CITYFIBRE INFRASTRUCTURE HOLDINGS LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

COMPANY NUMBER 08772997

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COMPANY INFORMATION

Directors

M G Collins
T A Hart
W G Mesch
S N J Holden (appointed 11 March 2019)
R G Mesch (resigned 21 June 2018)
C M R Stone (resigned 21 June 2018)
S M Davis (resigned 21 June 2018)
S Charlton (resigned 21 June 2018)
S Lake (resigned 21 June 2018)

Secretary and registered office

C L Gawn, 15 Bedford Street, London, WC2E 9HE

Company number

08772997

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Company ownership

Connect Infrastructure Topco Limited, a company incorporated in the UK, is the ultimate parent company of CityFibre Infrastructure Holdings Limited (the 'Company' or 'CityFibre'). Connect Infrastructure Topco Limited is jointly-controlled by a consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners, a fund managed by Goldman Sachs.

Antin Infrastructure Partners is a leading independent European private equity firm focused on infrastructure investments. The firm invests solely in infrastructure, with a primary focus on European infrastructure assets across the telecoms, energy and environment, transport and social sectors. Antin Infrastructure Partners has successfully raised in 2010 and fully invested a first fund of €1.1bn as well as a second fund in 2014 of €2bn, and a third fund of €3.6bn (at the hard cap) in December 2016. Antin Infrastructure Partners' funds are backed by more than 100 institutional investors from Europe, North America, the Middle East, Asia and Australia, including pension funds, insurance companies, asset managers and sovereign wealth funds. Antin Infrastructure Partners has raised €8.0bn of capital since its inception, including co-investment by its institutional investors alongside the funds.

Antin Infrastructure Partners has significant experience in acquiring and owning telecoms infrastructure assets. Telecoms is one of Antin Infrastructure Partners' core investment sectors and Antin Infrastructure Partners has reviewed and analysed a large number of opportunities in this space, including successful investments in fibre (Eurofiber in the Netherlands and Belgium), and tower operators (Axion in Spain and FPS Towers in France). Antin Infrastructure Partners has an in-depth understanding of the relevant business models, key risks and growth drivers involved in owning telecoms assets.

West Street Infrastructure Partners is one of a series of funds managed by Goldman Sachs within its Merchant Banking Division to make direct investments in infrastructure and infrastructure-related assets and companies globally. Goldman Sachs is a leading global investment banking, securities and investment management firm headquartered in New York and with offices around the world, including London. With over $183bn of capital raised since 1986 (as of 31 December 2018) Goldman Sachs' Merchant Banking Division is one of the world's leading private investing platforms, with a mandate to manage Goldman Sachs' private investment activities across dedicated corporate, real estate and infrastructure investment strategies. Since the inception of the infrastructure business in 2006, the Merchant Banking Division has raised more than $12bn of capital dedicated to the infrastructure investment strategy.

West Street Infrastructure Partners has substantial experience in communication infrastructure assets. Its partner infrastructure funds have invested in the US telecoms sector in Unison and Vertical Bridge (telecoms towers) and ExteNet (small cells and distributed network services). Affiliated funds managed by Goldman Sachs within its Merchant Banking Division have invested in several European communication infrastructure companies, including Kabel Deutschland, Cablecom and Get.

Company's directors

Greg Mesch (Chief Executive Officer)

With over 25 years of telecoms, internet and technology-based experience behind him and five companies successfully built from start-up phase, Greg is an expert when it comes to business plan development, management team building and the capital formation of high growth, fibre optic based telecoms companies.

Terry Hart (Chief Financial Officer)

After training as a Chartered Accountant with BDO, Terry has over 20 years' experience in financial, commercial and operational roles, and since 2000 has specialised in telecoms and technology.

Mark Collins (Director of Strategy & Public Affairs)

Mark has been in the telecommunication industry for over 20 years, specialising in the development of early stage telecoms companies. He was a founding partner of CityFibre.

Simon Holden (Chief Operating Officer)

Prior to joining CityFibre on 1st March 2019, Simon was a partner at Goldman Sachs where he held senior roles in the Investment Banking division as well as a number of leadership roles in the Telecom, Media and Technology banking team.

CityFibre – at a glance

The Group is delivering the digital infrastructure critical to the UK's success in generations to come by designing, building, operating and owning independent full fibre networks in towns and cities across the country.

CityFibre is building a Gigabit Britain, connecting everyone and everything to a full fibre network that will transform the way people live and work online. With future-proof digital connectivity beneath our streets, we will enjoy new and more efficient public sector services, unleash business potential, and spark economic development.

The Group is the UK's leading alternative provider of wholesale full fibre infrastructure with planned network roll-outs underway to reach 20% of the UK market by 2025. With major fibre infrastructure projects in more than 50 towns and cities throughout the UK, it provides services to customers including service integrators, enterprise and consumer service providers, local authorities and mobile operators.

CityFibre has partnered with Vodafone to bring a new generation of gigabit-capable full fibre broadband to five million homes by 2025. This commitment has been reinforced by a £2.5bn investment programme with over £0.5bn already allocated to roll-outs across the first 12 towns and cities.

The Group acquired Entanet in July 2017 to further broaden its offering. Its business model is focused on the development and growth of wholesale communications services, with approximately 1,500 Channel Partners that serve the business and residential markets.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors present their strategic report with the audited financial statements for the year ended 31 December 2018.

CEO review

The Group has made great progress in 2018, executing its strategy of providing an alternative wholesale digital infrastructure for the UK.

2018 was a landmark year for CityFibre, de-listing from AIM after four years as a public company. The acquisition of the Company's shares by Connect Infrastructure Bidco Limited (a newly formed company jointly-controlled by a consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners, a fund managed by Goldman Sachs) was completed on 21 June 2018 (the 'Acquisition').

The acquisition marks a new phase in CityFibre's evolution. As a private company, CityFibre is well positioned for what we believe to be a unique opportunity to provide competitive full fibre infrastructure at scale to at least 20% of the UK market.

In October 2018, we announced a new £2.5bn full fibre investment plan to bring infrastructure to at least 5 million homes. As part of this announcement we also identified 37 towns and cities, where we have already invested in critical fibre spine assets, as primed for expansion for fibre-to-the-home (FTTH). This investment plan corresponds to one third of the Government's 2025 target of 15 million homes by 2025 and helps to deliver Ofcom's requirement for increased infrastructure competition.

On completion, our roll-out will provide a large-scale, open-access platform, providing choice for internet service providers (ISPs) and mobile network operators, while complementing other national digital infrastructure developments under way.

As our first consumer ISP partner, Vodafone has already started to capitalise on the opportunity to launch its next generation, 'Gigafast' broadband services. City-wide builds are under way in Milton Keynes, Peterborough, Aberdeen, Edinburgh, Stirling, Coventry and Huddersfield with construction due to start before the end of this year in Cambridge, Leeds, Southend-on-Sea, Bournemouth and Northampton. Vodafone's market-leading services are live in five of these towns and cities, with new customers enjoying gigabit speeds.

The Group delivered another year of strong operational progress in 2018 while also implementing the first steps of our landmark agreement with Vodafone. We have ended the year with an enhanced platform for expansion, which remains focused on execution and delivering full fibre capability to our end users.

Debt raising

On 18 December 2018 CityFibre successfully secured a debt package of £1.12bn from several major financial institutions. Proceeds from this infrastructure debt package will be used to fund the first part of CityFibre's £2.5bn investment plan.

This is the largest debt financing package dedicated to full fibre roll-outs in the UK's history and represents an important milestone in CityFibre's plan to improve the country's digital future. The clear support of some of Europe's largest financial institutions is a strong endorsement of CityFibre's strategy and further validates its business model.

The debt package will be used to fund the deployment of the first two million homes of CityFibre's five million homes target and will expand CityFibre's existing full fibre networks in 37 previously announced towns and cities nationwide.

Overview of performance

Group turnover of £55.2m represents growth of 79% compared to the prior financial year, with a strong contribution from the first full year consolidation of Entanet and from the underlying CityFibre business.

The Group's network assets increased to 3,932km from 3,740km at 31 December 2017. In addition to network investments resulting from new sales, the Group focused significant effort and resource during 2018 in planning, designing and initiating its FTTH programme.

Group Adjusted EBITDA[1] of £753k (2017: £879k) reflects the significant investment in people and associated operating costs required to deliver the network infrastructure roll-out. The increase in loss after tax to £50.2m (2017: £20.2m) predominantly reflects the one-off costs related to the Group's acquisition and de-listing from AIM. The Group ended the year with 511 full-time equivalent staff ('FTEs'), compared to 303 as at the end of 2017.

The Group secured a debt package of £1.12bn in December 2018 and ended the period with gross cash of £67.3m (2017: £37.0m). This facility provides funding for the first phase of FTTH deployment with Vodafone, as well as further development of existing city footprints.

