriate.
- The Board systematically visits the Group's business locations both to review its operations and new builds and to meet with local management.
- All Directors have open access to the Group's key advisors as well as to management and the Company Secretary.
- Directors are also entitled to seek independent professional advice at the Group's expense should they consider this appropriate.

Dialogue with shareholders

The Board recognises that it is managing the Group ultimately on behalf of its shareholders.

It undertakes this responsibility in such a way so as to seek to maximise shareholder value over the long-term and to advance the interests of all of the Group's stakeholders.

A mutual understanding of these objectives between shareholders and the Board as a whole has been developed as set out below.

- Pending the appointment of a new Chief Executive Officer, the Chairman, along with the Chief Financial Officer, meets with institutional shareholder representatives regularly to discuss strategic and other matters as well as to give presentations on the Group's results (copies of which are available on the Company's website).
- The Board receives reports from the Chairman and CFO on feedback from institutional shareholders at main Board meetings.
- The Chairman also holds meetings with a number of the Company's largest institutional investors and any other investor who expresses an interest in this on governance and other matters, key points from which are reported to other Directors.
- The Chairman of the Remuneration Committee consults with major shareholders before any significant changes in executive remuneration and reports the results to the full Committee, commented on further in the report of that Committee commencing on page 71.
- The Company's Annual Report and Notice of AGM are published as soon as the time required for their printing allows (normally around the beginning of March) to provide the maximum time in advance of the AGM for feedback on these, which is shared with the relevant Directors.
- A presentation is given to shareholders attending the Company's AGM at which shareholder participation is encouraged, all Directors are present and questions and feedback are invited.
- Proxy votes of shareholders for the AGM are tabulated independently by the Company's registrars, announced at the meeting and published on the Group's website shortly after the conclusion of the AGM.

In addition, all Directors are able and available to meet with shareholders if so requested. In particular, executive Directors, the Chairman and the Senior Independent Director are all available to discuss matters with shareholders at any time. They can all be contacted through the Company Secretary or the Group's Investor Relations team.

Details of the substantial shareholders of the Company are set out in the Directors Report on page 134

For more information contact us at ir@telecity.com or www.telecitygroup.com/online-enquiry.htm

I ensure that appropriate training is available to all our Directors. Such training covers the Group, its industry and governance matters more generally. I review this annually as part of the evaluation of the Board. During 2014, this training included attendance at seminars by individual Directors:

It also included briefings from our CFO, Company Secretary, Auditors, lawyers and investment bankers on subjects including:

- Updated guidance on remuneration from institutional shareholder groups;
- Developments in corporate governance;
- Trends in Director's remuneration;
- Key reporting developments for the Board and our Audit and Remuneration Committees;
- Investor related matters.

Management of conflicts of interest

My Board colleagues and I avoid conflicts of interest with the Group as far as possible. Indeed, one of the criteria for our appointment as Directors was that we were free from any such conflicts. Nonetheless, actual or potential conflicts of interest can arise occasionally during a Director's tenure and the Board has a set procedure in place under the Company's Articles of Association to deal with these as follows:

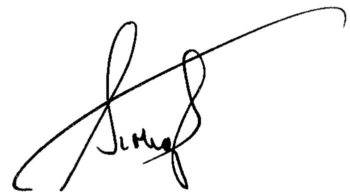
- Actual and potential conflicts of interest are notified to the Board before they arise;
- On such notification, the other Directors consider whether to authorise the actual or potential conflict of interest and, if so, under what conditions; and
- Such conditions could limit the distribution or use of information to or by a Director or include the Director absenting themselves during discussions on the relevant matter.

Only one Director notified any actual conflict of interest (which arose through no cause occasioned by that Director) during the year and this was approved and then managed appropriately by that Director and the Board.

Decisions regarding transactions with Directors and their related parties are always dealt with by other Directors. For example, matters regarding the remuneration of the executive Directors and me as Chairman are handled by the Remuneration Committee.

The year ahead

The past year has been one of change and this process is continuing in 2015 through the recruitment of a new Chief Executive Officer. I believe these changes are bearing fruit for the Group, its shareholders and its other stakeholders, and will continue to do so in the coming year. I look forward to reporting further progress again next year.



John Hughes, CBE
Executive Chairman

10 February 2015

UK Code Principle:

'There should be a dialogue with shareholders based on the mutual understanding of objectives.

The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.'

UK Code Principle:

'All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.'

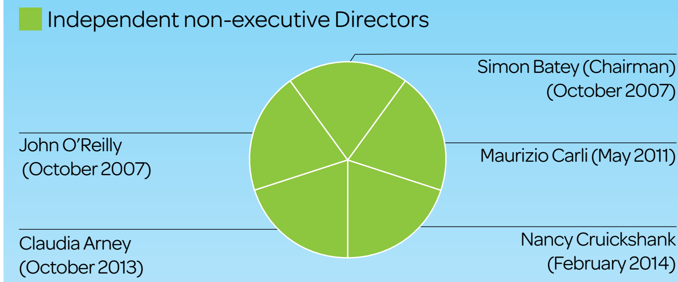
'The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.'

'As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.'

Report of the Audit Committee

Membership of the Audit Committee

The UK Code provides that all members of the Committee should be independent non-executive Directors.



- The Chairman, whose biography is included on page 45, has recent and relevant financial experience from a number of finance director and audit committee roles;
- Senior members of financial management attend and present at meetings (other than during private discussions between the Committee and the Auditors);
- Representatives of the external Auditors attend and present at meetings (other than during discussions regarding their performance); and
- The Internal Auditor also attends and presents at meetings.

Specific objectives achieved in 2014

- Continued to stay focused on the Committee's top priorities of financial reporting and related internal control risk;
- Continued to monitor accounting judgements and estimates and prepared for possible accounting changes;
- Developed appropriate procedures for the Committee to assess the reporting of the Company under the new governance requirements;
- Reviewed the achievement of risk management objectives; and
- Monitored assurance of non-financial KPIs.

Specific objectives set for 2015

- Continue to stay focused on the Committee's top priorities of financial reporting and related internal control risk;
- Continue to monitor accounting judgements and estimates and prepare for any accounting changes;
- Continue to apply appropriate procedures to assess the reporting of the Group under latest governance requirements;
- Review the annual reporting of the Group in the context of latest best market practices; and
- Monitor the Group's assessment of the level of distributable reserves.

UK Code Principles:

'The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.'

Simon Batey
Audit Committee Chairman

The integrity of the Group's financial results and the effectiveness of its risk management and internal control systems are important both to Directors and to shareholders. They are also critical to the way the Group's business is operated as they are required to measure and to sustain achievement of its strategic objectives.

As the Audit Committee, we assist the Board in its oversight and monitoring of financial reporting, risk management and internal controls. We test and challenge these areas in conjunction with management and the internal and external auditors as appropriate.

In this report, I summarise our activities in 2014.

Developments during the year

In the past year, along with the management team, we:

- Developed a process of assessing the reporting of the Company under the new governance requirements introduced last year. This includes reviews by a disclosure committee, on which representatives of the Board and financial and operational management sit;
- Reviewed and monitored assurance in connection with the Company's non-financial KPIs including consideration of the basis of these and their importance to the assessment of performance of the Group;
- Developed an enhanced process for the assessment of the effectiveness of the Auditors, including completion of a questionnaire on their performance by key members of management; and
- In conjunction with the CSR Committee, reviewed the arrangements in relation to anti-bribery training, agreeing enhancements to these where considered appropriate.

Public reporting

As a Committee, we review and comment on both the financial information and non-financial information in the Group's Annual

Audit Committee calendar for 2014

At specific meetings

January

Reviews of:
- KPI reporting
- Plans for assessing efficiency of auditors
- Progress in preparation of Annual Report

March/April/May/June

February

Reviews of:
- Annual Results, including consideration of:
  - Report of the interim Group Finance Director
  - Report of the Auditors
  - Going concern
  - Results of assurance process for non-financial data
  - Draft Annual Report
  - Draft results announcement
  - Draft investor presentation
- Performance and independence of the external Auditors
- Annual Internal Audit report and plans
- Effectiveness of the Committee
- The Committee's Terms of Reference

Recommendations to the Board on:
- The annual results
- Re-appointment of the Auditors

Agreement of Objectives for 2014

July

Half-year results including consideration of:
- Report of the interim Group CFO
- Report of the Auditors
- Draft results announcement
- Draft investor presentation
- Recommendation to the Board on the results

Reviews of:
- Internal Reporting and Risk Management

August/September/October/December

November

Consideration of plans for preparation of the annual results, including:
- Report of the Interim Group CFO
- Report of the Auditors

Reviews of:
- Proposed increases in audit fees
- Report on Internal Reporting, Controls and Risk Management
- Report from the Internal Auditor
- Plans following abolition of formal requirement for Interim Management Statements

At each meeting

Reviews of financial reporting including:
- Any proposed changes to accounting policies
- Key assumptions, judgements and estimates proposed by management
- Developments in reporting and accounting requirements affecting the Group
- Non-audit work by, and fees to, the external Auditors

Reviews of reports on:
- Risk management
- Risk registers
- Internal control

Consideration of internal audit:
- Reports
- Plans
- Recommendations/Implementation

Reviews of:
- Minutes of previous meetings
- Reports on implementation of actions from previous meetings

Reports prepared by management. This includes consideration of key judgements and estimates in the context of reports on these from both management and the external Auditors. Our timetable for this is included on the Committee's calendar above.

We met formally as a Committee four times in 2014. Ahead of each meeting, I discussed relevant accounting matters with the Chief Financial Officer and the senior financial team. I also discuss relevant audit matters in advance with our audit partner. This helps me to lead focused and informed discussions of agenda items with my Committee colleagues at our meetings.

One purpose of our reviews is to assess whether the information in the Annual Report presents a fair, balanced and understandable assessment of the Group's position and prospects. To assist with this process of review, the Committee received and considered a report by a disclosure committee comprising of executive and non-executive directors and members of management. This included an assessment of whether the Annual Report taken as a whole was fair, balanced and understandable. As part of this assessment, a review was undertaken of the positive and negative themes included and to be included in the Annual Report.

Report of the Audit Committee continued

Significant issues

The Audit Committee pays particular attention to matters it considers important by virtue of their impact on the Group's results, or the level of complexity, judgement or estimation involved in their application on the consolidated financial statements. At each Audit Committee meeting management presents a paper on significant accounting policies and estimates. The Committee has considered all significant estimates and judgements as identified in note 2.5 to the financial statements, however the main areas of focus during the year are set out below:

Significant issue considered by Audit Committee	How addressed
Property, Plant and Equipment	
Due to the nature and materiality of the data centre assets the Committee is focused on appropriate accounting for property, plant and equipment. In particular, new-build data centres require careful consideration during the construction stage, which can take several years. The main areas that require consideration are depreciation and capitalisation of pre-build costs.	Accounting for new build data centres is a standing item on the accounting paper which is presented at each Committee meeting. Accounting treatments associated with new build data centres were discussed. Particular focus was given to the rates of depreciation and capitalisation of costs, in particular relating to data centres that are brought into use in discrete zones.
Impairment	
Non-current assets, in particular property, plant and equipment and intangible assets are a material component of the balance sheet. IAS 36 requires that an impairment test is conducted annually for goodwill and intangible assets of indefinite life. Impairment reviews are judgemental by their nature, and careful consideration is required of the cash flows and assumptions used.	The judgements relating to asset impairment relate primarily to the assumptions underlying the value in use calculation, primarily the achievability of the long term business plan underlying the valuation process. These assumptions were considered by the Committee, including the weighted average cost of capital which formed an initial basis for determining the discount rate. Impairment of the Turkish cash generating unit was a focus the Committee following identification of an indication of impairment. The value in use calculation was presented to the Committee along with a sensitivity analysis. Discount rate, growth rate and cash flows were considered.
Presentation of financial statements	
The Group presents an additional performance measure to its statutory results being the adjusted results. The adjusted results are presented as they are considered to provide further insight into the underlying performance of the Group. Three items are eliminated in arriving at the adjusted results: exceptional items, amortisation of acquired intangibles, and other financing items.	Adjusting items are a standing item on the accounting paper which is presented at each Committee meeting. Challenge was given to items reported as exceptional, in particular: the increase in onerous lease provisions, and impairment and other charges associated with the investment in Turkey.
Onerous leases	
The Group performs an annual review of leases to determine whether they are onerous.	The results of the annual review of leases were presented to the Committee. The provision for lease commitments on the site in Munich was discussed at each meeting of the Committee throughout the year. Management's assumptions for the future net cash flows associated with the lease were reviewed.

As a Committee, we also review the Group's half year results prior to publication in a similar way as for the full year results. Committee members review the Group's twice yearly interim trading updates as part of their detailed review and comment by the Board as a whole rather than at specific Audit Committee Meetings. We consider this approach appropriate in view of the limited amount of financial information contained in the Group's interim trading updates and the thorough review process undertaken by the Board, although we will continue to keep this under review.

Further information regarding the preparation of the Group accounts is included in the Directors' Report commencing on page 133.

Internal control and risk management framework and procedures

The key elements of the Group's internal financial control framework and procedures are set out in the table below.

A review of the Group's system of risk management commences on page 34.

Through the processes outlined in that review:

- Areas for enhancement of internal controls and risk management are identified;
- Action plans to deliver such enhancements are devised; and
- Delivery is then monitored by management and by us as a Committee.

We review such matters at each main meeting and consider that none of the areas identified for enhancement during the year constituted a significant failing or weakness for the Group.

In addition, members of the Committee assist in providing input to management outside meetings when the occasion arises. For example, during 2014 I held discussions with David Crowther, our Group Financial Controller, when he was serving as our interim Chief Financial Officer, to discuss matters as they arose.

We consider that the information that we receive as a Committee is sufficient to enable us to review the effectiveness of the Group's risk management and internal controls. These accord with the guidance of the Turnbull Committee. Of course, they manage rather than eliminate the risk of not achieving business objectives. Whilst they cannot provide absolute assurance, we believe they provide reasonable assurance against material misstatement or loss.

Maintenance of the independence of the external Auditors

We have developed procedures relating to the provision of non-audit services by the Group's external Auditors. Under these procedures, non-audit work and the fees involved require approval by the Audit Committee, after taking account of any potential risk of a conflict of interest arising then or in the future. This is subject to de minimis amounts of routine work involving fees of no more than £10,000 which may be necessary between Committee meetings that are then reported at our next meeting.

The key elements of the Group's internal financial control framework and procedures include:

- The close involvement of the executive Directors, including regular meetings with the senior management team to review operational aspects of the business;
- Clearly defined responsibilities and limits of authority, including definition of matters that require Board approval;
- A comprehensive Group-wide system of financial reporting, budgeting and cash forecasting and control through which financial accounts are prepared and submitted to the Board monthly;
- Regular preparation of profit and cash flow forecasts, to monitor actual against expected performance;
- Regular meetings of the Board and Audit Committee at which financial information is reviewed and business risks are reported upon and monitored;
- Annual review by the Audit Committee and Board of the effectiveness of the Group's risk management and internal control systems; and
- Reviews by the Group's internal audit function of specific areas of operations selected in consultation with the Audit Committee. Reports of these reviews are discussed with senior members of the finance team and the Chairman of the Audit Committee before being presented to and considered by the Audit Committee.

The main aims of the internal audit reviews are to ensure:

- Operation of an effective system of internal control at Group and subsidiary levels;
- Production of accurate, relevant and timely financial information by each subsidiary;
- Safeguarding of the Group's assets through physical controls and segregation of duties;
- Proactive risk identification and mitigation through appropriate monitoring and controls; and
- Compliance with Group policies as well as applicable laws and regulations.

The Group recognises the benefits of an effective internal audit function and reviews reports from the Group's internal auditor at each of its main meetings.

Report of the Audit Committee continued

The Companies Act sets out two discrete classifications of non-audit work provided by statutory auditors: audit-related assurance services and other services. Audit-related assurance services include work required by law or regulation, for example review of interim financial statements, which would normally be performed by the statutory auditors. They also include extended audit work that is integrated into the statutory audit.

During the year, the audit-related assurance services provided by the Auditors to the Group included the review of the half year results, assistance with grant claims, and operational assurance. Other services performed by the Auditors in 2014 related mainly to tax advice.

The fees paid for these other services during the year represented 24% (2013: 23%) of the fees paid for the statutory audit and audit-related assurance services together. Excluding the audit-related assurance services, they represented 31% (2013: 29%) of the statutory audit fee. Further details of these amounts are included in note 8 of the accounts.

As a Committee, we are satisfied that the work undertaken by the Auditors with the safeguards they have in place has not threatened their overall independence.

Since year-end, management has proposed, and the Committee has approved, engagement of the Auditors in certain work in relation to assurance and analysis of distributable reserves within the Group. After careful consideration, the Committee approved this as additional assurance work that would not involve making recommendations to management or the Group. Work that would involve the giving of recommendations or a detailed implementation plan would, if they became appropriate, not be handled by the Group's Auditors.

We have a policy so that, before any former employee of the external Auditors may be employed by the Group, careful consideration must be given as to whether the independence of the Auditors will be adversely affected, and our approval is required. This particular circumstance has not yet arisen.

PwC were appointed as the Group's Auditors in June 2008 on the recommendation of the Audit Committee. The Audit Committee was not then, nor is now, subject to any contractual or other restrictions as to the choice of external auditors. Engagement partner rotation within PwC for the Group Audit has been completed twice since appointment, most recently in 2014.

We are mindful of changes and potential changes to the requirements for external auditor selection, given recent reviews by the Competition Commission and the EU. Whilst we do not consider it necessary to have a policy for rotation of external audit firms, we intend to consider placing the audit out to tender in the coming years.

The Audit Committee has assessed the performance and effectiveness of the external audit process in the past year primarily through the use of an audit quality questionnaire, in which the finance manager of each subsidiary was invited to feed back on the audit process. Where appropriate, comments arising from the questionnaire were discussed with the subsidiaries. More detailed follow-up is scheduled, in conjunction with the individual subsidiary statutory accounts process. The results of the overall assessment were discussed with the Group finance team, before being presented to the Committee, to help inform our recommendation to the Board for the annual re-appointment of the external auditors.

On behalf of the Audit Committee

Simon Batey
Chairman of the Audit Committee

10 February 2015

UK Code Principles:

'The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.'

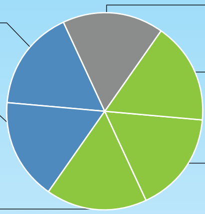
'The board should present a fair, balanced and understandable assessment of the company's position and prospects.'

Report of the Corporate Social Responsibility Committee

Membership of the CSR Committee

The UK Code does not provide guidance for the membership of this Committee. The Board believes that a diverse membership drawn from the Board and management is appropriate.

- Chairman
- Non-Board member of management
- Independent non-executive Director (with month of appointment to the Committee)



* Date of appointment to Committee. Michael Tobin was the Chairman of the CSR Committee until he stepped down from the Board in August 2014. Following his departure, John Hughes was appointed Chairman of the Committee.

Specific objectives achieved in 2014

- Continued to monitor existing CSR objectives and performance against targets ;
- Continued to improve energy management best practices across the Group to minimise carbon and GHG emissions;
- Continued to identify additional areas for monitoring;
- Maintained an ongoing review of market and reporting requirements as they pertain to the Group's CSR strategy and future activities in order to inform the review of the five year CSR targets set in 2011;
- Reviewed Group Ethics and Conduct Policy and ensured their adoption by employees; and
- Maintained ongoing stakeholder engagement to ensure the Group CSR strategy and associated targets are aligned to long-term market expectations and sustainable growth strategy.

Specific objectives set for 2015

- Continue to monitor existing CSR objectives and performance against targets;
- Continue to improve energy management best practices across the Group to minimise carbon and GHG emissions;
- Continue to develop and refine our management and reporting mechanisms related to our other key material issues of energy security of supply, data security and customer satisfaction and engagement;
- Maintain an ongoing review of market and reporting requirements as they pertain to the Group's CSR strategy and future activities in order to inform the review of the five year CSR targets; and
- Maintain ongoing stakeholder engagement to ensure Group CSR strategy and associated targets are aligned to long-term market expectations and sustainable growth strategy.

Our more detailed targets for 2015, as well as a breakdown of our performance year-on-year, can be found on pages 60 and 61 of this report.

John Hughes, CBE
CSR Committee Chairman

During 2014, we made good progress against our established targets which measure the Group's ongoing alignment to being a sustainable business.

The CSR Committee is responsible for overseeing and integrating corporate social responsibility and sustainability within the business. It reports directly into the Board and meets four times a year to review progress against CSR objectives, key performance data and the implementation of standards and CSR measures. The Board believes that a diverse membership drawn from the Board and management is appropriate.

Our CSR Strategy

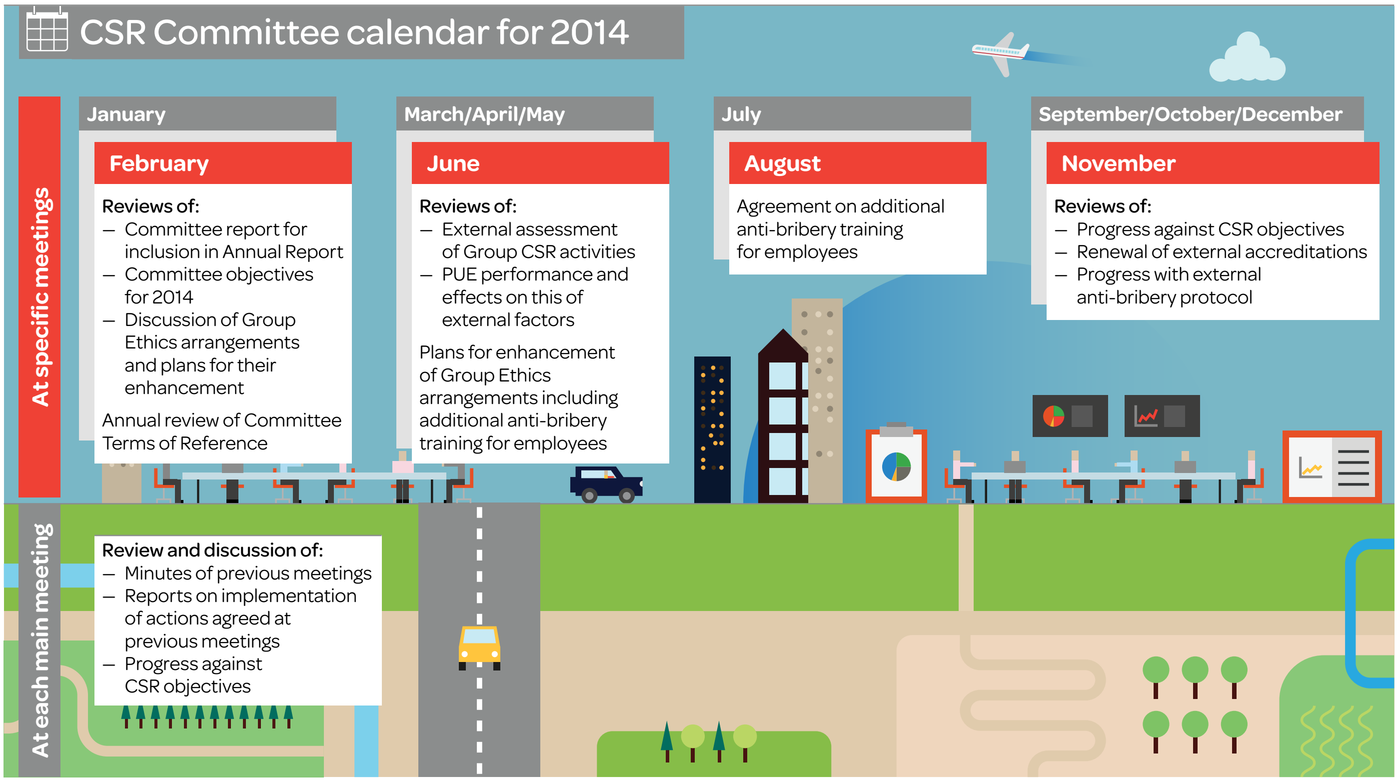
In 2011, we conducted a review that resulted in the setting of five year goals relating to the most material corporate responsibility issues facing the Group and the impacts our business has on stakeholders. These were carbon efficiency, customer satisfaction, employee engagement, certification of robust management systems and business integrity. For each of these areas a quantifiable metric with a specific performance target was established for the near term, and a five-year goal was also set.

Over the last 12 months, we have continued to monitor the performance of the business against our goals and targets. During 2014, we made good progress and the majority of CSR performance targets have been met (see table on page 59-61 for details). New objectives for 2015 have also been set and we will report on our progress against these.

The year ahead will see the review of our sustainability strategy, as our five year goals come to end in 2016. In preparation for this, we have updated our understanding of the material issues facing the Group – those that will drive business success and are of greatest interest to our stakeholders.

The UK Code does not include provisions specific to CSR Matters.

Report of the Corporate Social Responsibility Committee continued



On-going stakeholder engagement

TelecityGroup undertakes regular processes of stakeholder engagement. We recognise that listening to our stakeholders and responding to their relevant concerns is important to our long term success. We seek the views of stakeholders through such mechanisms as employee surveys, investor meetings, participation in industry forums, and responding to customer feedback. In addition to this ongoing dialogue, during 2014 we undertook more extensive engagement with representatives of the SRI community. Feedback from this engagement suggested TelecityGroup should have a greater focus on materiality and in response we undertook a comprehensive materiality assessment described above. Other examples of engagement during the year include dialogue with a leading environmental NGO on the environmental impact of the internet.

Assessing our material issues

In 2014, we commissioned an independent specialist firm to conduct a materiality assessment. In order to gain a comprehensive and balanced understanding of the company's material issues, we carried out an extensive review of our operating context, and held interviews with key internal and external stakeholders. As a result, we have identified four material issues that are considered to have greatest impact, or potential impact, on our business and that are of the highest importance to our stakeholders.

These four issues were determined to be the most important for TelecityGroup based on the materiality process. They were rated of highest concern to our external stakeholders and of the greatest impact on the business according to senior management. There were, of course, a large number of other issues that were considered in the materiality process, but these were not prioritised as 'high interest /high impact' issues. We will continue to manage these issues as appropriate and monitor how issues change in importance as stakeholder expectations, the operating environment and our business evolves.

Our most material issues

Why it is important	How are we addressing it?	Suggested targets*
Energy Efficiency It is our view that the data centre industry has a vital role to play in creating a more environmentally-efficient economy. TelecityGroup's business growth has a direct impact on its energy usage. By virtue of the Group's scale and expertise, IT equipment housed in TelecityGroup data centres is more efficient to run than if it were hosted in organisations' smaller proprietary server rooms.	– We have conducted a group-wide certification to ISO 14001, the international standard for environmental management systems. – Adoption of, and certification to, ISO 50001 (complementing ISO 14001, but with an increased focus on best practice in energy management) is now being implemented across the Group.	– Intensity Ratio ('CUE')(1). – Number of sites covered by ISO 50001.
Energy security of supply Some country energy grids are nearing full capacity. Data centres are power-hungry. Any risk to the security of energy supply has the ability to impact both our business and the data centre industry as a whole (which could have significant wider implications on macro-economic growth).	– Ongoing: backup generators with standalone fuel supplies are in place across all our facilities to ensure that should a break in supply occur, we have sufficient contingency measures in place for independent power generation at full site load. – Mid-term: we are in constant dialogue with our energy suppliers and energy regulators about the energy security in our markets. – Longer-term: There are opportunities to explore the benefits of onsite generation in order to enhance our security and reliability of electricity supply and increase energy efficiency at our point of use.	– Ensuring ongoing and proactive dialogue with governments and regulators on energy security issues.
Data security Data security is of vital importance to our customers. While our services focus primarily on the provision and maintenance of data centre environments it is important that we proactively mitigate information security risks. Breaches in company data security have the potential to directly impact our ability to attract and retain clients.	– We have established a robust Group Security Policy, which all employees receive training on. The policy is monitored and enforced by the Group Security team, and is subject to regular internal and external audit.	– To obtain and maintain certification to ISO 27001-2013 and PCI-DSS certification across the TelecityGroup estate. – To maintain regular and rigorous security testing and monitoring of all TelecityGroup IT systems and networks. Complete any necessary vulnerability corrections rapidly.
Customer satisfaction & engagement The customer is at the heart of everything TelecityGroup does in designing, building and operating data centres across Europe. Our success is predicated on providing capacity to support our customers' long-term business growth. We are committed to achieving the highest levels of customer satisfaction and we closely monitor the Group's performance in this area.	– We actively engage with our customers on a regular basis to ensure that we are meeting their needs and best supporting their objectives. – We also conduct a formal customer survey to gather feedback on our service and business.	– % of customers responding to customer surveys as either 'satisfied' or 'very satisfied'.

(1) Carbon Usage Effectiveness ('CUE'), is a metric developed by The Green Grid and commonly used by data centres globally to assess carbon efficiency. Further details can be found in Section 3 Managing Environmental Impact.

* The insights we have gained through the materiality assessment will be used to inform the management of our material issues and how we report on them going forward. The suggested targets have been identified in order to inform discussions around setting new sustainability goals, as our current five year goals come to an end in 2016.

