

CITYFIBRE INFRASTRUCTURE HOLDINGS LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

COMPANY NUMBER 08772997

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COMPANY INFORMATION

Directors

W G Mesch
S N J Holden
N J Dunn

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'). At the start of 2021, Connect Infrastructure Topco Limited was jointly controlled by a consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners, a fund managed by Goldman Sachs. Mubadala Investment Company and Interogo Holding joined the existing investors and became minority shareholders after investing in August 2021.

Antin Infrastructure Partners

Antin Infrastructure Partners is a leading independent private equity firm focused on infrastructure investments. Based in Paris, London and New York with 21 partners and 163 professionals, the firm manages five funds that invest in infrastructure in Europe and North America targeting investments in the energy and environment, telecommunications, transportation and social sectors.

In 2010, Antin Infrastructure Partners successfully raised and fully invested a first fund of €1.1 billion, a second fund in 2014 of €2 billion, and a third fund of €3.6 billion (at the hard cap) in December 2016. A fourth fund of €6.5 billion (hard cap) was raised in July 2020 and a fifth fund closed in June 2021, its first dedicated mid cap fund, which significantly exceeded the fund's €1.5 billion target to reach its hard cap of €2.2 billion. These funds are backed by 200 institutional investors comprising pension funds, insurance companies, asset managers and sovereign wealth funds from across Europe, North America, the Middle East, Asia and Australia, including pension funds, insurance companies, asset managers and sovereign wealth funds. Antin Infrastructure Partners has approximately €23 billion of Assets Under Management as at 31st December 2021.

On 27 September 2021, Antin successfully completed an initial public offering on Euronext Paris. Post IPO, the Partner Group retains a significant majority stake (current free float of approximately 15%) and remains strongly committed to the firm. The funds raised will allow Antin Infrastructure Partners to continue scaling up its Flagship strategy and to develop the recently launched Mid Cap and NextGen strategies, while also expanding into new geographies.

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 developed 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

West Street Infrastructure Partners is one of a series of funds managed by the Alternatives Business within Goldman Sachs Asset Management ("GS Asset Management Private") to make direct investments in infrastructure and infrastructure-related assets and companies globally. Goldman Sachs is a leading global investment banking, securities and investment management firm headquartered in New York and with offices around the world, including London. With approximately \$285 billion of capital invested since 1986 and approximately \$426 billion in total Goldman Sachs alternative assets (as of 31 December 2021)¹, GS Asset Management Private is one of the world's leading private investing platforms with a mandate to manage Goldman Sachs' private corporate investment activities across dedicated corporate (private & growth equity), real estate, credit and infrastructure investment strategies. Since the inception of the infrastructure business in 2006, GS Asset Management Private has raised more than \$17 billion of capital dedicated to the infrastructure investment strategy and have total assets under management of approximately \$9 billion.

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), ExteNet (small cells and distributed network services), Global Compute (a new global data centre platform led by former Digital Realty co-founders and senior executives), and most recently ImOn (a regional FTTP platform). Affiliated funds managed by Goldman Sachs within GS Asset Management Private, have invested in several European communication infrastructure companies, including Kabel Deutschland, Cablecom and Get.

¹ Represents Goldman Sachs total assets under supervision for alternative investments as well as non-fee-earning alternative investments.

Mubadala Investment Company

Mubadala Investment Company ('Mubadala') is one of the world's leading sovereign investors and manages a diverse portfolio of assets and investments in the United Arab Emirates and abroad, to generate sustainable financial returns for its shareholder, the Government of Abu Dhabi.

Today Mubadala is a \$243 billion (AED 894 billion) business that spans six continents with interests across multiple sectors and asset classes. Headquartered in Abu Dhabi, Mubadala also has offices in London, Rio de Janeiro, Moscow, New York, San Francisco and Beijing.

Mubadala's investment into CityFibre is in line with the United Arab Emirates/United Kingdom Sovereign Investment Partnership. The partnership, which Mubadala oversees for the UAE and the Office for Investment for the UK, serves as a coordination platform to grow a future-focused investment relationship between the two nations and enable growth, employment, and global competitiveness across priority sectors.

Interogo Holding

Interogo Holding is a foundation-owned international investment business, whose strategies include private and long-term equities, real estate, infrastructure and liquid assets. Interogo Holding focuses on sectors and strategies where it can benefit from its long-term business approach, financial strength and commitment to also consider non-financial aspects of an investment.

The infrastructure investment business targets direct investments in Europe and North America, across the infrastructure sector. The strategy is to acquire holdings in infrastructure companies that provide essential services to society, are recession resilient, and offer downside protection through stable and predictable cash flows.

Company's directors

Greg Mesch (Chief Executive Officer)

With over 35 years of telecoms, internet and technology-based experience behind him and five companies successfully built from start-up phase, Greg is experienced when it comes to business plan development, management team building and the capital formation of high growth, communications and technology based companies.

Nick Dunn (Chief Financial Officer)

Prior to joining CityFibre in January 2021, Nick served the last ten years as CFO at Gatwick Airport. Before that, he worked with Anglo American plc and with Centrica plc for six years in a number of senior finance roles, including Director of Group M&A, Finance Director for Centrica Energy as well as Finance Director for British Gas Business.

Nick also brings more than ten years' experience in investment banking, with the majority of that time spent specialising in the infrastructure sector. Working on acquisitions, IPOs and financing transactions in the UK and internationally, he has advised both governments and private investors.

Simon Holden (Chief Operating Officer)

Prior to joining in 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. Before 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 was founded to build a new generation of Full Fibre infrastructure for the UK - a network capable of transforming the digital capabilities of citizens and businesses, sparking innovation and underpinning our economy in a gigabit age.

Today we operate the UK's largest and finest independent Full Fibre platform. Our high quality digital infrastructure enables our wholesale customers to serve ultra-reliable, gigabit speed and futureproof broadband, ethernet and 5G services to homes, businesses, schools, hospitals and GP surgeries - plus anything else that needs a digital connection.

CityFibre has network rollouts already under way and plans to pass up to 8 million homes and businesses with open-access Full Fibre infrastructure across 285 towns, cities and villages in the UK.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The Directors present their strategic report with the audited financial statements for the year ended 31 December 2021.

CEO review

Despite the far-reaching impact of the COVID-19 pandemic on all aspects of the UK economy and global supply chains, CityFibre has continued to build on solid foundations in 2021, delivering major financial, operational and commercial progress and further strengthening its position as the UK's third national digital infrastructure and a key enabler of the Government's ambitions for nationwide coverage of Gigabit-capable broadband.

In March 2021, we made public our rollout plans, identifying the 285 cities, towns and villages that comprise our stated £4 billion investment programme. Expected to be substantially completed by 2025, the rollout addresses approximately a third of the UK market including up to 8 million homes, 800,000 businesses, 400,000 public sector sites and 250,000 5G access points. This will make CityFibre the largest independent carrier-neutral Full Fibre platform in the country and the largest independent investment in the UK's digital infrastructure for a generation.

Building Our Network

Our rollout's momentum and progress continued from strength to strength throughout the year as we successfully contracted and mobilised a network of 28 local and regional build partners, commencing projects in 31 major metropolitan areas. Our build programme was further reinforced by an extension and expansion of our existing partnership with Bechtel, one of the world's leading engineering, construction, and project management companies.

Bechtel's teams have been fully integrated into our organisational structure since September 2020, enabling us to accelerate the mobilisation of our build partners and manage a growing number of parallel full town and city rollouts. Bechtel has also helped us to strengthen our project controls to enhance operational management, establish improved controls around risk and change, and crucially increase our productivity, growing the numbers of trained civils operatives working on our projects and improving the volume and quality of their output.

The compounding of these productivity improvements, alongside the continued commencement of new build projects, enabled us to reach a critical milestone of more than one million homes Ready for Service ('RFS') in November 2021. Independently verified, the milestone marked CityFibre's emergence as the largest scale alternative to BT Openreach in the UK market and the dominant provider of Full Fibre lines in more than 25 locations.

Thanks to the progress of our rollout in 2021, CityFibre's portfolio of over 30 consumer Internet Service Provider ('ISP') partners can now offer market-leading, Gigabit-capable, symmetrical broadband services in as little as 5 working days from order to over one million UK households.

Capital Raises

Demonstrating the relevance and attractiveness of CityFibre's wholesale digital infrastructure business model and recognising its growing momentum in the delivery of our plans, in September 2021 the Group announced it had secured £1.125 billion in the largest capital raise ever dedicated to Full Fibre deployment in the UK.

The capital raise notably included £675 million of new equity investments from Abu Dhabi's Mubadala Investment Company, one of the world's leading sovereign investors, and Interogo Holding, a foundation-owned investment group. Mubadala and Interogo joined CityFibre's existing investors Antin Infrastructure Partners and the Infrastructure business within Goldman Sachs Asset Management, as minority shareholders.

Mubadala's investment into CityFibre also marked the first capital deployed under the new infrastructure vertical of the United Arab Emirates/United Kingdom Sovereign Investment Partnership. In March 2022, Mubadala announced a further equity commitment of £300m to CityFibre bringing the total capital raised to £1.425 billion.

The capital raise also included £150 million of equity from existing shareholders Antin Infrastructure Partners and West Street Infrastructure Partners, as well as a £300 million extension of our existing £820 million banking facilities. Crédit Agricole CIB and National Australia Bank joined the syndicate alongside other major global financial institutions that are demonstrating their continued support, including ABN Amro, Banca IMI, Lloyds, NatWest, and Société Générale.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Filling Our Network

2021 was also a particularly strong year for CityFibre commercially, cementing our position as a network of choice for a growing number of communication providers.

Over the course of the year our ISP partnerships increased significantly from 14 to 35. Complementing our existing major partners Vodafone, TalkTalk and Zen, many of these new partners target one or more local markets and were onboarded and enabled in a matter of months, allowing us to maximise effective retail coverage of our ready for service networks.

Most significantly, a major expansion of our strategic partnership with Vodafone has established them as CityFibre's anchor customer nationwide, increasing their long-term volume commitments from 12 to 285 cities, towns and villages across our entire 8 million home target rollout.

The new agreement marked not only Vodafone's confidence in our business but also their continued support for wholesale infrastructure competition at scale in the market. Since the outset of our partnership, we have worked together closely to develop the market and maximise take-up. This has resulted in Vodafone's market leading "Gigafast" services achieving twice the rate of take-up over our footprint compared to its market share in other parts of the country.

Critically the deal also supports a major investment of over £65 million in a new national access network to interconnect our existing local fibre networks and accelerate our partners' speed to market. The new network is already making it far easier, faster and more cost effective for Vodafone and other ISP partners to bring services to market across a nationwide footprint.