Outlook

The Group continues to make positive progress in achieving its strategic vision, and the Directors and I congratulate our staff on their commitment, tenacity and hard work in bringing the Group to this critical juncture in its development. We completed 2018 with considerable momentum, delivering sizeable public sector contracts in the period, further demonstrating the demand for next generation infrastructure, and I'm pleased that this momentum continues into 2019.

Our primary focus in 2019 is one of execution, delivering on our commitments to Vodafone under our joint FTTH project and continuing to generate strong organic growth through the expanded wholesale channel. The Directors and Management continue to assess our resourcing as we move into this new phase of delivery.

[1] See p.11 for a reconciliation of operating loss to adjusted EBITDA

Financial Review

Results for the year reflect the accelerated investment in resourcing the business in line with the FTTH expansion and one-off costs in relation to the acquisition and de-listing from AIM as detailed below. Additionally, 2018 included a full year of contribution from Entanet (2017: 5 months). The Group balance sheet was significantly strengthened by securing the £1.12bn debt package on 18 December 2018.

Profit and loss

Revenue increased to £55.2m (2017: £30.9m), largely attributable to contributions from Entanet for a full year, the continued expansion in network footprint, and incremental revenues from both existing and new cities. Gross margin decreased to 44%, from 53% in 2017, reflecting the lower margin revenue of Entanet being consolidated for a full year. Higher margins from on-net business remained stable in the year.

Administrative costs increased to £60.5m from £27.7m in 2017, largely due to the one-off costs associated with the acquisition. Excluding non-recurring costs, depreciation and amortisation, and share-based payments charges, underlying administrative costs increased to £23.4m (2017: £16.3m), as detailed below. Allowing for the full-year impact of Entanet, this was a 23% increase on a like-for-like basis.

- Staff costs, excluding share-based payments, increased by 41% to £15.5m (2017: £11.0m). Headcount at 31 December was 511 FTEs (including full-time contractors), up from 303 in 2017. The increase is primarily due to resource requirements for the FTTH network roll-out.
- Other general administrative costs increased to £7.9m (2017: £5.3m). Property costs increased as the Group expanded into new towns and cities. IT costs also increased, with continuing development and implementation of systems to support the Group's work.

Administrative costs include £37.1m (2017: £11.4m) of non-recurring costs, share-based payments charges, and depreciation and amortisation. Principle items were as follows:

- During the year the Group incurred transaction costs of £7.2m relating to its acquisition and de-listing from AIM.
- This transaction gave rise to share-based payment charges of £17.4m (2017: £1.5m) as a result of the vesting of share options upon the Group's acquisition.
- Depreciation increased by £1.8m to £7.0m, mainly due to network construction work performed in the year. The amortisation charge for the year increased to £1.3m (2017: £0.7m), reflecting further development of the Group's network and IT systems and the full-year impact of the acquisition of intangible assets as a part of the Entanet Group purchase.

Operating loss increased to £36.4m (2017: £11.3m), due to the one-off costs detailed above incurred in relation to the acquisition.

Adjusted EBITDA of £0.8m was in line with the prior year (2017: £0.9m). A reconciliation of operating profit to adjusted EBITDA appears on page 11.

Following the acquisition, the Group repaid its debt facility with Proventus. Repayment fees, outstanding interest and accelerated amortisation of professional fees amounted to £9.6m. Interest paid to Proventus prior to this totalled £3.3m.

Loss after tax was £50.2m (2017: £20.2m), which includes financing costs of £14.2m (2017: £8.7m).

Balance sheet

Additions to property, plant and equipment totalled £63.1m (2017: £25.6m), of which £55.3m related to the construction of new network assets. This included £24.6m for construction of the initial Gigabit City projects, primarily in Milton Keynes, Aberdeen and Peterborough. The remaining £30.7m of network asset build was to support additional customer connections in existing towns and cities, as well as enabling the assets for commercialisation. A further £7.8m was spent on initial network and equipment required to enable the FTTH build.

Intangible asset additions in the year totalled £2.0m (2017: £24.7m). This primarily reflects the acquisition of new software to enable the Group to scale as frictionlessly as possible. 2017 additions predominantly related to the acquisition of Entanet.

Cash flow

Operating cashflow for the period was a net outflow of £4.4m, compared to a net outflow of £0.3m in 2017. At the year-end the cash balance was £67.3 (2017: £37.0m). These assets are being managed in line with the Group's treasury policy.

Following its acquisition, the Group settled the capex facility entered into with Proventus Capital Partners III AB.

Debt refinancing

In December 2018 the Group secured a debt package of £1.12bn from several major financial institutions. The debt package strengthens the Group's available capital resources and decreases its cost of capital.

The debt package includes a £775m seven-year capex facility and £45m revolving overdraft and working capital facility. It also includes a £300m accordion facility.

Gross debt at period end was £73.0m; transaction costs capitalised against this balance gave rise to a balance sheet figure of £50.9m. The Group will further draw from its debt facility to fund the capital expenditure required on new network builds.

Full details of the Group's debt can be found in note 18 of the financial statements.

Financial risks and uncertainties

	Risk	**Mitigation**
Interest rates	The Group has a LIBOR element to the interest rate that it pays on its debt facility.	The Group has taken out appropriate hedging instruments in 2019 to mitigate its exposure to interest rate fluctuations.
Credit risk	Financial loss may occur if a customer fails to meet its contractual obligations.	Risk is limited by the high volume of low value customers across the Group. This lack of concentration of revenues reduces the financial exposure from default. The highest value customers have the greatest creditworthiness.

Reconciliation of operating loss to Adjusted EBITDA

	2018 £'000	2017 £'000 Restated
Operating loss per accounts	(36,383)	(11,281)
Add back:		
Depreciation	7,013	5,230
Amortisation	1,342	659
EBITDA	(28,028)	(5,392)
Share-based payments charge	17,378	1,502
Transaction-related fees	7,207	3,619
Other one-off fees	4,196	1,150
Adjusted EBITDA	753	879

Principal risks and uncertainties

	Risk	Mitigation
Regulation	Despite the current clear support for alternative network operators, a shift in policy by Ofcom or Government could have an adverse impact on the Company.	The Group continues to engage proactively with Ofcom and Government and take actions necessary to ensure its position is appropriately represented and protected.
Technology	Fibre optic technology is widely acknowledged as being superior to other fixed line bearer media in terms of symmetrical data transmission capacity. However, future technologies may in time emerge as a competitive threat in some markets.	New technologies are considered still likely to require fibre backhaul solutions, allowing the Group the opportunity to benefit from any change in access technology.
Competition	A direct competitor may emerge, building full fibre infrastructure in UK towns and cities.	The Group currently represents the only wholesale full fibre network of scale in the UK. Its access to capital, wholesale model, existing network assets, existing revenue streams and expertise give it a unique and defendable competitive position.
Construction	The Group partners with construction firms to deploy network assets. This exposes the Group to the wider macro-economic impacts on these firms and their cost and resource bases.	The Group contracts with a number of construction partners to reduce the level of exposure to any single firm. Clear programmes of work also allow long-term planning of resource, thereby reducing the risk from short-term fluctuations in the labour market.

Corporate Social Responsibility

CityFibre's full fibre infrastructure is less carbon intensive than its copper alternatives, at every stage of its lifecycle. The greenhouse gas emissions associated with FTTH infrastructure are significantly lower per gigabit compared to other access technologies. Once installed, the in-life power consumption of a fibre network is significantly lower than that of a copper network, which requires constant power. The passive, robust nature of fibre and its track record for fewer faults means that any initial environmental cost associated with deploying it is rapidly offset.

The Group is also committed to making a societal difference through charity and environmental responsibility. CityFibre has established an employee-led Corporate Social Responsibility ('CSR') committee to identify and deliver key objectives in CSR.

Notable achievements in 2018 included:

- Participation by staff in a number of charity events
- Continuation of a cycle-to-work scheme for employees

The Group operates a work placement scheme, helping young people make decisions about their future and gain an understanding of a professional workplace.

CityFibre also encourages staff to volunteer for worthy causes of their choosing. From 2017 each employee has been allotted one day of annual leave for the purposes of volunteering.

CityFibre's charity of the year for 2018 was the MS Society.

Employees

Individuals with different cultures, perspectives and experiences are at the heart of the way CityFibre works and we look to recruit, develop and retain the most talented people available for each role. The Group strives to provide a fair and supportive work environment for all our employees and reflect the diverse nature of the society in which we live, and the customers to whom we provide services. The Group is dedicated to upholding these values as we grow and recruit people across the country, using their valuable experience to push us forward as a company.

CityFibre is committed to promoting equality of opportunity. This means it is the Group's policy that there should be no discrimination, harassment or victimisation of any employee, job applicant, customer, provider of services or member of the public because of one of the following protected characteristics: age, disability, gender reassignment, marital or civil partnership status, pregnancy and maternity, race, colour, nationality, racial or ethnic origin, religion or belief, sex or sexual orientation.

Environment and community

CityFibre is committed to ensuring that its business practices have positive impacts on the community and the environment. We are committed to maintaining high ethical and moral standards and to ensuring that we act in accordance with responsible social behaviour.