Report of the Corporate Social Responsibility Committee continued

CSR targets 2014 – review

Target measure	Why it is important	2013 actual	Target for 2014	2014 result	Target for 2015	Goal for 2016
Group CUE(1) (kg CO_2/kWh – annualised) for TelecityGroup data centre footprint	Carbon efficiency is a key measure of broader environmental performance	0.641	Improvement of at least 3% (<0.622) reduction from 2013 level	0.655(1)	0.635(2)	Maintain continuous improvement of at least 3% per annum from 2011 level
Workforce engagement (measured as a % of employees participating in employee satisfaction survey)	We want our people to feel a strong commitment to the business	81%	Achieve and maintain participation rate of 80% or above	87%	>80%	Achieve and maintain participation rate of 80% or above
Workforce satisfaction (as measured by proportion of employees agreeing with the statement in the annual employee survey 'I enjoy working for TelecityGroup')	Motivated people perform better	77%	Achieve 80% satisfaction score or above	79%	>80%	Achieve a satisfaction score of 80% or above
Proportion of capital projects contractors compliant with anti-corruption protocol (as measured by % of total capital spend covered by contractors working on capital projects awarded during the year who have signed the protocol)	Business integrity is key to successful and sustainable growth	84%(3)	Continue trajectory towards 90% of all new major capital projects contractors (by contracts value) to sign protocol in each year	86%(4)	Continue trajectory towards 90% of all new major capital projects contractors (by contracts value) to sign protocol in each year	90% of all new major capital projects contractors (by contracts value) to have signed protocol
Customer satisfaction (measured as a % of customers responding to customer surveys as either 'satisfied' or 'very satisfied')	Retained clients are vital for the continuing growth of the business	95%	Maintain customer satisfaction levels above 90%	92%	Maintain customer satisfaction levels above 90%	Maintain customer satisfaction levels above 90%

(1) As indicated in the 2013 Annual Report, there has been a worsening of grid emission factors in certain countries due to increased use of carbon emitting raw energy sources (e.g. coal) for power generation. This is shown notably in the UK which accounts for approximately 45% of the Group's carbon emissions, and where the grid emission factor has deteriorated by approximately 10%. For 2014 TelecityGroup has reported carbon figures which include the full year impact of our emerging market locations. These locations have more carbon-intense grid emissions factors (e.g. in Bulgaria the CO_2e factor is 37 times greater than in Sweden) and have a significant impact on annualised Group CUE results.

(2) Future CUE results will continue to be affected by: a) acquisition of data centre assets which may operate at significantly lower efficiency rates; or b) changes in a national grid supply's carbon emission factor; and c) acquisition of data centre assets in countries with poor grid emission factors. The business is currently reviewing the 3% year on year CUE target and considering whether a long-term target range may be more appropriate and informative. The conclusions of this review will be published in the 2015 Annual Report.

(3) Refers to value of all new major capital projects awarded in 2013 across the Group.

(4) Excludes payments under a property lease, supply of electricity, payments for local and central government taxes, and employees' remuneration.

Managing environmental impact

The environmental efficiency and resilience of our data centres is a priority for TelecityGroup. The Group is ever vigilant of the need to take action when existing facilities, equipment or procedures require retrofitting or upgrading to improve environmental efficiency. We have continued to make significant investment in this respect over the past 12 months. We have a comprehensive programme to ensure that our newly-acquired businesses are fully integrated and assimilated into the Group's approach to energy management, efficiency and sustainability. This process of integration also extends to standards for quality and ethics.

Energy use

TelecityGroup's business growth has a direct impact on its energy usage. By virtue of the Group's scale and expertise, IT equipment housed in TelecityGroup data centres is in general more efficient to run than if it were hosted in organisations' smaller proprietary server rooms.

The IT hardware that supports the digital economy typically resides in data centres such as those operated by TelecityGroup. It is our view that the data centre industry has a vital role to play in creating a more environmentally-efficient economy.

CSR targets 2014 – review continued

Target measure	Why it is important	Target for 2014	2014 result	Target for 2015	Goal for 2016
Achievement and ongoing maintenance of ISO/OHSAS certification	Management systems' external certification improves standards on all aspects of operational performance	Retain ISO 14001, ISO 27001, ISO 9001 and OHSAS 18001 certification across all existing sites	Achieved	Retain ISO 9001, ISO 27001, ISO 14001, ISO 22301, ISO 50001 and OHSAS 18001 certification across all existing certified sites	Maintain integration of Group-wide compliance and audit systems to retain ISO 14001, ISO 27001, ISO 9001 and OHSAS 18001 certification across all sites
		Achieve same certifications in data centres acquired during 2013 were not certified	Deferred to 2015	Achieve ISO 9001, ISO 27001, ISO 14001 and OHSAS 18001 certifications in data centres acquired during 2013	
		Continue certification process of ISO 22301 across Group and achieve certification in Group and France	Achieved	Continue implementation process of ISO 22301 across Group and achieve certification in Ireland	Achieve ISO 22301 in all sites[1]
		Continue ISO 50001 certification across Group and achieve certification in Ireland, Italy and Netherlands	Ireland achieved. Italy and Netherlands deferred to 2015	Continue ISO 50001 implementation across Group and achieve certification in Italy and Netherlands	Achieve ISO 50001 in all sites[1]
Achievement of external 'CSR issue-specific' certification by independent institutions and agencies	Stakeholders want to engage with companies that have credible external endorsement as a responsible business	Maintain listing in FTSE4Good	Achieved	Maintained listing in FTSE4Good	Maintain listing in FTSE4Good
		Continue implementation of Carbon Trust reporting methodology for TelecityGroup GHG emissions across entire estate	Ongoing	Continue implementation of Carbon Trust reporting methodology for TelecityGroup GHG emissions across entire estate	Achieve and sustain Carbon Trust Standard certification across all Group sites
				Continue to engage with CDP	Continue to engage with CDP

(1) Excludes sites acquired in 2013 onwards. The Group is reviewing sites acquired in 2013 and foresees that the timeframe for planned certification of these sites may extend beyond 2016.

TelecityGroup is committed to minimising our environmental impact, focusing on improving operational and management processes developed through our Energy Management Programme. This is complemented by the ongoing implementation and adherence to the best environmental management practices contained in the EU Code of Conduct for Data Centres.

Energy efficiency

TelecityGroup, along with techUK (the membership organisation that represents companies and technologies that are at the leading edge of our sector) and a range of other operators of data centres in the UK, worked with the UK Government to replace the Carbon Reduction Commitment ('CRC') scheme with an alternative that encourages further energy efficiency, whilst not penalising companies that are helping to drive economic growth.

In July 2014, the Climate Change Agreement (CCA) came into force, recognising the data centre industry as a vital element in the overall UK economy, and encouraging the adoption of technologies that increase energy efficiency and reduce the industry's environmental impact.

The CCA is a negotiated arrangement between government and energy intensive sectors that are subject to overseas competition. It provides a reduction in some carbon taxes for participants in exchange for meeting tough energy efficiency targets. These targets are sector-specific so they can be focused exactly where they can deliver the most benefit. To date, CCAs have delivered

Report of the Corporate Social Responsibility Committee continued

greater energy savings among participating sectors than conventional policy measures would have achieved. Data centres have now joined over fifty other energy intensive sectors in the scheme. TelecityGroup, and our industry peers, welcomed the agreement which will drive energy efficiency through tough and measurable targets which are to be set specifically for the data centre industry. The CCA encourages the right efficiency behaviours and encourages the adoption of technologies that increase energy efficiency and reduce environmental impact.

TelecityGroup was amongst the first round of operators accepted into the CCA in late 2014.

Separately, TelecityGroup was proud to be shortlisted for the ICAEW Sustainable Business Award at the National Business Awards 2014 in recognition of the Group's organisation-wide energy efficiency strategy. The award recognises organisations that have embedded business sustainability principles and practices and are reaping the benefits in terms of improved commercial performance, competitiveness, customer perception, staff engagement, and prospects for continued financial strength.

We were also recognised for an industry leading approach to energy efficiency at the 2014 International Data Centre and Cloud Awards, where the Group won 'Best Improvement Process for Energy Efficiency in the Data Centre'.

Measuring and reporting energy efficiency

Through 2014, we further improved our environmental management performance by continuing to introduce more energy monitoring and targeting systems and installing more sophisticated metering systems and energy analysis. We continue to monitor the Group's annualised power usage effectiveness ('PUE') which is also reported to the Board on a bi-monthly basis. While this important metric will remain an internal measure, we are committed to reporting externally on the Group's carbon usage effectiveness ('CUE') measure which we introduced in 2011.

CUE captures a combined picture of the energy efficiency of operations and the carbon intensity of the energy used. It also encourages individual data centres both to improve the efficiency of systems and procedures.

Combined with internal reporting on PUE, monitoring CUE provides the Group with important information to compare the efficiency of data centres and explore trade-offs in energy efficiency strategies under various use scenarios and different operating conditions.

In 2014, we recertified to the Carbon Trust Standard in the UK and achieved a best in sector score of 92.5% for Carbon Management. We also remain actively engaged in the Green Grid, submitted data to the Carbon Disclosure Project and participated in the Dow Jones Sustainability Index survey.

Ongoing checks at our data centres

Carbon efficiency and greenhouse gas emissions ('GHG')

We have reported on all greenhouse gas emission sources for which TelecityGroup is responsible and on which we are required to report under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. For this purpose we have applied the financial control method. The emissions have been reported with reference to ISO 14064-1 (2006) Part 1 Guidance and have been externally audited by independent energy consultants.

TelecityGroup's total greenhouse gas emissions and intensity ratio for the period 1 January 2014 – 31 December 2014 were as follows:

Greenhouse gas emissions	238,305 tonnes CO_2 equivalent
Intensity Ratio ('CUE')(1)	0.655kgCO_2e/kWh(2)

(1) Carbon Usage Effectiveness ('CUE') is a metric developed by The Green Grid and commonly used by data centres globally to assess carbon efficiency.

(2) The intensity ratio, Carbon Usage Effectiveness ('CUE'), is calculated from TelecityGroup's total reported greenhouse gas emissions divided by the total kWh of IT energy consumed by the Group's customers.

Scope 1

TelecityGroup's Scope 1 (direct activity) emissions are limited to natural gas used by a few sites only, gas oil for emergency power back-up, and fugitive emissions from refrigerant. These Scope 1 activities account for less than 1% of the Group's total greenhouse gas emissions and as they are deemed non material they have not been included in our reported emissions as set out in the table above.

Scope 2

TelecityGroup's UK carbon footprint has been independently audited and shows that electricity imported from the grid accounts for approximately 99% of the Group's UK emissions. TelecityGroup's overseas operations have similar emissions profiles and these Scope 2 (indirect activity) emissions have been reported for all countries in which TelecityGroup operates. The emissions have been calculated by applying the published Defra conversion factors for the UK and other countries in which TelecityGroup operates.

Scope 3

We do not report on Scope 3 (other indirect activity) emissions, except for the greenhouse gas emissions associated with transmission and distribution of grid electricity used by the Group.

In 2014 headline CUE performance deteriorated by 2.0% (0.655kg CO_2/kWh) from the 2013 level (0.641) and is below the stated target of achieving a 3% year on year reduction to 2016. This deterioration was due to a number of factors. The 2014 CUE performance includes the full-year impact of incorporating carbon figures from Turkey, Bulgaria and Poland following the

Group's acquisitions in those markets during 2013. The carbon grid emissions factors from these countries are much higher than those of the Group's established markets in Western Europe, reflecting the more carbon-intensive nature of the energy mix available in these countries. There was also a worsening of grid emission factors in some of the Group's key established markets, such as the UK, which is the Group's single largest CO_2e contributor. As such, just under half of the deterioration in CUE performance was due to the full-year impact of more carbon-intensive grid emissions from markets in which data centres were acquired during 2013. This deterioration more than outweighed the relative improvement delivered by the Group's energy efficiency programme. Year-on-year Group PUE performance[(1)] improved by 3% and on a 2013 like-for-like basis (using constant 2013 grid emission factors and excluding the impact of Bulgaria, Turkey and Poland), CUE performance improved 2.5% during the year.

TelecityGroup remains committed to the ongoing improvement in our energy performance in spite of the challenges presented by worsening grid emission factors, which are out of the Group's control. As such, we are in the process of reviewing our CUE targets to consider whether a long-term target range may be more appropriate for public reporting and benchmarking of energy efficiency. We will publish our new target in next year's report following the results of our review. A 3% CUE target reduction has been proposed for 2015, however we believe that a CUE performance improvement of between 1.0% and 1.5% is more realistically achievable.

Implementing and maintaining Group-wide energy standards

Through our Group-wide certification to ISO 14001, the international standard for environmental management systems, we are able to effectively implement and manage best practice energy management. As we acquire businesses, our management team spends considerable time ensuring that these new facilities are put through the same rigorous standards and improvement procedures. This is to ensure a consistently high level of quality and that systems management is available for our customers in every single one of our facilities.

ISO 50001 was launched in 2011 as a best practice energy management standard to complement ISO 14001. Certification to ISO 50001 is particularly relevant for energy-intensive industries or those facing GHG emissions regulation or legislation. Our intention of rolling out the new ISO 50001 standard across the Group continues to make progress. In addition to the sites already certified (UK, France and Group Head Office), Ireland has been successful in achieving ISO 50001 certification during 2014. Planned certification for Italy and Netherlands is now expected in 2015. We remain committed to rolling out ISO 50001 across our existing estate.

(1) PUE is a measure of how efficiently a data centre uses energy; specifically the ratio of total facilities energy to IT equipment energy.

Energy security and sustainability

Energy accounts for a significant proportion of our spend with suppliers and energy security of supply has been identified as a material issue for our business. Risk to the security of energy supply has the ability to impact both our business and the data centre industry as a whole, which could have significant wider implications on macro-economic growth. Some energy grids are nearing full capacity and it is expected that security of supply will become increasingly important in the medium to long term. As such, backup generators with standalone fuel supplies are in place across all our facilities to ensure that should a break in supply occur, we have sufficient contingency measures in place for independent power generation. We conduct regular testing and maintenance of energy backup systems. Additionally, we are in regular dialogue with our energy suppliers and energy regulators about the energy security in our markets.

We recognise that sourcing renewable energy is an increasingly important part of our energy mix and a number of our data centres purchase energy from renewable sources. However, purchasing renewable energy at commercial rates that enable us to compete effectively remains a challenge, due to its availability across the different markets we operate in.

Energy efficiency is a key buying criterion for TelecityGroup as part of its overall assessment of the lifecycle running costs of equipment.

Water and waste

In addition to the environmental issues that are most material to the future success of the business, we recognise that there are other areas of importance. For example, many new technologies that drive energy efficiency will also increase water usage through evaporation associated with cooling.

We continue to explore our water usage performance, particularly in those data centres with significant water consumption through evaporative cooling. We will continue to expand the measurement of water usage across applicable sites within the Group through 2015 and develop operational KPIs in this area. We are also working to research the capability and methodology for recording the consumption and discharge to drain of water from public utility water, ground source water and harvested rainwater.

Although physical waste is a relatively small proportion of the Group's environmental impact, we are taking measures to ensure we minimise waste, and recycle as much unavoidable waste as possible. The Group's certification to ISO 14001 sets stringent tracking measures for waste management. Most of the jurisdictions within which TelecityGroup operates also impose legal requirements in terms of dealing with industrial waste. In 2014 we continued to make good progress managing our waste. Our sites employ a standardised waste stream register to segregate, manage and responsibly dispose of the various waste streams, and those who manage waste have undertaken waste awareness training. Our waste management procedure and process is well documented and we comply with local waste regulatory requirements across all our markets.

Report of the Corporate Social Responsibility Committee continued

Driving standards across the business

As well as managing our environmental performance, TelecityGroup continually seeks to improve standards in all other aspects of our business.

Group-wide ISO compliance and audit

Ensuring that the right management systems are in place is critical to the sustainability of our business. TelecityGroup has continued to develop and strengthen its integrated management systems, enabling ISO and related certifications across the Group for security, quality, environmental and energy management, business continuity and occupational health and safety. The delivery of these systems is coordinated by an Operational Standards Team comprising subject matter experts in each area. This team provides support to country managers to ensure they are fully conversant in what needs to be done to maintain performance improvements.

During 2014, all our sites in France and Group head office were newly certified to ISO 22301, joining our facilities in the UK which had already achieved the standard. The standard provides a best practice framework to minimise disruption and maximise recovery time during unexpected events that could bring business to a standstill.

Additionally, our data centres in Helsinki achieved several new certifications, which included ISO 9001 (quality management), ISO 27001 (security management), ISO 14001 (energy management) and OHSAS 18001 (health and safety). Ireland joined France, UK and Group head office in achieving certification to ISO 50001. This new standard complements ISO 14001, but with an increased focus on best practice in energy management. The Group also successfully completed a programme of surveillance audits across the year for all existing certified sites to ISO 9001, ISO 27001, ISO 14001, ISO 22301, ISO 50001 and OHSAS 18001.

We are committed to ensuring that the new sites we acquire also achieve best practice international standards. However, we have found this process has taken longer than anticipated. This has resulted in some planned certifications for our operations in Bulgaria, Poland and Turkey to be deferred until 2015.

Separately, in 2014 TelecityGroup won the Business Continuity Award for 'Resilience in Infrastructure' run by industry publication Continuity Insurance and Risk. The award recognised the Group for taking a resilient approach to IT infrastructure, planning for continuity as part of a larger strategy and the overall design of infrastructure with efficiency and resilience at the forefront.

Data security

Data security is of vital importance to our customers. Whilst our services focus primarily on the provision and maintenance of data centre environments, it is important we proactively mitigate information security risks. Breaches in company data security have the potential to directly impact our ability to attract and retain customers.

We have established a robust Group Security Policy on which all employees receive training. The Policy is monitored and enforced by the Group security team and is subject to regular internal and external audits. ISO 27001, the information security management standard, is held across the Group, with the exception of Poland and Bulgaria who are expected to achieve certification in 2015. PCI Data Security Standard (PCI DSS) certification, which represents a common set of industry tools and measurements to help ensure the safe handling of sensitive information and is intended to help organisations proactively protect customer account data, has already been achieved for 80% of the Group's data centre estate, and will be extended across the Group through 2015. The Group also undertakes regular and rigorous security penetration testing which identifies potential vulnerabilities to its networks.

Ethics and compliance

We are committed to maintaining the highest ethical, professional and legal standards. As well as a Group-wide Code of Ethics, we have a comprehensive set of policies which set out our approach to issues such as whistleblowing, anti-bribery, quality, health and safety and the environment. The Group compliance function is responsible for monitoring compliance against our policies. Additionally, we aim to foster a culture where all employees take personal responsibility to act with integrity and for the success of the business.

TelecityGroup takes a zero-tolerance approach to bribery and corruption in all aspects of our business. During 2014, we strengthened our systems in this area and rolled out anti-bribery training to 722 people, which accounts for 93% of our employees, across nine countries – UK & Head Office, Sweden, Finland, Ireland, France, Italy, Netherlands, Germany and Bulgaria. In 2015, we plan to extend the training across our operations in Poland and Turkey. Additionally, new employees are required to complete the anti-bribery training within 4 weeks of joining the company.

Supply chain integrity

TelecityGroup has continued to invest in the integrity of our supply chain. During 2014 we engaged suppliers working on capital projects with an anti-corruption initiative that was first introduced in 2011. The anti-corruption protocol provides additional guidance on the appointment of major contractors involved in new build projects. The protocol is designed to apply to companies involved in significant contracts and also to significant equipment vendor relationships (where 'major' is defined as any contract value over £200,000). We also apply the protocol to existing contractors and vendors. Although the Group only engages with suppliers whom it believes conduct their business in a compliant and ethical manner, it will continue to work to increase the number engaged in the Group's specific anti-bribery protocol. There is a certain degree of challenge engaging non-UK domiciled businesses adapting standard procedures to UK law. In 2013, we re-drafted the protocol to be more applicable across all countries. As a result, we have successfully achieved our target to implement this protocol across the business. In 2014 86% of all major capital projects contracted during the year were covered by this protocol. This is up from 84% in 2013.

Customer satisfaction

The customer is at the heart of everything TelecityGroup does in designing, building and operating data centres across Europe. Our success is predicated on providing capacity to support our customers' long-term business growth. We seek to engage and work closely with our customers to understand their needs and provide a flexible service that meets their objectives, both in terms of business performance and their own corporate responsibilities.

We are committed to achieving the highest levels of customer satisfaction and we closely monitor the Group's performance in this area. In 2014, our customer survey indicated that 92% of customers are either satisfied or very satisfied with the level of service that TelecityGroup provides. The Group seeks to maintain this level of customer satisfaction and is committed to continuing to report on this measure in the future.

Employee engagement and development

At TelecityGroup we understand the importance of developing a highly skilled, committed and motivated workforce, and recognise that this is a vital factor in our continuing success. We aim to create an engaging working environment where individuals can grow and contribute to the success of the business.

We offer our employees at all levels a range of training and learning opportunities. In 2014, we continued to conduct training across all disciplines, from administration to technical staff, as we firmly believe that by investing in our employees and ensuring they have the necessary skill sets, we can motivate and retain the highest standards and continue excellence across the business.

We continue to deploy our Succession Planning Programme for the Executive Team, where we have tailored specific training programmes, complementing individuals' knowledge and experience by working with key institutions around the world. At TelecityGroup, staff commitment and high levels of engagement are important elements of achieving customer satisfaction – four out of five staff are in roles that are dedicated to direct customer service and customer engineering roles. Our annual employee engagement survey was completed again in 2014, with 87% of employees taking part. Workforce satisfaction rose to 79% in 2014, up from 77% in 2013, with over three quarters of respondents agreeing with the statement that they 'enjoy working for TelecityGroup'. Feedback from the survey is analysed and programmes subsequently developed to respond to, or improve on, areas that employees have highlighted as requiring attention. Although this improvement was slightly below our target we remain fully engaged in reaching the long-term goal of achieving agreement with the statement above from 80% of our employees by 2016.

Working days lost due to sickness and other absences are uniformly low across the Group and were consistent with those in 2013. We do not intend to set public reporting targets around this data as these levels have remained at low levels for several years.

Board and employee diversity

We aim to create an inclusive workplace that attracts and retains talented and diverse people from all backgrounds and cultures. Diversity within our business is essential in maximising its success. As a company we are committed to respecting diversity in all its forms, which means treating all employees equally, regardless of race or colour; ethnic or national origin; age; gender; sexual orientation; marriage and civil partnership; gender identity and/or expression; religion or belief; physical ability/ disability or other protected characteristics as relevant in a country. The different perspectives that this diversity brings enriches debates, business planning and problem solving.

Two aspects of diversity that are particularly important on our Board are female and non-UK representation. These aspects are measured firstly with reference to our non-executive Directors, and secondly with reference to our senior management including the executive Directors. We have adopted this split because all appointments and promotions within the senior management team, as with Group employees generally, are made strictly in accordance with the Group's equal opportunities employment policies. We also monitor the split with regard to gender in the Group as a whole. This indicates that TelecityGroup's overall gender breakdown is similar to the national gender split in the IT sector in the UK (according to published statistics).

In relation to the future appointment of non-executive Directors, we expect to make appointments of each gender in equal numbers subject to the merits and diversity in general of the available candidates. This aim will be taken account of within succession planning for these roles. On this basis, as appointments are made, we expect the proportion of female non-executive Directors on our Board to increase over time towards 40%, based on the current Board size and structure.

Health, safety and wellbeing

We aim to have a healthy and high-performing workforce. We recognise that effective health and safety management is critical for our business and the people we interact with. We take very seriously our responsibility to establish and maintain safe working practices and conditions to prevent injury or ill health to any individuals performing or affected by our operations, together with the provision of adequate welfare facilities. To this end we have implemented an occupational health and safety management system designed around the international standard OHSAS 18001. This validates companies that show excellence in health and safety performance, and demonstrates the leadership to reduce risk, create an injury-free workplace and continually improve our health and safety performance. It also provides the framework to ensure we remain compliant with applicable regulation and government guidance and that our staff and contractors have the necessary competence, consultation and supervision to undertake their work safely and without risk to their health.

TelecityGroup is committed to:

- The prevention of injury and ill health;
- Compliance with health and safety regulations, laws and codes of practice relevant to each country where we operate;
- Consulting with staff regarding health and safety policies and procedures;
- Ensuring that all staff and contractors have appropriate competencies to undertake their work safely and without risk to health; and
- Catering for people with disabilities and expectant and/or nursing mothers.

Report of the Corporate Social Responsibility Committee continued

Community investment

At TelecityGroup, we believe it is important to engage with the communities in which we operate. Community investment and charitable partnerships continue to play an important role within our business and we strive to support our local communities. The Group has a particular focus on initiatives that promote education and opportunities for disadvantaged children and young people. We feel these are the areas where our business can have the greatest impact.

During the year, the business engaged with a range of charities including Action for Children and Prince's Trust.

Several members of the Board hold senior advisory positions in certain charities and I am very honoured to be an Ambassador for the Alzheimer's Society and a supporter of the Mahogany Opera Group. Full details of our charitable work can be found on the Group website at www.telecitygroup.com.

External recognition

As a result of our work to foster a responsible and sustainable company, we have been externally recognised by several independent initiatives.

FTSE4Good is an index designed to objectively measure the performance of companies that meet globally recognised corporate responsibility standards. TelecityGroup's continued membership in the FTSE4Good index acknowledges the Group's commitment to responsible business practice.

FTSE4Good

TelecityGroup was recognised in Management Today's 'Britain's Most Admired Companies' list for 2014, and as Britain's second most admired company in the 'Software and Computer Services' sector. Winners are identified by a peer review involving Britain's top firms as well as leading City investment analysis. TelecityGroup was recognised for its continued financial performance and ongoing expansion strategy across key European markets, including Amsterdam, Stockholm, Dublin and Frankfurt.

BRITAIN'S MOST ADMIRED COMPANIES 2014/15 RUNNER-UP MT

In 2014 TelecityGroup achieved recertification to the Carbon Trust Standard in the UK, the world's leading independent certification of an organisation's impact of environmental sustainability. The Standard recognises best practice achievements in energy management which enable companies to minimise their environmental impact. TelecityGroup has held the Standard since 2010 and was the first data centre company to be recertified in 2012. Since then, we have continued to demonstrate our commitment to improving resource management and operational sustainability.

CARBON TRUST

On behalf of the Corporate Social Responsibility Committee

John Hughes, CBE
Chairman of the CSR Committee

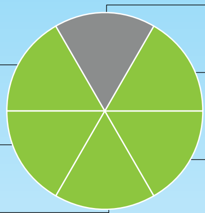
10 February 2015

Report of the Nominations Committee

Membership of the Nominations Committee

The UK Code provides that independent non-executive Directors should comprise the majority of the Committee.

- Board Chairman (independent on appointment)
- Independent non-executive Director (with month of appointment to the Committee)



— The Group's Chief Executive Officer normally also attends meetings (although this would not be the case if the Committee was discussing matters in connection with the appointment of his successor);
— The Group HR Director may also attend and give presentations at meetings; and
— The Chairman would not chair any meeting in connection with the appointment of a successor.

Specific objectives achieved in 2014

— Commenced identification of high-potential employees and their integration into succession planning;
— Continued focus on increased diversity; and
— Continued planning for non-executive succession in the light of approach towards the nine year time horizon after IPO.

Specific objectives set for 2015

— Recruitment of a new CEO;
— Identification of high-potential employees and their integration into succession planning;
— Continue to focus on increased diversity;
— Continue development programmes for key leadership talent and succession planning for the senior management team; and
— Continue succession planning for the longest serving non-executive Directors on the Board appointed at the time of the Company's IPO.

UK Code Principles:

'All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.'

'There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.'

John Hughes, CBE
Nominations Committee Chairman

Having an appropriate range of high calibre Directors on our Board is key to determining and maximising success in the Group's strategic objectives. Having appropriate succession planning for the Board and senior management is essential to ensuring that this success can be sustained over the long term.

As the Nominations Committee, we assist the Board in the key areas of composition and succession planning for the Board and the senior management of the Group. In this report, I summarise our work.

Recruitment of New Chief Financial Officer

During the year we completed the recruitment process I mentioned in my report last year for a new Chief Financial Officer. This process was undertaken with the assistance of Russell Reynolds following on from their selection for this recruitment by the Committee after consideration of a number of firms.

