# CITYFIBRE INFRASTRUCTURE HOLDINGS LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

COMPANY NUMBER 08772997

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# COMPANY INFORMATION

**Directors**

T A Hart
W G Mesch
S N J Holden (appointed 11 March 2019)

**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 private equity firm focused on infrastructure investments. Based in Paris, London and New York with fourteen partners and a total of over 95 professionals, the firms manages three funds that invest in infrastructure in Europe and North America targeting investments in the energy and environment, telecommunications, transportation and social sectors. Antin Infrastructure Partners successfully raised in 2010 and fully invested a first fund of €1.1 billion, as well as raising a second fund in 2014 of €2 billion, and a third fund of €3.6 billion (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 c.€13.3 billion of Assets Under Management.

Antin Infrastructure Partners has significant experience in acquiring and owning telecom infrastructure assets. In particular through its ownership of Lyntia (a leading independent wholesale fibre platform in Spain), Firstlight (a leading provider of fibre bandwidth services to enterprise, wireless and carrier customers in six states across the North-eastern U.S.) and Eurofiber (a leading independent fibre network in the Netherlands, Belgium and France serving corporates including telecoms and utilities businesses, SMEs, NGOs and public organisations), Antin Infrastructure Partners has an in-depth understanding of the relevant business models, key risks and growth drivers involved in owning a fibre roll-out asset.

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. 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 $12 billion 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 30 years' experience in financial, commercial and operational roles, specialising in the development and capital formation of high growth companies in telecoms infrastructure and technology.

**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 London and New York in the Investment Banking division as well as a number of leadership roles in the Telecom, Media and Technology banking team. Prior to that, Simon worked for Baring Brothers in London and Hong Kong. He trained as a Chartered Accountant with Coopers and Lybrand.

**CityFibre – at a glance**

CityFibre is the UK’s third national digital infrastructure platform. With existing networks in more than 60 towns and cities, CityFibre provides wholesale fibre connectivity to multiple business and consumer service providers, local authorities and mobile operators.

CityFibre has network rollouts already under way and plans to pass up to 8 million homes and businesses with open-access full fibre infrastructure. A growing number of Gigabit City projects have been announced for full-city rollouts and CityFibre continues to prime its existing network assets for expansion.

CityFibre is based in London and is jointly controlled by Antin Infrastructure Partners and West Street Infrastructure Partners.

# STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their strategic report with the audited financial statements for the year ended 31 December 2019.

## CEO review

These accounts are presented during challenging times with the spread of the Coronavirus pandemic. CityFibre has ensured that its primary focus remains the safety of its employees and those of its construction partners through this period. We are also working with all our stakeholders, including Government and local authorities, to continue to be able to build the full fibre capability that this pandemic demonstrates is more critical than ever to the UK.

The Group made good progress in 2019, executing its strategy of establishing itself as the UK's third national digital infrastructure platform. CityFibre is well positioned for what we believe to be a unique opportunity to provide competitive full fibre infrastructure at scale to the UK market. On completion, our national, open-access platform, will provide consumer internet service providers (ISPs), public sector customers and mobile network operators with a choice of infrastructure over which to offer their services and contribute to the Government's ambition of full fibre coverage nationwide by 2025.

2019 was CityFibre's first full year as a private company, following the acquisition in 2018 by Antin Infrastructure Partners and West Street Infrastructure Partners. 2019 has seen further development of the Gigabit City build programme, mobilising across 26 cities with construction under way in 15 and live services established in 11 by the end of the year. Learnings from the first cities where construction has started have been applied to refine the launch strategy in each further city. Successful relations with construction partners have developed through the year, improving productivity and allowing enhancements to the process of onboarding new contractors.

CityFibre announced in March 2020 an additional 36 locations to benefit from full fibre as part of its investment programme. This brings the total number of premises planned to be passed up to 8 million across around 100 towns and cities. It is expected that the up to 8 million home rollout will create more than 7,000 construction jobs across the UK and stimulate local economic growth in the region of £85 billion.

While the network build might be the most visible aspect of our growth over the last year, considerable work has gone into equipping our business to operate effectively at scale, ensuring we are better prepared to deliver on our future plans for expansion.

Activity through 2019 has also enabled further key developments in CityFibre's commercial strategy:

- In December 2019, CityFibre signed an agreement with Vodafone to modify the terms of its existing partnership. The agreement enables CityFibre to open up its networks to other consumer ISPs sooner than planned, enabling increased utilisation of the network and increasing long-term Consumer and Enterprise revenues.
- In January 2020, we announced the acquisition of FibreNation from TalkTalk Group. The acquisition closed in March 2020 and at the same time TalkTalk was secured as a major wholesale customer across both consumer and business markets.
- In February 2020, CityFibre announced that it has been selected by the mobile network operator Three as a preferred provider of backhaul connectivity outside London to support its 5G rollout.

The acquisition of FibreNation and the expansion of CityFibre's rollout plans strengthen CityFibre's ambition as the UK's third national digital infrastructure platform.

## Overview of performance

<u>Financial performance</u>
Group turnover of £57.7 million represents growth of 4% compared to the prior year. Underlying 'on-net' revenue growth on CityFibre's network was 27%, while 'off-net' revenues relating to sales provisioned on other networks fell by 4%.

The Group’s network assets increased to £391.3 million from £224.3 million at 31 December 2018. This was principally driven by the construction of the full fibre infrastructure programme which gathered significant momentum in the year, in addition to network investments resulting from new sales.

Group Adjusted EBITDA loss[1] of £8.4 million (2018: profit of £0.8 million) reflects the significant investment in people and associated operating costs required to scale the business to deliver the network infrastructure roll-out. The increase in loss after tax to £73.7 million (2018: £50.2 million) predominantly reflects increased one-off costs in 2019.

Non-financial KPIs
CityFibre achieved strong sales growth in 2019 with 2,719 on-net connections sold across the Business and Public Sector markets (2018: 1,163). Particular success was achieved in securing new Public Sector contracts with lifetime values totalling over £32 million, up 81% on 2018. These form a key part of the Group’s strategy of monetising its network assets across multiple verticals.

Through the course of 2019 CityFibre expanded its full fibre network, with service availability for Consumer end customers increasing from 3 cities at the start of the year to 11 by December. The Group's total network assets increased to 5,668km from 3,932km at 31 December 2018.

The Group ended the year with 773 full-time equivalent staff (‘FTEs’), compared to 511 at the end of 2018, as it scaled up capabilities and the support for the network rollout.

**Acquisition of FibreNation**

On 27 March 2020, CityFibre completed the acquisition of FibreNation from TalkTalk Group in a deal funded by a combination of its existing debt package and additional equity raised. Introducing FibreNation’s own network expansion plans increases CityFibre’s rollout target from 5 million to up to 8 million premises. The transaction and the increased investment programme, totaling up to £4 billion, firmly establishes CityFibre as the UK’s third national digital infrastructure platform. It will also help to accelerate the availability of full fibre across the UK, a platform critical to social and economic recovery in the wake of the Coronavirus pandemic.