The Group also took further steps towards a more sustainable workplace, having initiated an overhaul of its waste disposal and recycling systems as part of its ISO 14001 Environmental Management System standard certification. Where possible, the Group rents accommodation for employees in cities where a specific project is under way, to minimise travel. It also makes use of video conferencing and other collaboration tools to the same end.

Other initiatives include procuring only Fair Trade tea and coffee, as well as educating employees on the importance of responsible electricity use.

Health and Safety

The Group is committed to a work culture that lives and breathes health and safety every day, a culture where putting safety first is second nature. Our ISO Management Standards provide the basis of our commitment to our employees and the customers and communities we serve. We are certified for the following standards:

- ISO9001:2015 Quality Management System
- ISO14001:2015 Environmental Management System
- ISO18001:2007 Occupational Health and Safety
- ISO22301:2012 Business Continuity Management System
- ISO27001:2013 Information security management system.

CityFibre employs a team of compliance specialists, which provides oversight to ensure that relevant standards are adhered to and best practice guidance is followed in the delivery of our projects and wider group activities. The Group also works with our clients and supply chain to deliver high-quality projects, while ensuring that the safety of our people comes first.

Human rights

As a responsible corporate citizen, the Group operates in accordance with applicable human rights laws and respects and promotes human rights through our employment policies and practices, through our supply chain and through the responsible provision of our products and services.

Gender diversity

As at 31 December 2018 the gender split of CityFibre was as follows:

- 462 permanent employees, of which 103 (22%) were female and 359 (78%) were male.
- The senior management team (Heads of Department, Executives and Directors) is made up of 32 employees of which 4 are female and 28 are male.
- There were 7 employees employed in the capacity of Executive or Director at CityFibre, of which 1 was female.

CityFibre is committed to being an equal opportunities employer and understands that there is a significantly higher ratio of men to women in our organisation. Although the Company does understand that a driver in this gap is the number of women choosing to go into engineering and construction roles, it has carried out a review of roles that could potentially be suitable for job sharing with the aim of promoting greater gender diversity, including encouraging mothers to return to work.

On behalf of the Board.

Greg Mesch
Chief Executive Officer
2 May 2019

Directors' report

Directors

The Directors who served during the year were as follows:

Greg Mesch
Terry Hart
Mark Collins
Chris Stone (resigned 21 June 2018)
Gary Mesch (resigned 21 June 2018)
Sally Davis (resigned 21 June 2018)
Stephen Charlton (resigned 21 June 2018)
Spencer Lake (resigned 21 June 2018)

Going concern

Under company law, the Company's Directors are required to consider whether it is appropriate to prepare financial statements on the basis that the Group and Company are a going concern.

As part of the normal business practice the Group prepares annual and long-range business plans and, in reviewing this information, the Company's Directors are satisfied that the Group and the Company have reasonable resources and future cash flows to enable them to continue in business for the foreseeable future. For this reason, the Company and Group continue to adopt the going concern basis in preparing the financial statements.

Future outlook

The future outlook is detailed as part of the Strategic Report on page 7.

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to auditors

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's Auditor for the purposes of their audit and to establish that the Auditor is aware of that information. The Directors are not aware of any relevant audit information of which the Auditor is unaware.

The Directors consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

On behalf of the Board.

Terry Hart
Chief Financial Officer
2 May 2019

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF CITYFIBRE INFRASTRUCTURE HOLDINGS LIMITED

Opinion

We have audited the financial statements of CityFibre Infrastructure Holdings Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2018 which comprise Statement of profit or loss and other comprehensive income, Statement of financial position, Statement of changes in equity and Statement of cash flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law International Financial Reporting Standards (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.

In our opinion:

- 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 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Strategic report, Directors' report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- 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 are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Statement of Directors Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:
https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Nicole Martin (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

02 May 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000 Restated
Revenue	2	55,249	30,925
Cost of sales		(31,150)	(14,535)
Gross profit		24,099	16,390
Administrative expenses		(60,482)	(27,671)
Operating loss	3	(36,383)	(11,281)
Finance income	6	572	72
Finance cost	7	(14,179)	(8,743)
Share of post-tax losses of equity accounted joint venture	11	(197)	(227)
Loss on ordinary activities before taxation		(50,187)	(20,179)
Income tax	8	(52)	-
Loss for the year and total other comprehensive income		(50,239)	(20,179)

Refer to note 27 for detailed information on restatement of comparatives.

Notes 1 to 27 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Company number 08772997

As at 31 December 2018

	Note	2018 £'000	2017 £'000 Restated
Assets			
Non-current assets			
Property, plant and equipment	9	234,255	178,135
Intangible assets	10	25,940	25,276
Investment in joint venture	11	5	204
Total non-current assets		260,200	203,615
Current assets			
Inventory	12	4,584	3,784
Trade and other receivables	14	23,151	16,606
Investment in short-term deposits		-	120,000
Cash and cash equivalents	13	67,323	36,961
Total current assets		95,058	177,351
Total assets		355,258	380,966
Equity			
Share capital	16	6,696	6,383
Share premium	17	347,773	328,450
Share warrant reserve	17	-	85
Share-based payments reserve	17	-	3,642
Merger reserve		331	331
Retained earnings	17	(103,987)	(60,349)
Total equity		250,813	278,542
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	18	50,905	61,541
Deferred revenue	19	16,296	14,565
Deferred tax	15	756	723
Total non-current liabilities		67,957	76,829
Current liabilities			
Deferred revenue	19	6,677	8,041
Trade and other payables	20	29,811	17,554
Total current liabilities		36,488	25,595
Total liabilities		104,445	102,424
Total equity and liabilities		355,258	380,966

These financial statements were approved by the Board of Directors and authorised for issue on 2 May 2019.
They were signed on its behalf by:

W G Mesch
Director

Refer to note 27 for detailed information on restatement of comparatives.
Notes 1 to 27 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Share warrant reserve £'000	Share-based payments reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	2,713	137,943	85	2,100	331	(34,628)	108,544
Prior year adjustment	-	-	-	-	-	(5,542)	(5,542)
Balance at 1 January 2017 – restated	2,713	137,943	85	2,100	331	(40,170)	103,002
Comprehensive income							
Loss and total comprehensive income for the year	-	-	-	-	-	(16,573)	(16,573)
Prior year adjustment	-	-	-	-	-	(3,606)	(3,606)
Transactions with owners							
New ordinary shares issued	3,670	198,169	-	-	-	-	201,839
Cost of issuing new ordinary shares	-	(7,662)	-	-	-	-	(7,662)
Share-based payments	-	-	-	1,542	-	-	1,542
Balance at 31 December 2017 - restated	6,383	328,450	85	3,642	331	(60,349)	278,542
Comprehensive income							
Loss and total comprehensive income for the year	-	-	-	-	-	(50,239)	(50,239)
Transactions with owners							
Cost of issuing new ordinary shares	-	-	-	-	-	-	-
Share-based payments	-	-	-	12,740	-	-	12,740
Exercise of share options and share warrants	313	19,323	(85)	(16,382)	-	6,601	9,770
Balance at 31 December 2018	6,696	347,773	-	-	331	(103,987)	250,813

Refer to note 27 for detailed information on restatement of comparatives.

Notes 1 to 27 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000 Restated
Cash flows utilised in operating activities			
Loss before taxation		(50,187)	(20,179)
Amortisation of intangibles	10	1,342	659
Share-based payments		17,378	1,502
Finance income	6	(572)	(72)
Finance costs	7	14,179	8,743
Depreciation	9	7,013	5,230
Right of use income		1	1
(Increase) / decrease in inventory	12	(800)	203
Increase in receivables		(6,293)	(3,150)
Increase in payables		4,808	6,571
Transaction related fees		7,207	-
Share of loss from associated company	11	197	227
Deferred consideration		1,363	-
Net cash utilised in operating activities		(4,364)	(265)
Cash flows generated from / (utilised in) investing activities			
Interest received		319	72
Receipt from / (investment) in short-term deposits		120,000	(120,000)
Acquisition of intangible assets		(930)	(579)
Acquisition of property, plant and equipment		(47,213)	(21,597)
Acquisition of subsidiary (net of cash acquired)		-	(15,333)
Deferred consideration paid		(1,650)	-
Capitalised labour costs		(11,815)	(3,382)
Net cash generated from / (utilised in) investing activities		58,711	(160,819)
Cash flows (utilised in) / generated from financing activities			
Proceeds from the issue of share capital		4,629	201,839
Costs of issuing share capital		-	(7,662)
Transaction related fees		(7,207)	-
Debt finance costs paid		(18,893)	-
Repayment of borrowings	18	(65,300)	(10,421)
Drawdown of borrowings	18	73,025	5,500
Interest paid		(10,239)	(7,933)
Net cash (utilised in) / generated from financing activities		(23,985)	181,323
Net increase in cash and cash equivalents		30,362	20,239
Cash and cash equivalents at beginning of period	13	36,961	16,722
Cash and cash equivalents at end of period	13	**67,323**	**36,961**

Refer to note 27 for detailed information on restatement of comparatives.