Major progress was also made in the operational and commercial support provided to our partners to ensure a continued increase in customer orders. Alongside a bolstered account management function under a new Chief Sales Officer, we also made significant headway in the demand stimulation and lead-generation activities with the appointment of a new Chief Marketing Officer. We saw material improvements in sales volumes with orders increasing 68% year on year.

Thanks to the impact of these improvements and the roadmap of marketing and partner enablement in 2022, we are confident that this trend in increasing sales volumes and customer penetration will continue.

Our People

Delivering against our ambitious plans necessitated substantial organisational growth in 2021 with more than 500 new FTEs joining the business, increasing our headcount by 38% year on year. Despite the extraordinary rate of growth, we were delighted that our efforts to onboard and support new joiners enabled us to maintain our position in the top 10% of businesses for employee satisfaction.

In addition, our focus on nurturing diversity within our organisation continued to deliver strong improvements to the representation of women in our business. What is more, we were extremely proud to be recognised as a Times Top 50 Employers for Women in the UK, an achievement on which we intend to continue to build in the years to come.

The health, safety and wellbeing of employees and contractors remains our primary concern. We established the concept of 'High Potential' events in 2021, which ensures that, regardless of level of actual outcome, those events which have significant risk get the most attention. Additionally, the CityFibre Head of Safety, Health and Environment established an industry group including peers and competitors in the Fibre sector, to provide more consistency around working standards and to allow for more effective benchmarking.

Our Planet

We recognise that, as a result of our activities, we can create negative impacts on the environment and understand that a damaged environment has broader consequences for the health and wellbeing of society. Climate change is the defining challenge of this generation and we understand the critical role we need to play. The biggest contribution we can make is through enabling national fibre uptake to replace power hungry copper-based networks, but we must also reduce our own impact on the environment.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

During 2021, CityFibre undertook a comprehensive review of its approach to sustainability, involving extensive stakeholder engagement and benchmarking. The results of this review reconfirmed priority issues but also the need to accelerate our programme in other areas. This includes the commitment to achieving Net Zero by 2030, if not sooner.

To support this, CityFibre continues to work with an external sustainability consultant, Anthesis, who have been supporting our reporting in line with SECR (Streamlined Energy and Carbon Reporting) and ESOS (Energy Savings Opportunity Scheme). We have also continued our membership of Business in the Community (BITC), the largest and oldest business-led membership organisation in the UK dedicated to furthering responsible business. Our membership helps to highlight our intent in this area and provides access to tools to chart our progress alongside other businesses.

COVID-19

While the COVID-19 pandemic continued to surge throughout 2021, thanks to the early and effective action CityFibre had taken to protect our staff, secure our supply chain and stabilise our build, we have been able to manage many of the negative impacts.

Throughout 2021, the health and safety of all continued to be our number one priority and we were delighted that our careful management of build partners ensured that productivity across our rollouts remained high. Just as had been implemented in 2020, all construction operatives and critical personnel were designated as Key Workers and protocols to ensure prompt isolation of suspected and confirmed cases saw very little impact from transmission amongst our field or office-based personnel.

We remain proud of our handling of the impact of the pandemic on our employees and customers and thank everyone for their commitment to the business throughout this challenging period.

Overview of performance

Financial performance

Group revenue of £64.3 million represents growth of 2% compared to the prior year of £63.1 million. Underlying 'on-net' revenue growth on CityFibre's network (excluding non-recurring revenue for capacity sales, 2021: £nil, 2020: £3.6 million) was up 23%, increasing from £26.4 million to £32.5 million while 'off-net' revenues relating to sales provisioned on other networks fell by 4% to £31.8 million, (2020: £33.1 million). 'On-net' revenue accelerated through the year with Q4 revenue growth up 32%, from £7.2 million to £9.5 million.

The Group's network assets at cost increased to £1,547.8 million from £834.1 million at 31 December 2020. 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 loss¹ of £49.5 million (2020: £30.0 million) reflects the significant investment in marketing and operating costs required to scale the business to deliver the network infrastructure roll-out and support customer growth. The increase in loss after tax to £133.4 million (2020: £103.5 million) reflects the change in Adjusted EBITDA in both quantum and drivers.

Non-financial KPIs

The continued build of CityFibre's Full Fibre network remains a key focus with homes passed growing by 883,000 in the year to achieve over 1.4 million homes passed cumulatively by the end of 2021. Consumers can now access our services in 57 cities (2020: 27), and a further 30 cities have been approved for contractor awards to give a total approved footprint of 87 cities as CityFibre continue to build out to the stated ambition of up to 8 million premises.

¹ See page 13 for a reconciliation of operating loss to adjusted EBITDA

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Filling our network was another priority and there was strong sales volume growth again in 2021, with 68% year on year increase in on-net connections sold across all verticals, from 25,158 to 42,147 in 2021. In 2021, COVID-19 continued to raise challenges, restricting sales activity in the Consumer space. However, CityFibre managed to sell almost 39,000 consumer connections (2020: 20,339), with 90% coming from our major ISP partners, Vodafone and TalkTalk. Business connection sales also grew 53% from 1,192 to 1,827 with contract values of over £21 million (2020: £15.3 million). Public Sector continues to play an important role in anchoring our networks and CityFibre secured 1,257 new connections in 2021 (2020: 1,775). Mobile sales slowed from 2,131 connections sold last year to 85 as the focus moved to delivery of secured contracts. CityFibre continues to successfully monetise the network it is building across all verticals with the focus increasingly on delivering Consumer connections at scale, as demonstrated by year-on-year connections growing in Q4 by 199%.

The Group ended the year with 1,857 employees (1,852 full-time equivalent staff ('FTEs')), compared to 1,347 employees (1,340 FTEs) at the end of 2020, as it scaled up capabilities and the support for the network rollout.

Outlook

Despite the continued disruption from the COVID-19 pandemic, 2021 saw the business gain strong momentum on all fronts. Scaling and build execution remained our primary focus but with our network fill strategy now also reflecting significant progress in Consumer connections. By continuing to onboard additional ISPs and increasing the number of cities our strategic partners are able to sell in, we delivered a step-change in order volumes through the final quarter of the year in particular.

This trend has continued in 2022 as we are already experiencing significantly increased Consumer orders and connections, especially from our largest ISPs, Vodafone and TalkTalk, as the footprint available to them continues to grow at pace.

With more than 1.5 million homes passed by our network by the end of March 2022, and 1.3 million Ready for Service premises, our relentless focus on the scaling of our build programme is paying dividends. By the end of 2022, we expect to have doubled our network footprint from last year, reaching over 2.2 million homes across 81 major metro area locations. This progress will be a further step-change in the scaling of our network.

There are also encouraging signs that the take-up of Full Fibre broadband services by consumers is gaining momentum. In Milton Keynes, one of CityFibre's most mature city networks, we have now exceeded 20% take-up of the available network, despite only just having completed our first pass build to over 90,000 homes. This provides us with confidence that our increasingly sophisticated demand stimulation activities and our partners' improving marketing capabilities are having a major impact on our consumer penetration figures. This represents a significant step towards fulfilling the Group's overall strategy and ambition.

CityFibre is also evaluating further opportunities to expand its nationwide rollout ambitions. This could entail the extension of more of its existing build projects alongside possible participation in the 'Project Gigabit' rural programme being overseen by Building Digital UK ('BDUK').

A process of refinancing and expanding the Group's debt facilities has commenced in 2022 with the aim of securing the additional capital funding required to fully underpin the build ambition of reaching 8 million premises. Progress to date is positive, with an expectation that the process will conclude shortly.

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 continued commitment, tenacity, and hard work in securing the successes achieved to date and supporting the Group's future development.



Greg Mesch
Chief Executive Officer
22 April 2022

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Financial Review

Results for the year reflect the substantially increased scale of Full Fibre network rollout, with an associated acceleration in marketing and operating costs to support this roll-out.

Profit and loss

Revenue increased to £64.3 million (2020: £63.1 million), with underlying 'on-net' revenue increasing 23% from £26.4 million to £32.5 million, largely attributable to the continued expansion in network footprint and incremental revenues from both existing and new cities. Gross margin fell to 40% (2020: 44%) due to increased costs relating to operating expenses as we expanded the network into more cities.

Administrative costs increased by £22.2 million to £139.5 million (2020: £117.3 million), of which £23.2 million was due to higher depreciation and amortisation arising from the investment in our Full Fibre Network. Excluding non-recurring costs, depreciation and amortisation, underlying administrative costs increased by 31% to £75.4 million (2020: £57.7 million), as CityFibre scaled up across multiple locations.

- Staff costs, including recruitment fees, full-time contractors and Bechtel staff, increased by 12% to £43.9 million (2020: £39.2 million). Headcount at 31 December 2021 (including full-time contractors) was 1,951, or 1,946 FTEs, up from 1,373 (1,366 FTEs) at 31 December 2020. The increase is primarily due to resource requirements for the Full Fibre network roll-out.
- Other general administrative costs increased to £31.4 million (2020: £18.3 million). In particular, marketing costs have increased to support the growth of the Consumer vertical, IT costs have increased to support the headcount increases and investment in new IT systems to support scaling, and we have invested in staff training to grow talent within the business.

Administrative costs include £64.1 million (2020: £59.6 million) of non-recurring costs, depreciation and amortisation and long-term incentive plan ('LTIP') charges. Principal items were as follows:

- Depreciation increased from £25.4 million to £46.4 million in 2021, due to increased network construction work performed in the year. The amortisation charge for the year increased to £6.7 million in 2021 (2020: £4.4 million), reflecting further development of the Group's network and IT systems.
- Other one-off costs fell from £26.2 million in 2020 to £11.0 million in 2021. These principally relate to a one-off contract change in 2019, with payments after 2019 being contingent on certain milestones being passed.
- Transaction costs of £3.5 million were incurred in 2020 relating to the acquisition of FibreNation from TalkTalk. No equivalent costs were incurred in 2021.

Operating loss increased to £113.6 million (2020: £89.6 million), due to the increase in administrative costs detailed above.

Adjusted EBITDA loss was £49.5 million (2020: £30.0 million) due to the increased headcount and operating costs required to support the Full Fibre network roll-out and additional marketing costs to stimulate consumer growth. A reconciliation of operating profit to adjusted EBITDA is shown below.

Loss after tax was £133.4 million (2020: £103.5 million), which includes net financing costs of £15.2 million relating to interest on CityFibre's debt facilities (2020: £13.7 million).

