CITYFIBRE INFRASTRUCTURE HOLDINGS LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

Independent 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'). From July 2018, 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. With 30 partners and approximately 220 professionals across six offices, the firm manages funds that invest in infrastructure in Europe and North America, targeting investments in the energy and environment, digital, transportation and social sectors.

Antin Infrastructure Partners has approximately €31.1 billion of assets under management. The firm's 16-year track-record of investing includes five flagship infrastructure funds, one mid cap infrastructure fund and one fund dedicated to investing in the next generation of infrastructure. These funds are backed by over 330 institutional investors from across Europe, North America, the Middle East, Asia, Australia and South America, including pension funds, insurance companies, asset managers and sovereign wealth funds.

Antin Infrastructure Partners has significant experience in acquiring and owning digital infrastructure assets. In particular, through its ownership of Lyntia (a leading independent wholesale fibre platform in Spain), FirstLight Fiber (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, France and Germany, 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 in a series of private infrastructure funds managed by Goldman Sachs Asset Management. Goldman Sachs (NYSE: GS) is one of the leading investors in alternatives globally, with over $450 billion in assets and more than 30 years of experience.

The business invests in the full spectrum of alternatives including private equity, growth equity, private credit, real estate, infrastructure and sustainability. Clients access these solutions through direct strategies, customised partnerships, and open-architecture programs. The business is driven by a focus on partnership and shared success with its clients, seeking to deliver long-term investment performance drawing on its global network and deep expertise across industries and markets.

The alternative investments platform is part of Goldman Sachs Asset Management, which delivers investment and advisory services across public and private markets for the world's leading institutions, financial advisors and individuals. Goldman Sachs has over $2.8 trillion in assets under supervision globally as of 31 December 2023.

Established in 2006, Infrastructure at Goldman Sachs Asset Management has consistently navigated the evolving infrastructure asset class, having invested approximately $16 billion in infrastructure assets across market cycles since its inception. The business partners with experienced operators and management teams across multiple sectors, including digital infrastructure, energy transition, transportation & logistics and social infrastructure.

Goldman Sachs Asset Management has extensive experience investing in communication infrastructure assets. The business has invested in the US telecoms sector in Unison and Vertical Bridge (telecoms towers), ExteNet (small cells and distributed network services), Global Compute (a global data centre platform led by former Digital Realty co-founders and senior executives), and most recently ImOn Communications (a regional Fibre to the Home platform). The business has also invested in several European communication infrastructure companies, including Kabel Deutschland, Cablecom and Get.

Company ownership (continued)

Mubadala Investment Company

Mubadala Investment Company is a sovereign investor managing a global portfolio, aimed at generating sustainable financial returns for the Government of Abu Dhabi.

Mubadala's $276 billion (AED 1,015 billion) portfolio spans six continents with interests in multiple sectors and asset classes. Leveraging its deep sectoral expertise and long-standing partnerships to drive sustainable growth and profit, while supporting the continued diversification and global integration of the economy of the United Arab Emirates.

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, scaling companies 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 for 10 years as CFO at Gatwick Airport. Before that, he worked with Anglo American plc and with Centrica plc 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 10 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 CityFibre 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.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

The Directors present their strategic report with the audited financial statements for the year ended 31 December 2023.

We have chosen in accordance with Section 414C(11) of the Companies Act 2006 to set out in our Strategic Report the following which the Directors believe to be of strategic importance:

- Principal risks and uncertainties
- Key Performance Indicators (KPIs)

CityFibre – at a glance

CityFibre was founded to develop a new generation of digital infrastructure for the UK - infrastructure capable of transforming the digital capabilities of citizens and businesses, sparking innovation and underpinning our economy in the data age.

Today CityFibre operates the UK's largest independent Full Fibre(1) platform. Supporting market-leading wholesale connectivity services, its carrier-grade networks enable its wholesale customers to serve ultra-reliable, gigabit speed and futureproof broadband, Ethernet and 5G services to homes, businesses, schools, hospitals and GP surgeries – as well as anything else that needs a digital connection.

CityFibre's networks now pass 3.6 million premises(2) and are expanding by approximately 1 million premises a year. CityFibre ultimately plans to pass up to 8 million premises through a combination of organic build and network acquisitions, representing approximately one third of the UK market.

CEO review

2023 was another transformative year in CityFibre's growth. Given the challenging operating environment, CityFibre grew from strength to strength, delivering against our build targets, launching a nationwide network upgrade, nearly doubling our connected customer base and delivering £100 million in revenues.