Notes 1 to 27 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are summarised below. They have all been applied consistently throughout the year and preceding period. CityFibre Infrastructure Holdings Limited (the 'Company'), previously CityFibre Infrastructure Holdings plc, is a company registered in England and Wales.

Basis of accounting
The financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") and their interpretations issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union. They have also been prepared with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

New standards, interpretations and amendments effective from 1 January 2018
New standards impacting the Group that have been adopted in the annual financial statements for the year ended 31 December 2018, and which have given rise to changes in the Group's accounting policies are:
- IFRS 9 Financial Instruments (IFRS 9); and
- IFRS 15 Revenue from Contracts with Customers (IFRS 15)

Details of the impact these two standards have had are given in note 27. Other new and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies, with the exception of IFRS 16, the impact of which is detailed below.

New standards, interpretations and amendments not yet effective
There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The most significant of these is IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019). The Company has progressed its projects dealing with the implementation of this key new accounting standard and is able to provide the following information regarding it's likely impact:

IFRS 16 "Leases" – (effective for reporting periods commencing 1 January 2019)
Adoption of IFRS 16 will result in the group recognising right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment. The Board has decided it will apply the modified retrospective adoption method in IFRS 16, and, therefore, will only recognise leases on the balance sheet as at 1 January 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date. It has also elected to take up the exemptions relating to short term leases of 12 months or less and leases of low-value assets. At 31 December 2018 operating lease commitments amounted to £22.23m (see note 21), which is not expected to be materially different to the anticipated position on 31 December 2019. Assuming the Group's lease commitments remain at this level, the effect of discounting those commitments is anticipated to result in right-of-use assets and lease liabilities of approximately £6.69m being recognised on 1 January 2019. However, further work still needs to be carried out to determine whether and when extension and termination options are likely to be exercised, which will result in the actual liability recognised being higher than this. Instead of recognising an operating expense for its operating lease payments, the group will instead recognise interest on its lease liabilities and amortisation on its right-of-use assets. The anticipated impact on the Statement of profit or loss and other comprehensive income is to recognise an interest expense of £0.21m and amortisation charge of £1.59m for the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Basis of consolidation

The consolidated financial statements incorporate the results of the Company and all of its subsidiary undertakings as at 31 December 2018. The results of subsidiary undertakings are included from the date of acquisition.

The Company was incorporated on 13 November 2013, and on 11 January 2014 it acquired the issued share capital of CityFibre Holdings Limited by way of a share-for-share exchange. The latter had five wholly owned subsidiaries: CityFibre Networks Limited, Fibrecity Holdings Limited, Gigler Limited, CityFibre Metro Networks Limited and Fibrecity Bournemouth Limited. The consideration for the acquisition was satisfied by the issue of 115,383 Ordinary Shares in the Company to the shareholders of CityFibre Holdings Limited.

The accounting treatment in relation to the addition of the Company as a new UK holding Company of the Group falls outside the scope of the IFRS 3 'Business Combinations'. The share scheme arrangement constituted a combination of entities under common control. The reconstructed Group was consolidated using merger accounting principles as outlined in Financial Reporting Standard 6 ("FRS") Acquisitions and Mergers (UK) and treated the reconstructed Group as if it had always been in existence. Any difference between the nominal value of shares issued in the share exchange and the book value of the shares obtained is recognised in a merger reserve.

The Company has taken advantage of merger relief available under Companies Act 2006 in respect of the share for share exchange as the issuing company has secured more than 90% equity in the other entity.

On 1 August 2017 it acquired the issued share capital of Entanet Holdings Limited by way of a cash purchase. Entanet Holdings Limited had one wholly owned subsidiary: Entanet International Limited. The consideration for the acquisition was satisfied by the transfer of £19,019,000 from the Company to the shareholders of Entanet Holdings Limited and £10,421,000 in settlement of debt acquired.

Joint ventures

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

These consolidated financial statements include the Group's share of the total recognised gains and losses of a joint venture (Bolt Pro Tem Limited) using the equity method, from the date that significant influence commenced, based on present ownership interests, less any impairment losses. Under the equity method, investments in joint ventures are carried in the Consolidated Statement of Financial Position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of the investment and the Group's share of any gain on contribution of assets to the joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Revenue
Revenue represents network lease sales and installation sales to external customers, sales of internet services to business and residential customers, and recharge of work performed for the joint venture at invoiced amounts less value added tax or local taxes on sales.

Performance obligations and timing of revenue recognition
The majority of the Group's revenue is derived from network lease sales and installation sales. Both network service and installation revenue are considered part of the main obligation to provide network services and hence are recognised evenly over the period to which the services are granted, as customers simultaneously receive and consume fibre connectivity over the service period. Revenue is recognised from the date at which the network service becomes available for use by the customer. Where there are multiple connections within a contract, each connection is considered a separate performance obligation and revenue will be recognised at the point of each connection going live. There are no obligations for refunds or returns.

Customers are billed for network services on a monthly, quarterly or annual basis, with installation services being billed up front. Payment is typically due within 30 days of invoicing. Deferred income arises where installation charges are billed at the beginning of the contract, however are recognised over the period during which the service is granted. There is minimal difference between timing of billing and recognition of network services.

The Group also has contracts which grant the customer Indefeasible Right of Use (IRU) of an asset owned by the Group, as well as the provision of maintenance services over a period of time. The two are considered separate performance obligations. Revenue is recognised for the IRU of the asset at the point in time where the asset is considered transferred to the customer. Revenue from maintenance services is recognised over the period during which the service is granted.

Refer to note 19 for information on the amounts relating to remaining performance obligations.

Determining the transaction price
Most of the Group's revenue is derived from fixed contracts and therefore the amount of revenue to be earned from each contract is determined by the amounts defined in the contract.

Allocating amounts to performance obligations
The Group allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered.

Accounting for certain costs incurred in fulfilling and obtaining a contract
The incremental commissions paid to sales staff for work in obtaining a contract with a customer are recognised as an asset if the entity expects to recover them and amortised on a straight-line basis over the average contract term of 48 months. No judgement is needed to measure the amount of costs of obtaining contracts – it is the commission paid.

The costs of fulfilling contracts do not result in the recognition of a separate asset because:
- such costs are included in the carrying amount of inventory for contracts involving capacity sales; and
- for service contracts, revenue is recognised over time by reference to the stage of completion meaning that control of the asset (the network service) is transferred to the customer on a continuous basis as work is carried out. Consequently, no asset for work in progress is recognised.

Practical exemptions
The Group has taken advantage of the following practical expedients:
- completed contracts that begin and end within the same annual reporting period will not be revised; and
- for all reporting periods presented before the 1 January 2017, the Group will not disclose the amount of the transaction price allocated to the remaining performance obligations or identify when it expects to recognise that amount as revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Property, plant and equipment
Property, plant and equipment are stated at cost, net of depreciation and any provisions for impairment. Where network assets are acquired as part of a contract including a provision of services, the asset is initially recognised at fair value to include the value of these services. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold property	5 years
Network assets – Duct	40 years
Network assets – Cabling	20 years
Plant and machinery	5 years
Fixtures and fittings	3 years
Motor vehicles	3 years

Useful economic lives and residual values are assessed annually. Any impairment in value is charged to the statement of profit and loss and other comprehensive income.

Intangible assets
Customer contracts, which have arisen through business combinations, are assessed by reviewing their net present value of future cash flows. Customer contracts are amortised over their useful life not exceeding nine years.

Software costs that are directly attributable to IT systems controlled by the Group are recognised as intangible assets and the costs are amortised over their useful lives not exceeding five years.

Brand assets, which have arisen through business combinations, are assessed by reviewing their net present value of future cash flows. Brands are amortised over their useful life not exceeding fifteen years.

Amortisation is included in general administrative costs in the statement of comprehensive income.

Goodwill, which has arisen through a business combination, is measured at cost less any accumulated impairment losses.

Impairment of non-current assets
Whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable an asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) if that is less than the asset's carrying amount.

The carrying values of property, plant and equipment and intangible assets other than goodwill, within a cash generating unit, are reviewed for impairment only when events indicate the carrying value may be impaired. Impairment indicators include both internal and external factors. Examples of internal factors include analysing performance against budgets and assessing absolute financial measures for indicators of impairment.

Where impairment indicators are present, the recoverable amounts of assets are measured. Asset recoverability requires assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets, using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of uncertain matters. In particular, management has regard to assumptions in respect of revenue mix and growth rates.

Inventory
Inventory is stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Inventory includes equipment necessary to install fibre optic networks and also include the cost of specific network assets allocated for sale under IRU agreements, rather than for use in the group's network service provision business.

Net realisable value is based on estimated selling price less additional costs to completion and disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Finance costs
Finance costs are charged to the profit and loss account over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

Operating leases
Rentals paid under operating lease commitments are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

Financial liabilities and equity
Financial liabilities, including trade payables and bank loans, are recognised when the Group becomes party to the contractual arrangements of the instrument and are recorded at amortised cost using the effective interest method. All related interest charges on loans are recognised as an expense in 'finance cost' in the statement of comprehensive income.