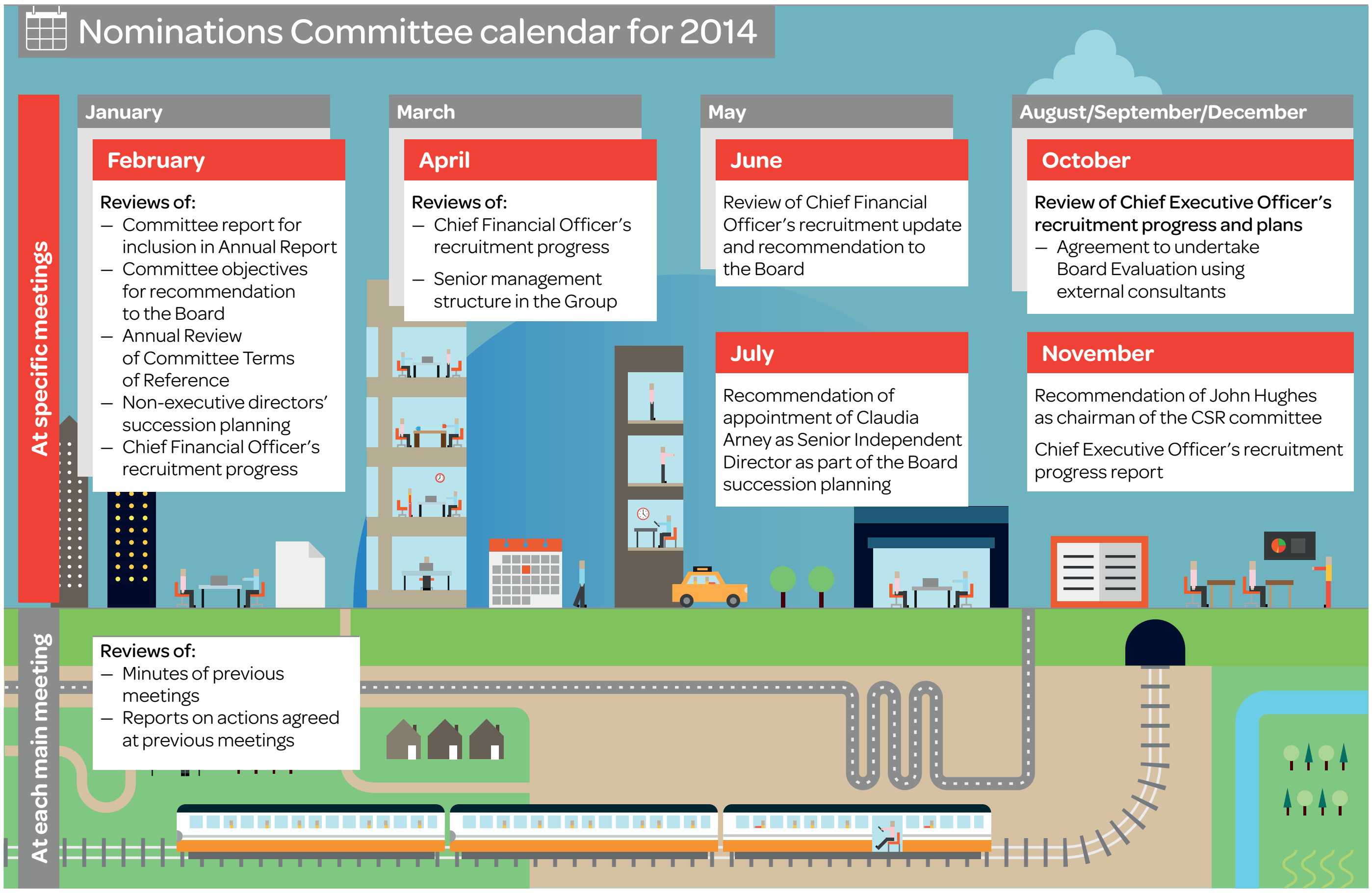
The process for this appointment is described in the diagram on page 68. We took the time in the process to ensure that we were able to appoint a candidate of the high calibre we were seeking for the role.

Recruitment of new Chief Executive Officer

During the year, we also commenced the search for a new Chief Executive Officer following the announcement that Mike Tobin was stepping down from this role. Egon Zehnder was appointed to assist the Company in this on the recommendation of the Committee following consideration of a number of firms. As a Committee, we developed a detailed specification for the role and profile of the candidate to be sought. We are following a similar process to that employed in the successful recruitment of Eric Hageman and will report on this more fully in our Committee report next year.

Overview
Strategy and performance
Governance review
Financial statements
Investor information

Report of the Nominations Committee continued



Selection process for new Chief Financial Officer appointed during 2014

Candidate specification

The specification for the candidates to be sought was determined by the Nominations Committee, in conjunction with the Chief Executive Officer, and agreed with the Board.

This had objective criteria including the capabilities and characteristics required to add to the diversity and balance of skills of the Board whilst complementing the existing Directors.

Russell Reynolds was selected from a number of high profile recruitment firms to assist with the identification of candidates.

The potential candidates

Russell Reynolds prepared a 'longlist' of potential candidates from a specific search as well as their own database.

This identified a diverse range of candidates meeting the specification.

Interviews and selection by Nominations Committee

The Nominations Committee, in conjunction with the Chief Executive Officer, then selected candidates for interview to establish the suitability of each candidate for appointment.

This selection was on the basis of skills, knowledge and experience and also of character and ability to provide the Group with the qualities required for its long-term ambitions.

Recommendations to and confirmation by the Board

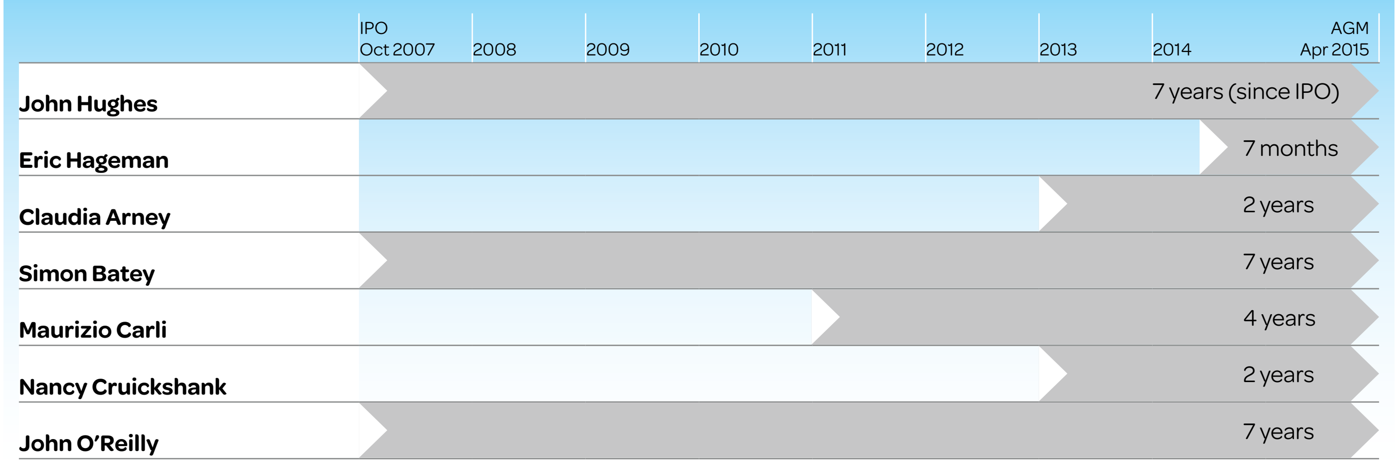
The Nominations Committee recommended a shortlist of potential candidates for consideration by the Board.

Following interviews by all Directors, and in agreement with the Nominations Committee, the Board appointed Eric Hageman as Chief Financial Officer.

UK Code Principles:

'All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.'

Length of tenure of Directors



Actions taken in response to 2013 Board and Committee Evaluation

2013 Evaluation Recommendation	Action in 2014 in response
Ongoing evolution of reports to the Board in line with the development of the Group	The Board received regular reports on the Group's regions from the Vice Presidents responsible for each region
Focus on relevant themes for future business developments be increased along with early discussion of key challenges by management	These matters were refined with management and external consultants during the year
Greater opportunity be taken for external strategic and other speakers to give presentations at Board meetings	Specialist external speakers on various matters of strategic interest gave presentations to the Board during the year
The frequency and length of Board and other meetings be considered	The Board maintained the frequency and length of its main meetings during the year although with interim conference calls as required and agendas focused on matters of particular importance
Succession Planning and People Development continue to be reviewed by the Nominations Committee	Succession planning was reviewed in the context of management changes during the year and will continue to be an area of focus

Appointment of non-executive Directors

All our non-executive Directors were also selected through previous externally facilitated recruitments, as was I as Chairman of the Board. All our non-executive Directors are independent, as was I on appointment (although under the UK Code, I am not considered to be independent after appointment as Chairman).

I believe the process that we have followed to appoint directors has created a diverse group of non-executive Directors, along with our CFO and me to provide the required range of skills, knowledge and experience to the Board and the executive team.

Biographies of all Directors are included on pages 44 and 45.

The progressive appointment of Directors over past years has assisted in refreshing the membership of our Board as shown in the length of tenure of Directors diagram above. This has similarly enabled us to refresh the membership of our Committees for which we have shown months of appointment in the introductory sections of their reports. We review the terms of our Directors annually, in line with their annual retirement under the UK Code as we did at meetings over the past year.

Letters of appointment of our non-executive Directors set out the time commitments normally required, as does mine for my role as Chairman. Such time commitments can involve peaks of activity at particular times and we are all flexible in managing these. We notify the Board of any significant changes to our other commitments before they arise. Our letters of appointment are available for inspection at the Company's registered office and our Annual General Meeting ('AGM').

Succession planning

We have developed a succession planning process for management in the Group. This includes encouragement and facilitation of the development of each individual as well as career progression as opportunities arise, such as in the increasing regionalisation of the management of the business.

The Committee has continued its review of succession planning in relation to our two longer-serving non-executive Directors, Simon Batey and John O'Reilly, who have now served on the Board for seven full years.

Report of the Nominations Committee continued

Board Evaluation process facilitated by Egon Zehnder

Comprehensive questionnaire containing a series of 'open' questions requiring narrative answers

Completed by all Directors covering the following areas:

– Strategy and implementation

– Succession planning and talent development

– Board dynamics, operations and information flow

– Performance of each of the Board Committees

– Director self-assessment and training needs

Confidential interviews by Egon Zehnder with Directors and seven senior managers

– Expanding on answers given in questionnaire in open discussion

– Including separate interviews both with Directors and senior managers

– Lasting between approximately one and two hours each

Results of the questionnaire and interviews and drawing of conclusions

The results are to be presented and discussed at a Board meeting early in 2015 and are intended to be reported upon in the 2015 Annual Report.

Follow up meetings and discussions

– The Chairman and non-executive Directors met during the year in the absence of the executive Directors to review the performance of the executive Directors.

– The non-executive Directors met in the absence of the Chairman and executive Directors to review the performance of the Chairman.

The review included consideration of the roles held by Simon Batey as Chairman of the Audit Committee and Senior Independent Director and John O'Reilly as Chairman of the Remuneration Committee. It also included separate discussion with them regarding their personal plans. The Committee has concluded that Simon Batey and John O'Reilly continue to be fully independent and considers that the interests of the Company and its shareholders are best served by there being no changes to these roles at present. We have, though, commenced planning for the transition of these roles over the coming terms. The process of change commenced during the year with the appointment of Claudia Arney as Senior Independent Director.

Re-election of Directors

All our Directors retire at every AGM under the UK Code. If decided appropriate by the Board, Directors may be proposed for re-appointment by shareholders. In reaching its decision, the Board acts on our advice as the Nominations Committee, taking account of the results of our Board evaluation.

This year, we intend to propose all Directors for re-appointment. All our non-executive Directors are key members of the Board, each bringing valuable and unique skills, knowledge and experience to its overall effectiveness. Their Individual details are given in their biographies on pages 45 and 45.

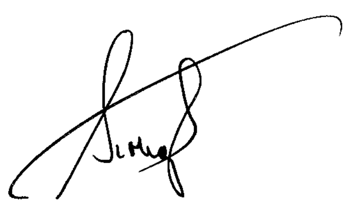
Following our evaluation of the Board, I, as Chairman, confirm that the performance of all our non-executive Directors continues to be effective and to demonstrate commitment to their roles. As already commented upon, discussions on the process for the planning for succession of our longer serving independent non-executive Directors has commenced.

Board and Committee evaluation

Critical to the success of our Board and Committees in achieving their aims is the effectiveness with which they operate. Accordingly, we take our evaluation of this very seriously.

A summary of our Board and Committee evaluation process this year, which was again, as in the prior year, externally facilitated by Egon Zehnder, is shown in the chart above. A summary of the actions we took in response to our evaluation process in 2013 is shown on page 69. I will report to you next year on the actions taken in response to our 2014 evaluation, and on our 2015 evaluation.

On behalf of the Nominations Committee



John Hughes, CBE
Chairman of the Nominations Committee

10 February 2015

UK Code Principles:

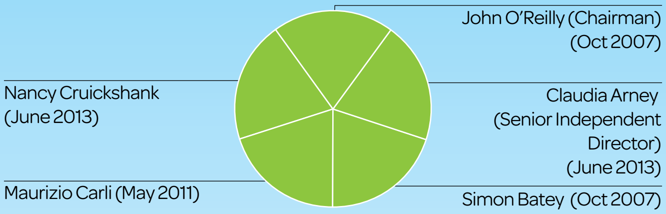
The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.'

Report of the Remuneration Committee

Membership of the Remuneration Committee

The UK Code provides that all members of the Committee should be independent non-executive Directors.

Independent non-executive Director (with month of appointment to the Committee)



The Group HR Director also regularly attends and presents at Committee meetings on senior management remuneration and wider human resources matters in the Group.

Specific objectives achieved in 2014

- Carried out a post-implementation review of the effectiveness of changes to senior executive remuneration, in particular the ongoing balance between short-term and long-term incentives;
- Continued focus on shareholder engagement regarding executive remuneration;
- Benchmarked the 2013 Directors' Remuneration Report against best industry practice;
- Reviewed executive Director contracts, coinciding with the CFO recruitment process; and
- Provided ongoing remuneration advice and support to the Remuneration Committee members.

Specific objectives set for 2015

- Ensure that Telecity's remuneration policy supports the recruitment of a world class CEO to lead the business through the next phase of its growth;
- Review the appropriateness of the LTIP performance hurdles in light of Telecity's corporate strategy;
- Continue to ensure effective shareholder engagement regarding executive remuneration;
- Benchmark the 2014 Directors Remuneration Report against FTSE 250 best practice;
- Provide ongoing remuneration advice and support to the Remuneration Committee members and ensure the effective transition towards a new Remuneration Committee Chair.

UK Code Principles:

'There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.'

'Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.'

John O'Reilly
Remuneration Committee Chairman

Dear shareholders,

This remuneration report is split into two parts, the Directors' remuneration policy and the annual report on remuneration. The Directors' remuneration policy for the period 2014 to 2017 was subject to a binding shareholder vote at the 2014 AGM. However, for reasons which I will explain further below, the Remuneration Committee has proposed an important change to the Long Term Incentive Plan for which we would ask for your support at the 2015 AGM. The annual report on remuneration, which is subject to a non-binding vote at the 2015 AGM, details the base salary, benefits and incentives for the executive Directors and the fees paid to the non-executive Directors for the 2014 financial year and those proposed for 2015. Both our policy and the remuneration of Directors are in compliance with the UK Code and are presented in this report in the way required by the Directors' Remuneration Report regulations (the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013).

The Role of the Remuneration Committee

The structure and level of remuneration of Telecity Group's executive Directors and its senior management team are critically important to the Group successfully achieving its strategic aims. The Remuneration Committee sets the strategy, structure and levels of remuneration of our executive Directors and reviews the remuneration of other members of the senior management team and we do so in the context of the Group's strategy and goals. Our aim is to align the financial interests of the executive Directors and other management and employees with the achievement of the Group's objectives.

Overview of the Remuneration Policy and the proposed changes in 2015

The Remuneration Committee seeks to ensure that Telecity Group offers a competitive, though not excessive, listed company remuneration package aligned with the achievement of the Group's strategic and financial objectives. This includes the responsibilities of risk management, internal control and our corporate social responsibility, in line with the objective of maximising shareholder value on a sustainable basis. It also includes ensuring that as the Group becomes increasingly cash positive and the management team is appropriately incentivised

Report of the Remuneration Committee

to ensure that cash is used to best effect to maximise value for our shareholders. Our remuneration policy sets the structure and level of executive remuneration which the Committee believes is appropriate for the Group. Our key policy objective in this regard is to secure and retain high calibre executives with the skills, experience, and motivation to direct and manage the affairs of the Group to achieve these strategic aims.

Changes to the TelecityGroup executive Director team over the past 18 months have put added focus on the competitiveness of our remuneration packages. At the time of writing, the Group is seeking to appoint a high calibre CEO to lead the Company on the next stage of its development and growth. In doing so it has become clear to the Committee that the current 100% base LTIP award is relatively uncompetitive with an expectation of an annual award of 150% of base salary. In proposing to increase the LTIP award to 150%, the Committee has chosen to simplify long-term incentivisation within the Group by removing the current Enhanced LTIP facility under which no award has been made since 2012. Further detail on this important change to the LTIP is provided below.

2014 remuneration

The Committee determined it appropriate to maintain the same incentive structures and levels as applied for 2013. The annual bonus scheme ensured an appropriately high focus on revenue growth in the context of the supply of available capacity in the Group's key markets alongside the growth targets for adjusted EBITDA, adjusted EPS and management of the Group's net debt position. The maximum bonus was 150% of base salary of which 40 percentage points were focused on above target revenue growth. Under the LTIP we made awards equivalent to 100% of base salary resulting in total maximum variable remuneration in 2014 equivalent to 250% of base salary. The Committee's benchmarking analysis shows this to be lower than that seen in comparable companies where the norm was 300% for the CEO and 275% for the CFO.

As detailed in the annual report on remuneration, the Group did not fully reach the stretching adjusted EBITDA, adjusted EPS or net debt targets and fell just short of the revenue target. Consequently the bonus payments were restricted to 52.0% of the maximum potential bonus. The Group also did not meet the TSR performance condition for the LTIP awards granted in 2012 and due to vest in 2015. These awards will now lapse.

Eric Hageman, our Chief Financial Officer, joined Telecity Group on 1st September 2014. Full details of Eric's remuneration package are provided on pages 81, 82 and 85. The Committee considered it critical to ensure we attracted the highest calibre of candidates for the role within the scope provided by the remuneration policy which had the support of our shareholders. Eric's package was designed to secure the very best candidate which we are pleased to have been able to do.

In August the Group announced the departure of Mike Tobin from his role as Chief Executive Officer. Details of the remuneration matters relating to the departure are included on page 88.

To ensure appropriate momentum was maintained, and to ensure appropriate governance structures were in place, John Hughes, Telecity Group's Chairman stepped into the role of Executive Chairman until the successful recruitment of a new CEO. It was inevitable that being Executive Chairman would be an onerous role and the Remuneration Committee determined it appropriate to provide fees to take them up to the base salary of the former CEO but excluding any benefits or short or long term incentivisation. The Committee is very grateful to John Hughes for the commitment of his time, the exceptional effort and, most importantly, the leadership he has provided during this very important period in the development of TelecityGroup and consider the additional fees as being important in ensuring an appropriate remuneration in what are exceptional circumstances.

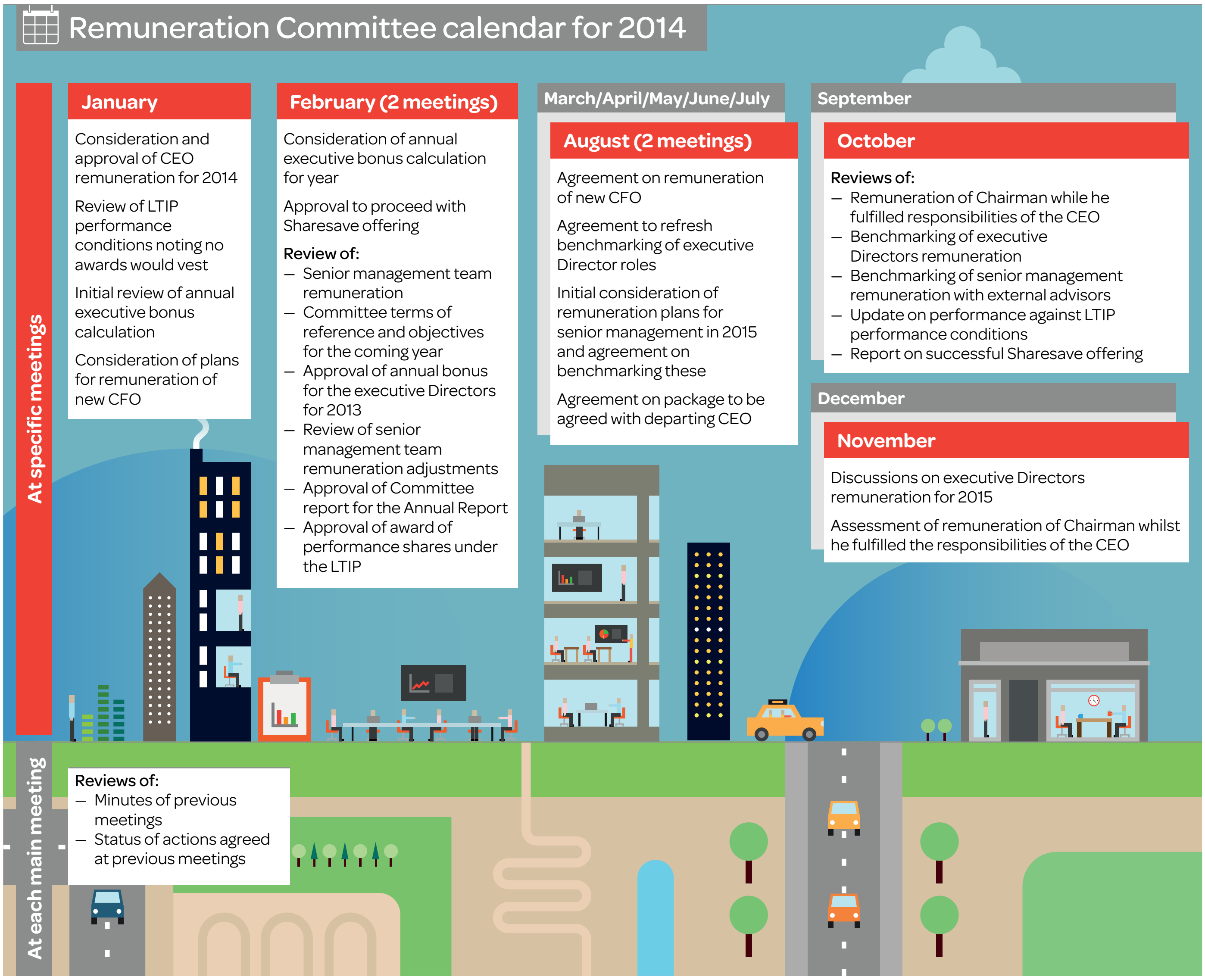
During 2014, in addition to further reviewing the competitiveness of the Group's executive Director packages, the Committee also undertook a review of remuneration across the Group. Following the very clear conclusions and recommendations arising from this analysis, the Committee is satisfied that the Group has an appropriate reward structure for the senior management team to both attract and retain the very best talent in our sector.

2015 remuneration

With the CFO having commenced in September 2014, the Committee considered it inappropriate to make an increase to the base salary level in 2015.

The Committee has, however made a small change to the bonus scheme metrics for 2015. With the very important focus on the use of capital within the Group, the net debt metric has been replaced with Net Cash Flow, the key target of positive cash flow in the year after investment capex. The proportions for the bonus metrics have been retained with the revenue growth target only delivering bonus payments after the Group's revenue target for the year has been met.

As already noted, the Committee is proposing to increase the award under the LTIP to a broadly market median level of 150% of base salary. This is particularly important to ensure both that our variable pay has a more appropriate balance of short and long-term incentives and that we have a competitive package to attract the highest possible calibre of CEO and retain other executives. Although the Committee intends to issue awards of up to 150%, the updated policy sets an overall policy ceiling of 200% of base salary which compares to 250% under the previous polices. The Committee consulted with shareholders representing some 52% of the Company's equity in the early part of the year and we are very grateful for the engagement with, and the support of shareholders in this process. The proposal received a broad level of support for which we are appreciative. Moreover, the feedback we received from shareholders has encouraged the Committee to commence consideration of a second performance measure which it intends to form a conclusion on in 2015 after the new executive team is in position. Other changes proposed to the policy are simply technical in nature.



The Directors' Remuneration Report

We have summarised the key components of our remuneration policy in tabular form over the next few pages, immediately followed by the annual report on remuneration which provides you with the details of Director remuneration for 2014 and the framework in place for 2015.

The Committee would welcome as much feedback as possible from shareholders on both the policy and the Directors' remuneration report. I would like to thank shareholders for the very helpful input we have received over the past year, in particular in response to the consultation process surrounding the Committee's proposal to amend the LTIP. I hope that you will vote in favour of both the amendment to the remuneration policy in respect of the LTIP and our annual report on remuneration.

On behalf of the Remuneration Committee and Board,

John O'Reilly
Chairman of the Remuneration Committee

10 February 2015

Report of the Remuneration Committee continued

The following section sets out the proposed revised policy being submitted to shareholders for approval. If not approved, the policy approved at the 2014 AGM will continue to apply.

Policy report

Policy of the components of the remuneration of executive Directors

	Element	Policy
Fixed	**1. Base salary** This recognises the day-to-day responsibilities of the individual Director and supports the elements of risk management and internal control in the Group's strategy.	Base salaries are reviewed each year against equivalent positions in the Company's Comparator Group[1] and may be increased to up to 10% above the median salary of the equivalent positions in that Comparator Group.
Fixed	**2. Pension** This funds retirement, making appropriate provision for employees as part of pursuing the Company's strategic objectives over the long-term.	The Company's policy is to make pension provisions of up to 20% of salary under defined contribution arrangements. The Company may make contributions up to this level to executive pension schemes (or pay cash supplements in lieu).
Fixed	**3. Benefits[2]** These include benefits such as car allowance and medical insurance and are intended to complete the remuneration package to facilitate pursuit of the Group's strategic objectives over the long-term.	Benefits determined by the Remuneration Committee to each executive Director of up to £100,000 (excluding any relocation costs) may be paid in any one year. In the unlikely event of an executive Director being required by the Company to relocate his or her residence, expenses of this relocation approved by the Remuneration Committee of up to £300,000 may be paid to such executive Director. Cash may be paid in lieu of cost of non-cash benefits taken.
Variable	**4. Annual bonus scheme** This is to provide rewards that reflect the performance of the Group and the contribution of individual Directors in a particular year. This helps to motivate and retain the executive Directors, augments shareholder alignment and provides the Directors with a meaningful incentive to meet challenging short-term targets, chosen because of their importance to the success of the business.	Annual Bonuses of up to 150% of salary may be paid, 50% of which is normally satisfied in deferred shares which vest after a minimum of 2 years (generally contingent on continued employment) after the date on which they would otherwise be payable or earlier if the relevant Director has left the Group's employment and is considered by the Remuneration Committee to be a 'good leaver' as defined under the relevant scheme rules. The Annual Bonus will be subject to performance testing as set out on page 75.
Variable	**5. Long-term incentives** These are to incentivise executives to deliver sustained improvement in financial performance and shareholder returns over a period of years. These awards help motivate and retain the executive Directors, substantially align their interest with those of shareholders, and provide a meaningful incentive to build shareholder value over the long-term.	Long-term incentive awards may be made in any one year up to a level equivalent to 200% of salary when taking the face value of the awards based on the share price or average share price at or around the date of grant of the awards. For 2015, it is intended to grant awards at 150% of salary. These award structures and limits assume that amendments to the LTIP rules are approved by shareholders at the AGM at which this policy is considered. If the resolution to amend the LTIP is not passed, the previous policy, described in note 3 below) will continue to apply[3]. Such awards will be made subject to performance conditions that the Committee considers appropriate and vest after a minimum of 3 years subject to early vesting in certain good leaver situations or on a change of control. In addition, executive Directors may participate in save as you earn all-employee share schemes up to savings levels of £500 per month (or any higher amount under applicable legislation). Further details, including in relation to performance testing, and the Company's former long-term incentive arrangements, under which awards continue to subsist, are given on page 76.
Variable	All variable remuneration other than sharesave awards is subject to the contractual claw-back provisions referred to in the summary of the executive employment agreements on page 77.	

(1) The Company's Comparator Group is the 30 companies above and 30 companies below the Company in the FTSE in terms of market capitalisation as measured at a particular time determined by the Remuneration Committee.

(2) The Group aims to maintain excellent commercial relationships with its key business partners, customers and key suppliers. In this regard the Group regularly utilises corporate hospitality at sporting and other entertainment events to build contacts and relationships. The Committee does not consider attendance at such events by either a Director or his or her immediate family to constitute a taxable benefit of their employment with the Group. If such attendance were determined to be a taxable benefit, the Company would cover the cost of attendance and be responsible for any tax thereon.

(3) Under the policy approved by shareholders in April 2014, a maximum grant level equivalent to 250% of salary applied, made up of a maximum of 100% of salary for 'basic awards' and 150% of salary for 'enhanced awards'. Following a review, the Committee concluded that a grant level in the range 150% - 200% was appropriate. Such awards will be subject to performance conditions set at the time of grant and considered by the Committee to be appropriate. The Committee also concluded that it was no longer appropriate to have a separate category of "enhanced awards".