It was also a year in which we began a reorganisation of our business after several years of rapid expansion, driving material organisational efficiencies and restructuring ourselves around a rationalised, high-performing supply chain.

In 2023 we cemented our reputation as the leading fibre infrastructure competitor to BT Openreach and, thanks to our growing participation in the Building Digital UK (BDUK) 'Project Gigabit' rural programme, became an integral delivery partner to the UK government.

Building the Network

In January 2023, we set an objective of delivering 1 million Ready For Service (RFS(3)) premises to our Internet Service Providers (ISP) partners. Despite adverse market conditions, we exceeded that in-year target with our network having passed 3.6 million premises, of which over 3.2 million are RFS. This progress firmly establishes CityFibre as the UK's largest independent Full Fibre network, with a footprint approximately three times larger than the nearest non-incumbent competitor.

(1) Full Fibre consists of fibre optic cabling used from the local exchange, all the way to the end-user premises, relying on no copper-based telephone lines.
(2) Premises passed: This means that the property has fibre allocation and a fibre route available to the boundary of the premises, but is not yet connected.
(3)RFS premises: This means that the property is available to place orders and make installation on and therefore be connected.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Building the Network (continued)

Critically, the network expansion was delivered at target cost, which has remained flat in nominal terms over the past 4 years. This was due to our focus on build partner and portfolio optimisation with performance improvements, alongside our growing scale, offsetting input cost inflation and the volatile operating backdrop for the supply chain.

We were also delighted to complete our planned network deployments across several 'city build' projects, allowing us to shift to demand-driven network densification. Concluding projects helps us free up resources for other build areas and provides opportunities to drive further operational efficiency.

Our growing participation in BDUK's 'Project Gigabit', a government programme to improve digital connectivity in rural areas, also provided a strategically important opportunity to align our wider rollout plan to the programme, densifying our network in BDUK awarded areas for greater efficiency. This realignment necessitated changes to our rollout plan, leading us to reprioritise or pause selected local builds. The benefits far outweigh the costs and will enable us to continue to build far more efficiently in the years to come.

Driving Take-up

Throughout 2023, we continued to support the performance of our 46 consumer ISP partners, helping them to drive take-up on the network. Over 163,000 net new customer connections were added in the year, almost doubling the consumer customer base to over 337,000.

Across our footprint, large ISPs are typically selling at two to three times the rate they do over BT Openreach's fibre network, and we are also consistently gaining a 40-50% share of the homes switching broadband provider on a monthly basis within our footprint. This success has impacted revenues positively with 23% underlying growth year on year.

In Milton Keynes, our most mature market where build was completed in 2022, more than 30%[(1)] of households have already chosen to move over to CityFibre's network. The first areas served in the city have now achieved approximately 40% take-up and penetration continues to grow month on month.

Our focus on helping our ISPs migrate customers from BT Openreach's network to CityFibre's has also supported this rapid growth, with migration volumes increasing materially in the third and fourth quarters.

While our largest national customers still deliver the majority of our monthly connection targets, we were also delighted to see continued growth in sales from our smaller ISP partners. Although frequently targeting specific geographies rather than our full national footprints, these smaller partners are effective at disrupting the local market with compelling consumer propositions and price points. We continue to believe that this is both good for CityFibre's growth and good for the consumer.

Network and Product Development

With a focus on offering our partners a 'carrier-grade' network, performing at the highest levels of consistency, quality, reliability, and availability, we further strengthened CityFibre's technological and service credentials throughout 2023.

While our original Gigabit Passive Optical Network (GPON) technology choice was capable of delivering symmetrical gigabit speed services superior to those available from BT Openreach or Virgin Media, we began a major investment to upgrade our network technology to a 10Gbps XGS-PON platform, capable of supporting symmetrical 'multi-gig' speeds to consumers. This upgrade will take some time to complete but we were delighted to have already enabled 90% of our Fibre Exchanges with the new technology, ensuring CityFibre continues to lead the market for network capabilities.

[(1)] Penetration rate being the percentage of premises connected to the CityFibre network out of the available RFS premises

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Network and Product Development (continued)

We were also excited to launch the UK's fastest wholesale services, making symmetrical 2.5Gbps speeds available to our partners. The first commercially available 2.5Gbps services are now available to consumers and we anticipate significant growth in multi-gig service take-up in the coming years.

Our service quality is critical for the ongoing success of our business and we were pleased to have delivered industry-leading service metrics throughout 2023 including a 'Right First Time' (RFT) installation of 92.5% and an Early-Life Failure rate of just 1.5%.