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Reconciliation of operating loss to Adjusted EBITDA

	2021 £'000	2020 £'000
Operating loss per accounts	(113,589)	(89,633)
Add back:		
Depreciation	46,398	25,412
Amortisation	6,656	4,444
EBITDA	<u>(60,535)</u>	<u>(59,777)</u>
Other one-off fees	11,041	26,234
Transaction-related fees	-	3,524
Adjusted EBITDA	<u>(49,494)</u>	<u>(30,019)</u>

Balance sheet

Additions to property, plant and equipment totalled £787.1 million (2020: £415.3 million), of which £713.8 million (2020: £371.8 million) related to the construction of new network assets. Of this, £659.8 million (2020: £337.1 million) related to the Full Fibre network build, while the remaining network asset build was to support additional customer connections in existing towns and cities, as well as enabling the assets for commercialisation. A further £43.5 million (2020: £17.0 million) was spent on fibre exchange costs, along with initial network and equipment required to enable the Full Fibre network build.

Gross debt at year end was £812.9 million (2020: £456.8 million); transaction costs capitalised against this balance gave rise to a balance sheet figure of £796.1 million (2020: £440.9 million). The Group successfully negotiated a £300 million extension to the existing debt facility with Credit Agricole CIB and National Australia Bank joining the syndicate alongside other major global financial institutions that are demonstrating their continued support including ABN Amro, Banca IMI, Lloyds, NatWest and Societe Generale.

Cash flow

Operating cashflow for the period was a net outflow of £81.7 million, compared to a net outflow of £30.3 million in 2020. At the year-end the cash balance was £47.0 million (2020: £106.1 million). During the year the Group received equity funding of £418.2 million (2020: £474.5 million) to fund capex associated with the Full Fibre network rollout.

CityFibre did not participate in any Government aid or loan schemes available as a result of the COVID-19 pandemic.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Principal risks and uncertainties

	Risk	Mitigation
Construction	The Group partners with construction firms to deploy network assets. This exposes the Group to the wider macro-economic impacts on these firm's cost bases.	The Group contracts with multiple construction partners to reduce the level of exposure to any single firm, with a robust supplier selection process. Re-measurable contracts are in place with construction firms to ensure that CityFibre only pays for what is built. We award long term contracts which provide increased certainty for the contractor, have ongoing supplier relationship management and monitoring of contractor financial position and make early interventions to support contractors where required.
Health & Safety	The Group is involved in activities and environments that have the potential to cause serious injury to its stakeholders, or to damage property, the environment or its reputation. It is reliant on a large subcontracted workforce operating to high standards and procedures.	The health and safety of people is the primary focus of the Group. To control risk and prevent harm, the Group is focused on achieving the highest standards of health and safety management. This is achieved by establishing effective health and safety procedures and ensuring that effective leadership and organisational arrangements are in place to operate these procedures.
Labour supply	The Group is unable to secure and maintain the required skilled labour to build the full fibre network at required speed and quality in a market with high demand on the supply of labour.	The Group actively works with build partners by providing contractual terms, training and incentive schemes that help them attract and retain labour. We will actively build a labour resource pipeline in order to facilitate resourcing capability for our build partners. We provide advance timelines of work to our contractors to allow them to plan resourcing requirements for the longer-term.
Supply Chain	Unable to secure required materials to the timetable needed due to worldwide shortage, which could reduce the speed of building the Full Fibre network.	The Group has dual suppliers for key materials, factors in long lead times when ordering goods and holds sufficient stock levels to minimise disruption to the Full Fibre network build activity.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Competition	<p>New smaller entrants have emerged, building Full Fibre infrastructure in some instances in UK towns and cities where we are also building, competing with CityFibre for customers and resources.</p>	<p>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 defensible competitive position. Our long-term contracts with ISPs continue to support this position.</p>
Regulation & Government Policy	<p>Despite the current clear support for alternative network operators, a shift in policy by Government or a failure by OFCOM to address anti-competitive behaviour in the Full Fibre wholesale market could have an adverse impact on the Group.</p>	<p>The Group continues to engage proactively with Ofcom and Government and take actions necessary to ensure its position is appropriately represented and protected. This includes a major engagement programme across all relevant Government departments and other political stakeholders highlighting the indispensable contribution we are making to achieving the Government's strategic objectives, and proactive engagement with Ofcom to ensure that it undertakes the necessary regulatory actions to safeguard CityFibre's competitive position.</p>
Liquidity (financial risk)	<p>There is a reliance on the Group's ability to access and secure adequate equity and debt funding during the network build phase of the business lifecycle.</p>	<p>The Group has a diverse base of lenders, and our shareholders have significant equity commitments to the business. The Group prepares short and long term cashflow forecasts for the purposes of planning and managing cash requirements. This includes forecasting and proactively triggering capital raises as required, for which we engage early support from qualified financial advisors. A process of debt financing has commenced in 2022 with the aim of refinancing our existing facilities and securing additional capital funding by upsizing our capex facilities to underpin the build ambition of reaching up to 8 million premises.</p>
Interest Rates	<p>The Group has a floating interest rate exposure linked to SONIA that it pays on its debt facility.</p>	<p>The Group has appropriate hedging instruments in place to mitigate its exposure to interest rate fluctuations.</p>

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Responsible Business

CityFibre is a business with a clear purpose. The digital infrastructure we build will help transform society, underpin global Britain's economic future and unleash our full potential. As we build our networks, we have a duty to act responsibly, ensuring we play our part to leave a fairer, greener and healthier world behind us. Not to do so would be to undermine the positive legacy we are determined to build.

We already track and report internally on many important aspects of our environmental and social impact. However, we are continually benchmarking and measuring our activities to ensure we continue to set ambitious goals, and that we meet them.

CityFibre has conducted a comprehensive review of its approach to being a responsible business, focusing on where it can create the most positive impact on society, minimising its operational impact on the planet and maximise opportunities through a diverse and happy workforce. The resulting principles of responsibility are being embedded to inform everything we do as a business.

Our people

We'll only be able to make a truly positive impact if our growing CityFibre family, and those working alongside us, are happy, healthy and representative of the diverse communities we serve. That's why we put huge emphasis on wellbeing, inclusion, diversity and nurturing young talent, supporting our people to bring their true self to work and build a lasting career in a sector critical to our future success.

Our society

Digital infrastructure is of critical importance to our society. That's why we're committed to helping build inclusive, enabled and engaged local communities in all our rollout locations. Working with build partners, we've also helped to create a wide variety of apprenticeships and entry level roles. From supporting digital inclusion initiatives, investing in programmes driving diverse participation in STEM education or even just a community litter-pick, we're helping to make a difference.

Our planet

Fibre optic networks are significantly less carbon-intensive than their copper predecessors. However, our nationwide rollout is still a major infrastructure project so we're committed to achieving our 'net zero carbon emissions by 2030' plan with an ambition to go further. Through optimising our working practices and working closely with expert partners and our supply chain, we are determined to play our part in a greener future for Britain.

The CityFibre Way

As our business grows at pace, it is important to us that we do not lose sight of our company's culture that underpins everything we do. The CityFibre Way, is how we think, act and work. It's our way of doing things. It identifies our key behaviours.

When these behaviours come together, they shape our culture to bring out the best in us, set us apart from our competition, and make our customers remember us. The CityFibre Way has proven hugely successful throughout the organisation with employees being able to recognise their qualities and the business potential creating a high energy working environment that our employees are proud to be a part of.

Over the past year, we have put significant efforts into tackling mental health issues across our business and we have trained more than 40 mental health first aiders who work proactively across the business, as well as all senior managers receiving a half-day mental health awareness training. We have also rolled out LEAD, our line manager development programme, and have continued our partnership with AXA's Employee Assistance programme. We have facilitated and promoted more flexible working patterns to cope with the challenges of lockdown on families and we have encouraged all staff to have 'screen-free time' daily from 1-2pm.

Throughout the financial year, we have continued to prioritise our employee wellbeing due to COVID-19. Our focus has been on ensuring we remain in communication with our colleagues and ensure they are kept informed, whether by presentations and question and answer sessions with senior leadership or through other channels, on the actions being taken to keep them safe and to equip them for work as well as to address their wider wellbeing.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Diversity and Inclusion

We want our business to be innovative and productive so that we can deliver on our promises to our customers and theirs. A diverse workforce and inclusive work environment are critical to achieving this. The more we use diverse perspectives to help make our business decisions, the more competitive we will be in a fast-moving industry.

Gender Diversity

As of 31st December 2021, CityFibre's gender split was as follows:

- Total Employees: 1,857 employees (excluding contractors), of which 484 identify as female
- Line Management Roles: 406 total, of which 105 identify as female
- There were 42 employees employed in the capacity of Executive or Director at CityFibre, of which 10 (23.8%) were female.

CityFibre remains committed to being an equal opportunities employer. Women are underrepresented across the telecommunication, construction and technology industries. However, CityFibre is committed to improving our gender diversity and, in addition to the launch of the Gender Network, have put in place many initiatives to help achieve this.

We recognised that to drive success we needed a baseline. Therefore, in February 2021 we launched a self-declare campaign asking our employees to register their demographics in our HR System and in May we launched our new recruitment platform to capture statistical demographic insights from application through to hiring. We also published our Gender Pay Gap report for the first time which allowed us to view our position as of April 2020.

Recognising that our Gender Pay Gap is, in part, due to there being a shortage of suitably qualified females in the market for the roles that we need, we launched our Planner and Build Assurance Academies which aim to take unskilled workers through intensive training. In the short term our pay gap will widen but there will be a positive impact in the longer term.

We undertook a review of all our policies ensuring inclusive language and consistency throughout. This also led to the creation of new policies and guidance packs covering multiple topics such as Menopause, Transitioning at Work, Domestic Abuse.

The Group used the Stonewall Equality Index, Times Top 50 question set, Disability Confident assessments and others as benchmarking exercises so we could see where we had gaps then prioritise improvements.

We empowered and increased the reach of our 4 employee networks, creating visual identities as well as providing Terms of Reference and supporting them to implement key roles. We also sponsored TLA Black Women in Tech's Voices in the Shadows as well as the WES (Women in Engineering Society) student conference.

Health and Safety

We have a fundamental duty of care to ensure our employees are kept safe at work, and that their health is not impacted as a result of their employment. The health, safety and wellbeing of employees and contractors is our primary concern. Any safety incident is one too many, and we work to improve our performance through effective policies, standards, procedures and training. We measure safety performance through a combination of leading and lagging indicators and Lost Time Injury Frequency Rate is one of the core KPIs of the business. We take a proactive, risk-based approach to managing health and wellbeing and have documented standards relating to Occupational Health and Safety. Incidents are reported to the highest level of the organisation with monthly Health and Safety updates to the board.

CityFibre appointed a Head of Safety, Health & Environment who is a Chartered Member of the Institute of Occupational Safety & Health (CMIOSH) in April of 2021. The Safety, Health and Environment (SHE) team grew from 15 professionals at the start of 2021 to 35 by the end of the year. This growth was commensurate with the increase in the number of cities in build and demonstrative of the commitment of the CityFibre Senior Leadership Team.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

In 2021 we introduced a set of key risks and golden rules after internal consultation and review of industry health and safety data. The key risk areas are those that could foreseeably result in fatalities or life changing injuries-service strikes, driving, contact with moving vehicles, work at height, lone-working and mental health. Going forward, CityFibre will establish roadmaps for each key risk area to ensure that the risk profile is constantly under review and being reduced.