FibreNation was founded in 2018, four years after a joint venture between TalkTalk, Sky and CityFibre was launched to deploy full fibre infrastructure and services across York. FibreNation operates and continues to expand this network, where approximately 60,000 premises can currently access gigabit speed broadband services. FibreNation also has network construction projects under way in Harrogate and Dewsbury and is mobilising in both Knaresborough and Ripon, with plans to make full fibre available to up to 3 million homes and businesses.

TalkTalk and CityFibre also concluded a wholesale agreement where TalkTalk has made long-term commitments across CityFibre’s existing and future network rollout, ensuring its customers can benefit from faster, more reliable connectivity at competitive prices. CityFibre has also struck an extensive wholesale agreement for business services.

**Three**

In February 2020, CityFibre was selected by mobile network operator Three as a preferred provider of backhaul connectivity outside London. The long-term framework enables Three to leverage CityFibre’s rapidly growing national full fibre network to support its rollout of 5G services.

The first phase of the agreement will see CityFibre provide backhaul connectivity to Three’s cell sites, with hundreds of sites planned for connection in 2020 across a number of CityFibre’s Gigabit City projects. The first connections to cell sites will go live in the summer, supporting Three’s ambitious 5G programme.

By underpinning the UK’s largest 5G spectrum holding with full fibre backhaul, Three will be able to offer the UK’s fastest 5G network for consumers and businesses. CityFibre’s dark fibre connectivity will provide Three with far greater capacity to meet the growing demand for mobile data. Three will also have access to CityFibre’s full product portfolio including small cell access points throughout its city-wide networks, providing the local fibre capacity required to support 5G services in busy urban areas.

[1] See page 10 for a reconciliation of operating loss to adjusted EBITDA

**Outlook**

The Group delivered another year of good commercial and operational progress in 2019, critically establishing the scaled network rollout in support of our landmark agreement with Vodafone and delivering sizeable public sector contracts, further demonstrating the demand for next generation infrastructure. We have ended the year with a significantly increased network footprint and an enhanced technological platform that primes us for further expansion in 2020.

CityFibre continues to be well funded through its £1.1 billion of debt package secured in December 2018, and further equity injections from shareholders who continue to be highly supportive of the Group's ambitious plans. This allows the management team to maintain their focus on operational execution and delivering against those plans.

We completed 2019 with considerable momentum and I'm pleased that this momentum continues into 2020. Our primary focus in the year ahead is on scaling and build execution, delivering on our commitments to Vodafone and TalkTalk, to all our business and public sector customers, as well as supporting the national 5G rollout by Three. We will also ensure that we continue to generate strong organic growth through our expanded wholesale channel.

The key areas of focus for CityFibre are unchanged by the COVID-19 pandemic and through active Government engagement, our construction and operational workforce has been classified as "key workers"[2] and able to continue the network rollout with the full support of the UK government. The unprecedented impact on all our lives has served to demonstrate that reliable, fast, uncontended symmetric broadband is critical now more than ever. The organisation has been highly flexible and nimble in its approach to dealing with a rapidly evolving situation. Measures have been put in place to ensure that as far as possible the impact on installation of new customer connections, service level and rollout commitments have been well mitigated. CityFibre's model of ensuring there is no build without contract coverage, guaranteeing yield generation through an anchor contract or minimum revenue guarantee, also provides some downside protection.

I am confident that the Group will continue 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.

Greg Mesch
Chief Executive Officer
29 April 2020

[2] The UK Government has confirmed that full fibre network expansion should continue notwithstanding lockdown restrictions and that our key construction and operational staff are 'key workers'. The Scottish Government has adopted a more restrictive interpretation of what work should continue through the lockdown and we have focused on expanding core networks and providing connectivity to essential sites, in line with their guidance.

## Financial Review

Results for the year reflect the substantially increased scale of full fibre network roll-out, with an associated acceleration in resourcing the business to carry out this roll-out.

## Profit and loss

Revenue increased to £57.7 million (2018: £55.2 million), largely attributable to the continued expansion in network footprint, and incremental revenues from both existing and new cities. Gross margin remained broadly constant at 46% (2018: 44%).

Administrative costs increased to £87.2 million from £60.5 million in 2018, which had included significant one-off costs associated with the acquisition of CityFibre by Antin Infrastructure Partners and West Street Infrastructure Partners. Excluding non-recurring costs, depreciation and amortisation, and share-based payments charges, underlying administrative costs increased by 48% to £34.7 million (2018: £23.4 million), as CityFibre scaled up for mobilisation across multiple locations across the UK.

- Staff costs, excluding share-based payments but including recruitment fees and full-time contractors, increased by 60% to £24.7 million (2018: £15.5 million). Headcount at 31 December 2019 was 773 FTEs (including full-time contractors), up from 511 at 31 December 2018. The increase is primarily due to resource requirements for the full fibre network roll-out.
- Other general administrative costs increased to £10.0 million (2018: £7.9 million). In particular, IT costs increased to support the headcount increases and the implementation of new IT systems.

Administrative costs include £52.5 million (2018: £37.1 million) of non-recurring costs, share-based payments charges in 2019, and depreciation and amortisation. Principle items were as follows:

- During the year the Group incurred non-recurring costs of £37.6 million, principally relating to one-off expenses in relation to the Vodafone contract renegotiation.
- Depreciation increased by £6.1 million to £13.1 million, due to increased network construction work performed in the year. The amortisation charge for the year increased to £1.8 million (2018: £1.3 million), reflecting further development of the Group's network and IT systems.

Operating loss increased to £60.9 million (2018: £36.4 million), due to the increase in administrative costs detailed above.

Adjusted EBITDA loss was £8.4 million (2018: profit of £0.8 million) due to the increased headcount required for the full fibre network roll-out. A reconciliation of operating profit to adjusted EBITDA is shown below.

Loss after tax was £73.7 million (2018: £50.2 million), which includes financing costs of £12.5 million relating to interest on CityFibre's debt facilities (2018: £4.6 million).

## Reconciliation of operating loss to Adjusted EBITDA

| | **2019 £'000** | **2018 £'000** |
|---|---|---|
| Operating loss per accounts | (60,850) | (36,383) |
| Add back: | | |
| Depreciation | 13,064 | 7,013 |
| Amortisation | 1,821 | 1,342 |
| EBITDA | (45,965) | (28,028) |
| | | |
| Share-based payments charge | - | 17,378 |
| Transaction-related fees | - | 7,207 |
| Other one-off fees | 37,552 | 4,196 |
| Adjusted EBITDA | (8,413) | 753 |

## Balance sheet

Additions to property, plant and equipment totalled £211.2 million (2018: £63.1 million), of which £174.2 million related to the construction of new network assets. This included £135.7 million for construction and mobilisation of the initial Gigabit City projects. The remaining £38.5 million 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 £16.0 million was spent on fibre exchange costs, along with initial network and equipment required to enable the full fibre network build.

Gross debt at period end was £190.5 million (2018: £73.0 million); transaction costs capitalised against this balance gave rise to a balance sheet figure of £171.4 million. The Group will continue to draw from its £1.1 billion debt package in 2020 and onwards to fund the capital expenditure required on new network builds.

## Cash flow

Operating cashflow for the period was a net outflow of £47.7 million, compared to a net outflow of £4.4 million in 2018. At the year-end the cash balance was £12.1 million (2018: £67.3 million). During the year the Group received equity funding of £72 million to further fund capex associated with the full fibre network rollout.