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Financial assets
Trade and other receivables are initially recorded at their fair value and subsequently carried at amortised cost, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Bad debts are written off when identified.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and cash in hand, and short-term highly liquid investments with an original maturity of three months or less.

Short-term deposits
Short-term deposits comprise investment amounts placed on deposit with major banks for either fixed terms or maturity notice periods which exceed 3 months and are less than 12 months.

Share-based payments
The Group issued equity-settled share-based payments to certain employees. Equity-settled share-based payments were measured at fair value at the date of the grant. The fair value at the grant date was determined using two different models. For share options that include market-based vesting criteria, the Monte Carlo model was used, with the expense recognised over the expected vesting period of the options. For all other options the Black-Scholes model was used, with the calculated value 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 the grant.

The Group also issued cash-settled share-based payments to certain employees. The payments were measured at fair value at the date of the grant, and were subsequently revalued at each balance sheet date, using the Monte Carlo model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the date of the statement of financial position.

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are recognised on all taxable temporary differences. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date. The carrying value of deferred taxation assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Pension Costs
Contributions to the Group's defined contribution pension scheme are charged to the statement of profit and loss and other comprehensive income in the period in which they become payable.

Key judgements and sources of estimation uncertainty
The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or where assumptions or estimates are significant to the financial statements are detailed below.

Classification of network assets as inventory
Certain network assets have been historically classified as inventory assets. Management believes this classification continues to be appropriate given that the Group intends to sell network capacity assets on a regular basis where it is considered to be a strategically viable product.

Revenue recognition of contracts with customers
The amount and timing of revenue from contracts with customers is dependent on the judgement used in determining both the timing of the satisfaction of performance obligations and the transaction price and amounts allocated to performance obligations. The Group recognises revenue from the date the network is available for use by the customer and is recognised evenly over the period for which the services are granted.

Assessment of useful economic lives of property, plant and equipment
The Group depreciates the property, plant and equipment, using the straight-line method, over their estimated useful lives. The estimated useful life reflects management's estimate of the period that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Changes in the expected level of usage and technological developments could affect the useful economic lives of these assets which could then consequentially impact future depreciation charges.

Impairment of non-current assets
Where impairment indicators are present, the recoverable amounts of assets are measured. Asset recoverability requires assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets, using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of uncertain matters. In particular, management has regard to assumptions in respect of revenue mix and growth rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. REVENUE

	2018 £'000	2017 £'000
Fibre optic infrastructure services	35,853	15,628
Other wholesale internet service provision	19,396	15,297
	55,249	30,925

3. OPERATING LOSS

Operating loss is after charging/(crediting):

	2018 £'000	2017 £'000
Depreciation of property, plant and equipment	7,013	5,230
Amortisation of intangibles	1,342	659
One-off transaction costs	7,207	3,619
Operating lease costs		
Land and buildings	1,180	564
Others	14,369	6,319

The analysis of auditor's remuneration is as follows:

Fees payable for the audit of the Group's annual financial statements	13	52
Fees payable for the audit of the Group's subsidiaries' financial statements	155	163
Total audit fees	168	215
Tax services	-	1
Assurance services	-	4
Corporate finance services	-	603
Total non-audit services	-	608
Total fees	168	823

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. STAFF COSTS

The average number of staff employed (including Directors) by the Group during the financial year amounted to:

	2018 No	2017 No
Sales	46	31
Operations	271	127
Administration	47	31
	364	189

The aggregate payroll costs of the above were:	2018 £'000	2017 £'000
Wages and salaries	12,795	8,933
Social security costs	1,790	1,508
Other pension costs	866	542
Share-based payments	17,110	1,502
	32,561	12,485

The analysis of payroll costs above includes only expensed costs. Capitalised staff costs for 2018 are £8,618,000 (2017: £3,456,000).

5. SHARE-BASED PAYMENTS

During the year the Company granted share options to employees to purchase shares in the entity. Upon acquisition of the Group, all outstanding share options fully vested and were exercised immediately to form part of the acquired share capital.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2018	Number of options 2018	Weighted average exercise price 2017	Number of options 2017
Outstanding at the beginning of the period	£0.25	33,762,237	£0.43	21,369,691
Granted during the period	£0.00	8,100,728	£0.00	14,092,212
Forfeited during the period	£0.00	(358,412)	£0.53	(1,699,666)
Exercised during the period	£0.20	(41,504,553)	-	-
Outstanding at the end of the period		-		33,762,237

There were no options outstanding at 31 December 2018. The options outstanding at 31 December 2017 had an exercise price in the range of £nil to £0.70 and a weighted average remaining contractual life of 7.9 years.

At 31 December 2017, 206,317 of the options had vested, but were not exercisable as the options are only exercisable 12 months after the vesting date.

5. SHARE-BASED PAYMENTS (CONTINUED)

Details of movements in share options in 2018 are as follows:

Number of options							
Outstanding at beginning of period	Granted	Forfeited/ Exercised	Outstanding at end of period	Exercisable at end of period	Exercise price £	Grant date	Expiry date
1,175,105	-	(1,175,105)	-	-	£0.60	16 January 2014	16 January 2024
1,388,886	-	(1,388,886)	-	-	£0.60	16 January 2014	16 January 2024
907,444	-	(907,444)	-	-	£0.60	16 January 2014	16 January 2024
160,137	-	(160,137)	-	-	£0.66	23 May 2014	23 May 2024
1,680,411	-	(1,680,411)	-	-	£0.60	23 May 2014	23 May 2024
3,069,299	-	(3,069,299)	-	-	£0.60	23 May 2014	23 May 2024
715,449	-	(715,449)	-	-	£0.70	09 June 2014	09 June 2024
3,619,844	-	(3,619,844)	-	-	£0.70	09 June 2014	09 June 2024
231,781	-	(231,781)	-	-	£0.66	22 January 2015	22 January 2025
1,716,425	-	(1,716,425)	-	-	£nil	21 December 2015	21 December 2025
5,052,857	-	(5,052,857)	-	-	£nil	17 February 2016	17 February 2026
209,762	-	(209,762)	-	-	£nil	8 November 2016	8 November 2026
1,181,818	-	(1,181,818)	-	-	£0.01	28 July 2017	28 July 2027
11,278,694	-	(11,278,694)	-	-	£nil	22 August 2017	22 August 2027
1,374,325	-	(1,374,325)	-	-	£nil	23 December 2017	23 December 2027
-	43,210	(43,210)	-	-	£0.01	9 May 2018	9 May 2028
-	8,057,518	(8,057,518)	-	-	£nil	9 May 2018	9 May 2028
33,762,237	8,100,728	(41,862,965)	-	-			

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received was measured based on two models: the Black-Scholes model and the Monte Carlo Model. The Monte Carlo model was used to value share options that include market-based vesting conditions, while the Black-Scholes model was used to value all other options. In prior years, the expected life of the option (4 years) was used as an input into both of these models; expectations of early exercise were incorporated into both models.

Fair value of share options and assumptions	2018	2017
Weighted average fair value of options granted during the year	£0.81	£0.42
Weighted average share price	£0.59	£0.55
Weighted average exercise price	£0.20	£0.24
Expected volatility (expressed as weighted average volatility)	24%	30%
Option life	4	4
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	0.5%	0.5%

These assumptions were used in both the Black-Scholes and Monte Carlo models.

The expected volatility was based on the historic volatility of the share price (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5. SHARE-BASED PAYMENTS (CONTINUED)

Share options issued during the year had a calculated fair value of 81p

	2018 £'000	2017 £'000
Total expense recognised as employee and consultant costs	13,700	1,502
Total liability recognised on cash-settled elements of share option awards	-	504

6. FINANCE INCOME

	2018 £'000	2017 £'000
Interest on bank deposits	572	72
	572	72

7. FINANCE COSTS

	2018 £'000	2017 £'000
Interest on bank loans	4,603	8,661
Finance costs on repayment of bank loan	9,500	-
Other interest	76	82
	14,179	8,743

8. TAXATION

	2018 £'000	2017 £'000
Current tax		
UK corporation tax based on the results for the year at 19% (2017: 19.25%)	-	-
Total current tax	-	-
Deferred tax		
Temporary differences on which deferred tax asset has been recognised	33	-
Prior period adjustment	19	
Effect of change in tax rates	-	-
Tax on loss on ordinary activities	52	-

8. TAXATION (CONTINUED)

Factors affecting current tax credit

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2017: 19.25%) as follows:

	2018 £'000	2017 £'000 Restated
Loss on ordinary activities before taxation	(50,187)	(20,179)
Tax on loss on ordinary activities at standard rate	(9,536)	(3,834)
Factors affecting charge		
Effect of change in tax rates	269	179
Prior period adjustment	19	-
Expenses not deductible for tax purposes	6,976	1,477
Origination of temporary differences on which no deferred tax asset has been recognised	2,324	2,054
Property, plant and equipment differences	-	124
Total taxation	52	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold property	Network assets	Plant and machinery	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2017	101	162,152	1,760	205	12	164,230
Additions	1	24,685	943	13	-	25,642
Acquisition of subsidiary	-	-	2,525	41	-	2,566
Disposals	-	-	(2)	-	-	(2)
At 31 December 2017	102	186,837	5,226	259	12	192,436
At 1 January 2018	102	186,837	5,226	259	12	192,436
Additions	-	55,318	6,980	835	-	63,133
Disposals	-	-	(637)	-	-	(637)
At 31 December 2018	102	242,155	11,569	1,094	12	254,932
Accumulated depreciation						
At 1 January 2017	98	8,275	584	102	12	9,071
Charge in the year	4	4,400	785	41	-	5,230
At 31 December 2017	102	12,675	1,369	143	12	14,301
At 1 January 2018	102	12,675	1,369	143	12	14,301
Charge in the year	-	5,143	1,779	91	-	7,013
Disposals	-	-	(637)	-	-	(637)
At 31 December 2018	102	17,818	2,511	234	12	20,677
Net book value						
At 31 December 2018	-	224,337	9,058	860	-	234,255
At 31 December 2017	-	174,162	3,857	116	-	178,135

Included in network assets above are network assets under construction and not yet depreciated which are held at a cost of £6,668,000 (2017: £1,889,000) at the date of the statement of financial position.

A review was carried out to determine if there were any indicators of impairment of the group's network assets at 31 December 2018. Each of the indicators set out in IAS 16 were considered and none were identified.

10. INTANGIBLE ASSETS

	Website costs £'000	Customer contracts £'000	Software costs £'000	Brand £'000	Goodwill £'000	Total £'000
Cost						
At 1 January 2017	63	580	1,540	-	-	2,183
Additions	-	-	880	-	-	880
Acquisition of subsidiary	-	3,150	817	2,148	17,729	23,844
At 31 December 2017	63	3,730	3,237	2,148	17,729	26,907
At 1 January 2018	63	3,730	3,237	2,148	17,729	26,907
Additions	-	-	2,006	-	-	2,006
At 31 December 2018	63	3,730	5,243	2,148	17,729	28,913
Accumulated amortisation						
At 1 January 2017	33	570	369	-	-	972
Amortisation	6	156	438	59	-	659
At 31 December 2017	39	726	807	59	-	1,631
At 1 January 2018	39	726	807	59	-	1,631
Amortisation	6	350	842	144	-	1,342
At 31 December 2018	45	1,076	1,649	203	-	2,973
Net book value						
At 31 December 2018	18	2,654	3,594	1,945	17,729	25,940
At 31 December 2017	24	3,004	2,430	2,089	17,729	25,276

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

The carrying amount of goodwill of £17,729,000 is allocated entirely to the wholesale internet service provision cash generating unit (CGU). The CGU has a recoverable amount of £39,006,000 which exceeds its carrying amount by £5,334,000. The recoverable amount of the above CGU has been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five year period to 31 December 2023.

Other major assumptions are as follows:	**Wholesale internet service provision** %
Discount rate	10
Growth rate	2

Discount rates are based on the Group's beta, adjusted to reflect management's assessment of specific risks related to the cash generating unit. Growth rates beyond the first five years are based on economic data pertaining to the United Kingdom.

Sensitivity analysis, using reasonable movements in assumptions, has not indicated any impairment is necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

11. INVESTMENT IN JOINT VENTURE

The following entity has been included in the consolidated financial statements using the equity method:

Name	Country of incorporation	Proportion of ownership interest held
Bolt Pro Tem Ltd	UK	33%

The summarised financial information is as follows:

	2018 £'000	2017 £'000
Loss from continuing operations	597	682
Other comprehensive income	-	-
Total comprehensive loss	597	682

Investment in Joint Venture

As at 1 January 2018	204
Elimination of related party profit	(2)
Share of comprehensive loss for the year of the equity accounted joint venture	(197)
As at 31 December 2018	5

12. INVENTORY

	2018 £'000	2017 £'000
Completed assets held-for-sale	3,146	3,357
Raw materials and consumables	1,438	427
	4,584	3,784

Inventory is stated net of an impairment provision of £nil (2017: £nil).

13. CASH AND CASH EQUIVALENTS

	2018 £'000	2017 £'000
Cash at bank	66,723	34,711
Restricted cash	600	2,250
	67,323	36,961

Restricted cash represents cash held in escrow which will be used to settle a liability to management of a subsidiary in respect of their previous shareholding.

14. TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Trade receivables	7,453	7,980
Other debtors	8,767	4,933
Prepayments	3,870	1,265
Accrued income	3,061	2,428
	23,151	16,606

Trade receivables are stated net of a doubtful debt provision of £1,146,000 (2017: £797,000).

15. DEFERRED TAX

	2018 £'000	2017 £'000
Balance at start of period	723	-
Deferred tax liability on acquisition	-	723
Movement in the year	33	-
Balance at end of period - liability	756	723

Deferred tax assets have not been recognised in respect of the following items:

	2018 £'000	2017 £'000
Difference of taxation allowances over depreciation on fixed assets	(5,539)	1,084
Tax losses available	15,159	5,725
	9,620	6,809

Deferred tax assets have not been recognised on the basis that it is uncertain that future taxable profits will be available against which the Group can utilise the benefits there from.

16. CALLED UP SHARE CAPITAL

	2018 £'000	2017 £'000
Authorised, called up, allotted and fully paid		
663,915,080 ordinary shares of £0.01 each (2017: 632,651,462)	6,639	6,326
5,653,865 deferred ordinary shares of £0.01 each (2017: 5,653,865)	57	57
	6,696	6,383

	2018 Number
Ordinary shares (issued)	
Balance at start of period	632,651,462
Issue of shares on exercise of share options	31,263,618
Balance at end of period	663,915,080

On 21 June 2018, 31,263,618 shares at 1p per ordinary share were issued on exercise of employee share options as a result of the acquisition by Connect Infrastructure Bidco Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

17. RESERVES

Share premium
This relates to the excess of consideration received for ordinary share capital issued above the nominal value of the shares.

Share-based payments reserve
In the prior period, this related to the accumulated share-based payments costs recognised through profit and loss for equity settled financial instruments (share options) which had not vested prior to the reporting date. All share options vested prior to the current reporting date.

Retained earnings
This relates to the accumulated retained earnings for the current year and prior years.

Share warrant reserve
In the prior period, this related to warrants issued to certain investors in CityFibre Holdings Limited to acquire shares in the Company. All of the warrants were settled in the current period.

18. INTEREST BEARING LOANS AND BORROWINGS

	2018 £'000	2017 £'000
Bank loan	50,905	61,541
	50,905	61,541
Due within one year	-	-
Due after one year	50,905	61,541
	50,905	61,541

In the prior period, the Group held a gross bank loan of £65.3m with a carrying value stated net of unamortised finance costs of £3.8m. The loan was repaid in full in July 2018 for the gross loan balance of £65.3m plus interest and early payment fees of £6.2m.

In 2018, the Group received a gross bank loan of £73.0m. The carrying value of the loan is stated net of amortised finance costs of £22.1m. The bank loan carries interest at an all-in rate of 3.48% comprised of a base rate of 0.73% and a margin rate of 2.75%.

Maturity analysis

	2018 £'000	2017 £'000
Bank and other loans		
In more than two years but not more than five years	-	61,541
In more than five years	50,905	-
	50,905	61,541

18. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

Reconciliation of cash and non-cash movement

	£'000
Balance at 1 January 2018	61,541
Loan balance repaid	(65,300)
Non-cash movement – amortisation of financing costs on repayment	3,759
Loan drawdown – new facility	73,025
Non-cash movement – transaction costs capitalised	(22,225)
Non-cash movement – amortisation of financing costs	105
Balance at 31 December 2018	50,905

19. DEFERRED REVENUE

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied at the 31 December 2018 was £23.0m as at 31 December 2018. (£22.6m as at 31 December 2017) and is expected to be recognised as revenue in future periods as follows:

Period of performance obligation

	2018 £'000	2017 Restated £'000
In one year or less or on demand	6,677	8,041
In more than one year but not more than two years	2,211	1,761
In more than two years but not more than five years	4,959	4,162
In more than five years	9,126	8,642
	22,973	22,606

20. TRADE AND OTHER PAYABLES

	2018 £'000	2017 £'000
Trade payables	11,956	3,608
Other taxation and social security	1,135	701
Other creditors	468	1,080
Share-based payments liability (note 5)	-	504
Accruals	15,843	11,661
Related party payable	409	-
	29,811	17,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

21. OPERATING LEASES

Leases as lessor

The Group leases its network assets under operating leases which give the lessee the right to control the use of the asset. The leases are for periods of between 1 and 20 years.