The concept of 'High Potential' events was established in 2021. This ensures that, regardless of level of actual outcome, those events which have significant risk get the most attention. The detailed analysis of these incidents allows us to regularly provide updated safety information to key stakeholders including Clients. An Incident Review Board (IRB) was established to cover these high potential events. The IRB is attended by Senior Management and multiple stakeholders across the business on a bi-weekly basis to embed ownership of incidents and to maximise learning opportunities through sharing across a wide audience.

We introduced Principal Contactor performance tables in 2021 in order to compare health and safety performance across a number of metrics. An intervention process was established for those contractors featuring in the lower quartile of the 'performance tables' consistently over a 3-month period. The Contractor Continual Improvement Plan (CCIP) enables new priorities to be established and actions set which will help the Principal Contractor to succeed against KPIs and other performance measures. Review meetings take place on a weekly basis and if a Principal Contractor fails to engage with the process or doesn't exhibit meaningful improvement, this informs business planning in respect of allocation of further works and possible termination of contract.

CityFibre maintained its health and safety management system compliance with the ISO45001:2018 standard which provides the basis of our commitment to our employees and the interested parties we serve. In 2021 we received no non-conformances from the external auditors monitoring our compliance against the standard.

In 2021 the Head of Safety, Health and Environment established an industry group including peers and competitors in the Fibre sector, to provide more consistency around working standards and to allow for more effective benchmarking. The Safety & Health in Fibre Telecoms (SHIFT) Group is chaired by CityFibre and has membership including BT Openreach, Virgin Media, and several alternative fibre network providers. These members were invited due to the synergies in the projects delivered and risk profile. An area of focus for this group will be benchmarking of service strike rates which is a key risk area for CityFibre.

During 2021 there was one injury to CityFibre staff, which was reportable under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, 2013 ('RIDDOR'). The employee tripped over an extension cable in an office and landed heavily on their ankle resulting in fractures to the foot. A full investigation was undertaken and actions taken to prevent recurrence.

There were 7 incidents reportable under RIDDOR in the year among our construction partners, and whilst there were 6 reported in 2020 this marks a 94% pro-rata reduction given the increase in build activity.

Business Ethics

We work better within an environment of integrity and trust. CityFibre takes a zero-tolerance approach to corrupt behaviour and has put in place policies, training and procedures to reduce the risks faced by our employees and our organisation. We value transparency and expect our suppliers and contractors to hold similar high standards. As part of our due diligence, we require our suppliers and contractors to demonstrate their ethical standards and to work within the terms of our Supplier Code of Conduct.

In 2021, we undertook a full review of our existing controls, uplifting policies where additional mitigation was required. We continue to ensure due diligence of this topic before appointing suppliers and have introduced a more robust process for anti-bribery and corruption, compliance and conflict management.

We regard the potential for bribery and corruption as a potential risk to the business and have established policies and governance that set and monitor our approach to preventing financial crimes, fraud, bribery and corruption.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

We have a Group-wide framework of controls designed to prevent and detect bribery. Our Employee Handbook sets out the standards and behaviours we expect from all employees. The document is issued to all employees and is supported by an induction e-learning course so they can adequately understand the Group's zero-tolerance approach to fraud, bribery or corruption of any kind.

None of our investigations over the last year have identified any cases of bribery.

Respect for human rights is incorporated into our employment practices and our values. This is vital in maintaining our reputation as a company that our stakeholders want to do business with, and that our employees want to work for. Our Anti-Slavery Human Trafficking Statement was reviewed in 2021 and is available on our company website. We also have related policies and procedures such as our approach to diversity, anti-discrimination, privacy, equal opportunity and our Supplier Code of Conduct integrates human rights into the way we screen and interact with our supply chain.

COVID-19

Throughout the financial year, we have continued to prioritise our stakeholders, maintain reliable and safe networks and protect against financial implications due to COVID-19.

We have sought to work with our customers and stakeholders to address the challenges they faced as these have evolved over the last year. Our commitment to being a responsible business is central to the way in which we operate. This has been the governing principle behind our response to the COVID-19 pandemic. Good engagement has been crucial in understanding the views of our stakeholders in order to make informed decisions during this period of crisis. For example, the Group has been seeking regular feedback from employees through our annual Employee Voice Survey and monthly All Hands calls with our Executive team that has helped to shape its response to the COVID-19 pandemic.

Throughout the COVID-19 pandemic we have adapted to new ways of working. We have delivered safe, reliable networks, while managing through all the new regulations and restrictions. We worked closely with our contractors across all projects to ensure a safe working environment.

Our Planet

Please refer to the earlier section on Our Planet, within the CEO review on page 9, for further information.

In 2021 several of our Environment, Social and Governance (ESG) employees attended Responsible Business Management Training led by BITC. This was a six-module training programme for professionals designing and delivering responsible business strategies and corporate responsibility programmes and is accredited by the Institute of Leadership and Management (ILM).

We work closely with local communities to help address local issues impacted by our operations. We are members of Street Works UK, the UK's only Trade Association representing utilities and their contractors on street works issues, promoting best practice and a two-way relationship with Government and other relevant stakeholders. In 2021 CityFibre also joined INCA's (Independent Networks Cooperative Association) industry working group for sustainability and became a member of the FTTH Council Europe Sustainability Working Group. This has enabled us to share learning across the fibre industry.

We have an internal Sustainability Steering Group and an Environment and Sustainability Advisor and an ESG Advisor to enhance our performance and measurement of environmental aspects. As part of our certification to ISO 14001 we annually review environmental impacts and aspects associated with our business activities. Our annual sustainability roadmap considers mitigation of material risks. Consideration is also given when exploring innovative build techniques to ensure alignment with the environment for example use of narrow-trenching machines.

CityFibre has undertaken several initiatives aimed at protecting and restoring the local ecosystems, for example, beach cleaning, planting replacement flowers, grass, and trees, clean-up of waterways to provide better landscape and grass verge cutting as part of the build in the local area.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Energy and Carbon Reporting

As a growing business, we have increased our total greenhouse gas (GHGs) emissions to 4,980 tCO₂e compared to 2,980 tCO₂e in 2020 – an increase of 67%. This increase in emissions should be considered against the context of substantial expansion in our physical infrastructure across the course of the year.

	2021	2020
Total UK energy use (kWh) ¹	26,682,645	11,905,215
Total UK emissions (tCO ₂ e) from energy use	4,980	2,980
Intensity ratio, tCO ₂ e per FTE	2.7	2.2
Intensity ratio, tCO ₂ e per total £'000 on-net sales revenue	0.077	0.099

¹ Note that Streamlined Energy and Carbon Reporting ('SECR') regulations require organisations to provide both a UK and global split of emissions. Presently CityFibre only have a UK presence so there are no overseas emissions at this time.

Energy reporting for 2021 by Scope

	GHG emissions (tCO ₂ e)	Energy consumption (kWh)
Scope 1 (direct emissions from our operational activities)	148	642,571
Scope 2 (indirect emissions from our purchase and use of gas)	3,442	18,901,606
Scope 3 (other indirect emissions from activities and sources outside of our ownership or control)	1,390	7,138,468
Total	4,980	26,682,645

Methodology

CityFibre adopts an operational control approach to defining its organisational boundary. The GHG accounting and reporting followed the principles of relevance, completeness, consistency, accuracy and transparency. These principles have been applied when collecting, reviewing and verifying the data ahead of performing the GHG emission calculations. In accordance with the requirements of the following standards:

- World Resources Institute (WRI) Greenhouse Gas (GHG) Protocol Corporate Standard (revised version)
- Defra's Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting requirements, March 2021
- All 2020 emissions have been calculated using the Defra 2020 issue of the conversion factor repository

Our Society

We seek regular feedback from our customers and communities and take action to improve performance. Our approach to responsibility in our communities has been to go beyond providing the safe, reliable fibre network society expects, and work to ensure our economic and social role has the greatest possible impact.

The deployment of high-speed, reliable internet connections to our home, schools and public services is a vital element in enabling our society to adapt to the changing world of social distancing and home working and so, our work continued throughout the year. CityFibre has connected hundreds of businesses, enabling them to make the transition from bricks and mortar to online sales and services.

CityFibre provides gigabit-speed connectivity to thousands of public sector buildings, including medical and care facilities, educational facilities including schools, academies, colleges and universities, enabling the remote video appointments and home-schooling which we have all grown to depend on.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Our city teams are involved in a variety of community engagement and social value initiatives across CityFibre's Gigabit Cities where build programmes are underway or in mobilisation. Many of these initiatives are bespoke to each city, depending on local opportunities and needs. Examples include:

- Supporting six-month job placements for 16–24-year-olds under the Government's Kick Start scheme, providing structured training and development and real-world work experience, designed to help new entrants, build skills, experience, and confidence.
- Working in partnership with social housing landlords on digital inclusion agenda developing initiatives to tackle digital poverty – this includes including donating recycled laptops for local causes, supporting 'Laptops for Kids' National programmes along with local newspapers and supporting the broader 'Donate Digital' agenda in regions supporting broader disadvantaged groups.
- Supporting and sponsoring educational events, working to improve digital skills in our community, supporting interest and careers for young people in science, technology, engineering and mathematics (STEM) industries.

As part of our mission to bring Full Fibre internet to up to 8 million premises across the UK, we are running a recruitment and training programme to fill up to 10,000 network construction jobs. Through this programme, we provide free technical training, equipping people with the required skills for them to then seek employment through our build partners on projects throughout our Gigabit cities.

In addition to our city-based projects, CityFibre works to benefit charities nationwide and make financial donations to support causes aligned to our company values.

In each region the team works in close collaboration with key stakeholders including local authorities, landlords and community groups, to understand the challenges affecting the lives of people within the community and the impact of our build programme. To help communities make the most of the opportunities created by the CityFibre investment, in 2021 City Teams have invested time and resources to help support a range of direct and indirect initiatives.

On behalf of the Board.



Greg Mesch
Chief Executive Officer
22 April 2022

DIRECTORS' REPORT

Directors

The Directors who served during the year were as follows:

Greg Mesch
Simon Holden
Nick Dunn (appointed 20 Jan 2021)

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 normal business practice the Group prepares a Board-approved annual budget and a long-range business plan, which reflect our ambition to roll out a Full Fibre network to up to 8 million homes through a £4 billion investment programme, principally phased over the next 5 years. This highly capital-intensive phase for the Group is funded through a combination of equity and debt, which naturally flow into the business over a similar period to the capital outlay, rather than being fully committed and available from the start of the build programme.