Policy of the components of the remuneration of executive Directors continued

- The Committee reserves the right to make any remuneration payments (and payments for loss of office) including through the exercise of any discretions available to it where such terms were agreed before the policy took effect or before such individual joined the Board.
- Under the deferred bonus and LTIP arrangements, awards may be increased to reflect the value of dividends that would have been paid in respect of any dates of grant and vesting of the awards (or delivery of the shares in the case of awards before 2015). Such increases are in addition to the stated caps.
- The Committee has received advice that the new legislation requires the inclusion of caps for each element of remuneration. In some cases, the caps have been set significantly higher than the current levels. This is simply to include adequate flexibility and does not represent an aspiration.
- No new elements of remuneration have been introduced since the prior year.
- Pay conditions elsewhere in the Company are commented on page 80.

Annual bonus scheme

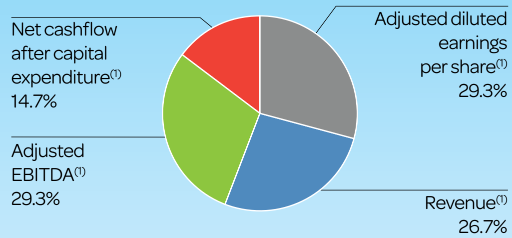
Executive Directors are entitled to an annual bonus of up to 150% of annual base salary for maximum performance against targets on sliding scales. For adjusted EBITDA, adjusted diluted earnings per share and net cashflow after capital expenditure these sliding scales in respect of 110% of salary are as follows:

- For achievement of below 90% of target (95% for adjusted EBITDA), zero payment;
- For achievement of 90% to 100% of target (95% to 100% for adjusted EBITDA), payment on a sliding scale from 30% to 80% of the relevant proportion of salary;
- For achievement of 100% to 105% of target (100% to 103% for adjusted EBITDA), payment on a sliding scale from 80% to the maximum potential for that element of the bonus; and
- For achievement of over 105% of target (103% for adjusted EBITDA), payment of the maximum potential for that element of the bonus.

A further 40% of salary is payable for delivery of the stretch revenue target, the sliding scale for which is from 50% of the relevant proportion of bonus for revenues exceeding target, to 100% of the relevant proportion of bonus for the achievement of 103% of target revenues.

These targets have been selected as they align with key financial objectives for the year. They are at levels considered by the Remuneration Committee to be stretching and will be published in next year's report. Consistent with our practice in prior years, the precise targets are not included in this report as both the Committee and Board consider these to be commercially sensitive with regard to the competition in the data centre market in which competitors are not required to publish such information. The amounts payable at threshold and targets are 30% and 80% of salary respectively. Nothing would be earned for these levels of performance under the revenue element which, as in 2014, only becomes payable for exceeding target performance.

Proportion of total potential bonus (150% of salary)



(1) Subject to adjustments approved or that may be approved by the Remuneration Committee.

Of amounts that become due, at least 50% will be satisfied by awards in the form of deferred shares and the balance will be satisfied in cash subject to such other arrangements as the Committee may determine appropriate in relation to leavers. In respect of the period between the date a deferred share award is issued and the date it vests, the number of shares covered by such awards may be increased by up to the value of dividends as if these were reinvested in Company shares at the dates of payment.

Performance measures, targets and weighting may be varied by the Remuneration Committee from year to year. The Committee considers the set measures to be an appropriate means of measuring success and is satisfied that they do not create inappropriate incentives as regards environmental, social and governance factors.

Satisfaction of awards of annual bonus and deferred share awards granted in prior years forms part of the Company's Remuneration Policy.

Report of the Remuneration Committee continued

Long-term incentive arrangements

Details of the type of award that may be granted under the Remuneration Policy to executive Directors are set out below. Long-term incentive awards granted under the Company's previous arrangements are set out on page 86.

LTIP Awards

— Awards are made to executive Directors at the discretion of the Committee.

— Awards vest generally only after three years.

— Awards will be subject to a relative TSR performance condition measured over three financial years with the Company's TSR assessed against the constituents, as at grant, of the FTSE 250 (excluding investment trusts) using the average TSR over the 60 dealing days prior to the start and end of the performance period. While it will only be used in exceptional circumstances, consistent with normal market practice, the rules permit the Committee to adjust the performance conditions to ensure they operate as intended provided that, in the view of the Committee, such adjusted condition will not be easier to satisfy than the original condition was intended to be.

— Awards to executive Directors in any one year are up to a face value equivalent to 200% of the participant's base salary at the date of grant based on the share price or average share price at or around the date of grant (although for 2015 awards will be at 150% of base salary)

Under the performance condition:

— No part of the award vests for below median performance;

— 25% vests for median performance;

— Vesting increases on a straight-line basis to 100% for upper quartile performance;

— In respect of future grants, the Committee may use the same TSR or such other or additional performance condition or conditions as it may consider appropriate as a performance condition under the Remuneration Policy; and

— The Committee intends to consider introduction of a second performance target in 2016.

The Committee considers these to represent appropriate measures of success.

To the extent that new ordinary shares are to be issued to satisfy share awards under the new and previous LTIP and any sharesave scheme, no awards may be made if it would cause the aggregate number to be issued under those schemes during the preceding 10 years to exceed 10% of the Company's issued share capital. This limit includes awards under any new scheme, although excludes awards made before or at the Company's IPO. At 31 December 2014, there have been granted, and not subsequently lapsed, awards over 8,601,447 shares under these schemes, representing 4.24% of the then share capital of the Company.

In the event of a change in control, any outstanding LTIP awards will vest on a pro rata basis and subject to the application of the Committee of any performance condition (on such basis as it considers appropriate).

In respect of the period between the date an award is issued and the date it vests the number of shares covered by such awards may be increased by up to the value of dividends as if these were reinvested in Company shares at the dates of payment.

Prior to 2015, awards were granted under the Company's Long-Term Incentive Plan and Performance Share Plan and satisfaction of such awards forms part of the Company's Remuneration Policy.

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Sharesave Scheme Awards

The Group operates an all-employee sharesave scheme. Under this, employees (including executive Directors) may be granted an option to acquire ordinary shares at a fixed exercise price on the following basis:

- Awards are generally made annually.
- Subject to certain conditions, all employees are eligible to participate.
- Participating employees are required to save each month into a savings account for a period of either three or four years, the proceeds of which they may use to exercise the option, or have repaid if they prefer.
- Subject to tax provisions in the relevant jurisdiction, a tax-free bonus is payable to the employee on the savings in the savings account on completion of the relevant savings contract.
- The maximum amount that an employee may save each month over the three-year or four-year period is £500 or a local currency equivalent or such higher amount as may be provided for under relevant legislation.
- The option exercise price is set at a discount of up to 20% of the market value of the ordinary shares at or shortly prior to the time of invitation to encourage participation.

The Committee considers this scheme important to enable the interests of employees to be aligned with the Group's success.

Satisfaction of share scheme awards made in prior years forms part of the Company's Remuneration Policy.

Executive Director service agreements

Eric Hageman serves the Company under a service agreement with the Company dated 8 July 2014 and commenced employment with the Company on 1 September 2014. This service agreement is in accordance with the remuneration policy approved by shareholders in April 2014, and complies with the terms of this remuneration policy.

The main terms of Mr Hageman's service agreement are:

- a base annual salary of £385,000 per annum;
- eligibility to participate in the Company's discretionary bonus scheme, which provides for an annual bonus of up to 150% of annual base salary for maximum performance, of which at least 50% will be satisfied by awards in the form of restricted shares. Bonus in respect of the 2014 bonus year will be reduced pro-rata to reflect his actual service in 2014;
- eligibility to participate in the Company's Long-Term Incentive Plan, under which he is eligible to receive annual awards of performance shares;
- an annual pension contribution to the Group's defined contribution group personal pension scheme or an annual cash allowance in lieu of pension benefits, in each case equal to 20% of his annual base salary;
- family private medical insurance, life assurance equal to four times Mr Hageman's annual base salary (subject to any HMRC limit) and permanent health insurance;
- a car allowance of £16,000 per annum;
- financial assistance with his tax return up to a specified limit; and
- a relocation package which comprises reimbursement for his weekly travel to and from the Netherlands and for temporary accommodation in London up to specific limits or, if he relocates to London with his immediate family, reimbursement for his rental costs and his children's school fees. However, the aggregate of such amounts together with the value of his insurance benefits, tax return assistance and car allowance shall not exceed £100,000 per annum in any financial year of the Company (pro-rated to take account of actual service in any financial year).

Certain terms of the service contracts not summarised elsewhere in this remuneration policy are summarised below:

- Executive Directors are normally required to hold shares in the Company with an aggregate value of at least their annual salary at that time (based on the Company's share price on the London Stock Exchange). This may include vested but subsisting share awards and options on an after tax basis. Details of the numbers of shares and share awards held by the Directors are shown on pages 86 and 87. The Committee considers that these shareholdings significantly align the interests of the executive Directors with those of other shareholders.
- In the unlikely event that the published accounts of the Group are restated for any reason after they have first been published, and if such restated accounts would have resulted in an executive Director receiving a lesser amount in terms of annual bonus, awards of shares or options over shares or other remuneration, then the executive Director may be required to immediately repay the balance to the Company.
- The Committee reserves the right to change the terms summarised here and in relation to payments for loss of office below (whether by way of amendments to the existing contracts or the entering into of new agreements) provided that they are not, overall, more generous than those outlined here.

Copies of executive Director service agreements are available for inspection during normal business hours at the Company's registered office and at the Company's Annual General Meeting.

Report of the Remuneration Committee continued

Policy on payments for loss of office

It is the Company's policy that the service agreements of its executive Directors can be terminated by the Directors serving 12 months' notice (provided that, where a Director serves such notice, the Company may elect that the employment should terminate no earlier than six months from the date of notice) and by the Company serving 12 months' notice. Under those service agreements, in lieu of giving some or all of that notice, the Company may terminate an executive Director's employment by making a payment in lieu of notice equal to the aggregate of:

- The executive Director's base salary during the remaining notice period;
- The Company's pension contributions in respect of the executive Director during the remaining notice period (or an amount equal to up to 20% of base salary in lieu of that at its discretion); and
- The cost to the Company of providing all other benefits (excluding pension and bonus) that the executive Director would have been entitled to receive during the remaining notice period; or a sum equal to 10% of the executive Director's salary in respect of that period in lieu of benefits. Alternatively, the Company may continue to provide these benefits for the remaining notice period.

In addition to the above payment in lieu of notice, the Company may make additional payments to a leaving Director, including:

- In respect of annual bonus for actual service prior to the date of termination (but not in respect of any unworked notice period);
- In return for a waiver of statutory and contractual claims the Director may have against the Company or in respect of any statutory payments to which he may be entitled;
- To cover the cost of outplacement support and legal fees on termination; and
- To ensure any restrictive covenants remain enforceable.

In addition, the Company may continue to provide executive Directors with indemnity protection in respect of third party claims and Directors' & Officers' insurance.

The terms of the service agreement of Eric Hageman in relation to payments for loss of office are in accordance with the policy described above.

The treatment of a leaving Director's share awards will be determined under the applicable scheme rules and not under the service agreements. Depending on the circumstances of the termination, the Director may automatically qualify as a good leaver or the Remuneration Committee may exercise discretion under the scheme rules to treat a Director as a good leaver such that his awards vest (whether on the Director's leaving date or at the end of the applicable performance period) subject to applicable performance conditions and, in some cases, time pro-rating for actual service during the performance period.

In limited circumstances, in addition to making a full payment in lieu of notice, the Company may permit an executive Director to stay employed after the announcement of his departure for a limited period to ensure an effective hand-over and/or to allow time for a successor to be appointed.

It would be open to the Company to consider terminating an executive Director's service agreement in breach (i.e. not to make a payment to him in lieu of notice) and instead to make a payment of damages to him which compensates him for the loss he will suffer as a result of the termination of his contract taking into account his duty to mitigate his loss.

The Company may terminate an executive Director's contract for gross misconduct without notice or compensation at any time.

The Committee will consider a director's past performance and the circumstances of his departure in exercising any discretions relating to his arrangements for loss of office, including, his contractual arrangements, prevailing best practice, the reason for the departure and any transition/handover required.

Policy on components of the Remuneration of the non-executive Directors

Chairman and non-executive Directors

Fees payable to the Chairman are determined by the Remuneration Committee. Fees payable to non-executive Directors are determined by the Board (excluding the non-executive Directors). These fees are reviewed periodically. They were last reviewed as at 1 January 2015.

The fees of the Chairman and independent non-executive Directors are to reflect the time commitment and responsibilities of their individual roles in reviewing and monitoring the strategy of the Company and its implementation and overseeing the management of internal controls and risk in the Company. In setting these fees, the Committee and Board have regard to but are not bound by equivalent fees in the Comparator Group(1) and do not target a specific quartile position. The objective is to ensure that individuals of the necessary calibre and experience are recruited and retained. The Chairman and non-executive Directors do not receive any other remuneration or benefits(2), nor do they participate in the Group's pension or share schemes.

	Policy
Fees of the Chairman	The fees can be up to £250,000
Fees of the non-executive Directors	Fees, including those for memberships of Committees and acting as senior independent Director, can be up to £100,000

(1) The Company's Comparator Group is the 30 companies above and 30 companies below the Company in the FTSE in terms of market capitalisation as measured at a particular time determined by the Remuneration Committee (for the fees of the executive Director and Chairman) or the Board (for the fees of the non-executive Directors) .

(2) The Group aims to maintain excellent commercial relationships with its key business partners, customers and key suppliers. In this regard the Group regularly utilises corporate hospitality at sporting and other entertainment events to build contacts and relationships. The Committee and Board do not consider attendance at such events by either a Director or his or her immediate family to constitute a benefit of their employment with the Group. If such attendance were determined to be a taxable benefit the Company would cover the cost of attendance and be responsible for any tax thereon.

As an exception to the fee structure set out above, if the Chairman or a non-executive Director is carrying out an executive Director's role at a time when there is a vacancy for that role, the Chairman or non-executive Director may be remunerated on equivalent terms to those of the vacant executive Director role (as set out in the remuneration policy for executive Directors above) for as long as that executive Director role is vacant.

Their letters of appointment set out their duties and expected time commitment.

The letter of appointment of John Hughes as Chairman is terminable by either Mr Hughes or the Group on six months' notice. The letters of appointment of the other non-executive Directors are for an initial period of three years but may be terminated at any time by either party on one month's written notice. Lump sum payments may be made in lieu of such notice if the Company so decides.

The letters of appointment of the non-executive Directors are dated as follows:

John Hughes and John O'Reilly	5 October 2007
Simon Batey	16 October 2007
Maurizio Carli	9 May 2011
Nancy Cruickshank and Claudia Arney	5 March 2013

These letters of appointment have been amended to reflect subsequent remuneration reviews. Copies are available for inspection during normal business hours at the Company's registered office and will be available at its AGM.

Report of the Remuneration Committee continued

External appointments

Executive Directors are permitted to accept external appointments with the prior approval of the Board and where there is no impact on their role within the Group. Any fees arising from such appointments may be retained by the executive Director where the appointment is unrelated to the Group's business.

Recruitment of new Directors

The Committee's objective is to attract candidates of the appropriate calibre at competitive salaries.

When agreeing the salary, benefits and pension provisions (or fees) of new Directors, the Committee (or Board) would, as far as reasonable, seek to pay new Directors in line with the Company's remuneration policy. Although not bound by the caps on fixed pay policy under the regulations, the Company would seek to avoid exceeding these caps.

The Company would agree variable remuneration as a percentage of salary up to the levels permitted in the remuneration policy for executive Directors.

The Company would be able to offer to buy out a new Director's existing variable remuneration elements on the basis of the Remuneration Committee's assessment of the level that the new Director may forfeit by joining the Company and may rely on paragraph 9.4.2 of the Listing Rules in structuring such awards.

The Committee's starting point in negotiating any buy-out will be to ensure that any awards being forfeited which remain subject to outstanding performance conditions (other than where substantially complete) are bought-out with awards with equivalent conditions and any awards with service requirements are bought out with similar terms. However, exceptionally the Committee may relax these obligations where it considers this to be in the interests of shareholders and these factors are, in the view of the Committee, reflected in some other way, for example, through a significant discount to the face value of the awards forfeited. Similarly, if it concludes that it is in the interest of shareholders, an element of the bonus for the year of joining may, as part of a buy-out, be guaranteed and/or not subject to prorating.

The Company may enter into a service agreement with a new Director on similar terms as with existing Directors including incorporation of a 12 months' notice period for termination by the Company.

Consideration of conditions elsewhere in the Company

There being no increase in the salary of the Chief Financial Officer for 2015, compares with an average increase of salaries, including those relating to promotions, in the Group in 2014 of approximately 5.2%. The Remuneration Committee received a presentation on and considered packages of other members of senior management. Employees were not, though, consulted on decisions related to Director remuneration. Overall, the Company applies the same general principles in setting the pay of employees more generally. The Company supports employee share ownership at all levels and operates different share plans to achieve this with the LTIP applying for the most senior executives, a restricted share plan for certain other senior managers and a savings related share option plan open to substantially all employees. Where the Company's pay policy for Directors differs to its pay policies for other employees, this reflects the appropriate structure and market rate position for the relevant roles.

Statement of consideration of shareholder views

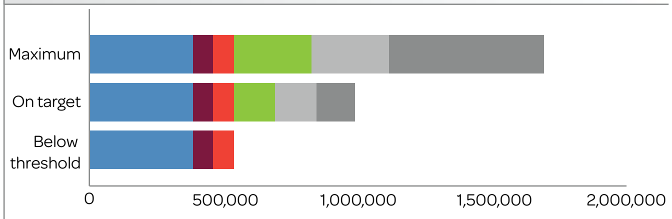
The Committee consults on key changes to executive Director remuneration with shareholders with the largest holdings and which in 2015 collectively represented over 50% of the Company's issued share capital together with ISS, the Investment Association and the National Association of Pension Funds in the UK. In 2015 shareholders were consulted on the proposed increase in LTIP award levels to 150% of salary aimed at ensuring the Company was able to offer executive Directors a competitive package. The Committee responded to shareholder views by agreeing to consider introduction of a second performance target in relation to LTIP awards in future years. The Committee is grateful for the considerable help and support it receives from shareholders in consulting on changes in remuneration.

Remuneration scenarios

The table below sets out the level of opportunity for the Chief Financial Officer based on the remuneration policy for 2015 both in absolute terms and as a proportion of the total package under different performance scenarios. As required by the regulations, a separate table sets out equivalent information for John Hughes during his temporary performance of executive duties.

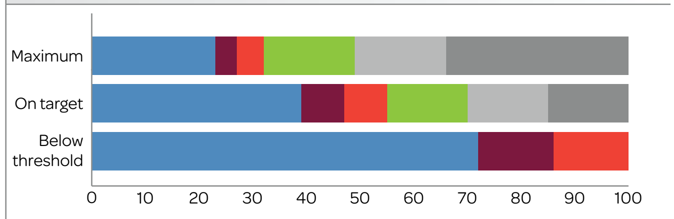
Eric Hageman

Value of package (£)



	Below threshold	On target	Maximum
Salary	385,000	385,000	385,000
Benefits	75,049	75,049	75,049
Pension	77,000	77,000	77,000
Bonus (cash)	–	154,000	288,750
Bonus (deferred)	–	154,000	288,750
LTIP payable	–	144,375	577,500
	537,049	**989,424**	**1,692,049**

Composition of package (%)



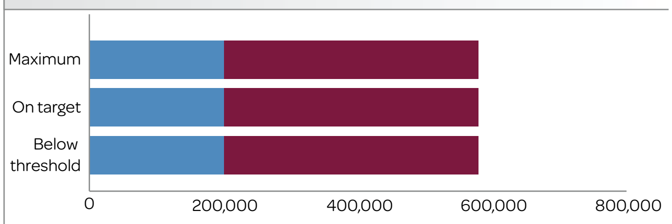
	Below threshold	On target	Maximum
Salary	72%	39%	23%
Benefits	14%	8%	4%
Pension	14%	8%	5%
Bonus (cash)	0%	15%	17%
Bonus (deferred)	0%	15%	17%
LTIP payable	0%	15%	34%

'Maximum', 'On target' and 'Below threshold' remuneration scenarios are defined by reference to pages 75 to 76 of the policy report.

Subject to shareholder approval at the AGM, the maximum LTIP payable has a value of 150% of base salary, compared to 37.5% of base salary at threshold.

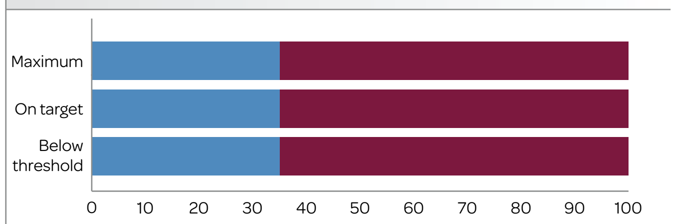
John Hughes

Value of package (£)



	Below threshold	On target	Maximum
Chairman's fees	200,000	200,000	200,000
Executive salary	379,125	379,125	379,125
	579,125	**579,125**	**579,125**

Composition of package (%)



	Below threshold	On target	Maximum
Chairman's fees	35%	35%	35%
Executive salary	65%	65%	65%

'Maximum', 'On target' and 'Below threshold' remuneration scenarios are defined by reference to pages 75 to 76 of the policy report. John Hughes will receive a fixed fee of £200,000 per annum (to be increased to £220,000 per annum on commencement of a new CEO) for his role as non-executive Chairman, in addition to £379,125 for his role as an Executive, which will be prorated for his period in the role (until commencement of a new CEO).

Report of the Remuneration Committee continued

Annual Report on Remuneration

Remuneration policy implementation for 2015

Executive Directors

Policy element	How the policy is planned to be implemented in 2015
1. Base salary	Eric Hageman commenced with the Group as CFO on 1 September 2014 with the salary of £385,000. The Committee considered this salary level appropriate to secure recruitment of an individual of the high calibre of Eric Hageman. No increase is planned to this salary in 2015. In addition to his fee as Chairman of £200,000, John Hughes is being paid remuneration in relation to the additional duties that effectively relate to the temporary performance of the Chief Executive role. This additional remuneration is currently being paid at the rate of £379,125 per annum.
2. Pension	Company contributions to executive pension schemes (or salary supplements paid in lieu) are being maintained at 20% of base salary for Eric Hageman.
3. Benefits	Other benefits including a car allowance of £16,000 and medical cover for Eric Hageman will remain unchanged for 2014. These are in line with practice in comparable companies. Mr Hageman will also continue to be entitled to the travel, accommodation and other benefits included under his employment agreement as set out on page 77.
4. Annual bonus scheme	The maximum annual bonus potential for Eric Hageman will remain at 150% of salary with the continuation of the new stretch revenue target included. The payment for on-target performance remains, as in 2013, at 80% of salary. The performance targets, and the proportions of the total potential payable for their achievement and overachievement are shown in the charts on page 75. The proportion of the annual bonus to be satisfied in deferred shares is to remain at one-half of the total generally only vesting after two years.
5. Long-term incentives	Subject to shareholder approval of the amended remuneration policy and LTIP rules, it is intended that Eric Hageman will be granted an LTIP award equivalent to 150% of salary, subject to the same TSR performance condition as in prior years.

Non-executive Directors

Fee structure for non-executive Directors in both 2014 and 2015

The fees of the non-executive Directors were reviewed by the other members of the Board (the Chairman and Chief Financial Officer) as at 1 January 2015. This was the first review since 1 January 2013. After reviewing comparative data, and taking account of the particularly significant time commitments for the Company by the non-executive Directors, the updated structure and fees as set out below were decided upon. This involves the introduction of fees for membership of the Audit and Remuneration Committees to recognise the work involved in these outside of the usual calendar of Board meetings. It is intended that arrangements will be made that each non-executive Director will purchase shares in the Company on a quarterly basis equivalent in value to £15,000 per annum (and £20,000 per annum for the Chairman to take effect from the date of the increase in the fees for his non-executive role) less the appropriate payroll deductions.

	2015 (£'000)	2014 (£'000)
Chairman[(1)]	220	200
Non-executive Directors:		
Base fee	52	45
Fee for chairing the Audit Committee	14	9.5
Fee for chairing the Remuneration Committee	14	8.5
Fee for acting as the Senior Independent Director	10	6.5
Fee for acting as a member of the Audit Committee (if not also Chairman)	4	–
Fee for acting as a member of the Remuneration Committee (if not also Chairman)	4	–

(1) The increase in the fees for the Chairman in his non-executive role is intended only to take effect when he steps down from his additional responsibilities on the commencement of a new Chief Executive of the Group. Mr Hughes' remuneration in relation to his executive duties is included under Executive Directors above.

UK Code Principle:

'A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.'

2014 annual bonus scheme

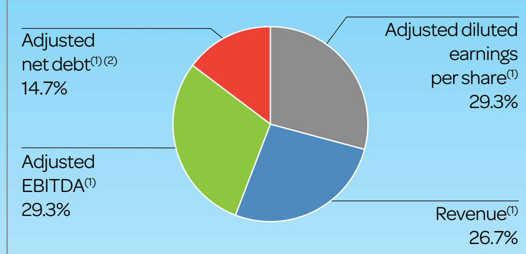
Executive Directors were entitled to an annual bonus of up to 150% of annual base salary for maximum performance against targets on sliding scales. For adjusted EBITDA, adjusted diluted earnings per share and adjusted net debt these sliding scales in respect of 110% of salary were as follows:

- For achievement of below 90% of target (95% for adjusted EBITDA), zero payment;
- For achievement of 90% to 100% of target (95% to 100% for adjusted EBITDA), payment on a sliding scale from 30% to 80% of the relevant proportion of salary;
- For achievement of 100% to 105% of target (100% to 103% for adjusted EBITDA), payment on a sliding scale from 80% to the maximum of potential for that element of the bonus; and
- For achievement of over 105% of target (103% for adjusted EBITDA), payment of the maximum of 110% of the relevant proportion of salary.

A further 40% of salary was payable for delivery of the stretch revenue target, the sliding scale for which is from 50% of the relevant proportion of bonus for revenues exceeding target, to 100% of the relevant proportion of bonus for the achievement of 103% of target revenues.

These targets were at levels considered to be stretching and the results achieved against these are shown in the charts below. The proportion of salary payable for target performance was the same as for 2013, 80% of salary. Of amounts that became due to Eric Hageman, 50% will be paid in cash and 50% will be satisfied by the issue of deferred shares.

Proportion of total potential bonus (150% of salary)

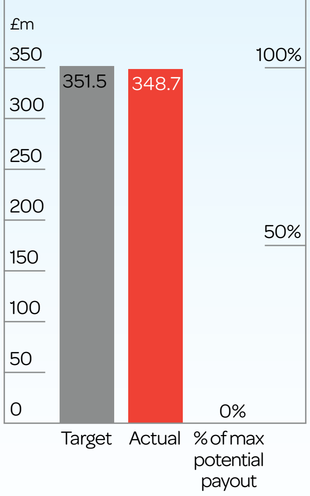


(1) Subject to adjustments approved or that may be approved by the Remuneration Committee.
(2) Calculated as year end net debt adjusted for approved changes to capital expenditure in the year.

Achievement of annual bonus targets

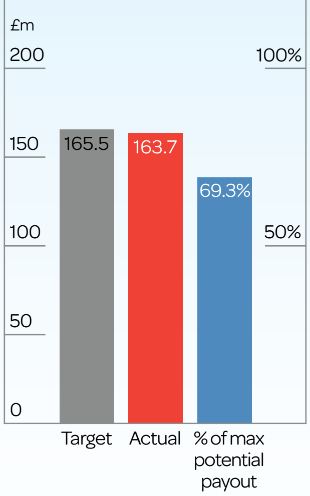
Revenue (£m)

£348.7m 99.2%



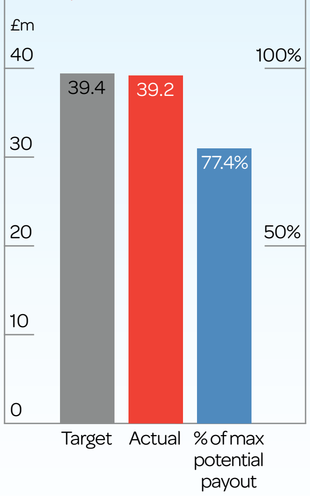
Adjusted EBITDA (£m)

£163.7m 98.9%



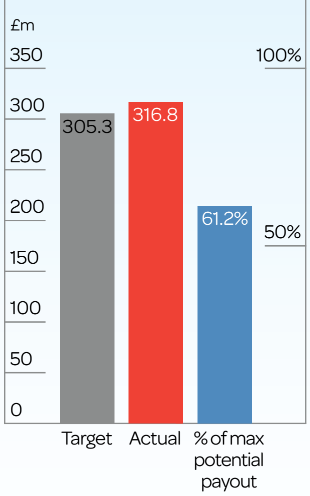
Adjusted diluted EPS (p)

39.2p 99.5%



Adjusted net debt

£316.8m 96.2%



The above performance against bonus targets resulted in a payment of 52.0% (2013: 31.8%) of the maximum bonus potential. The weightings have remained unchanged for 2015 except that the net debt metric has been replaced by net cash flow after capital expenditure. The targets are commercially sensitive and will be disclosed in next year's report.