## Financial risks and uncertainties

| | **Risk** | **Mitigation** |
|---|---|---|
| **Interest rates** | The Group has a floating interest rate exposure linked to LIBOR that it pays on its debt facility. | The Group took 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. |

**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, alternative 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 new entrant may emerge, building full fibre infrastructure in UK towns and cities. | The Group currently represents a 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 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.<br><br>Contracts in place with construction firms ensure that CityFibre only pays for what is built. Reduced labour availability or lower productivity, such as during the COVID-19 pandemic, do not therefore carry a short-term financial risk. |

**Corporate Social Responsibility**

CityFibre plays a key role in the communities it serves, providing an essential service to allow homes and businesses to connect and communicate reliably and at high speeds through the delivery of full fibre infrastructure. This allows households to fully embrace the new “smart home” generation and makes home working effortless with instant and reliable access to the cloud. Outside the home, CityFibre’s full fibre networks digitally transform cities by connecting schools, businesses and health and public services and enabling vastly improved mobile services. Through increasing innovation and productivity, it gives a digital boost to the UK economy.

CityFibre's networks are increasingly called on to support the digital demands of a growing number of critical health and social care sites. It currently provides full fibre connectivity to several NHS Clinical Commissioning Group estates, including hospitals and GPs surgeries, across a number of its project cities. Full fibre connections are becoming ever more important to the health sector as sites require fast and reliable digital networks to support the delivery of modern health services to the general public. This is only expected to increase as more health services are delivered digitally in the future.

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 full fibre network 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 2019 included:

- Participation by staff in a number of charity events
- Continuation of a cycle-to-work scheme for employees; we saw an increase of 60% in participants during 2019

The Group operates a work placement scheme, helping young people make decisions about their future and gain an understanding of a professional workplace. In 2019, we worked with 19 young people nationally giving them insights into life working at CityFibre.

Our City and HR teams work closely with the communities of our Gigabit cities where we have visited schools and colleges helping with employability workshops, interview practice and CV writing.

CityFibre also encourages staff to volunteer for worthy causes of their choosing. Since 2018 each employee has been allotted one day of leave for the purposes of volunteering.

CityFibre chose to allow employees to choose charities that were close to their hearts in 2019 rather than mandating a charity to support for the year. Amongst others our charity efforts have supported local schools, Lymphoma Action, The British Heart Foundation, MIND and MacMillan.

**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.

Every employee completes a Diversity and Inclusion e-Learning module within the first weeks of joining CityFibre. To support employee wellbeing and retention, CityFibre runs an Employee Assistance Programme, which gives the company's employees access to information and practical options on everyday matters such as loans and credits, legal issues, consumer rights, and childcare. CityFibre also regularly holds mental wellbeing awareness days providing its employees with tools to recognise signs of mental health issues as well as guidance on supporting those with mental health problems. In 2019, CityFibre also implemented a number of new employee wellbeing and retention initiatives, including an annual diversity and inclusion day, a new induction format intended to help with retention, family-friendly and flexible working policies, and Mental Health First Aiders training available to all employees.

During 2019 CityFibre were very proud to have gained recognition by the Armed Forces and were given the Bronze Award meeting the necessary requirements as set out by the Armed Forces Covenant. The Covenant is a pledge that together we acknowledge and understand that those who serve or who have served in the armed forces, and their families, should be treated with fairness and respect in the communities, economy and society they serve with their lives.

**Environment and community**

At CityFibre our operating model focuses on customer, innovation and profitable growth to ensure a sustainable business. This includes being a responsible client and corporate citizen in our dealings with customers, suppliers, employees and the wider society.

CityFibre is committed to ensuring that its business practices have positive impacts on the community and the environment.

We thrive for the highest standards of corporate conduct, ethical behaviour and compliance which are critical for CityFibre and our supply chain.

As part of our Environment, Sustainability and Governance (ESG) RoadMap for 2020 the Group will be rolling out a net zero carbon emission plan, including trialling solar PV panels on specific sites and educating colleagues on the importance of carbon reduction. Within this framework we are also committed to the following carbon reduction activities:

1. In line with our ISO14001 Environmental Management System standard certification, the Group's IT waste is directed to our Telford site where it is all recycled. The Group is also ensuring waste disposal and recycling systems are implemented in new offices.
2. Where possible, the Group has opened small and satellite offices in the majority of cities we are working in to minimise travel.
3. Encouraging agile working across the Group making use of video conferencing and other virtual collaboration tools, to reduce the need of travel.
4. City pool cars distributed to our delivery/field supervision teams, encouraging the use of public transport from home to work.

**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
- OHSAS18001:2007 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 clients and its supply chain to deliver high-quality projects, while ensuring the safety of our people.

In 2019 employees received an average of 5 hours of health and safety training. During the year there were no major injuries or lost-time injuries among CityFibre staff. Although there was 1 major injury reportable under RIDDOR in the year among our construction partners, this marks a decrease from the 3 reported in 2018 despite a considerable increase in construction activity.

**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 2019 the gender split of CityFibre was as follows:

- 691 permanent employees, of which 178 (25.8%) were female and 513 (74.2%) were male.
- The senior management team (Heads of Department, Executives and Directors) is made up of 48 employees of which 8 (16.7%) are female and 40 (83.3%) are male.
- There were 26 employees employed in the capacity of Executive or Director at CityFibre, of which 3 (11.5%) were 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.

During 2019 we partnered with the Women's Engineering Society and in particular their team who work with STEM returners, supporting women returning to engineering roles.

On behalf of the Board.

Greg Mesch
Chief Executive Officer
29 April 2020

# DIRECTORS' REPORT

## Directors

The Directors who served during the year were as follows:

Greg Mesch
Terry Hart
Simon Holden (appointed 11 March 2019)
Mark Collins (resigned 1 July 2019)

## 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. The impact of the COVID-19 pandemic has also been considered within this review. For more detail please see Note 1 on page 26. 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.

**Section 172 Statement**

From 1 January 2019 legislation was introduced requiring companies to include a statement pursuant to section 172 of the Companies Act 2006.

The Board considers that all their decisions are taken with the long-term in mind, understanding that these decisions need to regard the interests of the company's employees, its relationships with suppliers, customers, the communities and the environment in which it operates. The Board also recognises the desirability of the company maintaining a reputation for high standards of business conduct, and the need to act fairly between members of the company.

*City Selection*
CityFibre uses a broad range of criteria to select new towns and cities in which to deploy our networks. These include but are not limited; to the size of the city, the extent and reach of our existing infrastructure, the ability to use third party infrastructure already in place, competitor presence or stated intention to build, estimated cost per premises, the Company's views on the likely success of winning commercial opportunities from the public sector (including through local full fibre procurement opportunities), indications from consumer ISPs who are current or prospective customers, the attractiveness of the business market and the ability to connect mobile infrastructure. CityFibre have to date announced 62 cities where the Company is building or intends to build, across the UK.