Since July 2021, £825 million of equity has been injected into the wider Group, by way of cash received by Connect Infrastructure Topco Limited, the ultimate parent of the Group, with a further £300 million committed and to be received in early 2023. The majority of this equity has been provided by new investors, Mubadala Investment Company and Interogo Holding, demonstrating the attractiveness of the Group as an investment opportunity to create the UK's largest independent national digital infrastructure platform.

In addition to equity funding, the Group accesses debt financing to support its projected level of capital expenditure. In August 2021 the Group secured a £300 million extension to its existing £820 million debt facilities, demonstrating continued lender support for the Group. Current facilities will be fully utilised during the course of 2022, so the Group is currently running a debt raising process to secure incremental debt funding, for which we have appointed advisors. At the time of signing these financial statements, the financing process is still ongoing, but the Directors assess progress as being positive and expect it to conclude shortly. The current expectation is that sufficient funding will be secured to support the ongoing capital expenditure requirements beyond the going concern review period.

In the unlikely event that this anticipated debt funding is not made available, the Directors believe that by taking prompt action to reduce the level of capital investment the business could continue to trade for a sufficient time to identify and secure alternative sources of equity or debt funding. However, the Group would see an impact on both its working capital position and the ability to meet short term obligations as they arise. Therefore, given the Group's reliance on further, unsecured external funding, these conditions indicate the existence of a material uncertainty which may cast doubt on the ability of the Group and Company to continue as a going concern, and therefore that the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Group's long-range business plan demonstrates that, although we expect to continue to be reliant on external funding in the short term due to the scale and pace of the network rollout, strong returns are anticipated following the network build phase, once we expect the Group to start generating positive cashflow. As such, the Group represents an attractive investment opportunity for a large pool of capital providers, as demonstrated by the £300 million equity commitment subsequent to the year end. This view is further supported by our successful £300 million debt raise last summer and by preliminary feedback from our current debt raising process. This gives us confidence in the ability to secure further external funding such that we have concluded it is appropriate to prepare the financial statements on a going concern basis and not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

DIRECTORS' REPORT (CONTINUED)

Future outlook

The future outlook is detailed as part of the Strategic Report on page 11.

Energy and Carbon Reporting

Please refer to the earlier section on Our Planet, within the Strategic Report on page 19 for further information.

Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' 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 UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006. 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 and company for that period.

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 UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- 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

The Board considers that all their decisions are taken with the long-term in mind, understanding that these decisions need to consider 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 through its published policies and training of CityFibre employees in those policies.

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 key stakeholders are set out below:

DIRECTORS' REPORT (CONTINUED)

UK Cities and Towns

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 premise, the Group's views on the likely success of winning commercial opportunities from the public sector (including through local Full Fibre procurement opportunities), indications from 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 over 285 cities, towns and villages where the Group is building or intends to build, across the UK. The Group is also considering the possible participation in the 'Project Gigabit' rural programme being overseen by Building Digital UK (BDUK).

Construction Partners

CityFibre's construction partners are key to our success. The Group 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. While CityFibre focuses closely on the productivity of the Group's construction partners, the health and safety of the construction workers building our networks is of paramount importance, as outlined in the section above on Health and Safety on page 17.

Suppliers

As CityFibre deploys its network, the Group is making use of the very latest and best fibre technology available. We believe that by investing in the best technology we will create a high quality and resilient network which will attract and retain customers across our key market verticals and build long term value for all parties. As fibre networks use light rather than electricity to transmit information, our network's energy consumption will be significantly lower than legacy high power demanding copper-based networks used by incumbent telecom operators. We also engage with external sustainability consultants to address our environmental impact. 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. Due to the scale of our network infrastructure and critical national dependency, we take into account Government advice in respect of national security issues when selecting suppliers and require our suppliers and contractors to work within the terms of our Supplier Code of Conduct. Please see the section on Business Ethics on page 18 for further information.

Customers

CityFibre builds its cities based on a "Well Planned City" design methodology it has developed. The Group is building its networks with sufficient capacity to serve consumers, businesses, public sector sites and mobile operators customer groups. CityFibre is an open access network wholesale only provider and the end users of our network consume services through other providers such as ISPs, business resellers, public sector systems integrators and mobile network operators. CityFibre aims to develop relationships with all the major national players with customer bases covering the majority of end users in the UK. We believe that our national scale makes CityFibre 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.

Employees

CityFibre has central offices in Milton Keynes, Telford, London and Irlam which house technical, commercial, customer and functional teams supporting the business. The Group also operate teams in each of the cities currently under construction, to work closely and establish a strong relationship with the local council, Highways Agency, our customers and our local construction partners. CityFibre's preference is to hire locally and, where possible, the Group 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 benefitting the entire community. The Group is also actively working to ensure we build and maintain a diverse and inclusive workforce, a programme supported by our Diversity and Inclusion Leadership Group, which we launched in 2020. Our four key behaviours, The CityFibre Way, guides how we think, act and work and we conduct a yearly Employee Survey taking on board feedback from our employees and implementing action plans to address these to improve employee satisfaction. Further information on these initiatives as well as our gender diversity reporting is within the Responsible Business section on page 16 onwards.

DIRECTORS' REPORT (CONTINUED)

Significant decisions made in the year are detailed below, which demonstrate how the interests of the stakeholders above have been considered by the Board:

Capital Raise

In September 2021 the Group announced that it had secured £1.125 billion of additional capital investment. This included new equity investments of £675 million from two new investors, one of which announced a further £300 million equity commitment in March 2022, as well as £150 million of equity from existing shareholders, bringing the total funds raised over a period of seven months to £1.425 billion. This provides the short term financial security and funds needed to continue our build programmes, engaging in further cities and working towards fulfilling the ambition of the Group.

National Rollout

The Group has initiated a major investment in the core network, providing a new national access network capability to interconnect our existing local fibre networks and through this accelerate our partners' access to market. The new network access is already making it significantly easier, faster and more cost-effective for our key national and other wholesale partners to bring services to market across a nationwide footprint providing full fibre opportunities to a larger customer base and improving the take up of our network.

Network Build

The investment in local communities continued in the year, as we expanded our network build and continued to contract and mobilise new build partners, with an additional 26 local and regional build partners covering 30 major metropolitan areas added. This enabled a further increase in scale and pace of the build and contributed towards the achievement of the more than one million homes Ready for Service in the year and significantly expanded the network footprint upon which our ISP partners can sell. The Group also extended and expanded the existing partnership with Bechtel, one of the world's leading engineering, construction, and project management companies. This enabled us to accelerate the mobilisation of our build partners and manage a growing number of parallel full town and city rollouts and has also helped us strengthen our project controls to enhance operational management, establish improved controls around risk and change, and crucially increase our productivity, growing the numbers of trained civils operatives working on our projects and improving the volume and quality of their output.

Internet Service Provider (ISP) onboarding

The Group continued to onboard Consumer ISPs during the year increasing the total from 14 to 35. In addition to complementing the Group's strategic partners, these new ISPs targeted one or more local markets allowing us to maximise effective retail coverage of our Ready for Service networks. The strong focus on the onboarding of new ISPs and with the Group providing support with market engagement resulted in a significant increase in order volumes towards the end of 2021, a trend which has continued strongly in the first quarter of 2022.

DIRECTORS' REPORT (CONTINUED)

Corporate Governance

CityFibre is part of a wider group that is ultimately owned by Connect Infrastructure Topco Limited ('Topco'), a company incorporated in the UK. The Board of Topco and the Board sub-committees for both Audit and Remuneration include representatives from CityFibre and from both shareholders that form the consortium that own and control the wider group, as well as an Independent Chair, Steve Holliday.

Steve Holliday joined the Board in September 2019 as Independent Non-Executive Chair, and was the former Chief Executive of National Grid plc from 2007 to 2016. In December 2020, Sharon Flood joined the Board as an experienced Independent Non-Executive Director and Chair of the Audit Committee for Topco. She has a wealth of experience garnered from a number of senior finance and strategy roles, as well as other non-executive directorships.

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,



Nick Dunn
Chief Financial Officer
22 April 2022

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

Opinion on the financial statements

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 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards 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.

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 2021 which comprise the consolidated statement of comprehensive income for the Group, the consolidated statement of financial position for the Group, the Parent Company statement of financial position, the consolidated statement of changes in equity for the Group, the Parent Company statement of changes in equity, the consolidated statement of cash flows for the Group and the Parent Company statement of cash flows and 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 UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which states that the ability of the Group and Parent Company to continue as a going concern is reliant on the Group securing further external debt funding which is not guaranteed. Failure to obtain external funding would adversely impact the working capital position and the Group and Parent Company's ability to meet short term obligations as they arise.

As stated in note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the 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 Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the 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' responsibilities statement, 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.

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

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- We have identified and assessed the potential risks related to irregularities, including fraud, by considering the following:
 - Enquiries of management regarding: the compliance with laws and regulations; the detection and response to the risk of fraud and any knowledge of actual, suspected or alleged fraud; and the controls in place to mitigate risks related to fraud or non-compliance with laws and regulations; and
 - Obtaining an understanding of the legal and regulatory framework in which the Group operates.
- The key laws considered are accounting standards and the Companies Act 2006.
- We have responded to risks identified by performing procedures including the following:
 - Enquiry of audit committee, in-house management, and in-house legal counsel concerning actual and potential litigation and claims;
 - Performed analytical procedures to identify any unusual or unexpected relationships which may indicate risks of misstatement due to fraud;
 - Performed a review of the legal expenses to identify any unusual or unexpected expenses which may indicate non compliance, or actual and potential litigation and claims;
 - Analysis of the minutes of meetings of those charged with governance over the course of the year; and
 - Completed a review of financial statements disclosures and testing to supporting documentation.
- We have also considered the risk of fraud through management override of controls by:
 - Testing on a sample basis the appropriateness of journal entries and other adjustments; and
 - Assessing whether the judgements made in making accounting estimates are indicative of potential bias.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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.

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

Date: 22 April 2022

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 2021

	Note	2021 £'000	2020 £'000
Revenue	2	64,304	63,132
Cost of sales		(38,434)	(35,502)
Gross profit		25,870	27,630
Administrative expenses		(139,459)	(117,263)
OPERATING LOSS	3	(113,589)	(89,633)
Finance income	5	149	150
Finance cost	6	(16,324)	(14,412)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(129,764)	(103,895)
Income tax (charge)/credit	7	(3,628)	434
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME		(133,392)	(103,461)

The consolidated statement of profit or loss and other comprehensive income has been prepared on the basis that all operations are continuing operations.