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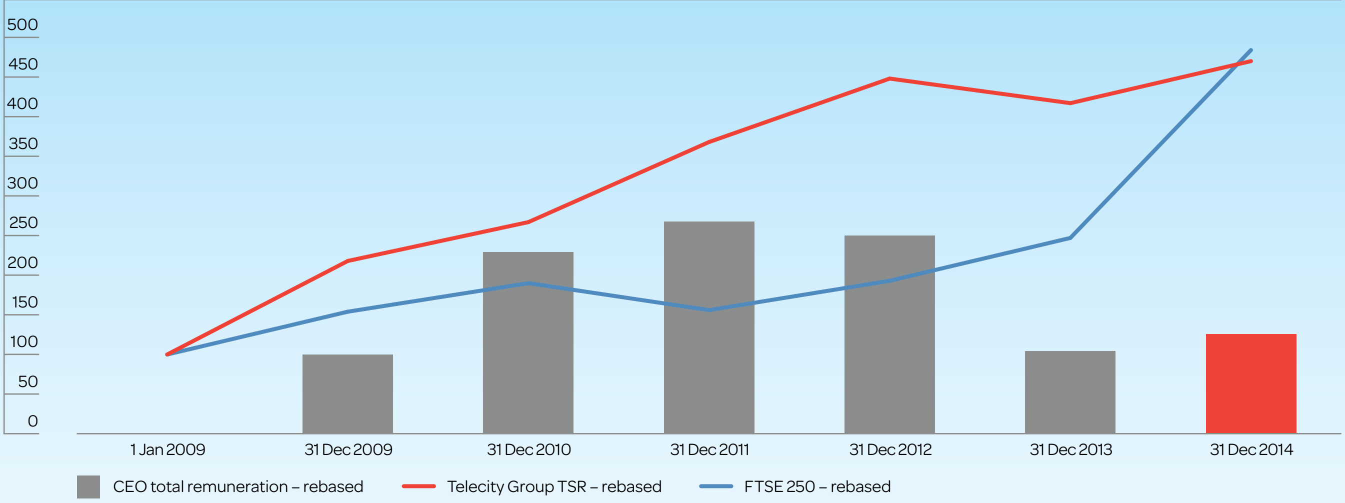
Total shareholder return ('TSR') vs FTSE 250 and CEO total remuneration (%)

The graph below shows the TSR for the Group compared with both the FTSE 250 (excluding investment trusts) and CEO total remuneration.

Each of these measures has been rebased to 100 on 1 January 2009 with growth measured relative to this point in future periods. For example, a reading of 200 in future years indicates a doubling of the value from 1 January 2009.

The TSR is also compared to a comparator group which, as in previous years, is the FTSE 250 (excluding investment trusts). This is the comparator group used under our long-term incentive arrangements and therefore considered the most appropriate group against which to measure the Group's relative performance.

Total shareholder return vs FTSE 250 and CEO total remuneration



The total remuneration of the CEO over the last six years is as follows:

CEO – Michael Tobin	Total Remuneration £'000	Annual bonus as a percentage of maximum	Share award vesting as a percentage of maximum
2014(1)	1,169.3	52%	0%
2013	971.5	32%	0%
2012	2,330.1	99%	100%
2011	2,493.9	100%	100%
2010	2,133.0	100%	100%
2009	931.0	94%	0%

(1) Michael Tobin's pay in 2014 has been prorated to a full year to aid comparability.

In 2014, the percentage change in the pay of the CEO versus all staff is as follows:

	Salary	Benefits in kind	Bonus	Total
CEO – Michael Tobin(1) (2)	2.5%	-5.7%	67.6%	22.7%
All employees	5.2%	3.8%	29.7%	5.3%

(1) Michael Tobin's pay in 2014 has been prorated to a full year to aid comparability.

(2) The reduction in the prior year of Michael Tobin's benefits in kind is a result of certain payments in 2013 which related to prior years.

Table 1 – Remuneration (audited)

	Base salary/fees (£'000)		Benefits in kind (£'000)[1]		Annual Bonus (£'000)[2]		Share awards (£'000)[3]		Pension (£'000)			
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Eric Hageman[4]	**128.3**	–	**28.4**	–	**33.4**	–	**–**	–	**6.4**	–	**196.5**	–
Michael Tobin[5]	**375.2**	565.0	**14.7**	24.0	**376.4**	269.5	**–**	–	**75.0**	113.0	**841.3**	971.5
Brian McArthur-Muscroft[6]	**27.9**	335.0	**1.3**	16.1	**–**	159.8	**–**	–	**3.6**	60.3	**32.8**	571.2
John Hughes	**332.1**	200.0	**–**	–	**–**	–	**–**	–	**–**	–	**332.1**	200.0
Simon Batey	**58.3**	61.0	**–**	–	**–**	–	**–**	–	**–**	–	**58.3**	61.0
Maurizio Carli	**45.0**	45.0	**–**	–	**–**	–	**–**	–	**–**	–	**45.0**	45.0
Sahar Elhabashi[7]	**–**	8.2	**–**	–	**–**	–	**–**	–	**–**	–	**–**	8.2
Nancy Cruickshank[8]	**45.0**	37.0	**–**	–	**–**	–	**–**	–	**–**	–	**45.0**	37.0
Claudia Arney[8]	**47.7**	37.0	**–**	–	**–**	–	**–**	–	**–**	–	**47.7**	37.0
John O'Reilly	**53.5**	53.5	**–**	–	**–**	–	**–**	–	**–**	–	**53.5**	53.5
	1,113.0	1,341.7	**44.4**	40.1	**409.8**	429.3	**–**	–	**85.0**	173.3	**1,652.2**	1,984.4

(1) Benefits in kind comprise car allowance and healthcare benefits. In the case of Eric Hageman they also include accommodation.

(2) 50% of the bonus is paid in cash, the remaining amount in deferred bonus shares which vest after two years with no performance conditions.

(3) Remuneration from share awards relates to options granted under the TelecityGroup plc Performance Share Plan. Valuation of the award is based on the average share price in the final three months of the performance period multiplied by the percentage of options which are due to vest. The performance conditions were not met in 2013 or 2014.

(4) Appointed 1 September 2014.

(5) Resigned on 24 August 2014. Continued as an employee until 31 October 2014 on same rate of pay. Figure reported is for the period to 24 August 2014 apart from bonus which is prorated to departure on 31 October 2014.

(6) Resigned on 31 January 2014.

(7) Resigned 6 March 2013.

(8) Appointed 5 March 2013.

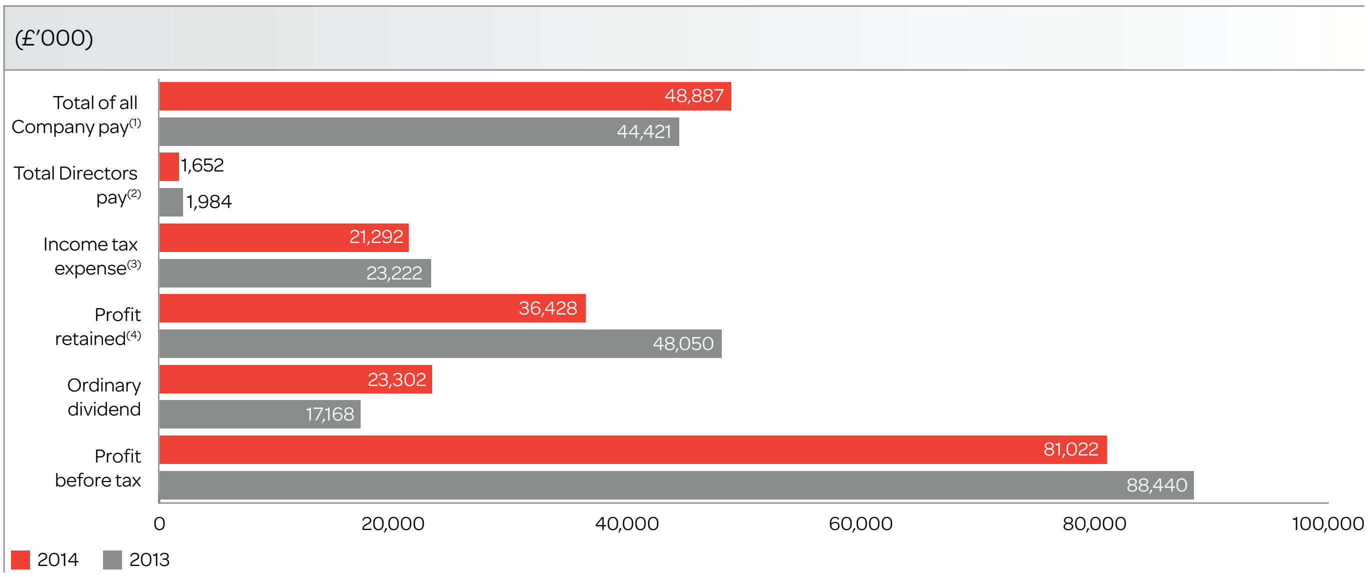
The combined base salary, benefits in kind and annual bonus for Eric Hageman was £190,100 (2013: Nil), Michael Tobin was £766,300 (2013: £858,500) and for Brian McArthur-Muscroft was £29,200 (2013: £510,900), and the aggregate fees of the Chairman and non-executive Directors was £581,600 (2013: £441,700).

Fees from external appointments

During the period in which he was a Director, Michael Tobin (resigned 24 August 2014) received £29,851 (2013: £44,164) in connection with his role as a non-executive Director of Pacnet. Brian McArthur-Muscroft (resigned 31 January 2014) received £3,467 (2013: £41,600) for his role as a non-executive Director of Robert Walters plc. No other amounts were received by our executive Directors during the year ended 31 December 2014 (2013: £nil).

Relative importance of spend on pay

The table below shows the absolute and relative amounts of total pay in the Company, Directors' pay, and other key financial metrics, for 2014.



(1) All Company pay includes wages and salaries, social security costs, pension and other employment costs and share-based payments (note 6).

(2) Total Directors' pay is the sum total of the single figure table in the Remuneration Report.

(3) Income tax expense for the year as per the consolidated income statement.

(4) Profit retained is defined as profit for the year attributable to the owners less dividends paid in the year.

The Company did not repurchase any shares in either 2013 or 2014.

Report of the Remuneration Committee continued

Table 2a – Directors' interests in share options, performance share awards and deferred bonus shares (audited)

		At 1 January 2014 ('000)	Granted ('000)	Exercised ('000)	Lapsed ('000)	At 31 December 2014	% vesting at threshold	Share price at date of grant (pence)	Face value at grant (£'000)(5)	Vested ('000)	Not vested ('000)	Exercise price	Exercise period begins	Exercise period ends
Eric Hageman														
Performance conditions	1	–	51	–	–	**51**	**25**	**771**	391	–	51	N/A	Sep-17	Sep-24
Non performance conditions	4	–	3	–	–	**3**	**100**	**740**	22	–	3	£5.93	Nov-17	Mar-18
Michael Tobin (resigned 24 August 2014)														
Performance conditions	1	103	–	–	(103)	**–**	**25**	**503**	–	–	–	N/A	Feb-14	Feb-21
	1	80	1	–	–	**81**	**25**	**683**	552	–	81	N/A	Feb-15	Feb-22
	1	63	1	–	(25)	**39**	**25**	**889**	348	–	39	N/A	Feb-16	Feb-23
	1	–	90	–	(65)	**25**	**25**	**653**	163	–	25	N/A	Feb-17	Feb-24
	2	110	2	–	–	**112**	**25**	**745**	830	–	111	N/A	Apr-15	Apr-22
Non performance conditions	3	35	–	(35)	–	**–**	**100**	**695**	–	–	–	N/A	Feb-14	N/A
	3	27	1	(28)	–	**–**	**100**	**894**	–	–	–	N/A	Oct-14	N/A
	3	–	21	(21)	–	**–**	**100**	**694**	–	–	–	N/A	Oct-14	N/A
	4	1	–	–	(1)	**–**	**100**	**882**	–	–	–	£7.09	Nov-15	May-16
Brian McArthur-Muscroft (resigned 31 January 2014)														
Performance conditions	1	61	–	–	(61)	**–**	**25**	**503**	–	–	–	N/A	Feb-14	Feb-21
	1	47	–	–	(16)	**31**	**25**	**683**	215	–	31	N/A	Feb-15	Feb-22
	1	37	–	–	(37)	**–**	**25**	**889**	–	–	–	N/A	Feb-16	Feb-23
	2	65	–	–	(22)	**43**	**25**	**745**	323	–	43	N/A	Apr-15	Apr-22
Non performance conditions	3	21	–	(21)	–	**–**	**100**	**695**	–	–	–	N/A	Feb-14	N/A
	3	16	–	(16)	–	**–**	**100**	**894**	–	–	–	N/A	Feb-14	N/A
		666	170	(121)	(330)	**385**			2,844	–	384			

(1) Performance Share Awards awarded under the TelecityGroup PSP and LTIP. The performance condition attaching to these awards is that set out under long-term incentive arrangements on page 76. The awards granted in 2011 lapsed following failure to meet the performance condition. The share awards granted in 2014, when the share price was 653p per share, were valued at 278p per share as set out in note 28 to the accounts.

(2) Enhanced Awards awarded under the TelecityGroup PSP. The performance condition attaching to these awards is that set out under long-term incentive arrangements in the 2012 annual report. The share awards granted in 2012, when the share price was 744.6p per share, were valued at 559p per share as set out in note 28 to the accounts.

(3) Deferred shares granted under the annual bonus scheme. The conditions attaching to these awards are set out under the annual bonus scheme description set out on page 74. Such shares normally vest two years following the date of grant.

(4) Sharesave awards granted under the 2012 and 2014 save as you earn schemes as set out under long-term incentive arrangements on page 77.

(5) Face value has been calculated by multiplying the number of shares that would vest if all performance measures and targets are met multiplied by the share price at the date of grant

The highest, lowest and year end prices for the Company's shares for 2014 were 631.0p, 830.0p and 804.5p respectively.

During the year:

– Brian McArthur-Muscroft exercised 36,893 nil-cost deferred bonus shares on when the share price was 677.1p, resulting in a gain before taxes of £249,806.
– Michael Tobin exercised 35,114 nil-cost deferred bonus shares when the share price was 655.6p, resulting in a gain before taxes of £230,195.
– Michael Tobin exercised a further 48,594 nil-cost deferred bonus shares when the share price was 767.5p, resulting in a gain before taxes of £372,959.

Table 2b – Directors' interests in shares

	31 December 2014	31 December 2013
John Hughes (Chairman)	**63,000**	63,000
Eric Hageman (Chief Financial Officer)	**10,000**	–
Claudia Arney	**7,000**	7,000
Simon Batey	**16,227**	16,727
Maurizio Carli	**10,000**	10,000
John O'Reilly	**22,091**(1)	22,091
Michael Tobin(2)	**n/a**	672,000
Brian McArthur-Muscroft(3)	**n/a**	–

(1) Includes 13,000 shares in the name of his wife.

(2) Michael Tobin resigned as a Director of the Company on 24 August 2014.

(3) Brian McArthur-Muscroft resigned as a Director of the Company on 31 January 2014.

Other than in (1), above, there were no interests of Directors' connected persons in the share capital of the Company at either of these dates known to the Company.

There have been no changes in the interests of the Directors in the share capital of the Company (or any derivatives or any other financial instruments relating to those shares) nor, so far as the Company is aware, in the relevant interests of any of their connected persons between 31 December 2014 and the date of this report.

The Company's guidelines for the holding of shares by executive Directors are that they should hold equivalent in value of 100% of salary or if they do not do so they must build a holding equivalent to that level over time.

The executive Directors complied with these guidelines during the year with the exceptions of Brian McArthur-Muscroft, following announcement of his departure, being permitted to sell shares below this level, and Eric Hageman who only joined the Company on 1 September 2014.

Report of the Remuneration Committee continued

Brian McArthur-Muscroft

The table below sets out payments for loss of office that were receivable by Brian McArthur-Muscroft in connection with his departure. Brian McArthur-Muscroft's departure was announced on 31 October 2013 and took effect on 31 January 2014.

	Amount
Termination payment in lieu of 12 month notice period determined in accordance with the service contract	£428,800(1)
Settlement of any statutory claims against TelecityGroup	£30,000
Nominal payment in consideration for agreement to the extension of post-termination restrictive covenants to 12 months (from the levels of 6 or 9 months specified in the service contract)	£100
Contribution towards legal fees incurred in connection with the termination of employment	£8,400 including VAT
Total	**£467,300**

(1) This comprises £335,000 in lieu of basic salary, £60,300 in lieu of pension contributions and £33,500 in lieu of other benefits (excluding bonus). The Committee exercised its discretion under Brian McArthur-Muscroft's service contract to pay 10% of salary in lieu of Brian McArthur-Muscroft's benefits (rather than paying him an amount equal to the cost to the Company of providing those benefits or continuing to provide such benefits during Brian McArthur-Muscroft's 12 month notice period).

– The Committee exercised its discretion regarding Brian McArthur-Muscroft's share awards in the following way:
  - Deferred bonus awards granted in 2012 and 2013 in respect of the 2011 and 2012 bonus years (of 20,796 shares and 15,945 shares respectively) under the Company's deferred bonus plan vested in full on his leaving date.
  - Share awards of 61,265 shares and 46,635 shares granted in 2011 and 2012 respectively under the Company's Performance Share Plan to vest at the end of their respective performance periods (February 2014 and February 2015), subject to the applicable performance conditions being satisfied and time pro-rating for Brian McArthur-Muscroft's actual service during the performance period.
  - 'Enhanced awards' over 64,210 shares granted in 2012 under the Company's Long Term Incentive Plan 2012 to vest at the end of the performance period (April 2015), subject to the applicable performance conditions being satisfied and time pro-rating for Brian McArthur-Muscroft's actual service during the performance period.
  - Brian McArthur-Muscroft's award over 36,951 shares granted in 2013 under the Company's Long Term Incentive Plan 2012 was not preserved and lapsed on 31 January 2014.
  - No bonus was payable for the month of 2014 worked.

Michael Tobin

The table below sets out payments for loss of office that were receivable by Michael Tobin in connection with his departure. Michael Tobin's departure was announced on 26 August 2014 and took effect on 31 October 2014.

	Amount
Termination payment in lieu of 12 month notice period determined in accordance with the service contract	£752,863(1)
Settlement of any statutory claims against TelecityGroup	£70,000
Contribution towards outplacement counselling	£45,000
Contribution towards legal fees incurred in connection with the termination of employment	£12,000 including VAT
Total	**£879,863**

(1) This comprises £579,125 in lieu of basic salary, £115,825 in lieu of pension contributions and £57,913 in lieu of other benefits (excluding bonus).

– The Committee exercised its discretion regarding Michael Tobin's share awards in the following way:
  - Deferred bonus awards granted in 2012 and 2013 in respect of the 2011 and 2012 bonus years (of 26,985 shares and 20,654 shares respectively) under the Company's deferred bonus plan vested in full on his leaving date.
  - Share awards of 78,660 shares granted in 2012 under the Company's Performance Share Plan to vest at the end of their respective performance periods (February 2015), subject to the applicable performance conditions being satisfied and time pro-rating for Michael Tobin's actual service during the performance period.
  - 'Enhanced awards' over 108,304 shares granted in 2012 and awards over 62,320 shares and 88,578 shares granted in 2013 and 2014 respectively under the Company's Long Term Incentive Plan 2012 to vest at the end of the performance periods (April 2015, April 2016 and April 2017 respectively), subject to the applicable performance conditions being satisfied and time pro-rating for Mr Tobin's actual service during the performance period.

Remuneration advisors

As a Committee we have our own specialist remuneration advisors, FIT Remuneration Consultants LLP ('FIT'). FIT were appointed by us in 2011 and is led by John Lee (who was, prior to founding FIT in 2011, managing partner at New Bridge Street).

FIT exclusively advise the Committee and do not provide advice to management, nor to the Group on any other matter. This ensures that their objectivity and independence as our advisors is maintained. FIT are members of the Remuneration Consultants Group and comply with its voluntary code of conduct in relation to executive remuneration consulting in the UK.

The fees payable in respect of Director remuneration advice in 2014 were charged on their normal terms and are summarised in the table below:

	Advice on Directors' remuneration	Other services
FIT	£24,000	–

Voting at 2014 AGM

The proxies lodged in advance of the 2014 AGM in relation to the Remuneration Policy and Directors' Remuneration Report included in the Annual Report presented at this were as follows:

	Remuneration Policy		Directors' Remuneration Report	
	Number of shares	Percentage of votes cast	Number of shares	Percentage of votes cast
Votes in favour (including proxies giving the Chairman's discretion as to voting)	129,890,434	97.83%	131,859,781	99.31%
Votes against	2,884,137	2.17%	914,790	0.69%
Votes withheld (this is not a vote in law and has not been counted in the calculation of the proportion of votes 'For' and 'Against' a resolution)	1,808,613	–	1,808,613	–

Basis of preparation and approval of report

This report constitutes the Directors' Remuneration Report, prepared in accordance with Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the Financial Services Authority.

Our Auditors are required to report to shareholders regarding Directors' remuneration, descriptions of the Group's long-term incentive arrangements and the information contained in tables 1, 2a and 2b in this report (the 'auditable parts') and to state whether, in their opinion, these parts of the report have been properly prepared in accordance with the Companies Act 2006.

As required by the Companies Act 2006, an advisory resolution to approve this report (other than the remuneration policy which will be subject to a binding resolution) will be proposed at our forthcoming Annual General Meeting.

On behalf of the Remuneration Committee and Board

John O'Reilly
Chairman of the Remuneration Committee

10 February 2015

Financial statements

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Independent auditors' report to the members of Telecity Group plc

Report on the financial statements

Our opinion
In our opinion:

- Telecity Group plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited
Telecity Group plc's financial statements comprise:

- the consolidated and company balance sheets as at 31 December 2014;
- the consolidated income statement and the consolidated statement of comprehensive income for the year then ended ;
- the consolidated cash flow statement for the year then ended;
- the consolidated and company statement of changes in equity for the year then ended;
- the consolidated net debt statement as at 31 December 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and accounts 2014 (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach

Overview
Materiality
- Overall group materiality: £4.8m which represents 5% of profit before tax.

Audit scope
- We conducted audit work in 5 countries/reporting units.
- The reporting units addressed by our audit scope accounted for 83% of the Group's revenues and 88% of the Group's profit before tax.
- The most significant of the 11 reporting units, the UK, representing 42% of the Group by revenue and 47% of the Group by profit before tax, as audited by the group engagement team.
- The Netherlands and Ireland are both significant reporting units which were visited by the group engagement team during the year and represent collectively 18% of the Group by revenue and 27% profit before tax.

Areas of focus
- Potential impairment of goodwill, intangible assets and data centre property, plant and equipment and related investments held in the parent entity.
- Additions to, and depreciation of, data centre related property, plant and equipment.
- Presentation of exceptional items.

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Potential impairment of goodwill, intangible assets and data centre property, plant and equipment and related investments held in the parent entity The Group has significant asset balances, including goodwill at 31 December 2014 of £112m and other intangible assets, primarily customer contracts, of £46m. Under International Accounting Standard 36, management is required to assess the carrying value of goodwill and indefinite-life intangible assets annually. Assessment of impairment is, by its nature, highly judgemental and requires careful assessment of key assumptions underlying the models and detailed cash flow forecasts. The risk is that these balances are overstated. We focused in particular on the valuation and recoverability of recently acquired assets, specifically, in Turkey in respect of which management made an impairment charge, Bulgaria and Poland. Management has impaired the goodwill arising on acquisition of Turkey.	We evaluated and challenged management's future cash flow projections, used to determine the value in use of its assets, and the process by which the forecasts were generated and approved, including testing the underlying calculations and assumptions. We challenged: – the Directors' key assumptions for long-term growth rates in the forecasts by comparing them to historical results, and economic and industry forecasts; – the discount rate, focusing in particular on those applied to Turkey, Bulgaria and Poland, by assessing them against the cost of capital for the Group. We also assessed the net present values calculated by management on an aggregate basis, comparing the total value to the year-end enterprise value of Telecity Group plc which did not give rise to any risk of impairment. We performed our own sensitivity tests by comparing the carrying values of all cash generating units ('CGU's') at the year end to the net present value of future cash flows applying more conservative estimates of discount rates and growth rates. We assessed the assumptions used in relation to the impairment in Turkey and considered the discount rate and growth rate to be appropriate based on discount rates, and the expected growth, in the Turkish market. Having ascertained the extent of change in the assumptions that either individually or collectively would be required for the goodwill to be impaired we considered the likelihood of such a movement in those key assumptions and the disclosures on sensitivity analyses set out in note 15 and noted no further impairment, which is consistent with management's assessment in note 15.
Additions to and depreciation of data centre related property, plant and equipment During the course of the year the Group incurred cash expenditure of £129m on assets which were capitalised as part of Property, Plant and Equipment, primarily relating to costs incurred on the construction, expansion and upgrading of data centres – classified by the Group as "investment spend". In addition, the depreciation charge for assets available for use by customers amounted to £49m. There are elements of judgement in both capitalising and depreciating assets. The key judgements relating to the additions to and depreciation of property, plant and equipment are the dates of recognition of capital assets and the related date at which depreciation begins.	We performed controls testing focused on the capitalisation of costs into new builds during the year and the trigger points (the principles of which were deemed to be reasonable) for capitalisation and depreciation. Substantive testing procedures were performed which comprised: – Testing new assets capitalised during the year to supporting documentation; – Testing both the timing of when depreciation begun and the appropriateness of the depreciation period by comparing useful economic lives to the actual usage of the assets; and – Performing substantive analytics over the depreciation expense. Our testing did not identify any material exceptions or misstatements.
Presentation of exceptional items The Group has incurred and separately disclosed exceptional items: – £12m impairment in respect of the Turkish business and associated items; – £3.1m increase in onerous lease provision – £1.8m spent on business analysis fees; and – £1.6m relating to the departure of the Chief Executive Officer Separately identifying and disclosing items as exceptional on the face of the income statement requires judgement. If items are inappropriately classified as exceptional, such presentation could misrepresent the results of the Company or give undue prominence to non-statutory disclosures.	For costs separately disclosed as exceptional items we: – Agreed amounts to supporting documentation; – Assessed whether the classification as exceptional was consistent with the Group accounting policy in particular focusing on the nature of the items to check they are non-recurring and that the underlying judgements, particularly in respect of the impairment and onerous leases are reasonable; – Checked that the grouping of exceptional items by nature was appropriate and that no material transactions were improperly netted off through this presentation. No misstatements were identified based on these procedures.

Independent auditors' report to the members of Telecity Group plc continued

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group operates colocation data centre services in key markets in the UK and Europe. As outlined in the Annual Report, the European operations are based in 11 countries which align to reporting units, as well as a number of head office companies.

In establishing the overall approach to the Group audit, we determined the significance of, and risk associated with, specific reporting units as well as the type and level of work that needed to be performed in order to provide assurance on the Group financial statements as a whole. Where the work was performed by component auditors, which included both PwC network firms and another firm, we determined the level of involvement in the audit work at those reporting units in order to conclude whether sufficient appropriate audit evidence had been obtained.

We identified four reporting units being the UK, Netherlands, Ireland and Sweden which, in our view, based on their size or their risk characteristics, required an audit of their complete financial information. Specific audit procedures on certain balances and transactions were performed at one additional reporting unit and two head office companies.

This, together with additional procedures performed at the Group level on the remaining six reporting units, goodwill impairment and related investments, going concern assessments, exceptional items and additions to data centre property, plant and equipment gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£4.8m (2013: £4.4 million).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	Consistent with last year we have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £240,000 (2013: £218,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 133, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:
- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 42 to 89 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion: – Information in the Annual Report and accounts 2014 (the "Annual Report") is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
– the statement given by the Directors on page 135, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Parent Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
– the section of the Annual Report on pages 52 to 56, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Report of the Remuneration Committee – Companies Act 2006 opinion

In our opinion, the part of the Report of the Remuneration Committee to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Parent Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Independent auditors' report to the members of Telecity Group plc continued

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibility statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jaskamal Sarai (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

10 February 2015

Consolidated income statement

		Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Revenue		4	**348,695**	325,550
Cost of sales			**(146,604)**	(138,899)
Gross profit			**202,091**	186,651
Sales and marketing costs			**(13,470)**	(11,964)
Administrative costs analysed:				
Depreciation charges			**(49,976)**	(45,761)
Amortisation charges			**(5,234)**	(4,950)
Operating exceptional items		7	**(18,502)**	(5,175)
Other administrative costs			**(24,895)**	(21,448)
Administrative costs			**(98,607)**	(77,334)
Operating profit		4	**90,014**	97,353
Finance income		10	**86**	106
Finance costs		11	**(8,960)**	(9,069)
Other financing items		12	**(118)**	50
Profit on ordinary activities before taxation			**81,022**	88,440
Income tax charge		13	**(21,292)**	(23,222)
Profit for the year			**59,730**	65,218
Earnings per share:	**basic (p)**	14	**29.5**	32.2
	diluted (p)		**29.4**	32.1
Adjusted(1) earnings per share:	**basic (p)**	14	**39.3**	36.7
	diluted (p)		**39.2**	36.5

(1) Adjusted as set out in note 3.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 (the 'Act') to not present the Company Income Statement nor the Company Statement of Comprehensive Income. The result for the Company for the year was a profit of £12,143,000 (2013: loss of £291,000).

Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit for the year		**59,730**	65,218
Other comprehensive income:			
Currency translation differences on foreign currency net investments		**(20,082)**	(1,193)
Fair value movement on cash flow hedges	24	**(1,944)**	2,736
Tax on fair value movement on cash flow hedges	13	**378**	(651)
Other comprehensive (expense)/income for the year net of tax		**(21,648)**	892
Total comprehensive income recognised in the year attributable to owners of the parent		**38,082**	66,110

The components of other comprehensive income may subsequently be reclassified to the income statement.

Consolidated statement of changes in equity

	Notes	Share capital £'000	Share premium account £'000	Retained profits £'000	Own shares £'000	Cumulative translation reserve £'000	Total £'000
At 1 January 2013		**403**	**78,038**	**280,138**	**(447)**	**(1,174)**	**356,958**
Profit for the year		–	–	65,218	–	–	65,218
Other comprehensive income:							
Currency translation differences on foreign currency net investments		–	–	–	–	(1,193)	(1,193)
Fair value movement on cash flow hedges	24	–	–	2,736	–	–	2,736
Tax on fair value movement on cash flow hedges	13	–	–	(651)	–	–	(651)
Total comprehensive income/(expense) for the year ended 31 December 2013		–	–	67,303	–	(1,193)	66,110
Transactions with owners:							
Credit to equity for share-based payments		–	–	3,095	–	–	3,095
Tax on share-based payments	13	–	–	114	–	–	114
Purchase of own shares	26	–	–	–	(405)	–	(405)
Issue of shares	26	2	415	(291)	433	–	559
Dividends paid to owners of the parent	27	–	–	(17,168)	–	–	(17,168)
		2	415	(14,250)	28	–	(13,805)
At 31 December 2013 and 1 January 2014		**405**	**78,453**	**333,191**	**(419)**	**(2,367)**	**409,263**
Profit for the year		–	–	59,730	–	–	59,730
Other comprehensive income:							
Currency translation differences on foreign currency net investments		–	–	–	–	(20,082)	(20,082)
Fair value movement on cash flow hedges	24	–	–	(1,944)	–	–	(1,944)
Tax on fair value movement on cash flow hedges	13	–	–	378	–	–	378
Total comprehensive income/(expense) for the year ended 31 December 2014		–	–	58,164	–	(20,082)	38,082
Transactions with owners:							
Credit to equity for share-based payments		–	–	3,103	–	–	3,103
Tax on share-based payments	13	–	–	24	–	–	24
Purchase of own shares	26	–	–		(113)	–	(113)
Issue of shares	26	1	560	(456)	481	–	586
Dividends paid to owners of the parent	27	–	–	(23,302)	–	–	(23,302)
		1	560	(20,631)	368	–	(19,702)
At 31 December 2014		**406**	**79,013**	**370,724**	**(51)**	**(22,449)**	**427,643**

A description of each of the reserves is given in note 29.

Company statement of changes in equity

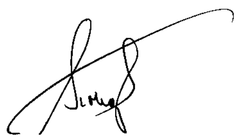
	Notes	Share capital £'000	Share premium account £'000	Retained profits £'000	Other reserve £'000	Total £'000
At 1 January 2013		**403**	**78,038**	**96,917**	**12,202**	**187,560**
Loss for the year		–	–	(291)	–	(291)
Total comprehensive expense for the year ended 31 December 2013		–	–	(291)	–	(291)
Transactions with owners:						
Credit to equity for share-based payments		–	–	–	3,095	3,095
Issue of shares	26	2	415	–	–	417
Dividends paid to owners of the parent	27	–	–	(17,168)	–	(17,168)
		2	415	(17,168)	3,095	(13,656)
At 31 December 2013 and 1 January 2014		**405**	**78,453**	**79,458**	**15,297**	**173,613**
Profit for the year		–	–	12,143	–	12,143
Total comprehensive expense for the year ended 31 December 2014		–	–	12,143	–	12,143
Transactions with owners:						
Credit to equity for share-based payments		–	–	–	3,103	3,103
Issue of shares	26	1	560	–	–	561
Dividends paid to owners of the parent	27	–	–	(23,302)	–	(23,302)
		1	560	(23,302)	3,103	(19,638)
At 31 December 2014		**406**	**79,013**	**68,299**	**18,400**	**166,118**

A description of each of the reserves is given in note 29.

Consolidated balance sheet

	Notes	31 December 2014 £'000	31 December 2013 £'000
Assets			
Non-current assets			
Intangible assets	15	**157,819**	179,098
Property, plant and equipment	16	**703,955**	661,917
Deferred income taxes	13	**1,277**	2,885
Trade and other receivables	19	**777**	1,163
		863,828	845,063
Current assets			
Trade and other receivables	19	**43,628**	40,604
Cash and cash equivalents	20	**27,228**	23,244
		70,856	63,848
Total assets		**934,684**	908,911
Equity			
Share capital	26	**406**	405
Share premium account		**79,013**	78,453
Retained profits		**370,724**	333,191
Own shares		**(51)**	(419)
Cumulative translation reserve		**(22,449)**	(2,367)
Total equity		**427,643**	409,263
Liabilities			
Non-current liabilities			
Deferred income	22	**19,270**	18,712
Borrowings	23	**339,027**	322,858
Derivative financial instruments	24	**1,647**	–
Provisions for other liabilities and charges	25	**5,947**	3,759
Deferred income taxes	13	**30,115**	29,394
		396,006	374,723
Current liabilities			
Trade and other payables	21	**50,898**	61,490
Deferred income	22	**43,439**	45,373
Current income tax liabilities		**9,373**	8,604
Borrowings	23	**5,027**	4,637
Derivative financial instruments	24	**1,419**	1,122
Provisions for other liabilities and charges	25	**879**	3,699
		111,035	124,925
Total liabilities		**507,041**	499,648
Total equity and liabilities		**934,684**	908,911

The financial statements were approved by the Board of Directors and authorised for issue on 10 February 2015 and signed on its behalf by:



John Hughes
Director

Eric Hageman
Director

Company balance sheet

	Notes	31 December 2014 £'000	31 December 2013 £'000
Assets			
Non-current assets			
Investments	17	**190,889**	187,786
		190,889	187,786
Current assets			
Trade and other receivables	19	**–**	–
		–	–
Total assets		**190,889**	187,786
Equity			
Share capital	26	**406**	405
Share premium account		**79,013**	78,453
Retained earnings		**68,299**	79,458
Other reserve		**18,400**	15,297
Total equity		**166,118**	173,613
Liabilities			
Current liabilities			
Trade and other payables	21	**24,771**	14,173
Total liabilities		**24,771**	14,173
Total equity and liabilities		**190,889**	187,786

The number under which the Company is registered at Companies House is 5603875.

The financial statements were approved by the Board of Directors and authorised for issue on 10 February 2015 and signed on its behalf by:

John Hughes
Director

Eric Hageman
Director

Consolidated cash flow statement

	Notes	**Year ended 31 December 2014 £'000**	Year ended 31 December 2013 £'000
Cash inflow from operations	30	**148,988**	145,904
Interest received		**60**	79
Interest paid		**(6,687)**	(5,743)
Interest element of finance lease payments		**(747)**	(771)
Taxation paid		**(16,720)**	(10,908)
Cash inflow from operating activities		**124,894**	128,561
Purchase of operational property, plant and equipment		**(32,223)**	(25,341)
Operating free cash flows		**92,671**	103,220
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	18	**–**	(39,447)
Costs associated with acquisition of subsidiaries		**–**	(3,157)
Proceeds from sale of property, plant and equipment		**9**	46
Purchase of investment related property, plant and equipment		**(97,046)**	(91,968)
Cash used in investing activities		**(97,037)**	(134,526)
Cash flows from financing activities			
Net proceeds from borrowings		**30,655**	42,680
Proceeds from sale and leaseback arrangements		**2,898**	12,639
Repayment of finance leases		**(4,902)**	(3,969)
Costs relating to refinancing		**–**	(2,038)
Net proceeds on issue of ordinary share capital		**472**	154
Dividends paid to owners of the parent		**(23,302)**	(17,168)
Net cash inflow from financing activities		**5,821**	32,298
Net increase in cash and cash equivalents		**1,455**	992
Effects of foreign exchange rate change		**2,529**	1,281
Cash and cash equivalents at beginning of year		**23,244**	20,971
Cash and cash equivalents at end of year	20	**27,228**	23,244

The Company does not hold cash and consequently has not presented a cash flow statement.

Consolidated net debt statement

		31 December 2014 £'000	31 December 2013 £'000
Increase in cash and cash equivalents		**1,455**	992
Cash inflow from movement in debt		**(28,651)**	(51,350)
Movement in deferred debt arrangement fees		**(1,785)**	(590)
Other non-cash movements in net debt		**–**	(107)
Change in net debt		**(28,981)**	(51,055)
Effects of foreign exchange rate change		**16,406**	1,003
Movement in net debt in year		**(12,575)**	(50,052)
Net debt at beginning of year		**(304,251)**	(254,199)
Net debt at end of year		**(316,826)**	(304,251)
Comprising:			
Borrowings	23	**(344,054)**	(327,495)
Cash and cash equivalents	20	**27,228**	23,244
Net debt at end of year		**(316,826)**	(304,251)

Notes to the financial statements

1. General information

Telecity Group plc (the 'Company') is a company incorporated and domiciled in the United Kingdom and has Sterling as its presentation and functional currency. Telecity Group plc and its subsidiaries (together the 'Group') operate in the internet infrastructure facilities and associated services industry within Europe. The operating companies of the Group are disclosed within note 17.

The Company is a public limited company which is listed on the London Stock Exchange.

All information in the notes relates to the Group, not the Company, unless otherwise stated.

2. Significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements have been incorporated into the relevant notes where possible. For example, the accounting policy for depreciation is contained in the property, plant and equipment note. General accounting policies which are not specific to a particular note, for example foreign exchange, are set out below.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with EU Endorsed International Financial Reporting Standards ('IFRS'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations and the Companies Act 2006 (the 'Act') applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, with the exception of the Group's interest rate swap contracts (note 24) which are recorded at fair value and the share-based payment expense (note 28) which is based on fair value at date of option grant.

The financial statements of the Company are presented as required by the Act. The separate financial statements have been prepared in accordance with IFRS.

The financial statements of the Company have been prepared on the historical cost basis as modified in respect of share-based payments (note 28).

2.2 Going concern

The Group generates operating cash flows which are invested in organic and inorganic investment activities. To the extent investment expenditure exceeds the operating cash flows of the business, the additional expenditure is funded by the Group's borrowing facilities (note 23).

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

2.3 Accounting developments and changes

No new standards have been adopted by the Group for the first time in the year ended 31 December 2014. As such there have been no material changes to the Group's accounting policies since the previous Annual Report.

A number of new standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted. To the extent they are not relevant to the Group, they have been excluded from the following summary:

IFRS 9, 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. When adopted, the standard is not expected to have a material effect on the Group's results.

IFRS 15, 'Revenue from contracts with customers' establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty about revenue and cash flows arising from the entity's contracts with customers. When adopted, the standard is not expected to have a material effect on the Group's results.

Notes to the financial statements continued

2. Significant accounting policies continued

2.4 Significant accounting policy judgements

IFRS requires management to exercise its judgement in the process of determining and applying the Group's accounting policies. A summary of the Group's key accounting policy judgements is given below:

- Accounting for fair value movements of interest rate swap contracts – the Group holds several interest rate swap contracts (note 24). The Group has taken the decision to record fair value movements of such instruments in the statement of comprehensive income, rather than the income statement, where the conditions necessary for this have been met.
- Disclosure of segmental information – IFRS 8 allows the aggregation of operating segments provided that certain criteria are met. The Group considers that the aggregation of operating segments into the UK and the Rest of Europe is appropriate.
- Commencement of depreciation on new build data centres – when a new build data centre is constructed in zones, then depreciation is calculated on a zone-by-zone basis and commences when a zone becomes operational.
- Presentation of adjusted results – the Group presents adjusted results in addition to the statutory results as the Directors consider it provides a useful additional measure of performance. A reconciliation between the two is given in note 3.

2.5 Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are made by management based on the best available evidence, due to events or actions, actual results ultimately may differ from those estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Property, plant and equipment depreciation – estimated remaining useful lives and residual values are reviewed annually. The carrying value of property, plant and equipment is also reviewed for impairment triggers and, where there has been a trigger event, the present value of estimated future cash flows from these assets through use against the net book value is assessed. The calculation of estimated future cash flows and residual values is based on the Directors' best estimates of future prices, output and costs and is therefore subjective.
- Intangible assets amortisation – estimated remaining useful lives are reviewed annually. The carrying values of intangible assets are also reviewed for impairment where there has been a trigger event by assessing the present value of estimated future cash flows through use compared with net book value. The calculation of estimated future cash flows and residual values is based on the Directors' best estimates of future income from customer contracts and is therefore subjective.
- Estimated impairment of goodwill – the Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 15. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 15), particularly around future cash flows, discount rate and long term growth assumptions. During the year an indicator of impairment was identified in the Turkish subsidiary. Subsequent testing identified that the carrying value of the Turkish cash generating unit exceeded its value in use resulting in goodwill being written down. The impairment charge was disclosed as an exceptional item.
- Dilapidations provisions – due to the significant investment the Group makes in its data centres along with the long property leases it has in place, when assessing dilapidation provisions it is generally expected that the Group shall continue to operate its data centres for the foreseeable future. As such, there is a low probability that any dilapidation amounts will become due. A site by site review is performed every six months and if any site specific circumstances arise that change this assessment, a dilapidations provision is accounted for.
- Onerous lease provisions – liabilities in respect of onerous leases are reviewed and updated, where necessary, to reflect current conditions and intentions. The actual cost of these may be different depending upon whether the Group is successful in terminating or assigning the lease.
- Deferred taxation – full provision is made for deferred taxation at the rates of tax prevailing at the period end dates unless different future rates have been substantively enacted. Deferred tax assets are recognised where it is considered probable by the Directors that they will be recovered and, as such, are subjective.
- Interest rate swap contracts – IAS 39 requires interest rate swap contracts to be recorded on the balance sheet at their fair value. The fair values of derivative instruments includes estimates of future interest rates and therefore is subjective.
- Share-based payments – the Group issues equity-settled share-based payments to certain employees under the terms of the long-term incentive plans. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value at the grant date is determined using either the Black Scholes or the Monte Carlo models and is expensed over the vesting period. The value of the expense is dependent upon certain key assumptions including the expected future volatility of the Group's share price at the date of grant.

2. Significant accounting policies continued

2.6 Foreign exchange

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are disclosed in the income statement.

The balance sheets of foreign subsidiaries are translated from their functional currency into Sterling at the closing rates of exchange. The results are translated at an average rate, recalculated for the year on a daily basis.

Foreign exchange differences arising from the translation of opening net investments in foreign subsidiaries at the closing rate, including long-term inter-company loans, are taken directly to reserves. In addition, foreign exchange differences arising from retranslation of the foreign subsidiaries' results from average rate to closing rate are also taken directly to the Group's cumulative translation reserve. Such translation differences are recognised in the income statement in the financial year in which the operations are disposed of.

The results and year end balance sheets of the Group's foreign currency denominated companies have been translated into Sterling using the respective average and closing exchange rates for the year in the table below:

	2014		2013	
	Average	**Closing**	Average	Closing
Bulgarian Lev	**2.427**	**2.499**	2.325	2.342
Euros	**1.241**	**1.278**	1.178	1.198
Polish Zloty	**5.193**	**5.495**	4.991	4.968
Swedish Krona	**11.293**	**12.120**	10.193	10.685
Turkish Lira	**3.602**	**3.608**	3.088	3.528

A 2% movement in the foreign exchange rates above would have impacted the profit for the year and year end net assets by £0.9m and £4.5m respectively.

2.7 Basis of consolidation

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed on a business combination are measured initially at their fair values at the acquisition date.

On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes directly attributable costs of investments.

The excess of the consideration over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded in goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.8 Revenue

Revenue represents the value of goods and services supplied to customers during the year, excluding value added tax and other sales related taxes. Where invoices are raised in advance for contracted services, the revenue is spread over the period of the service and deferred income is recognised on the balance sheet.

Colocation revenues arise from the Group's infrastructure assets and are recognised on a straight-line basis over the period of the contract.

Generally, revenue from services, including engineering support, connectivity and other IT services, is recognised when the service is provided. When services are required before related colocation services can be provided, revenue from service contracts is bundled with the related colocation revenues and the entire amount recognised over the course of the contracts as the services are provided.

Notes to the financial statements continued

3. Adjusted results

The following table provides a reconciliation between the Group's adjusted and statutory financial results:

	Year ended 31 December 2014			Year ended 31 December 2013		
	Adjusted results £'000	Adjustments £'000	Statutory total £'000	Adjusted results £'000	Adjustments £'000	Statutory total £'000
Revenue	**348,695**	**–**	**348,695**	325,550	–	325,550
Cost of sales	**(146,604)**	**–**	**(146,604)**	(138,899)	–	(138,899)
Gross profit	**202,091**	**–**	**202,091**	186,651	–	186,651
Sales and marketing costs	**(13,470)**	**–**	**(13,470)**	(11,964)	–	(11,964)
Depreciation charges	**(49,976)**	**–**	**(49,976)**	(45,761)	–	(45,761)
Amortisation charges(1)	**–**	**(5,234)**	**(5,234)**	–	(4,950)	(4,950)
Exceptional items(2)	**–**	**(18,502)**	**(18,502)**	–	(5,175)	(5,175)
Other administrative costs	**(24,895)**	**–**	**(24,895)**	(21,448)	–	(21,448)
Administrative costs	**(74,871)**	**(23,736)**	**(98,607)**	(67,209)	(10,125)	(77,334)
Operating profit	**113,750**	**(23,736)**	**90,014**	107,478	(10,125)	97,353
Finance income	**86**	**–**	**86**	106	–	106
Finance costs	**(8,960)**	**–**	**(8,960)**	(9,069)	–	(9,069)
Other financing items(3)	**–**	**(118)**	**(118)**	–	50	50
Profit before tax	**104,876**	**(23,854)**	**81,022**	98,515	(10,075)	88,440
Income tax charge(4)	**(25,212)**	**3,920**	**(21,292)**	(24,338)	1,116	(23,222)
Profit for the year	**79,664**	**(19,934)**	**59,730**	74,177	(8,959)	65,218
Adjusted diluted earnings per share	**39.2**	**(9.8)**	**29.4**	36.5	(4.4)	32.1
Supplementary non-statutory information						
EBITDA	**163,726**	**(18,502)**	**145,224**	153,239	(5,175)	148,064
Depreciation charges	**(49,976)**	**–**	**(49,976)**	(45,761)	–	(45,761)
EBITA	**113,750**	**(18,502)**	**95,248**	107,478	(5,175)	102,303
Amortisation charges	**–**	**(5,234)**	**(5,234)**	–	(4,950)	(4,950)
Operating profit	**113,750**	**(23,736)**	**90,014**	107,478	(10,125)	97,353

(1) Amortisation charges are excluded from the Group's adjusted results.
(2) Exceptional items by their very nature are not considered part of the Group's underlying business. The Group's definition of exceptional items is contained in note 7.
(3) Other financing items comprise foreign exchange movements on the Group's financing items and are not considered to be related to the underlying performance of the Group.
(4) The tax effect of the above items is also removed from the adjusted results.

4. Segmental information

Reportable segments are presented in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the segments, has been identified as the Board of Directors.

The Group is organised on a geographical basis and derives its revenue from the provision of colocation and related services in Bulgaria, Finland, France, Germany, Ireland, Italy, the Netherlands, Poland, Sweden, Turkey and the United Kingdom. These geographical locations comprise the Group's segments.

Due to similarities in services, customers, regulatory environment and economic characteristics across the countries in which the Group operates, the Group aggregates these operating segments into the UK and the Rest of Europe.

The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The internal reporting principally analyses the performance of the UK and the Rest of Europe. When further detail is required the results of individual countries are reviewed. The Board has therefore determined the reportable segments to be the UK and the Rest of Europe.

Sales between segments are made at market rates and accounted for in the same way as external transactions.

The Group's income statement split by segment is shown below. Treasury and financing is managed on a Group-wide basis, as such it is not practical to allocate costs below operating profit to an individual reporting segment.

	Year ended 31 December 2014			Year ended 31 December 2013		
	UK £'000	**Rest of Europe £'000**	**Total £'000**	UK £'000	Rest of Europe £'000	Total £'000
Revenue	**146,931**	**201,764**	**348,695**	143,901	181,649	325,550
Cost of sales	**(64,339)**	**(82,265)**	**(146,604)**	(63,710)	(75,189)	(138,899)
Gross profit	**82,592**	**119,499**	**202,091**	80,191	106,460	186,651
Depreciation charges	**(18,203)**	**(31,773)**	**(49,976)**	(17,243)	(28,518)	(45,761)
Amortisation charges	**(2,108)**	**(3,126)**	**(5,234)**	(2,107)	(2,843)	(4,950)
Operating expenses	**(13,215)**	**(25,150)**	**(38,365)**	(11,087)	(22,325)	(33,412)
Exceptional items (note 7)	**(1,088)**	**(17,414)**	**(18,502)**	(1,616)	(3,559)	(5,175)
Total operating costs	**(34,614)**	**(77,463)**	**(112,077)**	(32,053)	(57,245)	(89,298)
Operating profit	**47,978**	**42,036**	**90,014**	48,138	49,215	97,353
Finance income			**86**			106
Finance costs			**(8,960)**			(9,069)
Other financing items			**(118)**			50
Profit before tax			**81,022**			88,440
Income tax charge			**(21,292)**			(23,222)
Profit for the year			**59,730**			65,218

The above segmental results are shown after eliminating inter-segment trading of £1,972,000 (2013: £1,932,000). The Group had no customers from which greater than 10% of revenue was derived during the year.

The Group's KPIs by reportable segment are shown below. To the extent it is not practical to measure a KPI by reportable segment due to, for example, the common financing structure, the Group KPI is given.

	Year ended 31 December 2014			Year ended 31 December 2013		
	UK	**Rest of Europe**	**Total**	UK	Rest of Europe	Total
Available customer power (MW)	**36.8**	**74.9**	**111.7**	37.3	61.5	98.8
Sold power percentage (%)	**68.1**	**75.9**	**73.3**	67.1	75.0	72.0
Announced customer power (MW)	**55.9**	**108.6**	**164.5**	55.9	97.2	153.1
Revenue (£'000)	**146,931**	**201,764**	**348,695**	143,901	181,649	325,550
Adjusted EBITDA (£'000)	**69,377**	**94,349**	**163,726**	69,104	84,135	153,239
EBITA per sold kW	**2,045**	**1,205**	**1,478**	2,161	1,358	1,655
Adjusted diluted EPS (p)			**39.2**			36.5
Return on capital employed (%)			**15.2**			15.2

Notes to the financial statements continued

4. Segmental information continued

The following table shows the Group's assets and liabilities by reporting segment. Segment assets consist primarily of property, plant and equipment, intangible assets, trade and other receivables, and cash and cash equivalents. Segment liabilities principally comprise trade and other payables, deferred income and provisions for other liabilities and charges. Certain assets and liabilities, for example Group treasury cash balances and bank borrowings, are managed on a central basis and as such have not been allocated to individual segments.

	Year ended 31 December 2014			Year ended 31 December 2013		
	UK £'000	**Rest of Europe £'000**	**Total £'000**	UK £'000	Rest of Europe £'000	Total £'000
Segment assets	**354,838**	**560,348**	**915,186**	342,382	547,370	889,752
Unallocated assets			**19,498**			19,159
Total assets			**934,684**			908,911
Segment liabilities	**(110,194)**	**(56,295)**	**(166,489)**	(107,508)	(65,115)	(172,623)
Unallocated liabilities			**(340,552)**			(327,025)
Total liabilities			**(507,041)**			(499,648)
Additions to intangible assets	**–**	**637**	**637**	–	35,969	35,969
Additions to property, plant and equipment	**30,890**	**91,034**	**121,924**	30,566	85,026	115,592
Additions to non-current assets	**30,890**	**91,671**	**122,561**	30,566	120,995	151,561

5. Directors' emoluments and key management compensation

The Directors' emoluments, including retirement benefits, are disclosed on page 85 within the Directors' Remuneration Report, which forms part of the financial statements. Key management compensation, which includes that of the executive and non-executive Directors, is as follows:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Salaries and other short-term employee benefits	**1,567**	2,160
Pension payments – defined contribution plans	**85**	182
Share-based payment charges[1]	**283**	805
Termination benefits	**1,376**	–
	3,311	3,147

(1) The share-based payment charge is measured in line with the IFRS2 expense charged to the income statement during the year.

6. Employee information

The average monthly number of persons employed by the Group, including Directors with service contracts, during the year was:

	Year ended 31 December 2014	Year ended 31 December 2013
By activity		
Operations	**531**	503
Sales and marketing	**95**	86
Administration	**124**	102
	750	691

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Remuneration costs for these persons		
Wages and salaries	**38,655**	34,565
Social security costs	**5,792**	5,455
Pension payments – defined contribution plans	**1,305**	1,173
Other post-employment benefits	**32**	133
Share-based payments charges (note 28)	**3,103**	3,095
	48,887	44,421

7. Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

The exceptional items are summarised in the table below and a full explanation of the separate items is given in the 'adjusting items' section of the Financial Review.

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Transaction-related expenses	**–**	3,157
Increase in onerous leases provision	**3,113**	1,204
Business review fees	**1,838**	–
Impairment of Turkish business and associated items	**11,963**	–
Departure of Chief Executive Officer	**1,588**	–
Departure of Group Finance Director	**–**	814
	18,502	5,175

The above exceptional items resulted in a tax credit of £2,143,000 (2013: £619,000 credit), which is included within the tax charge on adjusting items.

In addition to the above operating exceptional items, in the prior year there was an exceptional tax charge of £1,663,000 relating to outstanding tax disputes.

8. Auditors' remuneration

Amounts paid and payable to the Auditors are shown below:

	2014 £'000	2013 £'000
Audit of the Company and the consolidated financial statements	**281**	259
Audit of the Company's subsidiaries(1)	**48**	44
Total audit services	**329**	303
Audit-related assurance services, including interim review	**106**	80
Total audit and assurance services	**435**	383
Tax advisory services	**98**	82
Other non-audit services	**5**	6
Total fees	**538**	471

(1) The fees in respect of audit work common to both Group reporting and subsidiary financial statements are disclosed within the Group audit fees.

In addition to the above fees, the Group incurred statutory audit fees of £27,000 in respect of secondary auditors.

For further information on the Group's policy in respect of Auditors' remuneration see pages 55 and 56 of the Report of the Audit Committee.

Notes to the financial statements continued

9. Expenses

The Group classifies its expenses by nature into the following categories. Power costs represent the total cost of power to the Group including environmental taxes. Property costs include rent payments, service charge and taxes in addition to ancillary property costs such as insurance. Staff and staff-related costs include expenses such as training and recruitment in addition to the staff remuneration costs disclosed in note 6. Other costs comprise operational maintenance costs, sales and administrative costs and cost of sales of services.

	Year ended 31 December 2014			Year ended 31 December 2013		
	Adjusted £'000	**Adjustments £'000**	**Statutory total £'000**	Adjusted £'000	Adjustments £'000	Statutory total £'000
Power costs	**50,581**	**–**	**50,581**	47,162	–	47,162
Staff and staff-related costs	**49,873**	**1,588**	**51,461**	46,435	814	47,249
Property costs	**40,886**	**3,476**	**44,362**	40,296	1,204	41,500
Other costs	**43,629**	**3,838**	**47,467**	38,418	3,157	41,575
	184,969	**8,902**	**193,871**	172,311	5,175	177,486
Depreciation charges	**49,976**	**–**	**49,976**	45,761	–	45,761
Intangible asset charges	**–**	**14,834**	**14,834**	–	4,950	4,950
	234,945	**23,736**	**258,681**	218,072	10,125	228,197

10. Finance income

Finance income arising from bank deposits is recognised in the income statement on an accruals basis.

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Bank and other interest	**86**	106

11. Finance costs

Finance costs are recognised in the income statement over the term of such instruments at a constant rate on the carrying amount. Finance costs which are directly attributable to the construction of property, plant and equipment are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditure for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. The interest rate charged on the capitalised interest was 3.5% (2013: 4.3%). Tax relief is available on capitalised interest.

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Interest payable on long-term loan	**9,195**	10,305
Interest payable on finance leases	**747**	760
Amortisation of loan arrangement costs	**1,788**	2,530
Gross cost of borrowings	**11,730**	13,595
Less interest capitalised (note 16)	**(3,691)**	(5,376)
Net cost of borrowings	**8,039**	8,219
Loan commitment fees	**713**	588
Unwinding of discounts in respect of onerous lease	**54**	72
Other	**154**	190
	8,960	9,069

12. Other financing items

Other financing items represent finance costs or income not directly related to the Group's trading activity or financing, but those that are triggered as a result of external factors – principally foreign exchange movements on financial assets and liabilities. As such, these financing items are disclosed separately in the financial statements to provide a clearer understanding of the Group's underlying financing costs.