Determined to ensure our products remain competitively priced and attractive to current and prospective ISP partners, we continued to use commercial levers of special offer pricing and marketing incentives for our ISPs to drive targeted take-up in the consumer FTTP market and support our competitive propositions in the Ethernet market.

Key Performance Indicators (KPI)	**2023**	**2022**
Statutory revenue (£million)	99.7	31.0
Underlying revenue (£million)[1]	99.7	80.8
Adjusted EBITDA (£million)[1]	(54.5)	(69.4)
Capital Expenditure (£million)[2]	1,037.4	1,017.2
RFS Premises – additions (million)[3]	1.0	1.0
RFS Premises – cumulative (million)[3]	3.2	2.2
Premises Passed – cumulative (million)[3]	3.6	2.6
Live Consumer connections (000)[3]	337.0	174.4
Right First Time installation	92.5%	89.2%

[1] Refer to page 13 and 14 for definitions of Alternative Performance Measures
[2] Capital Expenditure consists of acquisitions of tangible assets and capitalisation of staff costs and borrowings costs which together sum to the total additions in property, plant and equipment in Note 8.
[3] See page 6 for definitions and further details regarding these KPIs.

Participation in 'Project Gigabit'

One of our most material achievements last year was becoming an integral delivery partner for the government's £5 billion BDUK 'Project Gigabit' programme to improve digital connectivity in rural areas. In March 2023, we announced our first delivery contract for the county of Cambridgeshire. This was followed in July 2023 by the announcements of three further contract wins for delivery across Norfolk, Suffolk and Hampshire. These four contracts had a total subsidy value of £387 million to subsidise the rollout of gigabit-capable infrastructure to 262,000 rural properties across the country that would otherwise be excluded from commercial rollouts.

Our role in the government's ambitions to improve rural connectivity has continued to grow significantly in the first months of 2024, with five further contract wins. Totalling over £395 million of government funds, these will subsidise the rollout of Full Fibre infrastructure to over 202,000 further rural properties in Buckinghamshire, Hertfordshire, Berkshire, Leicestershire, Warwickshire, Sussex, Kent, Bedfordshire, Northamptonshire and Milton Keynes.

In total, we have now been awarded nine Project Gigabit contracts, worth £782 million in subsidies. Alongside our delivery of these projects, we will continue to expand and densify our significant existing network footprint in these areas with the addition of almost 450,000 additional premises on a commercial basis to extend our rollout to over 900,000 additional premises within our 8 million rollout programme.

Critically, Project Gigabit specifically targets locations not addressed by any operator's commercial build plans, meaning that CityFibre expects to be the only Full Fibre network available to those homes and businesses and to the Internet Service Providers (ISPs) that serve them. In so doing, CityFibre will be helping to transform lives and enable economic growth in some of the poorest connected areas of the UK today.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Regulatory

The industry regulator, Ofcom, is supporting investment in gigabit-capable networks by encouraging competition between different networks where viable, which will provide high quality services, choice and affordable broadband for consumers throughout the UK. Ofcom's Wholesale Fixed Telecoms Market Review (WFTMR) published in 2021 recognises that it will require significant investment from private companies to upgrade the UK's networks so they are fit for the future. Ofcom states that it aims to incentivise that investment, giving regulatory certainty and allowing companies to make a fair return whilst ensuring consumers continue to have access to affordable broadband as new networks are rolled out. CityFibre is committed to working with Ofcom to ensure this stated objective is realised.

In December 2022, BT Openreach issued its Equinox 2 discount pricing scheme, making changes to the original Equinox offer and introducing further price reductions. Ofcom consulted on whether to prevent the scheme from coming into force under the procedures it put in place in the WFTMR. CityFibre made a number of submissions to Ofcom indicating why the Equinox 2 scheme should not be allowed and that no further discount schemes should be introduced by Openreach at this stage.

In May 2023, Ofcom published a decision to take no action against the Equinox 2 scheme. Alongside its decision, Ofcom published a supporting document from BT Openreach which indicated that it does not intend to initiate any further pricing changes to FTTP rentals before April 2026 unless there are material market changes.

In addition, Ofcom published a statement in December 2023 requiring retail broadband providers to inform their customers, at point of sale, of the underlying technology used to deliver their broadband service using one or two terms that are clear and unambiguous, such as 'cable', 'Full Fibre', 'copper' or 'part-fibre', Ofcom hopes to improve the information available to consumers and to allow them to make better informed choices. CityFibre was actively involved in the process leading to the statement and we are hopeful that Ofcom's actions will assist consumers to choose Full Fibre services which offer significant improvements in service quality.