*Construction Partners*
CityFibre's construction partners are key to our success and are typically small or medium sized enterprises. The Company identifies and selects the best construction partner for each city based on a range of criteria including quality of build, ability to mobilise the local construction work force and the expected cost to build the network. The Company's experience is that construction partners which are local to the city tend to perform better and the intention is to support construction partners to grow into other cities in a region. While CityFibre focuses closely on the productivity of the Company's construction partners, the health and safety of the construction workers building our networks is of paramount importance.

*Suppliers*
As CityFibre deploys its network, the Company is making use of the very latest and best fibre technology available in the world. The Company believes that by investing in the best technology we will create a highly resilient network which will attract and retain customers across our key market verticals and build long term value. As fibre networks use light rather than electricity to transmit information, our network's energy consumption will be significantly lower than legacy copper-based networks used by incumbent telecom operators. CityFibre targets technology suppliers who can provide a strong product roadmap and the innovation we require to maintain a world-class network into the future. The Company takes into account government advice in respect of national security issues when selecting suppliers.

*Employees*
CityFibre has major offices in Milton Keynes, Telford, London and Warrington which house technical, commercial and functional teams supporting the business. The Company also operate teams in each of the cities that are currently being built, to work closely with the local council, highways agency, our customers and our construction partners. CityFibre's preference is to hire locally and the Company seeks out potential employees who are in the early stages of their career who can be trained and grow in the business. CityFibre values employees who have a local affinity with the city in which they work because we hope they will be proud of the legacy they are building for the benefit of the entire community. The company is also actively working to ensure we build and maintain a diverse and inclusive workforce.

*Customers*
CityFibre builds its cities based on a “Well Planned City” design methodology it has developed. The Company is building its networks to provide capacity for consumers, businesses, public sector sites and mobile operators. CityFibre aims to build enough capacity into its networks to serve all these customer groups. The Company is a wholesale only provider and the end users of its network consume services through other providers like ISPs, business resellers, public sector systems integrators and mobile network operators. CityFibre aims to develop relationships with all the major national players who have the majority of the end users in the UK as their customers. CityFibre believes that its national scale makes the Company an attractive partner because it can provide an efficient platform for systems, service and marketing investment and a clear alternative to the two national incumbent networks in the UK.

CityFibre’s shareholders nominate directors that control the board of the ultimate holding company, and are actively involved in the major decision making of the group. Those shareholders are active owners of other businesses in the infrastructure sector in the UK and Overseas and bring that experience to bear in the decision making of CityFibre.

The Board seeks to protect the reputation of the business and to maintain high standards of business conduct through its published policies and training of CityFibre employees in those policies.

**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
29 April 2020

## 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 2019 which comprise the Group Statement of Profit or Loss and Other Comprehensive Income, the Group and Parent Statement of Financial Position, the Group and Parent Statement of Changes in Equity, the Group and Parent 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 and 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 2019 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, 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 Directors' 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 Directors' Report, 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 on 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
29 April 2020

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 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| Revenue | 2 | 57,666 | 55,249 |
| Cost of sales | | (31,339) | (31,150) |
| Gross profit | | 26,327 | 24,099 |
| Administrative expenses | | (87,177) | (60,482) |
| Operating loss | 3 | (60,850) | (36,383) |
| Finance income | 5 | 143 | 572 |
| Finance cost | 6 | (13,002) | (14,179) |
| Share of post-tax losses of equity accounted joint venture | 10 | (5) | (197) |
| Loss on ordinary activities before taxation | | (73,714) | (50,187) |
| Income tax | 7 | - | (52) |
| Loss for the year and total other comprehensive income | | (73,714) | (50,239) |

Notes 1 to 26 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**Company number 08772997**

**As at 31 December 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | | |
| Property, plant and equipment | **8** | 432,377 | 234,255 |
| Intangible assets | **9** | 26,703 | 25,940 |
| Investment in joint venture | **10** | - | 5 |
| Total non-current assets | | 459,080 | 260,200 |
| | | | |
| Current assets | | | |
| Inventory | **11** | 7,281 | 4,584 |
| Trade and other receivables | **13** | 34,415 | 23,151 |
| Cash and cash equivalents | **12** | 12,078 | 67,323 |
| Total current assets | | 53,774 | 95,058 |
| | | | |
| Total assets | | 512,854 | 355,258 |
| | | | |
| **Equity** | | | |
| Share capital | **15** | 7,416 | 6,696 |
| Share premium | **16** | 419,053 | 347,773 |
| Merger reserve | | 331 | 331 |
| Retained earnings | **16** | (177,701) | (103,987) |
| Total equity | | 249,099 | 250,813 |
| | | | |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| Interest bearing loans and borrowings | **17** | 171,387 | 50,905 |
| Lease liability | **20** | 11,367 | - |
| Deferred revenue | **18** | 23,125 | 16,296 |
| Deferred tax | **14** | 756 | 756 |
| Total non-current liabilities | | 206,635 | 67,957 |
| | | | |
| Current liabilities | | | |
| Lease liability | **20** | 2,361 | - |
| Deferred revenue | **18** | 8,752 | 6,677 |
| Trade and other payables | **19** | 46,007 | 29,811 |
| Total current liabilities | | 57,120 | 36,488 |
| | | | |
| Total liabilities | | 263,755 | 104,445 |
| | | | |
| Total equity and liabilities | | 512,854 | 355,258 |

These financial statements were approved by the Board of Directors and authorised for issue on 29 April 2020. They were signed on its behalf by:

W G Mesch
Director

Notes 1 to 26 form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2019**

| | 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 2018** | 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** | | | | | | | |
| 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 |
| **Comprehensive income** | | | | | | | |
| Loss and total comprehensive income for the year | - | - | - | - | - | (73,714) | (73,714) |
| **Transactions with owners** | | | | | | | |
| New share capital issued in the year | 720 | 71,280 | - | - | - | - | 72,000 |
| **Balance at 31 December 2019** | 7,416 | 419,053 | - | - | 331 | (177,701) | 249,099 |

Notes 1 to 26 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

**For the year ended 31 December 2019**

| | | 2019 | 2018 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Cash flows utilised in operating activities** | | | |
| Loss before taxation | | (73,714) | (50,187) |
| Amortisation of intangibles | **9** | 1,821 | 1,342 |
| Share-based payments | | - | 17,378 |
| Finance income | **5** | (143) | (572) |
| Finance costs | **6** | 13,002 | 14,179 |
| Depreciation | **8** | 13,064 | 7,013 |
| Right of use income | | - | 1 |
| (Increase) in inventory | **11** | (2,697) | (800) |
| Increase in receivables | | (11,533) | (6,293) |
| Increase in payables | | 12,503 | 4,808 |
| Transaction related fees | | - | 7,207 |
| Share of loss from associated company | **10** | 5 | 197 |
| Deferred consideration | | 33 | 1,363 |
| **Net cash utilised in operating activities** | | (47,659) | (4,364) |
| | | | |
| **Cash flows (utilised in) / generated from investing activities** | | | |
| Interest received | | 363 | 319 |
| Receipt from short-term deposits | | - | 120,000 |
| Acquisition of intangible assets | | (537) | (930) |
| Acquisition of property, plant and equipment | | (157,199) | (47,213) |
| Deferred consideration paid | | (600) | (1,650) |
| Capitalised labour costs | | (23,972) | (11,815) |
| **Net cash (utilised in) / generated from investing activities** | | (181,945) | 58,711 |
| | | | |
| **Cash flows generated from / (utilised in) financing activities** | | | |
| Proceeds from the issue of share capital | | 72,000 | 4,629 |
| Transaction related fees | | - | (7,207) |
| Debt finance costs paid | | - | (18,893) |
| Repayment of borrowings | **17** | (45,000) | (65,300) |
| Drawdown of borrowings | **17** | 162,508 | 73,025 |
| Interest paid | | (11,656) | (10,239) |
| Principal paid on lease liabilities | | (3,493) | **-** |
| **Net cash generated from / (utilised in) financing activities** | | 174,359 | (23,985) |
| | | | |
| **Net (decrease) / increase in cash and cash equivalents** | | (55,245) | 30,362 |
| Cash and cash equivalents at beginning of period | **12** | 67,323 | 36,961 |
| **Cash and cash equivalents at end of period** | **12** | **12,078** | **67,323** |

Notes 1 to 26 form part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 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 \2vInfrastructure Holdings Limited (the 'Company'), 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.