Notes 1 to 24 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Company number 08772997

As at 31 December 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	8	1,609,750	869,087
Intangible assets	9	212,135	210,893
Total non-current assets		1,821,885	1,079,980
Current assets			
Inventory	10	2,641	2,616
Trade and other receivables	12	67,341	42,563
Cash and cash equivalents	11	46,978	106,085
Total current assets		116,960	151,264
Total assets		1,938,845	1,231,244
Equity and liabilities			
Equity			
Share capital	14	13,563	11,103
Share premium	15	1,305,626	889,866
Merger reserve	15	331	331
Retained earnings	15	(414,554)	(281,162)
Total equity		904,966	620,138
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	16	796,080	440,900
Lease liability	19	35,371	25,055
Deferred revenue	17	39,080	33,041
Deferred tax	13	21,309	17,681
Total non-current liabilities		891,840	516,677
Current liabilities			
Lease liability	19	5,276	3,829
Deferred revenue	17	9,238	7,821
Trade and other payables	18	127,525	82,779
Total current liabilities		142,039	94,429
Total liabilities		1,033,879	611,106
Total equity and liabilities		1,938,845	1,231,244

These financial statements were approved by the Board of Directors and authorised for issue on 22 April 2022.

They were signed on its behalf by:

N J Dunn
Director

Notes 1 to 24 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2020	7,416	419,053	331	(177,701)	249,099
Comprehensive income					
Loss and total comprehensive income for the year	-	-	-	(103,461)	(103,461)
Transactions with owners					
New share capital issued in the year	3,687	470,813	-	-	474,500
Balance at 31 December 2020	11,103	889,866	331	(281,162)	620,138
Comprehensive income					
Loss and total comprehensive income for the year	-	-	-	(133,392)	(133,392)
Transactions with owners					
New share capital issued in the year	2,460	415,760	-	-	418,220
Balance at 31 December 2021	13,563	1,305,626	331	(414,554)	904,966

Notes 1 to 24 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flows utilised in operating activities			
Loss before taxation		(129,764)	(103,895)
Amortisation of intangibles	9	6,656	4,444
Finance income	5	(149)	(150)
Finance costs	6	16,324	14,412
Depreciation	8	46,398	25,412
(Increase)/decrease in inventory	10	(25)	4,796
Increase in receivables		(18,817)	(5,150)
(Decrease)/increase in payables		(2,351)	25,924
Transaction related fees		-	3,524
Loss on disposal of joint venture		-	410
Net cash utilised in operating activities		<u>(81,728)</u>	<u>(30,273)</u>
Cash flows utilised in investing activities			
Interest received		149	150
Acquisition of intangible assets		(2,602)	(1,519)
Acquisition of property, plant and equipment		(628,137)	(332,619)
Acquisition of subsidiary (net of cash acquired)		-	(139,824)
Transaction related fees		-	(3,524)
Capitalised labour costs		(87,944)	(46,608)
Net cash utilised in investing activities		<u>(718,534)</u>	<u>(523,944)</u>
Cash flows generated from financing activities			
Proceeds from the issue of share capital		418,220	474,500
Debt finance costs paid		(3,876)	-
Repayment of borrowings on acquisition		-	(72,651)
Repayment of borrowings	16	(45,000)	(45,000)
Drawdown of borrowings	16	401,097	311,281
Interest paid		(24,316)	(16,851)
Principal paid on lease liabilities	19	(4,970)	(3,055)
Net cash generated from financing activities		<u>741,155</u>	<u>648,224</u>
Net (decrease)/increase in cash and cash equivalents		(59,107)	94,007
Cash and cash equivalents at beginning of period	11	<u>106,085</u>	<u>12,078</u>
Cash and cash equivalents at end of period	11	<u>46,978</u>	<u>106,085</u>

Notes 1 to 24 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are summarised below. They have all been applied consistently throughout the year and preceding period. CityFibre Infrastructure Holdings Limited (the 'Company'), 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 UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006 ("IFRS"). They have also been prepared with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements are presented in GBP, which is also the Group's functional currency. Amounts are rounded to the nearest thousand, unless otherwise stated.

Going concern

To assess the ability for the Group to be considered as a going concern, the Directors have identified the key factors relevant to the Group's viability and have run scenario modelling to assess the impact on future cash flows over the 12 months from signing these accounts. The primary areas that have been considered and factored into the scenario modelling are as follows:

- The external debt financing required to fund our plans has not been fully committed, with the Group currently running a financing process to secure incremental debt funding. Should this not be obtained, the principal mitigation would be to pause CityFibre's network rollout to rapidly reduce short-term funding requirements and allow sufficient time to source alternative sources of equity or debt finance. The reduction in build activities would result in contract termination costs and be accompanied by a significant reduction in the level of internal resource to support the network build, as well as other operating cost reductions.
- Consumer revenues are assumed to continue to grow based on existing long-term contracts but restricted to the extent that network build plans would need to be amended.
- All contracted non-Consumer revenue streams assumed to continue, as they do not rely on the Full Fibre construction programme, but with no new sales in the Mobile and Public Sector verticals due to the high level of capex investments required. Current work-in-progress in these verticals are assumed to be completed to meet contractual obligations. The Business vertical, which is characterised by a much larger customer base with typically shorter contract lengths, has been assumed at reduced levels of sales and delivery activity compared to current forecasts.

Through the review of several scenarios factoring in the key risks identified, the Directors recognise the Group is reliant on further external funding which is not guaranteed. Failure to obtain external funding may adversely impact the working capital position and the Group and Parent Company's ability to meet short term obligations as they arise. These events or conditions indicate the material uncertainty which may cast doubt on the ability of the Group and Company to continue as a going concern, and therefore that the company may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the investment opportunity demonstrated in the Group's long-range business plan has been supported by the recent £300 million equity commitment, in addition to the £300 million extension to its existing debt facilities secured in August 2021, and the positive progress of the financing process currently underway. This gives the Directors confidence in the ability to secure further external funding, such that they have concluded it is appropriate to prepare the financial statements on a going concern basis and not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

New standards, interpretations and amendments effective from 1 January 2021

New standards that have been adopted in the annual financial statements for the year ended 31 December 2021, but have not had a significant effect on the Group are:

- Definition of a Business (Amendments to IFRS 3);
- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7);
- COVID-19-Related Rent Concessions (Amendments to IFRS 16);
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and
- Revisions to the Conceptual Framework for Financial Reporting.

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 has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2021 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

The Group is currently assessing the impact of these new accounting standards and amendments that are effective in future accounting periods but does not expect them 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 2021. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Basis of consolidation (continued)

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 the Company 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.

On 27 March 2020 the Group acquired the issued share capital of FibreNation Limited ('FibreNation') and Bolt Pro Tem Limited ('Bolt Pro Tem') by way of a cash purchase. The Group previously held 33% ownership of Bolt Pro Tem and treated it as a joint venture. The consideration for the acquisition was satisfied by the transfer of £140,703,000 from the Company to the shareholders of FibreNation and Bolt Pro Tem and settlement of £72,651,000 of debt acquired.

Revenue

Revenue represents network services provided to external customers, at invoiced amounts less value added tax or local taxes on sales. On-net revenue is generated from the Group's own network and off-net revenue is generated from services delivered over third party networks.

Performance obligations and timing of revenue recognition

A significant portion of the Group's revenue is derived from sales of ongoing network services and associated installation charges. Both ongoing 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 17 for information on the amounts relating to remaining performance obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Revenue (continued)

Determining the transaction price

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

Allocating amounts to performance obligations

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

Accounting for certain costs incurred in fulfilling and obtaining a contract

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

The costs of fulfilling contracts do not result in the recognition of a separate asset because:

- such costs are included in the carrying amount of inventory for contracts involving capacity sales; and
- for service contracts, revenue is recognised over time by reference to the stage of completion meaning that control of the asset (the network service) is transferred to the customer on a continuous basis as work is carried out. Consequently, no asset for work in progress is recognised.

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
Land	Not depreciated

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 30 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

Goodwill arising in a business combination is recognised as an asset at the date that control is obtained (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred over the share acquired by the Group in the fair value of the entity's identifiable net assets at the acquisition date. Goodwill is not amortised but is tested for impairment on an annual basis, and more frequently if any impairment triggers are identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Goodwill (continued)

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) in accordance with IAS 36 Impairment of Assets. A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other group(s) of assets. Refer to note 9 for further discussion on the CGUs selected.

These tests consist of comparing the carrying amount of the assets or (groups of) CGUs with their recoverable amount. The recoverable amount of an asset, a (group of) CGU(s) is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated to reducing firstly the carrying amount of any goodwill allocated to the unit and then the other assets of the unit pro rata, on the basis of the carrying amount of each asset in the unit. An impairment loss recognized on goodwill shall not be reversed in a subsequent period.

Impairment of non-current assets

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

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

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

Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Inventory includes the cost of specific network assets allocated for sale under IRU agreements, rather than for use in the group's network service provision business, as well as materials for repairs to the network.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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.

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 19.

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; and
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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.

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. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) where the asset belongs. Discussion on the identification and allocation of CGUs is included in note 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Key judgements and sources of estimation uncertainty (continued)

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 recognising that, while there is a material uncertainty with respect to the reliance on further external funding, it is appropriate to prepare the financial statements on a going concern basis. The primary areas of judgement that have been considered and factored into scenario modelling to consider the future viability of the business are:

- The scale and availability of the Group's debt facilities, including the ability to meet loan covenants.
- Impact on construction spend following an immediate suspension of the network rollout.

Refer to the basis of accounting on page 35 where these are discussed further.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

2. REVENUE

	2021 £'000	2020 £'000
On-net (being on the Group's network)	32,518	30,045
Off-net (being on third parties' networks)	31,786	33,087
	<u>64,304</u>	<u>63,132</u>

All revenue arose in the United Kingdom.

3. OPERATING LOSS

Operating loss is after charging:

	2021 £'000	2020 £'000
Depreciation of property, plant and equipment	46,398	25,412
Amortisation of intangibles	6,656	4,444
One-off transaction fees	-	3,524
Other one-off fees (see Strategic Report on page 12)	11,041	26,234
	<u>11,041</u>	<u>26,234</u>

The analysis of auditor's remuneration is as follows:

Fees payable for the audit of the Group's annual financial statements	57	32
Fees payable for the audit of the Group's subsidiaries' financial statements	294	340
	<u>351</u>	<u>372</u>
Total audit fees	351	372
	<u>351</u>	<u>372</u>
Total fees	351	372

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. STAFF COSTS

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

	2021	2020
	No	No
Sales	131	108
Operations	1,419	873
Administration	127	113
	<u>1,677</u>	<u>1,094</u>

The aggregate payroll costs of the above were:

	2021	2020
	£'000	£'000
Wages and salaries	29,774	26,161
Social security costs	4,109	3,610
Other pension costs	5,985	3,041
	<u>39,868</u>	<u>32,812</u>

The analysis of payroll costs above includes only expensed costs. Capitalised staff costs for 2021 are £70,929,000 (2020: £42,165,000).