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Net foreign exchange (losses)/gains on financing items	**(118)**	50

13. Income tax charge

The tax expense represents the sum of the tax currently payable and deferred tax. Tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method and at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Current tax		
Current tax on profit for the year	**18,653**	18,078
Adjustments in respect of prior years	**(751)**	(1,548)
Total current tax	**17,902**	16,530
Deferred tax		
Origination and reversal of temporary differences	**3,844**	7,353
Adjustment in respect of prior years	**647**	942
Impact of change in UK tax rate	**(1,101)**	(1,603)
Total deferred tax	**3,390**	6,692
Income tax charge	**21,292**	23,222

Notes to the financial statements continued

13. Income tax charge continued

The tax recorded in the income statement on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group as follows:

	Year ended 31 December 2014			Year ended 31 December 2013		
	Adjusted £'000	Adjustments £'000	Total £'000	Adjusted £'000	Adjustments £'000	Total £'000
Profit before tax	**104,876**	**(23,854)**	**81,022**	98,515	(10,075)	88,440
Multiplied by weighted average local tax rates (2014: 23.7%; 2013: 24.1%)	**24,908**	**(5,665)**	**19,243**	23,751	(2,444)	21,307
Items not taken into account for tax purposes and other timing differences	**986**	**2,268**	**3,254**	693	576	1,269
Impact of change in vesting assumptions of share-based payments	**–**	**–**	**–**	1,192	–	1,192
Outstanding tax dispute	**–**	**–**	**–**	–	1,663	1,663
Adjustment in respect of prior years	**(104)**	**–**	**(104)**	(606)	–	(606)
Impact of change in tax rates	**(578)**	**(523)**	**(1,101)**	(692)	(911)	(1,603)
	25,212	**(3,920)**	**21,292**	24,338	(1,116)	23,222

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the Group's UK profits for 2014 were taxed at an effective rate of 21.5%. Furthermore as a result of the change in the UK corporation tax rate from 21% to 20% that was substantively enacted on 2 July 2013 and that will be effective from 1 April 2015, the relevant deferred tax balances at 31 December 2014 have been remeasured at 20%.

In addition to the amounts that have been charged to the income statement, the following amounts of tax have been credited/(charged) directly to equity:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Current tax		
Share-based payment schemes	**24**	924
Deferred tax		
Share-based payment schemes	**–**	(810)
Tax effect of interest rate cash flow hedges	**378**	(651)
	402	(537)

The deferred tax credit/(charge) in respect of the share-based payment schemes relates to the expected future tax deduction the Group will receive when employees exercise options in excess of the IFRS 2 share-based payment charge at the standard corporation tax rate.

13. Income tax charge continued

Deferred tax

At the year end the Group recognised a net deferred tax liability of £28,838,000 (2013: £26,509,000) mainly in respect of accelerated tax depreciation and intangible customer contract assets, partially offset by tax losses.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

Group	31 December 2014 £'000	31 December 2013 £'000
Deferred tax assets:		
– deferred tax assets to be recovered after more than 12 months	**223**	613
– deferred tax assets to be recovered within 12 months	**1,054**	2,272
	1,277	2,885
Deferred tax liabilities:		
– deferred tax liabilities to be recovered after more than 12 months	**(30,115)**	(29,394)
	(30,115)	(29,394)
Deferred tax liabilities (net)	**(28,838)**	(26,509)

The analysis of deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses £'000	Accelerated tax depreciation £'000	Intangible customer contract valuation £'000	Onerous lease liability £'000	Other £'000	Total £'000
At 1 January 2013	**8,391**	**(19,185)**	**(10,479)**	**1,780**	**3,478**	**(16,015)**
(Charged)/credited to income statement	(1,623)	(5,533)	1,930	(99)	(1,367)	(6,692)
Credited to other comprehensive income	–	–	–	–	(651)	(651)
Credited directly to equity	–	–	–	–	(810)	(810)
Acquisition of subsidiaries (note 18)	–	(103)	(2,905)	–	–	(3,008)
Foreign exchange movements	170	(70)	474	42	51	667
At 31 December 2013	**6,938**	**(24,891)**	**(10,980)**	**1,723**	**701**	**(26,509)**
(Charged)/credited to income statement	(1,922)	(3,027)	1,565	488	(522)	(3,418)
Charged to other comprehensive income	–	–	–	–	378	378
Foreign exchange movements	(212)	542	418	(46)	9	711
At 31 December 2014	**4,804**	**(27,376)**	**(8,997)**	**2,165**	**566**	**(28,838)**

Deferred income tax assets are recognised for tax losses to the extent that the realisation of the related tax benefit through future taxable profits is probable. In addition to the amounts recognised above, the Group has unrecognised deferred tax assets relating to tax losses of approximately £13,690,000 (2013: £14,604,000) which relate to the Group's subsidiary companies.

Notes to the financial statements continued

14. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Benefit Trust.

Adjusted earnings per share is calculated on the same basis but uses the adjusted profit attributable to owners of the parent.

The adjusted earnings per share is presented as the Directors consider it provides an additional indication of the underlying performance of the Group. Adjusted earnings is calculated as shown in note 3.

	Year ended 31 December 2014 Unadjusted basic	Year ended 31 December 2013 Unadjusted basic	**Year ended 31 December 2014 Adjusted basic**	Year ended 31 December 2013 Adjusted basic
Profit attributable to owners of the parent (£'000)	**59,730**	65,218	**79,664**	74,177
Weighted average number of shares in issue ('000)	**202,698**	202,249	**202,698**	202,249
Earnings per share (p)	**29.5**	32.2	**39.3**	36.7

Diluted earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year, adjusted for the weighted average effect of share options outstanding during the year. Details of the Group's share option schemes are set out in note 28.

Adjusted diluted earnings per share is calculated on the same basis but uses adjusted profit (note 3) attributable to equity shareholders of the Company.

	Year ended 31 December 2014 Unadjusted diluted	Year ended 31 December 2013 Unadjusted diluted	**Year ended 31 December 2014 Adjusted diluted**	Year ended 31 December 2013 Adjusted diluted
Profit attributable to owners of the parent (£'000)	**59,730**	65,218	**79,664**	74,177
Weighted average diluted number of shares in issue ('000)	**203,438**	203,052	**203,438**	203,052
Diluted earnings per share (p)	**29.4**	32.1	**39.2**	36.5

The following table shows the reconciliation between the basic and diluted weighted average number of shares:

	Year ended 31 December 2014 '000	Year ended 31 December 2013 '000
Weighted average basic number of shares in issue	**202,698**	202,249
Effect of share options	**110**	226
Effect of performance shares	**630**	577
Weighted average diluted number of shares in issue	**203,438**	203,052

15. Intangible assets

The Group's intangible assets comprise goodwill and customer contracts and are treated as assets of the entity to which they relate and are translated at the relevant closing foreign exchange rate.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, including intangible assets, of the acquired subsidiary at the date of acquisition. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Intangible assets, other than goodwill, represent customer contracts acquired during business combinations. The customer contracts are initially recognised at fair value and amortised over estimated useful economic lives of between five and 20 years, with current remaining lives of between two and 19 years (2013: three and 20 years). The fair value is calculated by estimating the future cash flows expected to arise from the intangible asset and applying a suitable discount rate.

Group	Goodwill arising on consolidation £'000	Customer contracts £'000	Total £'000
Cost			
At 1 January 2013	105,468	57,907	163,375
Acquired through business combinations	23,384	12,585	35,969
Foreign exchange movements	(2,042)	(935)	(2,977)
At 31 December 2013	**126,810**	**69,557**	**196,367**
Acquired through business combinations (note 18)	–	–	–
Additions	–	637	637
Foreign exchange movements	(4,994)	(2,555)	(7,549)
At 31 December 2014	**121,816**	**67,639**	**189,455**
Accumulated amortisation and impairment			
At 1 January 2013	–	12,346	12,346
Amortisation charge for the year	–	4,950	4,950
Foreign exchange movements	–	(27)	(27)
At 31 December 2013	**–**	**17,269**	**17,269**
Amortisation charge for the year	–	5,234	5,234
Impairment charge for the year	9,600	–	9,600
Foreign exchange movements	–	(467)	(467)
At 31 December 2014	**9,600**	**22,036**	**31,636**
Net book value			
At 31 December 2014	**112,216**	**45,603**	**157,819**
At 31 December 2013	126,810	52,288	179,098
At 1 January 2013	105,468	45,561	151,029

Notes to the financial statements continued

15. Intangible assets continued

Impairment testing

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units ('CGU') that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each country in which it has operations.

Goodwill is tested for impairment annually. The main assumptions used when performing the impairment test are set out below. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires an estimation of future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value.

These calculations use cash flow projections based on financial budgets for 2015 and forecasts for 2016 and 2017 approved by the Board. Cash flows beyond 2017 are extrapolated using estimated growth rates of 2.5% (2013: 2.5%) for all CGUs apart from Turkey which is discussed separately below. The growth rate does not exceed the long-term average growth rate for the operating segment in which the CGU operates. The pre-tax discount rate used was 10.5% (2013: 10.2%) for all CGUs apart from Turkey, as described below. The discount rates used are adjusted for estimated tax cash flows and reflect specific risks relating to the relevant segments.

For all CGUs apart from Turkey, goodwill impairment testing demonstrated that value in use comfortably exceeded the carrying value of the assets tested and that no reasonably possible change to the assumptions used would result in an indication of impairment.

The above methodology when applied to the Turkish CGU indicated impairment and therefore a more detailed calculation was performed. Due to the integration of the Turkish business taking longer than initially anticipated, the future cash flows have been revised accordingly. The value in use of the Turkish CGU was calculated by applying a pre-tax discount rate of 16.3% to these cash flows. The elevated discount rate reflects the heightened probability of future cash flows differing from the current forecast. A growth rate of 4.1% was applied to the cash flows beyond 2017, reflecting the long term macro-economic expectations in Turkey.

When the tailored assumptions were applied to the Turkish CGU, the carrying value was found to exceed the value in use by £9.6m, resulting in an impairment charge of this amount which has been reported as an exceptional item, and relates to the RoE segment.

Following the impairment, goodwill of £3.0m remains allocated to the Turkish CGU. An increase of 100bps to the discount rate would result in an increase of £1.1m to the impairment charge, and an increase of 100bps to the growth rate would result in a reduction of £1.7m to the charge.

A segment-level summary of goodwill allocation is presented below:

	Year ended 31 December 2014			Year ended 31 December 2013		
	UK £'000	**Rest of Europe £'000**	**Total £'000**	UK £'000	Rest of Europe £'000	Total £'000
Goodwill	**42,454**	**69,762**	**112,216**	42,454	84,356	126,810

The Group assesses at each reporting date whether its customer contracts intangible assets may be impaired. If any such indicator exists, the Group tests for impairment by estimating the recoverable amount. If the recoverable amount is less than the carrying value of an asset an impairment loss is recognised.

16. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. The cost of property, plant and equipment comprises their purchase cost, together with the costs of installation and directly attributable external and internal costs, such as staff and property rentals, incurred during the construction or commissioning phase. Additions to property, plant and equipment also include capitalised finance costs. When property, plant and equipment is acquired as part of a business combination, the cost of such assets is deemed to be their fair value at the date of acquisition.

The principal periods over which assets are depreciated are:

Freehold land and buildings	Freehold land is not depreciated, freehold property is depreciated over 50 years
Leasehold improvements	7–30 years straight-line
Plant and machinery	5–20 years straight-line
Office equipment	3–5 years straight-line

Depreciation of the above assets is calculated from the date an asset becomes available for use, so as to write off the difference between the cost and the residual value over its expected useful economic life. The expected period of the property leases in which an asset is located is taken into account when determining the useful economic life of the asset.

Assets in the course of construction are not depreciated until they are operational. At this time such assets are transferred into the appropriate asset class and depreciated over the expected useful economic lives referred to above. The assets' residual values and useful lives are reviewed on an annual basis and, if appropriate, adjusted on a prospective basis.

16. Property, plant and equipment continued

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Group	Assets in the course of construction £'000	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Office equipment £'000	Total £'000
Cost						
At 1 January 2013	**129,156**	**8,545**	**271,560**	**405,622**	**8,582**	**823,465**
Exchange differences	414	171	1,664	2,306	66	4,621
Acquisitions	37	1,212	381	4,179	150	5,959
Additions	65,711	–	7,743	35,227	952	109,633
Transfers	(63,935)	–	37,128	26,756	51	–
Disposals	–	–	(79)	(217)	(73)	(369)
At 31 December 2013	**131,383**	**9,928**	**318,397**	**473,873**	**9,728**	**943,309**
Exchange differences	(4,765)	(632)	(21,539)	(15,587)	(391)	(42,914)
Additions	66,581	–	10,173	43,706	1,464	121,924
Transfers	(59,460)	–	25,364	33,962	134	–
Disposals	(66)	–	(4,018)	(17,341)	(794)	(22,219)
At 31 December 2014	**133,673**	**9,296**	**328,377**	**518,613**	**10,141**	**1,000,100**
Accumulated depreciation						
At 1 January 2013	**–**	**28**	**83,968**	**144,050**	**6,331**	**234,377**
Exchange differences	–	3	591	919	63	1,576
Charge for year	–	55	16,437	28,533	736	45,761
Disposals	–	–	(40)	(221)	(61)	(322)
At 31 December 2013	**–**	**86**	**100,956**	**173,281**	**7,069**	**281,392**
Exchange differences	–	(22)	(5,871)	(7,087)	(298)	(13,278)
Charge for year	–	59	15,259	33,778	880	49,976
Disposals	–	–	(4,013)	(17,141)	(791)	(21,945)
At 31 December 2014	**–**	**123**	**106,331**	**182,831**	**6,860**	**296,145**
Net book value						
At 31 December 2014	**133,673**	**9,173**	**222,046**	**335,782**	**3,281**	**703,955**
At 31 December 2013	131,383	9,842	217,441	300,592	2,659	661,917
At 1 January 2013	129,156	8,517	187,592	261,572	2,251	589,088

The net book value of assets held under finance leases at 31 December 2014 is £25,786,000 (2013: £24,599,000). Such assets are categorised as plant and machinery in the above table.

Included within additions to assets in the course of construction for the year are capitalised finance and other costs (principally rent and rates incurred during the construction or commissioning phase) in respect of the Group's new data centres, totalling £3,691,000 and £3,622,000 respectively (2013: £5,376,000 and £3,892,000). The interest rate charged on the capitalised interest is disclosed in note 11.

Freehold land and buildings with a carrying amount of £4,669,000 (2013: £3,598,000) have been pledged to secure borrowings for the Group. The Group is not allowed to pledge these assets as security for other borrowings or sell them to another entity.

The Company does not hold any property, plant and equipment.

Notes to the financial statements continued

17. Investments

Investments in subsidiary undertakings are stated at cost plus the value of share options and performance shares granted to employees of these subsidiaries.

Company	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
At 1 January	**187,786**	184,691
Additions	**3,103**	3,095
At 31 December	**190,889**	187,786

The principal subsidiary undertakings of the Company, the results of which are included in the consolidated financial statements, and their principal activities are set out below:

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of shares held %	Principal activity
Data Electronics Group Limited	Ireland	Ordinary	100	Intermediate holding company
TeleCity UK Limited	Great Britain ('GB')	Ordinary	100	Intermediate holding company
TelecityGroup Holdings Limited	GB	Ordinary	100	Intermediate holding company
TelecityGroup Investments Limited	GB	'A' and 'B' ordinary	100	Intermediate holding company
TelecityGroup International Limited	GB	Ordinary	100	Intermediate holding company
TelecityGroup Bulgaria EAD	Bulgaria	Ordinary	100	Internet infrastructure
TelecityGroup Finland Oy	Finland	Ordinary	100	Internet infrastructure
Data Electronics Services Limited	Ireland	Ordinary	100	Internet infrastructure
TelecityGroup Poland Sp. z o.o.	Poland	Ordinary	100	Internet infrastructure
Hosting İnternet Hizmetleri Sanayi ve Ticaret Anonim Şirketi	Turkey	Ordinary	100	Internet infrastructure
TelecityGroup France S.A.	France	Ordinary	100	Internet infrastructure
TelecityGroup Germany GmbH	Germany	Ordinary	100	Internet infrastructure
TelecityGroup Ireland Limited	Ireland	Ordinary	100	Internet infrastructure
TelecityGroup Italia S.p.A.	Italy	Ordinary	100	Internet infrastructure
TelecityGroup Italia S.r.l.	Italy	Ordinary	100	Internet infrastructure
TelecityGroup Netherlands B.V.	The Netherlands	Ordinary	100	Internet infrastructure
TelecityGroup Scandinavia A.B.	Sweden	Ordinary	100	Internet infrastructure
TelecityGroup UK Limited	GB	Ordinary	100	Internet infrastructure
TelecityGroup Europe (1) Cooperatief W.A.	The Netherlands	Ordinary	100	Financing company
TelecityGroup Europe (2) B.V.	The Netherlands	Ordinary	100	Financing company

Other than TelecityGroup Investments Limited, which is owned directly by Telecity Group plc, these companies are owned by intermediate holding companies. The Group also contains a number of non-trading subsidiaries, a full list of which is contained in the financial statements of TelecityGroup Investments Limited.

18. Business combinations

On 10 September 2013, the Group acquired 100% of the share capital of 3DC EAD ('3DC') and on 2 December 2013, the Group acquired 100% of the share capital of PLIX Sp. z o.o. ('PLIX'). Both of these acquisitions were disclosed on a provisional basis at 31 December 2013 because the Group had not completed its detailed appraisal of the acquired assets and liabilities at the date of those financial statements. The appraisals for both of these acquisitions were completed in the first half of 2014, resulting in an increase of £0.1m to the fair value of net assets acquired. There have been no business combinations in the year to 31 December 2014.

19. Trade and other receivables

Trade and other receivables are recognised at historical cost less any impairment, which approximates to fair value.

	Group		Company	
	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000	**Year ended 31 December 2014 £'000**	Year ended 31 December 2013 £'000
Current				
Trade receivables – gross	**26,137**	26,502	**–**	–
Bad debt provision (note 37)	**(1,100)**	(1,027)	**–**	–
Trade receivables – net	**25,037**	25,475	**–**	–
Other receivables	**5,787**	1,453	**–**	–
Prepayments	**11,012**	12,294	**–**	–
Accrued income	**1,792**	1,382	**–**	–
	43,628	40,604	**–**	–
Non-current				
Rental deposits	**699**	1,085	**–**	–
Other receivables	**78**	78	**–**	–
	777	1,163	**–**	–

The credit quality of trade receivables is included in note 37.

The carrying amount of the Group's trade and other receivables is denominated in the following currencies:

	31 December 2014 £'000	31 December 2013 £'000
Sterling	**14,812**	13,345
Euro	**22,158**	23,470
Swedish Krona	**4,026**	3,384
Other	**3,409**	1,568
	44,405	41,767

20. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly-liquid investments with original maturities of three months or less.

The carrying amount of the Group's cash and cash equivalents is denominated in the following currencies:

Cash	**31 December 2014 £'000**	31 December 2013 £'000
Sterling	**13,790**	6,457
Euro	**8,739**	12,059
Swedish Krona	**3,380**	3,953
Other	**1,319**	775
	27,228	23,244

The Directors consider the carrying values of the cash balances to approximate to their fair value due to their short maturity period and the interest rate that they bear. The Directors consider the banks with which the Group holds deposits to be of sound credit quality.

Notes to the financial statements continued

21. Trade and other payables

Trade and other payables are measured at historical cost, which approximates to their fair values due to their short maturity period.

	Group		Company	
Group	**31 December 2014 £'000**	31 December 2013 £'000	**31 December 2014 £'000**	31 December 2013 £'000
Trade payables	**8,840**	8,592	**–**	–
Capital expenditure payables	**5,500**	14,199	**–**	–
Amounts due to fellow Group companies	**–**	–	**24,771**	14,173
Other payables	**3,603**	4,782	**–**	–
Taxation and social security	**2,843**	4,864	**–**	–
Accruals	**30,112**	29,053	**–**	–
	50,898	61,490	**24,771**	14,173

The carrying amount of the Group's trade and other payables is denominated in the following currencies:

	31 December 2014 £'000	31 December 2013 £'000
Sterling	**27,595**	28,801
Euro	**19,562**	26,829
Swedish Krona	**2,496**	4,972
Other	**1,245**	888
	50,898	61,490

22. Deferred income

Deferred income is initially recorded at the value of cash received and then amortised over the period to which the payment relates.

	31 December 2014 £'000	31 December 2013 £'000
Current		
Deferred revenue	**42,939**	44,873
Deferred lease incentive	**500**	500
	43,439	45,373
Non-current		
Deferred revenue	**6,437**	5,379
Deferred lease incentive	**12,833**	13,333
	19,270	18,712
Total deferred income	**62,709**	64,085

The deferred lease incentive relates to a cash amount that was received from the landlord on signing of a lease and is being recognised in the income statement over the period of the lease.

The carrying amount of the Group's deferred income is denominated in the following currencies:

	31 December 2014 £'000	31 December 2013 £'000
Sterling	**36,847**	39,110
Euro	**22,706**	21,595
Swedish Krona	**2,969**	3,172
Other	**187**	208
	62,709	64,085

23. Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Leasing agreements that transfer to the Group substantially all the benefits and risks of ownership of an asset are classified as a finance lease and treated as if the asset had been purchased outright. The assets are included in property, plant and equipment 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 to the income statement in proportion to the reducing capital element outstanding.

	31 December 2014 £'000	31 December 2013 £'000
Current		
Obligations under finance leases	**5,027**	4,637
Non-current		
Bank borrowings	**325,743**	307,089
Obligations under finance leases	**13,284**	15,769
	339,027	322,858
Total borrowings	**344,054**	327,495

Bank borrowings relate to the Group's senior debt facility and comprise a term loan of £100,000,000 (2013: £100,000,000) and amounts drawn under the revolving credit facility. The bank borrowings attract interest at LIBOR, or equivalent based on the currency of the borrowing (herein referred to as LIBOR), plus a margin. The margin is variable and calculated with reference to the ratio of the Group's last twelve months' EBITDA to net debt. The margin is recalculated based on interest periods set by the Group, typically between one and three months. The borrowings are secured by a debenture over all the assets of the Company, including shares in, and assets of, certain subsidiary undertakings. The Directors consider the carrying value of the borrowings to approximate to their fair values as they attract a market rate of interest.

The Group has three principal banking covenants under its senior debt facility which are outlined below:

- Total leverage: the Group's net debt to EBITDA ratio is covenanted to not breach certain levels.
- Fixed charge cover: the Group's interest and rent expenses ('fixed charge') must be covered by a multiple of pre-rent and interest earnings.
- Total cash cover: the Group's interest cost must be covered by a multiple of cash flows, excluding certain permitted capital expenditure.

At the year end, the Group is in full compliance with these covenants and expects to remain so for the foreseeable future.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

The maturity profile of borrowings is set out below:

	31 December 2014 £'000	31 December 2013 £'000
Within one year	**5,650**	5,223
In one to two years	**9,443**	5,207
In two to three years	**21,439**	8,983
In three to four years	**310,358**	20,974
In four to five years	**473**	292,900
After five years	**433**	–
Gross borrowings	**347,796**	333,287
Less future interest and unamortised debt issue costs	**(3,742)**	(5,792)
Net borrowings	**344,054**	327,495

Amounts drawn under the revolving credit facility are included in the above analysis with reference to the term for which the Group can continue to roll such amounts.

Notes to the financial statements continued

23. Borrowings continued

The carrying amount of the Group's borrowings is denominated in the following currencies:

	31 December 2014 £'000	31 December 2013 £'000
Sterling	**168,658**	152,672
Euro	**128,513**	130,621
Swedish Krona	**42,657**	44,080
Other	**4,226**	122
	344,054	327,495

The Group uses interest rate swaps to fix the LIBOR rate it pays on its borrowings. The split of borrowings between fixed and variable is shown below:

	31 December 2014 £'000	31 December 2013 £'000
Fixed rate borrowings	**279,990**	294,042
Variable rate borrowings	**67,806**	39,245
	347,796	333,287
Percentage of borrowings at fixed rate (%)	**80.5**	88.2

The Group has undrawn committed loan facilities at the year end as shown below:

	31 December 2014 £'000	31 December 2013 £'000
Senior debt facility	**400,000**	400,000
Senior debt facility drawn	**(328,167)**	(311,298)
Rental guarantees issued under senior debt facility	**(2,444)**	(2,617)
Undrawn committed loan facility	**69,389**	86,085

A commitment fee is payable on the undrawn committed facilities at a rate of 45% (2013: 45%) of the applicable margin.

24. Derivative financial instruments

Interest rate derivatives are recognised initially at fair value and subsequent to initial recognition are revalued at each reporting date. The fair value is based on the market values of equivalent instruments at the relevant date. Amounts payable and receivable on interest rate derivatives are recognised in the period to which they relate. Where the instrument meets the definition for hedge accounting, movements in fair value of the interest rate swap are taken to reserves. In all other cases movements are charged or credited to the income statement.

In order to manage the Group's exposure to movements in LIBOR, or equivalent based on the currency of the borrowing (herein referred to as LIBOR), the Group uses interest rate swaps. Under these arrangements the Group pays interest at a fixed rate and receives interest at LIBOR. The amounts of interest paid and received are calculated on the nominal value of the interest rate swap.

After taking account of the effect of the interest rate swaps, the average interest rate in respect of drawn borrowings was 3.0% (2013: 3.5%).

24. Derivative financial instruments continued

At the year end the Group had the following contracts outstanding:

At 31 December 2014

Nominal value '000	Currency	Maturity date	Fixed rate
92,000	Sterling	13 February 2015	1.355%
24,000	Sterling	13 May 2016	0.745%
50, 000(1)	Sterling	13 February 2018	1.380%
44,000	Euro	13 February 2015	1.225%
60,000	Euro	13 May 2016	0.634%
40, 000	Euro	5 October 2017	1.145%
400,000	Swedish Krona	28 February 2015	2.180%
200, 000(2)	Swedish Krona	28 February 2018	2.420%

(1) This instrument has a start date of 13 February 2015.
(2) This instrument has a start date of 27 February 2015.

At 31 December 2013

Nominal value '000	Currency	Maturity date	Fixed rate
92,000	Sterling	13 February 2015	1.355%
24,000	Sterling	13 May 2016	0.745%
50, 000(1)	Sterling	13 February 2018	1.380%
40,000	Euro	5 October 2014	1.505%
44,000	Euro	13 February 2015	1.225%
60,000	Euro	13 May 2016	0.634%
40, 000(2)	Euro	5 October 2017	1.145%
400,000	Swedish Krona	28 February 2015	2.180%
200, 000(3)	Swedish Krona	28 February 2018	2.420%

(1) This instrument has a start date of 13 February 2015.
(2) This instrument has a start date of 6 October 2014.
(3) This instrument has a start date of 27 February 2015.

The fair value of interest rate swaps is shown below:

	31 December 2014 £'000	31 December 2013 £'000
Current	**(1,419)**	(1,122)
Non-current	**(1,647)**	–
	(3,066)	(1,122)

The non-current element of interest rate swaps and the related cash flows are expected to occur in approximately equal annual instalments over the remaining life of the instruments.

A reconciliation of the movement in the fair value of the Group's financial derivatives is shown below:

	31 December 2014 £'000	31 December 2013 £'000
Opening fair value	**(1,122)**	(3,858)
(Charged)/credited to reserves	**(1,944)**	2,736
Closing fair value	**(3,066)**	(1,122)

The interest rate swaps were entirely effective during the year and therefore £nil (2013: £nil) was recorded in the income statement.

Notes to the financial statements continued

25. Provisions for other liabilities and charges

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

After initial measurement, any subsequent adjustments to dilapidations provisions are normally recorded against the original amount included in leasehold improvements with a corresponding adjustment to future depreciation charges.

	Dilapidations £'000	Onerous leases £'000	Total £'000
At 1 January 2013	1,557	5,579	7,136
Exchange differences	–	134	134
Increase	–	1,204	1,204
Unwinding of discount	–	72	72
Utilised	–	(1,088)	(1,088)
At 1 January 2014	1,557	5,901	7,458
Exchange differences	–	(264)	(264)
Increase	–	3,461	3,461
Released unused	(333)	(348)	(681)
Unwinding of discount	–	54	54
Utilised	(1,224)	(1,978)	(3,202)
At 31 December 2014	**–**	**6,826**	**6,826**

The provision for onerous leases relates to the estimated discounted future costs of a property lease with a remaining term of seven years. The dilapidations provision related to the estimated costs of returning one of the Group's properties to its original condition at the expiry of the lease, during 2014. The Directors consider the carrying values of the provisions to approximate to their fair values as they have been discounted at the risk free rate.

The maturity profile of provisions is set out below:

	31 December 2014 £'000	31 December 2013 £'000
Provisions – current	**879**	3,699
Provisions – non-current	**5,947**	3,759
	6,826	7,458

26. Share capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Shares held in the Employee Benefit Trust ('EBT') over which the Group has direct or indirect control are deducted from the reserves of the Group.

Ordinary shares of £0.002 each	Number '000	Value £'000
Allotted		
At 1 January 2013	201,430	403
Shares issued under share option schemes	1,217	2
At 31 December 2013	202,647	405
Shares issued under share option schemes	225	1
At 31 December 2014	**202,872**	**406**

Each share carries one vote at general meetings.