*Going concern*

In order to assess the ability for the Group to be considered as a going concern the Directors have assessed the key risk factors for the business, also factoring the impacts from the COVID-19 pandemic observed to date into this review. The directors recognise that there are uncertainties but they do not consider them to be material with the primary areas that have been considered and factored into scenario modelling to consider the future viability of the business as follows:

- Equity funding and how to mitigate if no further funding is received from the Group's shareholders. The principle focus is ensuring that sufficient time could be created to secure alternative sources of finance if required. This would be achieved principally through a slowdown or pause in CityFibre's network rollout and an accompanying reduction in the level of internal resource to support it.
- The scale and availability of the Group's debt facilities, including the ability to meet loan covenants. No issues were identified that would restrict access to funding, although there is a direct relationship with sales and the full fibre infrastructure programme so there would be a corresponding impact as either or both of these reduce, which was factored into the Directors' assessment. All scenarios considered still satisfied the loan covenants through the coming years.
- Reduced sales and increased bad debt where sensitivities have been run to reflect the potential impact on CityFibre's customer base. Long-term contracts are in place with a small number of large organisations across the Consumer, Public Sector and Mobile sectors which are not sensitive to short term variability. Among the Business vertical, where there is a much larger customer base with typically shorter contract lengths, the risk of reduced sales and increased bad debt is higher and this has been reviewed within the scenario modelling. To the extent that the Group's revenues do decline, the Directors believe there is sufficient opportunity to reduce the level of capital expenditure and level of associated staffing to mitigate this.
- The availability of construction labour and the impacts of the COVID-19 pandemic observed to date on network build productivity and working capital requirements in the construction market. In the short term this would reduce the Group's cash requirement but would have an effect on the longer term value derived from the network rollout. Contracts in place with construction firms ensure that CityFibre only pays for what is built. Reduced labour availability or lower productivity, such as during the COVID-19 pandemic, do not therefore carry a short-term financial risk.

The Directors' analysis also considered the potential longer term impact from the economic shock caused by the COVID-19 pandemic and therefore the carrying value of CityFibre's network. The long-term outlook for full fibre infrastructure remains positive, and even potentially enhanced by the current situation. CityFibre's revenue streams are increasingly based on long term contracts with minimum revenue guarantees in certain instances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

*Going concern (continued)*
While the Directors recognise there are uncertainties in the current environment, these are not considered to be material. Through this review of a number of scenarios factoring in the key risks identified, the Directors believe they have the ability to take sufficient mitigating actions to offset the potential negative impact from these risk factors such that they believe it is still appropriate to consider the Group as a viable going concern.

*New standards, interpretations and amendments effective from 1 January 2019*
The only standard impacting the Group that will be adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Group's accounting policies, is IFRS 16 Leases (IFRS 16). Details of the impact of this standard has been given in note 26 below. IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23) has also been adopted but with no material impact.

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.

*New standards, interpretations and amendments not yet effective or relevant*
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 does not expect to have a material impact on the group.

**Basis of consolidation**
The consolidated financial statements incorporate the results of the Company and all of its subsidiary undertakings as at 31 December 2019. 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.

**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 18 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.

**Revenue (continued)**
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.

**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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

**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.

**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. Hedging fees are included in finance costs and are charged to the profit and loss account as incurred.

**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 determined using the IFRS 9 simplified approach to measuring expected losses. In calculating the provision, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

**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.

**Leases**
All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. The value of the short-term leases expense is disclosed in Note 20.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 26. The following policies apply subsequent to the date of initial application, 1 January 2019.

**Leases (continued)**

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

The Group determines its incremental borrowing rate by obtaining interest rates from external financing sources. The Group has chosen to use the same discount rate across all classes of assets, as this is materially appropriate across the assets. The discount rate used is the same as the incremental cost of borrowing under the Group's debt facility – this is deemed appropriate as the majority of leases by value have a similar term to the expected life of the capex funded by the debt facility.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease; and
- initial direct costs incurred

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

For contracts that both convey a right to the group to use an identified asset and require services to be provided to the group by the lessor, the group has elected to account for the service portion of lease charges separately for leasehold property leases but not for network asset and plant and equipment type leases.

**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.

*Going concern assessment*
The directors have assessed the going concern position of the Group in light of the key risk factors for the business and the potential impact of Covid-19, recognising that there are uncertainties however they do not consider them to be material. The primary areas of judgement that have been considered and factored into scenario modelling to consider the future viability of the business are:

- Equity funding and how to mitigate if no further funding is received from the Group's shareholders.
- The scale and availability of the Group's debt facilities, including the ability to meet loan covenants.
- Reduced sales and increased bad debt where sensitivities have been run to reflect the potential impact on CityFibre’s customer base.
- The availability of construction labour and the impacts of the COVID-19 pandemic on network build productivity and working capital requirements in the construction market.

Refer to the basis of accounting on page 26 where these are discussed further.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 2. REVENUE

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Fibre optic infrastructure services | 22,041 | 19,396 |
| Other wholesale internet service provision | 35,625 | 35,853 |
| | 57,666 | 55,249 |

## 3. OPERATING LOSS

Operating loss is after charging/(crediting):

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Depreciation of property, plant and equipment | 13,064 | 7,013 |
| Amortisation of intangibles | 1,821 | 1,342 |
| One-off transaction fees | - | 7,207 |
| Other one-off fees (see Strategic Report on page 10) | 37,552 | 4,196 |

The analysis of auditor's remuneration is as follows:

| | | |
|---|---|---|
| Fees payable for the audit of the Group's annual financial statements | 34 | 13 |
| Fees payable for the audit of the Group's subsidiaries' financial statements | 169 | 155 |
| Total audit fees | 203 | 168 |
| Total fees | 203 | 168 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. STAFF COSTS

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

| | 2019<br>No | 2018<br>No |
|---|---|---|
| Sales | 65 | 46 |
| Operations | 471 | 271 |
| Administration | 70 | 47 |
| | 606 | 364 |

| The aggregate payroll costs of the above were: | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Wages and salaries | 17,950 | 12,795 |
| Social security costs | 2,477 | 1,790 |
| Other pension costs | 1,411 | 866 |
| Share-based payments | - | 17,110 |
| | 21,838 | 32,561 |

The analysis of payroll costs above includes only expensed costs. Capitalised staff costs for 2019 are £19,210,000 (2018: £8,618,000).