5. FINANCE INCOME

	2021	2020
	£'000	£'000
Interest on bank deposits	149	150
	<u>149</u>	<u>150</u>

6. FINANCE COSTS

	2021	2020
	£'000	£'000
Interest on bank loans	12,933	13,697
Interest on lease liability	1,158	715
Other interest	2,233	-
	<u>16,324</u>	<u>14,412</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

7. TAXATION

	2021 £'000	2020 £'000
Current tax		
UK corporation tax based on the results for the year at 19% (2020: 19%)	-	-
Total current tax	-	-
Deferred tax		
Derecognition of deferred tax liability	(810)	-
Effect of change in tax rates	5,328	-
Temporary differences on which deferred tax has been recognised	(890)	(434)
Tax on loss on ordinary activities	3,628	(434)

Factors affecting current tax credit

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2020: 19%) as follows:

	2021 £'000	2020 £'000
Loss on ordinary activities before taxation	(129,764)	(103,895)
Tax on loss on ordinary activities at standard rate	(24,655)	(19,740)
Factors affecting charge		
Effect of change in tax rates	(19,599)	(3,411)
Expenses not deductible for tax purposes	92	1,775
Other temporary differences	2,494	2,201
Other permanent differences	3	-
Origination of temporary differences on which no deferred tax asset has been recognised	45,293	18,741
Total taxation charge	3,628	(434)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold property	Network assets	Plant and machinery	Right of Use Assets	Fixtures and fittings	Motor Vehicles	Land	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost								
At 1 January 2020	102	416,351	30,098	18,031	1,524	12	-	466,118
Acquisition	-	45,915	-	806	33	-	-	46,754
Additions	240	371,784	25,667	16,643	1,034	-	-	415,368
At 31 December 2020	342	834,050	55,765	35,480	2,591	12	-	928,240
At 1 January 2021	342	834,050	55,765	35,480	2,591	12	-	928,240
Additions	583	713,774	56,260	15,639	208	-	605	787,069
Disposals	-	-	(8)	(8)	-	(12)	-	(28)
At 31 December 2021	925	1,547,824	112,017	51,111	2,799	-	605	1,715,281
Accumulated depreciation								
At 1 January 2020	102	25,081	5,876	2,189	481	12	-	33,741
Charge in the year	19	15,799	5,535	2,868	1,191	-	-	25,412
At 31 December 2020	121	40,880	11,411	5,057	1,672	12	-	59,153
At 1 January 2021	121	40,880	11,411	5,057	1,672	12	-	59,153
Charge in the year	113	28,806	12,654	4,435	390	-	-	46,398
Disposals	-	-	(8)	-	-	(12)	-	(20)
At 31 December 2021	234	69,686	24,057	9,492	2,062	-	-	105,531
Net book value								
At 31 December 2021	691	1,478,138	87,960	41,619	737	-	605	1,609,750
At 31 December 2020	221	793,170	44,354	30,423	919	-	-	869,087

Included in network assets above are network assets under construction and not yet depreciated which are held at a cost of £40,331,000 (2020: £20,735,000) 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 2021. Each of the indicators set out in IAS 16 were considered and none were identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

9. INTANGIBLE ASSETS

	Website costs £'000	Customer contracts £'000	Software costs £'000	Brand £'000	Goodwill £'000	Total £'000
Cost						
At 1 January 2020	63	3,730	7,827	2,148	17,729	31,497
Acquisitions	-	87,100	727	-	96,339	184,166
Additions	-	-	4,468	-	-	4,468
At 31 December 2020	63	90,830	13,022	2,148	114,068	220,131
At 1 January 2021	63	90,830	13,022	2,148	114,068	220,131
Additions	-	-	7,898	-	-	7,898
Disposals	(32)	-	-	-	-	(32)
At 31 December 2021	31	90,830	20,920	2,148	114,068	227,997
Accumulated amortisation						
At 1 January 2020	51	1,426	2,971	346	-	4,794
Amortisation	6	2,528	1,767	143	-	4,444
At 31 December 2020	57	3,954	4,738	489	-	9,238
At 1 January 2021	57	3,954	4,738	489	-	9,238
Amortisation	4	3,253	3,256	143	-	6,656
Disposals	(32)	-	-	-	-	(32)
At 31 December 2021	29	7,207	7,994	632	-	15,862
Net book value						
At 31 December 2021	2	83,623	12,926	1,516	114,068	212,135
At 31 December 2020	6	86,876	8,284	1,659	114,068	210,893

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.

In the prior period, the CGUs identified were wholesale internet service provision (Entanet) and fibre optic infrastructure services (CityFibre). Due to the gradual changes in business operations since the acquisitions took place, management has reviewed the appropriateness of its CGUs for the current period. Following this review, management have determined a change in CGUs identified to on-net (being on CityFibre's network) and off-net (being on third parties' networks). These CGUs have been assessed as appropriate by the Directors following consideration of internal reporting used by management and the overall operation of the expanded business. In particular, consideration was given to how the value of the Group's business is generated through using a shared network model which makes it unfeasible to identify a CGU at a lower level.

The carrying amount of goodwill of £114,068,000 is wholly allocated to the on-net business cash generating unit (CGU), as the intention of the transactions from which the goodwill arose, was to drive growth of the on-net business. The CGU has a recoverable amount of £2,698,445,000 which exceeds its carrying amount by £2,584,377,000 due to the future value expected to be derived from the wider on-net business which this goodwill has been allocated to. The recoverable amount of the above CGU has been determined from value in use calculations based on cash flow projections from formally approved budgets and long-range plans covering a 19-year period to 31 December 2040. This period has been deemed appropriate based on the duration of the capital-intensive build period of the Full Fibre programme and the timing of the benefits and synergies, which underly the goodwill value, that are expected to transpire in the long term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

9. INTANGIBLE ASSETS (CONTINUED)

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.

Other major assumptions are as follows:	On-net business
	%
Discount rate	10
Growth rate	2

If the following changes were made to the above key assumptions, the carrying amount and recoverable amount would be equal:

Sensitivity analysis:	On-net business
	%
Discount rate	increase from 10% to 12%
Length of the period	reduction to 5 years

10. INVENTORY

	2021	2020
	£'000	£'000
Completed assets held-for-sale	2,018	2,017
Raw materials and consumables	623	599
	<hr/> 2,641	<hr/> 2,616

Inventory is stated net of an impairment provision of £Nil (2020: £Nil).

11. CASH AND CASH EQUIVALENTS

	2021	2020
	£'000	£'000
Cash at bank	<hr/> 46,978	<hr/> 106,085

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

12. TRADE AND OTHER RECEIVABLES

	2021	2020
	£'000	£'000
Trade receivables	11,661	10,174
Other debtors	37,984	22,300
Prepayments	12,632	6,717
Amounts due from group undertakings	2,613	547
Accrued income	2,451	2,825
	<u>67,341</u>	<u>42,563</u>

Trade receivables are stated net of a doubtful debt provision of £692,000 (2020: £443,000). See note 21 for further discussion of credit risk.

13. DEFERRED TAX

	2021	2020
	£'000	£'000
Balance at start of period	17,681	756
Deferred tax liability recognised on acquisition	-	16,549
Deferred tax charge in the year	3,628	(434)
Deferred tax liability acquired	-	810
Balance at end of period – liability	<u>21,309</u>	<u>17,681</u>

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

	2021	2020
	£'000	£'000
Difference of taxation allowances over depreciation on fixed assets	23,605	12,016
Tax losses available	63,174	34,381
Short term timing differences	16,073	8,382
	<u>102,852</u>	<u>54,779</u>

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.

14. CALLED UP SHARE CAPITAL

	2021	2020
	£'000	£'000
Authorised, called up, allotted and fully paid		
1,350,542,283 ordinary shares of £0.01 each (2020: 1,104,577,189)	13,506	11,046
5,653,865 deferred ordinary shares of £0.01 each (2020: 5,653,865)	57	57
	<u>13,563</u>	<u>11,103</u>

	2021
	Number
Ordinary shares (issued)	
Balance at start of period	1,104,577,189
Share issue	245,965,094
Balance at end of period	<u>1,350,542,283</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

14. CALLED UP SHARE CAPITAL (continued)

Ordinary shares entitle the holder to one vote per share, and the right to participate in any dividend, distribution or return of capital attaching to them.

Deferred shares do not entitle the holder to participate in any dividend, distribution or return of capital, nor do they entitle the holder to vote.

On 1 April 2021, 109,728,252 shares at 1p per ordinary share were issued for a consideration of £153,619,553.

On 7 July 2021, 78,736,842 shares at 1p per ordinary share were issued for a consideration of £149,600,000.

On 23 September 2021, 22,500,000 shares at 1p per ordinary share were issued for a consideration of £45,000,000.

On 2 December 2021, 35,000,000 shares at 1p per ordinary share were issued for a consideration of £70,000,000.

15. RESERVES

Share premium

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

Merger reserve

This relates to the difference between the nominal value of the shares acquired and the consideration paid, where the transaction qualifies for merger relief.

Retained earnings

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

16. INTEREST BEARING LOANS AND BORROWINGS

	2021 £'000	2020 £'000
Bank loan	796,080	440,900
	<u>796,080</u>	<u>440,900</u>
Due within one year	-	-
Due after one year	796,080	440,900
	<u>796,080</u>	<u>440,900</u>

The carrying value of the loan is stated net of unamortised finance costs of £16,831,000 (2020: £15,915,000). The bank loan carries interest at 2.75%-3% above SONIA.

Maturity analysis

	2021 £'000	2020 £'000
<i>Bank and other loans</i>		
In more than two years but not more than five years	796,080	440,900
	<u>796,080</u>	<u>440,900</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

16. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

The bank loan is secured by a debenture including fixed charge over the Group's present freehold and leasehold property, fixed charge over book and other debts, chattels, goodwill and uncalled capital, and a floating charge over all assets. This applies to the following Group companies: CityFibre Infrastructure Holdings Limited, CityFibre Limited, CityFibre Networks Limited, CityFibre Holdings Limited, Entanet Holdings Limited and Entanet International Limited.

Reconciliation of cash and non-cash movement

	£'000
Balance at 1 January 2021	440,900
Loan drawdown	401,097
Loan balance repaid	(45,000)
Non-cash movement – transaction costs capitalised	(4,543)
Non-cash movement – amortisation of financing costs	3,626
Balance at 31 December 2021	796,080

17. DEFERRED REVENUE

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied at 31 December 2021 was £48.3m (2020: £40.9m) and is expected to be recognised as revenue in future periods as follows:

Period of performance obligation

	2021 £'000	2020 £'000
In one year or less or on demand	9,238	7,821
In more than one year but not more than two years	10,089	4,724
In more than two years but not more than five years	10,520	8,533
In more than five years	18,471	19,784
	48,318	40,862

18. TRADE AND OTHER PAYABLES

	2021 £'000	2020 £'000
Trade payables	14,950	11,434
Other taxation and social security	3,808	2,750
Other creditors	1,566	1,969
Accruals	107,201	66,626
	127,525	82,779

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

19. 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 and equipment comprise only fixed payments over the lease terms.