At the end of the reporting period, the future minimum lease payments receivable under non-cancellable operating leases are receivable as follows:

	2018 £'000	2017 £'000
Within one year	25,295	21,055
In two to five years	39,247	28,369
After five years	11,907	1,598
	76,449	51,022

Leases as lessee

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings		Other items	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Within one year	1,365	543	8,371	8,704
In two to five years	3,715	539	7,060	7,034
After five years	1,290	376	427	550
	6,370	1,458	15,858	16,288

22. CAPITAL COMMITMENTS

	2018 £'000	2017 £'000
Contracted but not provided for	38,148	26,443
	38,148	26,443

Capital commitments include amounts in relation to sales contracts signed in 2018 for which construction will take place in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

23. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise borrowings, cash and cash equivalents and various items such as trade receivables and payables that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group has not entered into derivatives transactions during the year; the Group regularly reviews hedging and treasury requirements, and has taken out hedging instruments in 2019. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and credit risk. Operations are financed through working capital management and external loan funding.

Liquidity risk
In order to maintain liquidity to ensure that sufficient funds were available for ongoing operations and future developments, the Group uses long-term finance in the form of a bank loan. The loan carries covenants that relate to leverage and interest cover; however covenants do not apply for the current period.

The Group's trade payables, other payables and accrued expenses are generally due between one and three months and the Group's other financial liabilities were due as follows:

Interest bearing loans and borrowings - gross payments	2018 £'000	2017 £'000
Due within one year	9,709	7,791
Due within one to two years	9,736	7,791
Due within two to three years	10,545	7,791
Due within three to four years	10,545	7,791
Due within four to five years	11,381	72,728
Due within five to six years	12,251	-
Due within six to seven years	85,578	-
	149,745	103,892

Future payments of interest have been calculated based on the principal at 31 December 2018 and the prevailing interest rate. Future payments do not reflect either reductions in interest rates as the Group de-leverages, or is able to borrow at more favourable rates.

Interest rate risk
As at 31 December 2018 the bank loan is the only financial instrument subject to interest rate risk. Management do not consider this risk to be material as the Group has taken out appropriate hedging instruments in 2019 to mitigate its exposure to interest rate fluctuations.

Credit risk
The Group's principal financial assets are bank balances and cash, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful debts. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Trade receivable ageing	2018 £'000	2017 £'000
Under 30 days overdue	4,765	5,162
31 to 60 days overdue	465	2,004
61 to 90 days overdue	1,241	484
Over 90 days overdue	982	330
	7,453	7,980

A provision of £320,000 (2017: £241,000) was made against doubtful receivables during the year and the balance of the provision was £1,146,000 at 31 December 2018 (2017: £797,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

23. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values

In management's opinion there is no material difference between the book value and fair value of any of the Group's financial instruments.

Classes of financial instruments

The classes of financial instruments are the same as the line items included on the face of the statement of financial position and have been analysed in more detail in the notes to the accounts. All the Group's financial assets are categorised as loans and receivables and all financial liabilities are measured at amortised cost.

24. RELATED PARTY TRANSACTIONS

The Company has a related party relationship with its subsidiaries, its associates, its directors and the directors of its subsidiaries.

Subsidiaries

The subsidiary undertakings of the Company at 31 December 2018 were as follows:

Company	Country of incorporation	Principal activities	% holding of ordinary share capital
CityFibre Holdings Limited	UK	Provision of telecommunication networks	100
CityFibre Networks Limited	UK	Provision of telecommunication networks	100
Fibrecity Holdings Limited	UK	Holding company	100
Gigler Limited	UK	Provision of internet services in Bournemouth	100
CityFibre Metro Networks Limited	UK	Holding company	100
Fibrecity Bournemouth Limited	UK	Provision of telecommunication networks within Bournemouth	100
CityFibre Limited	UK	Provision of telecommunication networks	100
Entanet Holdings Limited	UK	Holding company	100
Entanet International Limited	UK	Provision of internet services	100

All subsidiaries are registered at the following address: 15 Bedford Street, London, WC2E 9HE, apart from Entanet Holdings Limited and Entanet International Limited which are registered at: Stafford Park 6, Telford, Shropshire, TF3 3AT.

All transactions with subsidiary undertakings in the year eliminate on consolidation.

24. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with key management personnel

The key management personnel are the directors and members of the executive management team. Key management compensation was as follows:

	Key management personnel 2018 £'000	Key management personnel 2017 £'000	Highest paid director 2018 £'000	Highest paid director 2017 £'000
Fees	1,613	1,612	344	290
Benefits in kind	60	62	10	10
Pension contributions	75	35	-	-
Bonus	943	935	286	262
Other consideration	-	614	-	-
Share-based payments	8,694	962	2,403	395
	11,385	4,220	3,043	957
Social security costs	360	359	88	77
Total emoluments	11,745	4,579	3,131	1,034

During the year the Group charged Bolt Pro Tem Ltd, an associate of CityFibre Holdings Ltd, £181,000 (2017: £537,000) in respect of services provided. Of this, £19,000 (2017: £211,000) was receivable at the year-end.

During the year, the Group charged Arqiva Ltd, a company with a former Director in common, Sally Davis, £215,000 (2017: £nil), in respect of services provided. Of this, £nil (2017: £30,000) was owed at the year-end.

During 2017, the Group was charged £2,500 by BJC Networks Ltd, a company owned and controlled by Peter Manning, the former chairman, in respect of consultancy fees. Of this, £nil was owed at the year-end.

At 31 December 2018 the Group was jointly-controlled by a consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners. At 31 December 2017 the directors did not consider there to be an ultimate controlling party.

25. PENSIONS

A defined contribution pension scheme is operated by the Group on behalf of the employees of the Group. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension charge represents contributions payable by the Group to the fund and amounted to £787,000 (2017: £542,000). Contributions totalling £100,000 (2017: £54,000) were payable to the fund at the period end and are included in creditors.

26. SUBSEQUENT EVENTS

In January 2019 CityFibre entered into contractual hedging arrangements appropriate to the debt package secured in December 2018, anticipating future debt drawdowns.

In March 2019 CityFibre announced Bournemouth and Northampton which are the final two of the first twelve locations selected for a full fibre roll-out as part of CityFibre's partnership with Vodafone.

27. EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The Group adopted IFRS 9 and IFRS 15 with a transition date of 1 January 2018. As a result of the adoption of IFRS 15 and the changes in the revenue accounting policy, prior year financial statements were restated. The Group has chosen not to restate comparatives on adoption of IFRS 9 and, therefore, are not reflected in the restated prior year financial statements. Rather, these changes have been processed at the date of initial application (1 January 2018) and recognised in the opening equity balances.

The following tables show the adjustments recognised for each line item of the financial statements affected.

	Adjustments	31 December 2017 As originally presented £'000	IFRS 15 £'000	31 December 2017 As restated £'000	IFRS 9 £'000	1 January 2018 As restated £'000
Revenue	(a)	34,768	(3,843)	30,925	-	-
Cost of sales	(b)	(14,677)	142	(14,535)	-	-
Gross profit		20,091	(3,701)	16,390	-	-
Total administrative expenses	(b)	(27,766)	95	(27,671)	-	-
Operating loss	(a), (b)	(7,675)	(3,606)	(11,281)	-	-
Finance income		72	-	72	-	-
Finance cost		(8,743)	-	(8,743)	-	-
Share of post-tax losses of equity accounted joint venture		(227)	-	(227)	-	-
Loss on ordinary activities before taxation		(16,573)	(3,606)	(20,179)	-	-
Income tax		-	-	-	-	-
Loss for the year and total comprehensive income		(16,573)	(3,606)	(20,179)	-	-

27. EFFECTS OF CHANGES IN ACCOUNTING POLICIES (continued)

	Adjustments	As at 31 December 2017 As originally presented £'000	IFRS 15 £'000	31 December 2017 As restated £'000	IFRS 9 £'000	1 Jan 2018 As restated £'000
Assets						
Non-current assets						
Property, plant and equipment		178,135	-	178,135	-	178,135
Intangible assets		25,276	-	25,276	-	25,276
Investment in joint venture		204	-	204	-	204
Total non-current assets		203,615	-	203,615	-	203,615
Current assets						
Inventory		3,784	-	3,784	-	3,784
Trade and other receivables	(a), (b)	20,082	(3,476)	16,606	-	16,606
Investment in short-term deposits		120,000	-	120,000	-	120,000
Cash and cash equivalents		36,961	-	36,961	-	36,961
Total current assets		180,827	(3,476)	177,351	-	177,351
Total assets		384,442	(3,476)	380,966	-	380,966
Equity						
Share capital		6,383	-	6,383	-	6,383
Share premium		328,450	-	328,450	-	328,450
Share warrant reserve		85	-	85	-	85
Share-based payments reserve		3,642	-	3,642	-	3,642
Merger reserve		331	-	331	-	331
Retained earnings		(51,201)	(9,148)	(60,349)	-	(60,349)
Total equity		287,690	(9,148)	278,542	-	278,542
Liabilities						
Non-current liabilities						
Interest bearing loans and borrowings		61,541	-	61,541	-	61,541
Deferred revenue	(a)	12,580	1,985	14,565	-	14,565
Deferred tax		723	-	723	-	723
Total non-current liabilities		74,844	1,985	76,829	-	76,829
Current liabilities						
Deferred revenue	(a)	4,354	3,687	8,041	-	8,041
Trade and other payables		17,554	-	17,554	-	17,554
Total current liabilities		21,908	3,687	25,595	-	25,595
Total liabilities		96,752	5,672	102,424	-	102,424
Total equity and liabilities		384,442	(3,476)	380,966	-	380,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

27. EFFECTS OF CHANGES IN ACCOUNTING POLICIES (continued)

The nature of the adjustments resulting from the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments are described below:

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

IFRS 15 has replaced IAS 18 Revenue (IAS 18) and IAS 11 Construction Contracts as well as various interpretations previously issued by the IFRS Interpretations Committee. It has impacted the Group in the following ways:

(a) Installation fees were previously recognised on a percentage of completion basis, however are now recognised evenly over the period during which the service is granted. An adjustment was made for all contracts started in prior periods but not completed by the end of the period to derecognise £6.6m of accrued revenue (2016: £3.7m), and to defer £5.7m of revenue (2016: £3.3m) for the period ended 31 December 2017.