### 5. FINANCE INCOME

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Interest on bank deposits | 143 | 572 |
| | 143 | 572 |

### 6. FINANCE COSTS

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Interest on bank loans | 12,549 | 4,603 |
| Interest on lease liability | 448 | - |
| Finance costs on repayment of bank loan | - | 9,500 |
| Other interest | 5 | 76 |
| | 13,002 | 14,179 |

## 7. TAXATION

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax based on the results for the year at 19% (2018: 19%) | - | - |
| **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 |

### Factors affecting current tax credit

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2018: 19%) as follows:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Loss on ordinary activities before taxation | (73,714) | (50,187) |
| Tax on loss on ordinary activities at standard rate | (14,006) | (9,536) |
| **Factors affecting charge** | | |
| Effect of change in tax rates | 515 | 269 |
| Prior period adjustment | - | 19 |
| Expenses not deductible for tax purposes | 6,871 | 6,976 |
| Other temporary differences | 1,984 | - |
| Origination of temporary differences on which no deferred tax asset has been recognised | 4,636 | 2,324 |
| Total taxation | - | 52 |

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold property | Network assets | Plant and machinery | Right of Use Assets | Fixtures and fittings | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | | | | |
| 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 |
| At 1 January 2019 | 102 | 242,155 | 11,569 | - | 1,094 | 12 | 254,932 |
| Additions | - | 174,196 | 18,531 | 18,031 | 430 | - | 211,188 |
| Disposals | - | - | (2) | - | - | - | (2) |
| At 31 December 2019 | 102 | 416,351 | 30,098 | 18,031 | 1,524 | 12 | 466,118 |
| **Accumulated depreciation** | | | | | | | |
| 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 |
| At 1 January 2019 | 102 | 17,818 | 2,511 | - | 234 | 12 | 20,677 |
| Charge in the year | - | 7,263 | 3,365 | 2,189 | 247 | - | 13,064 |
| At 31 December 2019 | 102 | 25,081 | 5,876 | 2,189 | 481 | 12 | 33,741 |
| **Net book value** | | | | | | | |
| At 31 December 2019 | - | 391,270 | 24,222 | 15,842 | 1,043 | - | 432,377 |
| At 31 December 2018 | - | 224,337 | 9,058 | - | 860 | - | 234,255 |

Included in network assets above are network assets under construction and not yet depreciated which are held at a cost of £14,755,000 (2018: £6,668,000) 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 2019. Each of the indicators set out in IAS 16 were considered and none were identified.

For details on the impact of COVID-19, see note 1: management do not believe that this will necessitate impairment of Property, Plant and Equipment.

## 9. INTANGIBLE ASSETS

| | Website costs £'000 | Customer contracts £'000 | Software costs £'000 | Brand £'000 | Goodwill £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 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 |
| At 1 January 2019 | 63 | 3,730 | 5,243 | 2,148 | 17,729 | 28,913 |
| Additions | - | - | 2,584 | - | - | 2,584 |
| At 31 December 2019 | 63 | 3,730 | 7,827 | 2,148 | 17,729 | 31,497 |
| **Accumulated amortisation** | | | | | | |
| 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 |
| At 1 January 2019 | 45 | 1,076 | 1,649 | 203 | - | 2,973 |
| Amortisation | 6 | 350 | 1,322 | 143 | - | 1,821 |
| At 31 December 2019 | 51 | 1,426 | 2,971 | 346 | - | 4,794 |
| **Net book value** | | | | | | |
| At 31 December 2019 | 12 | 2,304 | 4,856 | 1,802 | 17,729 | 26,703 |
| At 31 December 2018 | 18 | 2,654 | 3,594 | 1,945 | 17,729 | 25,940 |

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 £44,404,000 which exceeds its carrying amount by £26,675,000. 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 2024.

| ***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. For details on the impact of COVID-19, see note 1: management do not believe that this will necessitate impairment of intangible assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 10. 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:

| | **2019** | **2018** |
| --- | --- | --- |
| | **£'000** | **£'000** |
| Loss from continuing operations | 258 | 597 |
| Other comprehensive income | - | - |
| Total comprehensive loss | 258 | 597 |

**Investment in Joint Venture**

| | |
| --- | --- |
| As at 1 January 2019 | 5 |
| Share of comprehensive loss for the year of the equity accounted joint venture | (5) |
| As at 31 December 2019 | - |

## 11. INVENTORY

| | **2019** | **2018** |
| --- | --- | --- |
| | **£'000** | **£'000** |
| Completed assets held-for-sale | 2,735 | 3,146 |
| Raw materials and consumables | 4,546 | 1,438 |
| | 7,281 | 4,584 |

Inventory is stated net of an impairment provision of £nil (2018: £nil).

## 12. CASH AND CASH EQUIVALENTS

| | **2019** | **2018** |
| --- | --- | --- |
| | **£'000** | **£'000** |
| Cash at bank | 12,078 | 66,723 |
| Restricted cash | - | 600 |
| | 12,078 | 67,323 |

Restricted cash represents cash held in escrow which was used in 2019 to settle a liability to management of a subsidiary in respect of their previous shareholding.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 13. TRADE AND OTHER RECEIVABLES

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Trade receivables | 11,775 | 7,453 |
| Other debtors | 14,283 | 8,767 |
| Prepayments | 5,445 | 3,870 |
| Amounts due from group undertakings | 87 | - |
| Lease receivable | 442 | |
| Accrued income | 2,383 | 3,061 |
| | 34,415 | 23,151 |

Trade receivables are stated net of a doubtful debt provision of £558,000 (2018: £1,146,000). See note 22 for further discussion of credit risk.

## 14. DEFERRED TAX

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Balance at start of period | 756 | 723 |
| Movement in the year | - | 33 |
| Balance at end of period - liability | 756 | 756 |

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

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Difference of taxation allowances over depreciation on fixed assets | 5,021 | (5,539) |
| Tax losses available | 13,837 | 15,159 |
| Short term timing differences | 4,971 | - |
| | 23,829 | 9,620 |

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.

## 15. CALLED UP SHARE CAPITAL

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| **Authorised, called up, allotted and fully paid** | | |
| 735,915,080 ordinary shares of £0.01 each (2018: 663,915,080) | 7,359 | 6,639 |
| 5,653,865 deferred ordinary shares of £0.01 each (2018: 5,653,865) | 57 | 57 |
| | 7,416 | 6,696 |

| | 2019<br>Number |
|---|---|
| **Ordinary shares (issued)** | |
| Balance at start of period | 663,915,080 |
| Share issue | 72,000,000 |
| Balance at end of period | 735,915,080 |

On 28 November 2019, 72,000,000 shares at 1p per ordinary share were issued for a consideration of £72,000,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 16. RESERVES

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

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

## 17. INTEREST BEARING LOANS AND BORROWINGS

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Bank loan | 171,387 | 50,905 |
| | 171,387 | 50,905 |
| Due within one year | - | - |
| Due after one year | 171,387 | 50,905 |
| | 171,387 | 50,905 |

The carrying value of the loan is stated net of unamortised finance costs of £19,147,000 (2018: £22,121,000). The bank loan carries interest at 2.75% above LIBOR.