Right of use assets	Leasehold Property £'000	Network Assets £'000	Plant and Machinery £'000	Vehicles £'000	Total £'000
At 1 January 2021	5,950	3,871	20,397	205	30,423
Additions	1,508	107	13,702	322	15,639
Disposals	-	-	-	(8)	(8)
Depreciation	(1,801)	(422)	(2,042)	(170)	(4,435)
As 31 December 2021	<u>5,657</u>	<u>3,556</u>	<u>32,057</u>	<u>349</u>	<u>41,619</u>

Lease liabilities	Leasehold Property £'000	Network Assets £'000	Plant and Machinery £'000	Vehicles £'000	Total £'000
At 1 January 2021	6,367	1,513	20,795	209	28,884
Additions	1,425	133	13,702	323	15,583
Disposals	-	-	-	(8)	(8)
Interest expense	216	52	878	12	1,158
Payments	(2,099)	(278)	(2,411)	(182)	(4,970)
As 31 December 2021	<u>5,909</u>	<u>1,420</u>	<u>32,964</u>	<u>354</u>	<u>40,647</u>

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.

Short-term lease expense	£'000
Low value lease expense	4,245
	12

As 31 December 2021	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 payments	1,426	3,850	4,708	12,726	28,843

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

20. CAPITAL COMMITMENTS

	2021 £'000	2020 £'000
Contracted but not provided for	53,297	51,143

Capital commitments include amounts in relation to sales contracts signed in 2021 for which construction will take place in 2022 and future years.

21. 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 used hedging instruments in 2021. 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:

	2021 £'000	2020 £'000
Interest bearing loans and borrowings - gross payments		
Due within one year	29,530	17,974
Due within one to two years	31,718	17,974
Due within two to three years	33,999	19,434
Due within three to four years	847,622	20,951
Due within four to five years	-	478,310
	<u>942,869</u>	<u>554,643</u>

Future payments of interest have been calculated based on the principal at 31 December 2021 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 2021 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 2021 to mitigate its exposure to interest rate fluctuations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

21. 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	2021 Gross carrying amount £'000	2021 Provision £'000	2020 Gross carrying amount £'000	2020 Provision £'000
Under 30 days overdue	3,958	-	7,577	-
31 to 60 days overdue	867	-	1,144	(40)
61 to 90 days overdue	(535)	-	313	-
Over 90 days overdue	8,062	(692)	1,583	(403)
	<u>12,353</u>	<u>(692)</u>	<u>10,617</u>	<u>(443)</u>

A provision of £372,000 (2020: £148,000) was made against doubtful receivables during the year and the balance of the provision was £692,000 at 31 December 2021 (2020: £443,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

22. 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 2021 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
FibreNation Limited	UK	Provision of telecommunication networks	100
Bolt Pro Tem Limited	UK	Provision of telecommunication networks	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.

The following subsidiaries have been granted an exemption from audit of their individual accounts under section 479A of the Companies Act 2006 following a guarantee given by the parent entity, CityFibre Infrastructure Holdings Limited:

- Fibrecity Bournemouth Limited (Company number: 06585858)
- Gigler Limited (Company number: 06555306)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

22. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with key management personnel

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

	Key management personnel 2021 £'000	Key management personnel 2020 £'000	Total directors 2021 £'000	Total directors 2020 £'000	Highest paid director 2021 £'000	Highest paid director 2020 £'000
Fees	3,551	2,720	1,137	874	427	372
Benefits in kind	221	155	61	59	33	29
Pension contributions	125	124	-	19	-	-
Bonus	2,572	3,382	965	1,258	342	542
Other fees	-	243	-	-	-	-
	6,469	6,624	2,163	2,210	802	943
Social security costs	893	910	299	305	111	130
Total emoluments	7,362	7,534	2,462	2,515	913	1,073

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, £75,000 (2020: £68,000), in respect of services received. Of this, £19,000 (2020: £15,000) was owed at the year-end.

At 31 December 2021 the Group was jointly controlled by a consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners. Mubadala Investment Company and Interogo Holding joined the existing investors and became minority shareholders after investing in August 2021.

23. 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 £5,985,000 (2020: £3,041,000). Contributions totalling £685,000 (2020: £446,000) were payable to the fund at the period end and are included in creditors.

24. SUBSEQUENT EVENTS

In February 2022, 72,115,385 shares at £2.08 per ordinary share were issued for a consideration of £150,000,000.

COMPANY STATEMENT OF FINANCIAL POSITION

Company number 08772997

As at 31 December 2021

	Note	2021 £'000	2020 £'000
<u>Assets</u>			
Non-current assets			
Investments	C4	214,886	214,886
Intercompany loan	C5	1,948,920	967,180
Total non-current assets		<u>2,163,806</u>	<u>1,182,066</u>
Current assets			
Trade and other receivables	C6	5,023	103,782
Cash and cash equivalents	C7	19,227	72,973
Total current assets		<u>24,250</u>	<u>176,755</u>
Total assets		<u>2,188,056</u>	<u>1,358,821</u>
<u>Equity</u>			
Share capital	14	13,563	11,103
Share premium	15	1,305,626	889,866
Retained earnings	15	68,378	14,598
Total equity		<u>1,387,567</u>	<u>915,567</u>
<u>Liabilities</u>			
Non-current liabilities			
Loan	16	796,080	440,900
Total non-current liabilities		<u>796,080</u>	<u>440,900</u>
Current liabilities			
Trade and other payables	C8	4,409	2,354
Total current liabilities		<u>4,409</u>	<u>2,354</u>
Total liabilities		<u>800,489</u>	<u>443,254</u>
Total equity and liabilities		<u>2,188,056</u>	<u>1,358,821</u>

The parent company profit and total comprehensive income for the year was £53,780,000 (2020: £19,108,000).

These financial statements were approved by the Board of Directors and authorised for issue on 22 April 2022.

They were signed on its behalf by:



N J Dunn
Director

Notes C1 to C10 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Profit before tax		53,780	19,107
Finance income		(69,546)	(35,691)
Finance costs		14,026	13,699
Increase in receivables		(4,902)	(46,510)
(Decrease)/increase in payables		(45)	737
Net cash utilised in operating activities		<u>(6,687)</u>	<u>(48,658)</u>
Cash flows from investing activities			
Interest received		-	19
Loan to subsidiary		(794,323)	(473,228)
Acquisition of subsidiary undertakings		-	(135,929)
Net cash utilised in investing activities		<u>(794,323)</u>	<u>(609,138)</u>
Cash flows from financing activities			
Proceeds from the issue of share capital		418,220	474,500
Loan repaid	16	(45,000)	(45,000)
Loan drawdown	16	401,097	311,281
Loan transaction fees		(3,876)	-
Interest paid		(23,177)	(16,854)
Net cash generated from financing activities		<u>747,264</u>	<u>723,927</u>
Net (decrease)/increase in cash and cash equivalents		(53,746)	66,131
Cash and cash equivalents at beginning of period		72,973	6,842
Cash and cash equivalents at end of period	C7	<u>19,227</u>	<u>72,973</u>

Notes C1 to C10 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2020	7,416	419,053	(4,510)	421,959
Comprehensive income				
Profit and total comprehensive income for the year	-	-	19,108	19,108
Transactions with owners				
New share capital issued in the year	3,687	470,813	-	474,500
Balance at 31 December 2020	11,103	889,866	14,598	915,567
Comprehensive income				
Profit and total comprehensive income for the year	-	-	53,780	53,780
Transactions with owners				
New share capital issued in the year	2,460	415,760	-	418,220
Balance at 31 December 2021	13,563	1,305,626	68,378	1,387,567

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. PROFIT 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 £440,000 (2020: £879,000) 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

	2021	2020
	£'000	£'000
Investments	214,886	214,886

Subsidiaries

The subsidiary undertakings of the Company at 31 December 2021 are disclosed in note 22.

C5. INTERCOMPANY LOAN

	2021	2020
	£'000	£'000
Intercompany loan – non-current	1,948,920	967,180

During the year ended 31 December 2018 the Company entered into formal loan arrangements with its subsidiaries. These loans have a term of 5 years and an interest rate of 5%. Refer to note C9 for further detail.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

C6. TRADE AND OTHER RECEIVABLES

	2021	2020
	£'000	£'000
Other receivables	2,037	2,015
Prepayments and accrued interest	364	331
Amounts owing from subsidiaries	2,622	101,436
	<u>5,023</u>	<u>103,782</u>

Amounts owing from subsidiaries relates to intercompany recharges and amounts paid by the entity on behalf of subsidiaries within the Group. Refer to note C9 for further detail. 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 21 for further discussion of credit risk.

C7. CASH AND CASH EQUIVALENTS

	2021	2020
	£'000	£'000
Cash at bank and in hand	<u>19,227</u>	<u>72,973</u>

C8. TRADE AND OTHER PAYABLES

	2021	2020
	£'000	£'000
Trade payables	31	612
Accruals	4,378	1,742
	<u>4,409</u>	<u>2,354</u>

C9. RELATED PARTY TRANSACTIONS

The Company has a related party relationship with its subsidiaries, its parent companies and with its directors and executive officers (see note 22). At 31 December 2021, the ultimate parent company, Connect Infrastructure Topco Limited, was a jointly controlled consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners. Mubadala Investment Company and Interogo Holding joined the existing investors and became minority shareholders after investing in August 2021.

During the year the company provided services to/(received services from):

	2021	2020
	£'000	£'000
CityFibre Holdings Limited	15,499	20,810
Entanet Holdings Limited	187	1,531
FibreNation Limited	1,723	28,796
Connect Infrastructure Bidco Limited	(648)	182
CityFibre Holdco Limited	15	15
Connect Infrastructure Topco Limited	2,281	161
Total services provided	<u>19,057</u>	<u>51,495</u>

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**C9. RELATED PARTY TRANSACTIONS (continued)****Group undertakings**

The balances due from group undertakings, which include both intercompany trade and intercompany loan balances at 31 December 2021, is as follows:

	2021	2020
	£'000	£'000
CityFibre Holdings Limited	1,834,194	959,678
Entanet Holdings Limited	9,898	14,753
FibreNation Limited	104,828	93,212
Connect Infrastructure Bidco Limited	62	710
CityFibre Holdco Limited	32	17
Connect Infrastructure Topco Limited	2,528	246
	<u>1,951,542</u>	<u>1,068,616</u>

There are no other related party transactions.

C10. FINANCIAL INSTRUMENTS

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

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