During the year, 154,000 new shares were issued under the Group's share option schemes for total consideration of £561,000 and 71,000 new shares were issued to the EBT for total consideration of £142. In addition the EBT purchased from the open market 17,000 shares for a consideration of £113,000. These shares were purchased for the settlement of deferred bonus share awards.

In addition to the issue of new shares during the year, 200,000 shares were issued from the EBT under the Group's share options schemes for total consideration of £18,000.

All shares are fully paid with the exception of those held by the EBT. At the year end the EBT owed an amount of £53,000 (2013: £419,000) in respect of such shares.

27. Dividends

	31 December 2014 £'000	31 December 2013 £'000
2012 final dividend paid – 5 pence per share	–	10,080
2013 interim dividend paid – 3.5 pence per share	–	7,088
2013 final dividend paid – 7.0 pence per share	**14,178**	–
2014 interim dividend paid – 4.5 pence per share	**9,124**	–
Total dividends	**23,302**	17,168

A final dividend in respect of the year ended 31 December 2014 of 9.0 pence per ordinary share is to be proposed at the AGM. These financial statements do not reflect this final dividend.

28. Share plans

Under the Group's long-term incentive plans, performance shares and share options are granted to senior management. In addition, the Group operates a sharesave scheme which is available to all staff. The details of the share option schemes are contained in the Directors' Remuneration Report on page 76. The release of these shares is conditional upon continued employment, certain market vesting conditions and, in the case of enhanced awards, three-year target EPS compound annual growth rates. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined, using the Black Scholes or Monte Carlo models, at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will ultimately vest.

Non-market vesting conditions, which for the Group mainly relate to the continual employment of the employee during the vesting period, and in the case of the enhanced awards the achievement of EPS growth targets, are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Any market vesting conditions are factored into the fair value of the options granted.

To the extent that share options are granted to employees of the Group's subsidiaries without charge, the share option charge is capitalised as part of the cost of investment in subsidiaries.

The following share options and performance shares, including those in respect of the sharesave scheme, were outstanding at the year end:

			At 31 December 2014			At 31 December 2013		
	Exercise price £	Expiry date	**Vested ('000)**	**Not vested ('000)**	**Total outstanding ('000)**	Vested ('000)	Not vested ('000)	Total outstanding ('000)
October 2007 share option plan	2.2	Oct-17	**16**	–	**16**	24	–	24
2008 share option plan	2.12	Mar-18	**56**	–	**56**	66	–	66
2009 performance share plan	N/A	Feb-19	**66**	–	**66**	90	–	90
2010 performance share plan	N/A	Mar-20	**54**	–	**54**	88	–	88
2011 performance share plan	N/A	Feb-21	–	–	–	–	789	789
2011 sharesave scheme	3.74	Oct-15	**45**	–	**45**	–	188	188
2012 performance share plan	N/A	Feb-22	–	**671**	**671**	–	709	709
2012 enhanced performance share plan	N/A	Apr-22	–	**487**	**487**	–	503	503
2012 Directors' bonus shares	N/A	Feb-14	–	–	–	–	56	56
2012 sharesave scheme	7.09	Apr-16	–	**144**	**144**	–	145	145
2013 long term incentive plan	N/A	Feb-23	–	**638**	**638**	–	702	702
2013 Directors' bonus shares	N/A	Feb-15	–	–	–	–	43	43
2013 sharesave scheme	6.94	Apr-17	–	**123**	**123**	–	123	123
2014 long term incentive plan	N/A	Feb-24	–	**1,086**	**1,086**	–	–	–
2014 sharesave scheme	5.93	Mar-18	–	**378**	**378**	–	–	–
Total			**237**	**3,527**	**3,764**	268	3,258	3,526

Details of the Directors' bonus shares are contained in the Directors' Remuneration Report on page 74.

The weighted average exercise price of vested share options and performance shares was £1.36 (2013: £0.79).

Notes to the financial statements continued

28. Share plans continued

The movement in share options during the year is shown below:

	2014		2013	
	Weighted average exercise price per share £	**Number of share options '000**	Weighted average exercise price per share £	Number of share options '000
At 1 January	**5.08**	**545**	3.57	694
Granted	**5.93**	**378**	6.94	123
Forfeited	**–**	**–**	–	–
Exercised	**3.58**	**(162)**	2.05	(272)
At 31 December	**5.82**	**761**	5.08	545

In addition to the above options, the movement in nil-cost performance shares from the Performance Share Plan, including Directors' bonus shares, was as follows:

	2014 Number of performance shares '000	2013 Number of performance shares '000
At 1 January	**2,981**	3,515
Granted	**1,264**	795
Forfeited	**(1,063)**	(250)
Exercised	**(179)**	(1,079)
At 31 December	**3,003**	2,981

The average share price during the year was £7.33 (2013: £8.58).

Performance shares granted during the current and previous year were valued using the Monte Carlo option-pricing model. The grants under the sharesave scheme during the year were valued using the Black Scholes option-pricing model. The fair value per option granted and the assumptions used in these calculations are as follows:

Grant date	**November 2014 Sharesave**	**February 2014 Performance shares**	November 2013 Sharesave	February 2013 Performance shares
Share price (£)	**7.40**	**6.53**	8.54	8.89
Exercise price (£)	**5.93**	**nil**	6.94	nil
Expected volatility (%)	**27.2**	**31.5**	27.8	28.5
Expected life (years)	**3**	**3**	3.0	3.0
Risk free rate (%)	**0.97**	**1.05**	0.97	0.41
Expected dividend yield (%)	**1.6**	**1.8**	1.0	1.0
Fair value per option (£)	**1.69**	**2.78**	2.02	4.22

Market condition features were incorporated into the Monte Carlo models for the total shareholder return elements of the long-term incentive plan in determining the fair value at grant date. Assumptions used in these models were as follows:

	February 2014 %	February 2013 %
Average share price volatility FTSE 250 comparator group	**31**	33
Average correlation FTSE 250 comparator group	**32**	33

The expected Telecity Group plc share price volatility was determined taking into account daily share price movements over a three-year period.

The risk free return has been determined from market yield curves of government gilts with outstanding expected terms for each relevant grant.

The charge arising from share-based payments is disclosed in note 6.

29. Reserves

The Group and the Company Statements of Changes in Equity are disclosed as primary statements on pages 98-99. Below is a description of the nature and purpose of the individual reserves:

- share capital represents the nominal value of shares issued, including those issued to the EBT (note 26);
- share premium account includes the amounts paid over nominal value in respect of share issues, net of related costs;
- retained profits include the accumulated realised and certain unrealised gains and losses made by the Company and the Group;
- own shares held by the Group represent 21,000 (2013: 132,000) shares in Telecity Group plc. All shares are held by the EBT. These shares are listed on a recognised stock exchange and their market value and nominal value at 31 December 2014 was £164,000 (2013: £960,000) and £41 (2013: £265) respectively. The EBT is a discretionary trust for the benefit of employees and the shares held are used to satisfy some of the Group's obligations to employees for share options and other long-term incentive plans;
- currency translation differences on foreign currency net investments arise from the re-translation of the net investments in overseas subsidiaries, including long-term inter-company loans that are considered part of the Group's investment in its subsidiaries; and
- the Company's other reserve represents the cumulative share-based payment charged to reserves.

30. Cash inflow from operations

The reconciliation of profit on ordinary activities before taxation to net cash inflow from operating activities is as follows:

	31 December 2014 £'000	31 December 2013 £'000
Profit on ordinary activities before taxation	**81,022**	88,440
Add finance costs	**8,960**	9,069
Less finance income	**(86)**	(106)
Add/(less) other financing items	**118**	(50)
Add intangible asset amortisation	**5,234**	4,950
Add exceptional items	**18,502**	5,175
Adjusted operating profit (note 3)	**113,750**	107,478
Depreciation charge	**49,976**	45,761
Loss/(profit) on disposal of property, plant and equipment	**200**	(28)
Share-based payment charges	**3,103**	3,095
Movement in trade and other receivables	**(2,911)**	(8,068)
Movement in trade and other payables	**(5,956)**	(5,995)
Movement in deferred income	**993**	6,721
Movement in provisions	**(3,695)**	(999)
Exchange movement	**(6,472)**	(2,061)
Net cash inflow from operating activities	**148,988**	145,904

Notes to the financial statements continued

31. Financial commitments

The Group's future undiscounted minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	31 December 2014 £'000	31 December 2013 £'000	**31 December 2014 £'000**	31 December 2013 £'000
Falling due:				
– within one year	**31,970**	32,448	**415**	172
– between two and five years	**124,049**	115,553	**376**	247
– in more than five years	**425,669**	434,284	**–**	–
	581,688	582,285	**791**	419

The table above represents minimum lease payments, however some operating leases are subject to inflationary increases. 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 to the first break clause, if sooner. During the construction phase of a data centre, operating lease costs are capitalised as part of the cost of the asset.

	31 December 2014 £'000	31 December 2013 £'000
Operating lease payments incurred during the year:		
– property	**37,124**	34,290
– plant and machinery	**502**	72
– other	**422**	420
	38,048	34,782

32. Capital commitments

Capital expenditure in respect of property, plant and equipment that had been contracted for but not provided for in the financial statements at 31 December 2014 amounted to £30,918,000 (2013: £22,680,000).

33. Contingent liabilities

Financial guarantees granted by the Group's banks, primarily in respect of operating leases, amount to £2,444,000 at 31 December 2014 (2013: £2,617,000).

At the inception of a property lease and annually thereafter, the Directors assess the cost of restoring leasehold premises to their original condition at the end of the lease and the likelihood of such costs actually being incurred. If the likelihood of this liability arising is judged to be possible, rather than probable, it is disclosed as a contingent liability. When assessing the likelihood of this liability arising, the Directors take into account the terms of the lease. If the likelihood of this liability arising is judged to be probable and can be reliably estimated, the discounted cost of the liability is included in leasehold improvements and is depreciated over the duration of the lease.

At 31 December 2014 the net present value of the cost of reinstating leasehold properties at the end of leases in accordance with the lease contracts was estimated to be up to £7,990,000 (2013: £7,810,000). In addition to this, £nil (2013: £1,557,000) is recorded within provisions (note 25). The leases expire over a period of up to 27 years.

The Group has future expected commitments of £8,765,000 (2013: £5,260,000) relating to the phased delivery of infrastructure to provide the currently available customer power.

34. Related party transactions

The Directors have not identified any related parties and transactions other than the remuneration of key management, which is disclosed in note 5.

35. Post balance sheet events

On 10 February 2015 the Group entered into a non-binding agreement for an all-share merger with Interxion Holding N.V. ('Interxion'). Interxion is a provider of carrier-neutral colocation data centre services. For the year ended 31 December 2013 Interxion reported revenue of €307m and a carrying value of net assets of €388m. Under the terms of the non-binding agreement, Interxion shareholders would receive 2.3386 new TelecityGroup shares per Interxion share. As a result, TelecityGroup shareholders would own approximately 55%, and Interxion shareholders approximately 45%, of the combined group.

The Directors have reviewed events occurring after the balance sheet and, other than noted above, determined that no such events require adjustment to, or disclosure in, the financial statements.

36. Financial instruments

IFRS 7 requires certain disclosures in respect of financial instruments. Due to the Group's relatively straightforward financing structure, the key disclosures in respect of debt maturity and interest rate exposure are dealt with in notes 23 and 24. The further disclosures required by IFRS 7 are given below.

Financial risk management

The Group is subject to the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's financial risk management policies are contained in the section of principal risks and uncertainties on pages 36 and 37.

Financial risk management disclosures

The table below analyses the Group's undiscounted financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one year	Between one and two years	More than two years
At 31 December 2014			
Trade and other payables excluding taxation and social security (note 21)	**48,055**	**–**	**–**
Borrowings (note 23)	**5,650**	**9,443**	**332,703**
Derivative financial instruments (note 24)	**1,419**	**1,647**	**–**
	55,124	**11,090**	**332,703**

	Less than one year	Between one and two years	Between two and five years
At 31 December 2013			
Trade and other payables excluding taxation and social security (note 21)	56,626	–	–
Borrowings (note 23)	5,223	5,207	322,857
Derivative financial instruments (note 24)	1,122	–	–
	62,971	5,207	322,857

IFRS 7 requires the disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2014.

	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative financial instruments (note 24)	**–**	**3,066**	**–**	**3,066**

– The following table presents the Group's financial instruments that are measured at fair value at 31 December 2013.

	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative financial instruments (note 24)	–	1,122	–	1,122

Notes to the financial statements continued

36. Financial instruments continued

The book value of the Group's financial instruments at the year end is shown below:

	Notes	**Year ended 31 December 2014 £'000**	Year ended 31 December 2013 £'000
Financial assets			
Loans and receivables:			
– trade receivables	19	**25,037**	25,475
– other receivables	19	**5,865**	1,531
– accrued income	19	**1,792**	1,382
– cash and cash equivalents	20	**27,228**	23,244
Total financial assets		**59,922**	51,632
Financial liabilities			
Amortised cost:			
– trade and capital expenditure payables	21	**14,340**	22,791
– other payables	21	**3,603**	4,782
– accruals	21	**30,112**	29,053
– borrowings	23	**344,054**	327,495
– provisions for other liabilities and charges	25	**6,826**	7,458
Derivative financial instruments	24	**3,066**	1,122
Total financial liabilities		**402,001**	392,701

37. Trade receivables impairment disclosures

Due to effective credit control procedures, the Group mitigates its exposure to the risk of bad debt. In addition the Group's up-front billing cycle means that customers are generally due to pay in advance of receiving the service. The following disclosures are in respect of trade receivables that are either impaired or past due. The credit quality of the remaining trade receivables is considered good.

Included within trade receivables is an amount of £8,691,000 (2013: £5,710,000) in respect of amounts which are past their due date. These relate to a number of independent customers for whom there is considered to be little risk of default and therefore such amounts have not been impaired. The ageing analysis of these amounts is shown below:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Up to three months	**8,312**	4,734
Three to six months	**275**	687
More than six months	**104**	289
	8,691	5,710

In addition to the above amounts, the Group has a number of trade receivables that are impaired. The impairment balance relates to receivables with a gross value of £1,114,000 (2013: £1,036,000). The ageing analysis of these amounts is shown below:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Up to three months	**634**	786
Three to six months	**42**	54
More than six months	**438**	196
	1,114	1,036

Movements on the Group provision for impairment of trade receivables are as follows. All amounts recorded in the Consolidated Income Statement are included within administrative expenses:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
At 1 January	**1,027**	900
Acquired provision	**–**	42
Increase in provision for receivables impairment	**424**	366
Receivables written off during the year as uncollectable	**(299)**	(236)
Unused amounts reversed	**(7)**	(55)
Foreign exchange movement	**(45)**	10
At 31 December	**1,100**	1,027

The Group holds cash deposits of £379,000 (2013: £351,000) as security against the trade receivables.

Notes to the financial statements continued

38. Glossary of terms

Below is a glossary of terms commonly used by the Group:

Announced customer power – Available customer power once all currently announced expansion projects are complete.

Available customer power – Power that the Group has available to sell to customers, including the amount already sold.

Churn – The annualised value of contract losses or downsizing of contracts, divided by the revenue for the year.

Cost of drawn debt – Interest payable on long-term loans and finance leases (note 11) divided by the average borrowings (note 23) during the year.

Diluted earnings per share – Profit attributable to the owners of the parent divided by the weighted average number of ordinary shares in issue during the year, adjusted for the weighted average effect of share options outstanding during the year.

EBITA – Earnings before interest, taxation and amortisation. A reconciliation from EBITA to operating profit is contained in note 3.

EBITA per sold kW – EBITA for the year divided by the average sold kW during the year.

EBITDA – Earnings before interest, taxation, depreciation and amortisation. A reconciliation from EBITDA to operating profit is contained in note 3.

EBT – Employee Benefit Trust. Trust used to acquire and hold shares in the Company for settlement of share-based payment obligations.

Gross interest rate – Gross cost of borrowings (note 11) divided by the average borrowings (note 23) during the year.

Investment capital expenditure – Capital expenditure that results in additional available customer power or a significant enhancement to the currently installed asset base.

LIBOR – London interbank offered rate. The average interest rate estimated by leading banks in London that the average leading bank would be charged if borrowing from other banks.

Leverage – Year end net debt divided by EBITDA for the year.

LTIP – Long term incentive plan. A share option scheme awarded to the Executive Directors and other senior management executives.

Net debt – Borrowings (note 23) less cash (note 20).

Operating free cash flow – Cash inflow from operating activities as stated on the cash flow statement less operational property, plant and equipment capital expenditure. Capital expenditure is classified as operating rather than investment if it does not result in additional available customer power or a significant enhancement to the currently installed asset base.

Organic currency neutral – For organic growth rates, the contribution from acquisitions made in the current year is excluded, and for acquisitions made in the previous year, the full year contribution is included in the prior year results. Currency-neutral results are calculated by retranslating the prior year results using current year exchange rates.

ROCE – Return on capital employed. EBITA divided by the average equity plus debt during the year.

Revenue per sold kW – Revenue for the year divided by the average sold kW during the year.

Sold power percentage – Year end sold customer power divided by year end available customer power.

Directors' report

The Directors present their Annual Report and audited financial statements of the Company and the Group for the year ended 31 December 2014.

This Directors' report contains certain statutory, regulatory and other information.

Strategic Report and Governance Review

A review of the development of the Group's business during the year and its future prospects is included in the Strategic Report and Governance Review on pages 1 to 89, which should be read in conjunction with this report into which they are incorporated by reference.

Results and dividends

The results for the year ended 31 December 2014 are set out in the Consolidated Income Statement on page 97. The Board has proposed a final dividend of 9.0p per ordinary share in respect of the year (2013: 7.0p), payable on 24 April 2015 to shareholders on the register at the close of business on 20 March 2015, giving a total dividend in respect of 2014 of 13.5p per ordinary share (2013: 10.5p).

2015 Annual General Meeting ('AGM')

The Company's AGM will be held at the offices of Hogan Lovells International LLP, Atlantic House, Holborn Viaduct, London EC1A 2FG at 3.00pm on 21 April 2015.

An explanation of the resolutions to be proposed at the AGM, and the recommendation of Directors in relation to these, are included in the circular accompanying this Annual Report to shareholders. Resolutions regarding the authority to issue and repurchase shares are commented upon under the share capital section later in this report.

Corporate governance

The Company's Governance Review is contained on pages 42 to 89.

Change of control

In the event of a takeover, a scheme of arrangement (other than a scheme of arrangement for the purposes of creating a new holding company) or certain other events, unvested executive Director and employee share awards may in certain circumstances become exercisable.

Such circumstances depend on the achievement of performance conditions or the discretion of the Remuneration Committee. The Company does not have any agreements with any Director or officer that would provide compensation for loss of office or employment resulting from a takeover.

The Group has facility agreements with its bank lenders which contain provisions giving those lenders certain rights on a change of control of the Company.

Financial instruments

Information on the financial risk exposure, management objectives and policies of the Group is set out on pages 34 to 37.

Employment

The Group is committed to employment policies that follow best practice and are based on equal opportunities for all employees, irrespective of age, gender, race, colour, sexual orientation, disability or marital status. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly. This enables their views to be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as is achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group. The Group encourages the involvement of employees by means of briefing meetings as well as more informal communications. The Group also enable employees to become shareholders in the Company by offering them participation in the Company's Save-as-You-Earn scheme which is offered on an annual basis.

Carbon emissions

Details of the Company's carbon emissions are stated on pages 60-61 and form part of the report of the Corporate Social Responsibility Committee.

Going concern

Comprehensive financial forecasts have been prepared and submitted to the Board for review. Based on the information contained in these forecasts and the assessment of the Group's banking facilities, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' report continued

Substantial shareholdings

At 10 February 2015, the Company had been notified in accordance with the Disclosure and Transparency Rules of the UK Listing Authority, or was aware, that the following held, or were beneficially interested in, 3% or more of the Company's shares at that date:

	Number of shares	Total voting rights %
Abrams Capital Management, L.P.	19,533,039	9.63
Norge Bank	13,948,208	6.87
SPO Partners II, L.P.	10,228,331	5.04
Oppenheimer Funds	9,739,579	4.80
T Rowe Price Global Investments	9,120,166	4.50
Butterfield Trust[1]	8,080,458	3.98
BlackRock, Inc	7,035,217	3.47
Legal & General Group plc	6,397,334	3.15

(1) These shares are held by Butterfield Trust as Trustee for trusts for the benefit of Oliver R. Grace Jr and members of his family. Mr Grace also has an interest in an additional 3,489,931 shares.

The Company received no notifications of interests of shareholders indicating a different whole percentage holding at 31 December 2014.

Directors

The Directors of the Company who served during the year were:

John Hughes	**(Executive Chairman)**
Eric Hageman[1]	**(Chief Financial Officer, appointed on 1 September 2014)**
Claudia Arney	
Simon Batey	
Maurizio Carli	
Nancy Cruickshank	
John O'Reilly	
Michael Tobin	**(stepped down on 24 August 2014)**
Brian McArthur-Muscroft	**(stepped down on 31 January 2014)**

(1) Birth name: Wilhelmus Hageman

Certain key matters in connection with the Directors are shown below:

- The business of the Company is managed by its Directors who may exercise all powers of the Company subject to the Articles of Association and UK legislation. Directors of the Company are appointed either by the Board or by shareholders under the Company's Articles of Association and may resign or be removed in a similar manner.
- Biographical details of the current Directors are set out on pages 44 and 45. The Directors' interests in the ordinary share capital of the Company and any interests known to the Company of their connected persons are set out in the Report of the Remuneration Committee on page 87.
- The Company has made qualifying third party indemnity provisions for the benefit of its Directors in relation to certain losses and liabilities that they may incur in the course of acting as Directors of the Company or its subsidiaries, which remain in force at the date of this report.
- No member of the Board had a material interest in any contract of significance with the Company or any of its subsidiaries at any time during the year, except for their interests in shares and in share awards and under their service agreements and letters of appointment disclosed in the Report of the Remuneration Committee commencing on page 71.

Political donations

The Group made no political donations during the year (2013: nil).

Share capital

Certain key information relating to the Company's shares is shown below.

- The Company's shares at the year-end comprised entirely ordinary shares of £0.002 each which rank equally in all respects.
- The rights attached to the shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association. The Company's Articles of Association may only be amended by a Special Resolution of the shareholders.
- There are no restrictions on the transfer of shares or on the exercise of voting rights attached to them, except: (i) where the Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006 (the 'Act'); or (ii) where their holder is precluded from exercising voting rights by the FCA's Listing Rules or the City Code on Takeovers and Mergers.
- The Group operates employee share plans as set out in the Report of the Remuneration Committee on page 76 and in note 28 of the financial statements.
- In relation to the options granted at the time of the Company's IPO in 2007, and the Directors' deferred bonus shares, an Employee Benefit Trust ('EBT') holds shares pending employees becoming entitled to them. 20,624 shares were so held as at 31 December 2014. The EBT has an independent trustee which has full discretion in relation to the voting of such shares. Shares held in the EBT have any entitlement to dividends waived.
- Save as described above, shares acquired through the Company's employee share plans rank pari passu with shares in issue and have no special rights.
- At the year end, the Company had authority exercisable by the Directors to issue up to 67,549,000 shares subject to certain restrictions. The Company will seek to renew this authority at the 2015 Annual General Meeting ('AGM').

— At the year end, the Company had authority exercisable by the Directors for the purposes of Section 701 of the Act to make one or more market purchases (within the meaning of Section 693 of the Act) of up to 20,264,720 shares. The Company will seek to renew this authority at the 2015 AGM.

Further details of the Company's share capital are set out in note 26 of the financial statements.

Directors' responsibility statement

The Directors have prepared the Annual Report and the financial statements in accordance with their responsibilities under applicable law and regulations. Further details of this are shown below.

— Company law requires the Directors to prepare financial statements for each financial year. As required by International Accounting Standards Regulations (Article 4), the Directors have prepared the Group financial statements under International Financial Reporting Standards ('IFRS') as adopted by the European Union and have also elected to prepare the Parent Company financial statements in accordance with IFRS as adopted by the European Union. The financial statements have been prepared, as required by law, to give a true and fair view of the state of affairs of the Group and the Company and of the profit of the Group for the year.

In preparing these financial statements, the Directors confirm that to the best of their knowledge they have:

— properly selected and applied accounting policies and applied them consistently;

— made judgements and assumptions that are reasonable and prudent;

— presented information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and

— provided additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

In accordance with the responsibilities of the Directors, the Group maintains adequate accounting records to record all transactions so that they disclose with reasonable accuracy at any time the financial position of the Company and the Group and to ensure that the financial statements comply with the Act. They are responsible for safeguarding the assets of the Company and the Group and have taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors in office at the date of approval of this report confirms that to the best of their knowledge:

— The Group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

— The Strategic Report and Governance review, along with the Directors' report, together include a true and fair review of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual report , including the Strategic report, Governance review, Financial statements and this Directors' report, taken as a whole to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Disclosure of information to Auditors

Each Director in office at the date of this report has confirmed that:

— so far as he or she is aware, there is no relevant audit information of which the Group's Auditors are unaware; and

— he or she has taken all the reasonable steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's Auditors are aware of and had access to that information and relevant employees.

This confirmation is given in accordance with Section 418(2) of the Act.

Auditors

PricewaterhouseCoopers LLP, the Group's auditors, have indicated their willingness to continue in office and, on the recommendation of the Audit Committee and in accordance with Section 489 of the Act, a resolution to re-appoint them will be put to the 2015 AGM.

By order of the Board

Tony Hunter

Tony Hunter
Company Secretary

10 February 2015

Five-year track record

Shown below are the Group's adjusted results for the last five years. The definition of adjusted results is contained in note 3.

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Revenue	**348,695**	325,550	282,950	239,818	196,397
Cost of sales	**(146,604)**	(138,899)	(120,199)	(105,117)	(86,624)
Gross profit	**202,091**	186,651	162,751	134,701	109,773
Sales and marketing costs	**(13,470)**	(11,964)	(10,894)	(9,051)	(7,517)
Administrative costs analysed:					
Depreciation	**(49,976)**	(45,761)	(38,416)	(32,974)	(25,394)
Other administrative costs	**(24,895)**	(21,448)	(22,395)	(19,492)	(18,819)
Total administrative costs	**(74,871)**	(67,209)	(60,811)	(52,466)	(44,213)
Adjusted operating profit	**113,750**	107,478	91,046	73,184	58,043
Finance income	**86**	106	128	103	11
Finance costs	**(8,960)**	(9,069)	(7,695)	(6,300)	(5,017)
Adjusted profit before tax	**104,876**	98,515	83,479	66,987	53,037
Adjusted income tax charge	**(25,212)**	(24,338)	(20,175)	(18,397)	(9,646)
Adjusted profit after tax	**79,664**	74,177	63,304	48,590	43,391

A reconciliation of adjusted profit after tax to profit for the year is shown below:

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Adjusted profit after tax	**79,664**	74,177	63,304	48,590	43,391
Less amortisation charges	**(5,234)**	(4,950)	(3,746)	(2,550)	(1,664)
Less exceptional items	**(18,502)**	(5,175)	(3,072)	(5,275)	(1,206)
(Less)/add other financing items	**(118)**	50	(515)	276	(4,226)
Tax effect of the above	**3,920**	1,116	2,137	1,600	1,736
Profit for the year	**59,730**	65,218	58,108	42,641	38,031

The Group's KPIs for the last five years are shown below:

	2014	2013	2012	2011	2010
Available customer power (MW)	**111.7**	98.8	86.4	67.6	58.2
Announced customer power (MW)	**164.5**	153.1	134.7	124.1	107.5
Sold power percentage(1) (%)	**73.3**	72.0	70.1	n/a	n/a
Revenue (£'000)	**348,695**	325,550	282,950	239,818	196,397
Adjusted EBITDA (£'000)	**163,726**	153,239	129,462	106,158	83,437
Adjusted EPS (p)	**39.2**	36.5	31.0	24.1	21.7
EBITA per sold kW(1) (£/kW)	**1,478**	1,655	1,608	n/a	n/a
Return on capital employed (%)	**15.2**	15.2	16.4	18.0	17.9

(1) These KPIs were published for the first time in the Annual Report for the year ended 31 December 2013.

Corporate information

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Hogan Lovells International LLP
Atlantic House
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Morrison & Foerster (UK) LLP
CityPoint
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American Depositary Receipts
Telecity Group plc has an American Depositary Receipt ('ADR') programme that trades on the over-the-counter market in the United States.

This is a sponsored Level 1 ADR programme for which the Deutsche Bank Trust Company Americas acts as Depositary.

For shareholder enquiries, please use the following contact details:

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c/o American Stock Transfer
& Trust Company
Peck Slip Station
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New York, NY 10272-2050

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Provisional reporting calendar for 2015
Other than in relation to the dates of the preliminary announcement of 2014 results and Annual General Meeting, the following dates are provisional. Announcements will be made approximately one month in advance to notify the actual dates.

Annual General Meeting	21 April 2015
Quarterly trading update	11 May 2015
Announcement of half year results	3 August 2015
Quarterly trading update	2 November 2015
Preliminary announcement of 2015 annual results	10 February 2016

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