**Maturity analysis**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| ***Bank and other loans*** | | |
| In more than two years but not more than five years | - | - |
| In more than five years | 171,387 | 50,905 |
| | 171,387 | 50,905 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 17. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

**Reconciliation of cash and non-cash movement**

| | £'000 |
|---|---|
| Balance at 1 January 2019 | 50,905 |
| Loan drawdown | 162,508 |
| Loan balance repaid | (45,000) |
| Non-cash movement – transaction costs capitalised | (233) |
| Non-cash movement – amortisation of financing costs | 3,207 |
| **Balance at 31 December 2019** | 171,387 |

## 18. DEFERRED REVENUE

**Unsatisfied performance obligations**
The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied at 31 December 2019 was £31.9m (2018: £23.0m) and is expected to be recognised as revenue in future periods as follows:

**Period of performance obligation**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| In one year or less or on demand | 8,752 | 6,677 |
| In more than one year but not more than two years | 3,411 | 2,211 |
| In more than two years but not more than five years | 6,810 | 4,959 |
| In more than five years | 12,904 | 9,126 |
| | 31,877 | 22,973 |

## 19. TRADE AND OTHER PAYABLES

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Trade payables | 13,438 | 11,956 |
| Other taxation and social security | 1,842 | 1,135 |
| Other creditors | 600 | 468 |
| Accruals | 29,971 | 15,843 |
| Amounts due to group undertakings | 156 | 409 |
| | 46,007 | 29,811 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 20. LEASES

**Nature of leasing activities (in the capacity as lessee)**

The group leases a number of properties in the United Kingdom where it operates. In some lease contracts payments increase each year by inflation or and in others are reset periodically to market rental rates. In other property leases, the periodic rent is fixed over the lease term.The group also leases certain network assets and items of plant and equipment. Leases of network assets and plant, equipment comprise only fixed payments over the lease terms.

| **Right of use assets** | **Leasehold Property £'000** | **Network Assets £'000** | **Plant and Machinery £'000** | **Total £'000** |
|---|---|---|---|---|
| At 1 January 2019 | 4,661 | 2,236 | 4,318 | 11,215 |
| Additions | 409 | 1,543 | 4,864 | 6,816 |
| Depreciation | (1,007) | (489) | (693) | (2,189) |
| As 31 December 2019 | 4,063 | 3,290 | 8,489 | 15,842 |

| **Lease liabilities** | **Leasehold Property £'000** | **Network Assets £'000** | **Plant and Machinery £'000** | **Total £'000** |
|---|---|---|---|---|
| At 1 January 2019 | 4,731 | 919 | 4,307 | 9,957 |
| Additions | 409 | 1,543 | 4,864 | 6,816 |
| Interest expense | 162 | 39 | 247 | 448 |
| Payments | (1,093) | (1,595) | (805) | (3,493) |
| As 31 December 2019 | 4,209 | 906 | 8,613 | 13,728 |

The Group has recognised short-term and low-value leases through the Consolidated Statement Of Profit Or Loss And Other Comprehensive Income, as detailed below.

| | **£'000** |
|---|---|
| Short-term lease expense | 254 |
| Low value lease expense | 11 |

| **As 31 December 2019** | **Up to 3 Months £'000** | **Between 3 and 12 months £'000** | **Between 1 and 2 years £'000** | **Between 2 and 5 years £'000** | **Over 5 years £'000** |
|---|---|---|---|---|---|
| Lease liabilities | 593 | 1,768 | 2,209 | 4,106 | 8,908 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 21. CAPITAL COMMITMENTS

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Contracted but not provided for | 49,751 | 38,148 |
| | 49,751 | 38,148 |

Capital commitments include amounts in relation to sales contracts signed in 2019 for which construction will take place in 2020.

## 22. 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 liquidity risk, interest rate 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 | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Due within one year | 12,791 | 9,709 |
| Due within one to two years | 13,783 | 9,736 |
| Due within two to three years | 13,783 | 10,545 |
| Due within three to four years | 14,810 | 10,545 |
| Due within four to five years | 15,881 | 11,381 |
| Due within five to six years | 206,751 | 12,251 |
| Due within six to seven years | - | 85,578 |
| | 277,799 | 149,745 |

Future payments of interest have been calculated based on the principal at 31 December 2019 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 2019 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 22. FINANCIAL INSTRUMENTS (CONTINUED)

**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 | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Under 30 days overdue | 9,921 | 4,765 |
| 31 to 60 days overdue | 1,634 | 465 |
| 61 to 90 days overdue | 64 | 1,241 |
| Over 90 days overdue | 156 | 982 |
| | 11,775 | 7,453 |

A provision of £186,000 (2018: £320,000) was made against doubtful receivables during the year and the balance of the provision was £558,000 at 31 December 2019 (2018: £1,146,000).

**Fair values**

In management's opinion there is no 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.

## 23. 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 2019 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.

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

**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 2019 £'000 | Key management personnel 2018 £'000 | Highest paid director 2019 £'000 | Highest paid director 2018 £'000 |
|---|---|---|---|---|
| Fees | 2,197 | 1,613 | 350 | 344 |
| Benefits in kind | 122 | 60 | 17 | 10 |
| Pension contributions | 55 | 75 | - | - |
| Bonus | 2,119 | 943 | 403 | 286 |
| Other fees | 132 | - | - | - |
| Share-based payments | - | 8,694 | - | 2,403 |
| | 4,625 | 11,385 | 770 | 3,043 |
| Social security costs | 621 | 360 | 105 | 88 |
| Total emoluments | 5,246 | 11,745 | 875 | 3,131 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 23. RELATED PARTY TRANSACTIONS (CONTINUED)

During the year the Group charged Bolt Pro Tem Ltd, an associate of CityFibre Holdings Ltd, £468,000 (2018: £181,000) in respect of services provided. Of this, £40,000 (2018: £19,000) was receivable at the year-end.

During the year, the Group charged Arqiva Ltd, a company with a former Director in common, Sally Davis, £873,000 (2018: £215,000), in respect of services provided. Of this, £16,000 (2018: £nil) was owed at the year-end.

During the year, the Group was charged by SH Consulting Services Ltd, a company whose Director, Steven Holliday, is also a non-executive Director of Connect Infrastructure Topco Limited, the ultimate parent entity of the Group, £25,000 (2018: £nil), in respect of services received. Of this, £25,000 (2018: £nil) was owed at the year-end.

At 31 December 2019 the Group was jointly-controlled by a consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners.

## 24. 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 £1,411,000 (2018: £787,000). Contributions totalling £208,000 (2018: £100,000) were payable to the fund at the period end and are included in creditors.

## 25. SUBSEQUENT EVENTS

On 27 March 2020, the Group acquired 100% of the share capital of FibreNation Limited, along with the remaining shareholding of Bolt Pro Tem Limited, a company which had previously been 33% owned by the Group.

In March 2020, 200,400,000 shares at 1p per ordinary share were issued for a consideration of £250,500,000.

In February 2020, CityFibre was selected by mobile network operator Three as a preferred provider of backhaul connectivity outside London. Further details are included in the Strategic Report.