(b) Previously the Group expensed costs related to sales commissions paid to employees and other associated costs of obtaining the contract, however they are now eligible for capitalisation under IFRS 15 and recognised as a contract asset and amortised over the average contract term. An adjustment was made to capitalise £3.1m (2016: £1.0m); of sales commissions and other costs for the period ended 31 December 2017.

The Group chose to adopt IFRS 15 on a fully retrospective basis, enabling it to take advantage of the following transitional provisions:

- Completed contracts have not been restated. Completed contracts are those contracts which:
    - began and ended within the same annual reporting period; or
    - were completed by 31 December 2016.
- For completed contracts that have variable consideration, the transaction price at the date the contract was completed has been used instead of estimating variable consideration amounts in comparative periods.
- When identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to performance obligations, the Group has considered only the aggregate effect of all contract modifications made before 1 January 2017 has been.

IFRS 9 Financial Instruments (IFRS 9)

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement (IAS 39), however has not had a significant impact on the Group's balance sheet or equity on applying the classification and measurement requirements of IFRS 9. Furthermore, there has not been a significant impact on the revised impairment requirements of IFRS 9 given the low level of historical incurred losses and the nature of the Group's customers. Accordingly, there has been no effect on the Group financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
Company number 08772997

As at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Investments	C4	78,957	170,650
Intercompany loan	C5	248,326	-
Total non-current assets		327,283	170,650
Current assets			
Intercompany loan	C5	-	6,622
Trade and other receivables	C6	11,943	7,071
Investment in short-term deposits		-	120,000
Cash and cash equivalents	C7	62,260	31,087
Total current assets		74,203	164,780
Total assets		401,486	335,430
Equity			
Share capital	16	6,696	6,383
Share premium	17	347,773	328,450
Share-based payments reserve	C10	-	3,642
Share warrant reserve	17	-	85
Retained earnings	17	(8,408)	(5,491)
Total equity		346,061	333,069
Liabilities			
Non-current liabilities			
Loan	18	50,905	-
Total non-current liabilities		50,905	-
Current liabilities			
Trade and other payables	C8	4,520	2,361
Total current liabilities		4,520	2,361
Total liabilities		55,425	2,361
Total equity and liabilities		401,486	335,430

The parent company loss for the year was £2,917,000 (2017: £3,677,000)

These financial statements were approved by the Board of Directors and authorised for issue on 2 May 2019.
They were signed on its behalf by:

W G Mesch
Director

Notes C1 to C11 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Loss before tax		(2,917)	(3,677)
Finance income		(1,187)	(12)
Finance costs		394	-
Transaction related fees		7,207	-
Deferred consideration		1,363	-
Increase in receivables		(10,610)	(321)
(Decrease) / increase in payables		(459)	1,837
Share-based payments		17,378	-
Net cash from / (utilised in) operating activities		11,169	(2,173)
Cash flows from investing activities			
Interest received		322	12
Investment in short-term deposits		120,000	(120,000)
Repayment of borrowings		-	(10,421)
Loan to subsidiary		(150,010)	(15,831)
Loan from subsidiary		-	3,799
Deferred consideration and acquisition costs		(1,650)	(19,018)
Net cash utilised in investing activities		(31,338)	(161,459)
Cash flows from financing activities			
Proceeds from the issue of share capital		4,629	201,839
Costs of issuing share capital		-	(7,662)
Transaction related fees		(7,207)	-
Loan drawdown		73,025	-
Loan transaction fees		(18,893)	-
Interest paid		(212)	-
Net cash from financing activities		51,342	194,177
Net increase in cash and cash equivalents		31,173	30,545
Cash and cash equivalents at beginning of period		31,087	542
Cash and cash equivalents at end of period	C7	62,260	31,087

Notes C1 to C11 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Share premium	Share warrant reserve	Share-based payments reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017	2,713	137,943	85	2,100	(1,814)	141,027
Comprehensive income						
Loss and total comprehensive loss for the year	-	-	-	-	(3,677)	(3,677)
Transactions with owners						
Shares issued	3,670	198,169	-	-	-	201,839
Transaction costs	-	(7,662)	-	-	-	(7,662)
Share-based payments	-	-	-	1,542	-	1,542
Balance at 31 December 2017	6,383	328,450	85	3,642	(5,491)	333,069
Comprehensive income						
Loss and total comprehensive loss for the year	-	-	-	-	(2,917)	(2,917)
Transactions with owners						
Shares issued	-	-	-	-	-	-
Transaction costs	-	-	-	-	-	-
Share-based payments	-	-	-	12,740	-	12,740
Exercise of share options and share warrants	313	19,323	(85)	(16,382)	-	3,169
Balance at 31 December 2018	6,696	347,773	-	-	(8,408)	346,061

Notes C1 to C11 form part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C1. ACCOUNTING POLICIES

The accounting policies of the Company are consistent with those adopted by the Group with the addition of the following:

Investments
Investments are stated at their cost less impairment losses.

C2. LOSS OF PARENT COMPANY

As permitted by section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements.

C3. DEFERRED TAX

The Company has unrecognised deferred taxation of £804,000 (2017: £59,000) in respect of tax losses. The Company has not recognised any deferred tax asset due to lack of certainty over recovery of the asset.

C4. INVESTMENTS

	Investment £'000	Loan £'000	2018 £'000
Balance at 1 January 2018	78,957	91,693	170,650
Reclassification to intercompany loan	-	(91,693)	(91,693)
Balance at 31 December 2018	78,957	-	78,957

Subsidiaries

The subsidiary undertakings of the Company at 31 December 2018 are disclosed in note 24.

C5. INTERCOMPANY LOAN

	2018 £'000	2017 £'000
Intercompany loan – current	-	6,622
Intercompany loan – non-current	248,326	-
	248,326	6,622

During the year the Company entered into formal loan arrangements with its subsidiaries. These loans have a term of 5 years and an interest rate of 5%. As a result, the Company reclassified the intercompany loan element of the investment balance to the intercompany loan balance. At 31 December 2018, the balance owing from Entanet Holdings Limited was £8.17m (2017: £6.62m) and £240.16m was owed by CityFibre Holdings Limited (2017: £91.69m).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C6. TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Other receivables	323	6,712
Prepayments and accrued interest	1,204	359
Amounts owing from subsidiaries	10,416	-
	11,943	7,071

Other receivables include a loan to the Employee Benefit Trust of £nil (2017: £6,588,000) for the subscription of shares in respect to the joint share ownership plan.

C7. CASH AND CASH EQUIVALENTS

	2018 £'000	2017 £'000
Cash at bank and in hand	61,660	28,837
Restricted cash	600	2,250
	62,260	31,087

Restricted cash represents cash held in escrow which will be used to settle a liability to management of a subsidiary in respect of their previous shareholding.

C8. TRADE AND OTHER PAYABLES

	2018 £'000	2017 £'000
Trade payables	173	65
Accruals and deferred income	4,347	1,792
Share-based payments liability	-	504
	4,520	2,361

C9. RELATED PARTY TRANSACTIONS

The Company has a related party relationship with its subsidiaries and with its directors and executive officers (see note 24).

Transactions with subsidiary undertakings
Transactions with subsidiary undertakings are disclosed in note C4 and C5.

There are no other related party transactions.

C10. SHARE-BASED PAYMENTS

The share-based payments costs have been borne by CityFibre Holdings Limited.

See Note 5 for details of the share options issued.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C11. FINANCIAL INSTRUMENTS

The main financial instrument for the Company is the intercompany loan receivables.

The intercompany loan receivable is not considered to have material credit risk, given the positive cash flows generated by Entanet International Limited.

The Directors do not consider there to be a material risk of impairment with respect to these loan receivables which are due from related parties.