For details of the impact of the COVID-19 pandemic see note 1.

## 26. EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The Group adopted IFRS 16 with a transition date of 1 January 2019. The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. Rather, the changes have been processed at the date of initial application (i.e. 1 January 2019) and recognised in the opening equity balances. Details of the impact of this standard have had are given below. Other new and amended standards and Interpretations issued by the IASB did not 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.

**IFRS 16 Leases (IFRS 16)**

Effective 1 January 2019, IFRS 16 has replaced IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. As a lessor, the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not. Refer to the Group's revenue policy for further information on the accounting treatment of revenue received from the Indefeasible Right of Use (IRU) of assets.

*Transition method and practical expedients utilised*

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;

b) Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;

c) Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and

d) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

## 26. EFFECTS OF CHANGES IN ACCOUNTING POLICIES (CONTINUED)

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities as follows:

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 January 2019:

| | **31 Decemer 2018 As originally presented** | **IFRS 16** | **1 January 2019** |
|---|---|---|---|
| **Assets** | **£'000** | **£'000** | **£'000** |
| Right of use assets | - | 11,215 | 11,215 |
| Prepayments | 3,870 | (48) | 3,822 |
| | | | |
| **Liabilities** | | | |
| Accruals | 15,843 | 1,172 | 17,015 |
| Lease Liabilities | - | 9,957 | 9,957 |
| | | | |
| **Equity** | | | |
| Retained earnings | (103,987) | (38) | (104,025) |

# COMPANY STATEMENT OF FINANCIAL POSITION
**Company number 08772997**

**As at 31 December 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | | |
| Investments | C4 | 78,957 | 78,957 |
| Intercompany loan | C5 | 458,280 | 248,326 |
| Total non-current assets | | 537,237 | 327,283 |
| | | | |
| Current assets | | | |
| Trade and other receivables | C6 | 50,848 | 11,943 |
| Cash and cash equivalents | C7 | 6,842 | 62,260 |
| Total current assets | | 57,690 | 74,203 |
| | | | |
| Total assets | | 594,927 | 401,486 |
| | | | |
| **Equity** | | | |
| Share capital | 15 | 7,416 | 6,696 |
| Share premium | 16 | 419,053 | 347,773 |
| Retained earnings | 16 | (4,510) | (8,408) |
| Total equity | | 421,959 | 346,061 |
| | | | |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| Loan | 17 | 171,387 | 50,905 |
| Total non-current liabilities | | 171,387 | 50,905 |
| | | | |
| Current liabilities | | | |
| Trade and other payables | C8 | 1,581 | 4,520 |
| Total current liabilities | | 1,581 | 4,520 |
| | | | |
| Total liabilities | | 172,968 | 55,425 |
| | | | |
| Total equity and liabilities | | 594,927 | 401,486 |

The parent company profit for the year was £3,898,000 (2018: loss of £2,917,000).

These financial statements were approved by the Board of Directors and authorised for issue on 29 April 2020. They were signed on its behalf by:

W G Mesch
Director

Notes C1 to C10 form part of these financial statements.

## COMPANY STATEMENT OF CASH FLOWS

**For the year ended 31 December 2019**

| | Note | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax | | 3,898 | (2,917) |
| Finance income | | (17,394) | (1,187) |
| Finance costs | | 12,549 | 394 |
| Transaction related fees | | - | 7,207 |
| Deferred consideration | | 33 | 1,363 |
| Increase in receivables | | (36,795) | (10,610) |
| (Decrease) in payables | | (2,627) | (459) |
| Share-based payments | | - | 17,378 |
| **Net cash (utilised in) / generated from operating activities** | | (40,336) | 11,169 |
| | | | |
| **Cash flows from investing activities** | | | |
| Interest received | | 338 | 322 |
| Investment in short-term deposits | | - | 120,000 |
| Repayment of borrowings | | - | - |
| Loan to subsidiary | | (192,677) | (150,010) |
| Loan from subsidiary | | - | - |
| Deferred consideration and acquisition costs | | (600) | (1,650) |
| **Net cash utilised in investing activities** | | (192,939) | (31,338) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of share capital | | 72,000 | 4,629 |
| Transaction related fees | | - | (7,207) |
| Loan repaid | | (45,000) | - |
| Loan drawdown | | 162,508 | 73,025 |
| Loan transaction fees | | - | (18,893) |
| Interest paid | | (11,651) | (212) |
| **Net cash from financing activities** | | 177,857 | 51,342 |
| | | | |
| **Net (decrease) / increase in cash and cash equivalents** | | (55,418) | 31,173 |
| Cash and cash equivalents at beginning of period | | 62,260 | 31,087 |
| **Cash and cash equivalents at end of period** | **C7** | 6,842 | 62,260 |

Notes C1 to C10 form part of these financial statements.

## COMPANY STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2019**

| | Share capital | Share premium | Share warrant reserve | Share-based payments reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance at 1 January 2018** | 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** | | | | | | |
| 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 |
| **Comprehensive income** | | | | | | |
| Loss and total comprehensive loss for the year | - | - | - | - | 3,898 | 3,898 |
| **Transactions with owners** | | | | | | |
| Share-based payments | - | - | - | - | - | - |
| Exercise of share options and share warrants | 720 | 71,280 | - | - | - | 72,000 |
| **Balance at 31 December 2019** | 7,416 | 419,053 | - | - | (4,510) | 421,959 |

Notes C1 to C10 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 £162,000 (2018: £804,000) 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

| | **2019 £'000** | **2018 £'000** |
|---|---|---|
| Investments | 78,957 | 78,957 |
| | 78,957 | 78,957 |

**Subsidiaries**

The subsidiary undertakings of the Company at 31 December 2019 are disclosed in note 23.

## C5. INTERCOMPANY LOAN

| | **2019 £'000** | **2018 £'000** |
|---|---|---|
| Intercompany loan – non-current | 458,280 | 248,326 |
| | 458,280 | 248,326 |

During the previous 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%. At 31 December 2019, the balance owing from Entanet Holdings Limited was £8.61m (2018: £8.17m) and £449.67m was owed by CityFibre Holdings Limited (2018: £240.16m).

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## C6. TRADE AND OTHER RECEIVABLES

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Other receivables | 513 | 323 |
| Prepayments and accrued interest | 331 | 1,204 |
| Amounts owing from subsidiaries | 50,004 | 10,416 |
| | 50,848 | 11,943 |

The Directors do not consider there to be a material risk of impairment with respect to receivables which are due from related parties. See note 22 for further discussion of credit risk.

## C7. CASH AND CASH EQUIVALENTS

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Cash at bank and in hand | 6,842 | 61,660 |
| Restricted cash | - | 600 |
| | 6,842 | 62,260 |

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Trade payables | - | 173 |
| Amounts payable to group undertakings | 63 | - |
| Accruals and deferred income | 1,518 | 4,347 |
| | 1,581 | 4,520 |

## C9. RELATED PARTY TRANSACTIONS

The Company has a related party relationship with its subsidiaries and with its directors and executive officers (see note 23).

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

There are no other related party transactions.

## C10. 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 risk of impairment with respect to these loan receivables which are due from related parties.