Financial Discipline

Like most other UK businesses, CityFibre was not immune to the challenging operating environment in 2023. With inflation and interest rates spiking, we took prompt action to ensure tight financial control of the business.

Focused on the efficiency of our capital deployment, we drove a full review of our supply chain, ensuring our build partners' performance was optimised and that we could maximise our conversion of passed premises to Ready For Service. As part of this process, we parted ways with a number of build partners while other projects were paused or deprioritised due to the changing market conditions and our growing participation in Project Gigabit.

In parallel we began a reorganisation of our business, driving material organisational efficiencies after several years of rapid expansion and restructuring ourselves around a rationalised and high-performing supply chain. We will continue this reorganisation throughout 2024 as we drive further simplification of our organisational structure, improving both cross-functional collaboration and productivity.

Environmental, Social and Governance (ESG)

Our ESG activities are not only important to our business, shareholders and lenders but also a critical component of our engagement strategy with the communities in which we work.

Notable initiatives we focused on in 2023 included switching our operational sites to green energy sources. Today we run on 100% renewable energy. We also committed to a range of regionally-tailored community support programmes to support our Project Gigabit contract wins, and in 2024 we will start to flow funds and resources towards biodiversity and digital inclusion as well as a variety of other areas.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Outlook

In 2024, we expect CityFibre to continue to gather momentum, stretching further ahead of our Alternative Broadband Networks (alt-net) competitors in terms of our network reach, take-up and revenues and firmly establishing ourselves as the nation's third national network alongside BT Openreach and Virgin Media.

For the last two years we have delivered 1 million RFS premises a year to our partners and expect to maintain this rate of delivery in 2024. But, while we have pursued a successful self-build strategy up to this point, we are now taking the opportunity to augment that build with acquisitions, accelerating our growth to our 8 million target. Our ISP partners are highly supportive of this strategy and are keen for CityFibre to scale as quickly as possible.

Given the financial pressures on the market and specifically the challenges for smaller players to raise capital to support their growth, we believe that widespread consolidation of UK alt-nets is inevitable and that as the largest challenger to BT Openreach, we will play a leading role. The market needs a third infrastructure platform of scale to ensure competition remains healthy and delivers for UK consumers. CityFibre is the core of that third platform.

The Group has commenced preparation for a financing exercise to expand the Group's debt facilities to provide sufficient funding for the next phase of our growth plans. This is discussed further on page 29.

In line with our inorganic growth strategy, we were pleased to announce our first strategic acquisition, Lit Fibre, in March 2024. Lit has a ready for service footprint of over 200,000 homes and up to 100,000 additional homes in its build plans. The acquisition is expected to be completed in the second quarter of 2024. Post-completion, we will work to rapidly integrate their network assets into CityFibre's nationwide network and to enable our ISP partners to offer services over the extended footprint of up to 300,000 homes.

We expect to complete a number of further strategic acquisitions over the next several years, focusing on those targets with complimentary network footprints, a high quality of deployment, and compatibility of network architecture.

While the broader financial outlook may be starting to improve, it remains critical for us to ensure CityFibre's long-term financial stability by taking the business on a path to profitability in 2024. By continuing to optimise our organisational structure to drive further efficiencies and remaining highly disciplined in our use of cash resources, we have achieved Adjusted EBITDA breakeven in the first quarter of this year.

Greg Mesch

Chief Executive Officer
24 April 2024

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Financial Review

The financial review uses a combination of statutory and alternative performance measures (APMs) to discuss performance in the year. See page 13 and 14 for further details on APMs.

Profit and loss

Total revenue for the year was £99.7 million (2022: £31.0 million). The increase in revenue of £68.7 million was driven by the effect of constrained variable consideration in the prior period which represented a reduction to revenue of £49.8 million and was considered non-recurring. There was no non-recurring revenue in the current year. The remaining increase relates to underlying revenue discussed in further detail below.

Our underlying revenue for the year increased by £18.9 million to £99.7 million (2022: £80.8 million). Within this, 'on-net'[(1)] revenue increased by 41%, rising to £70.7 million while 'off-net' revenue fell by 6% to £ 29.0 million. This resulted in 'on-net' revenue representing a higher proportion of total underlying revenue at 71%, up from 62% in the prior year. This positive change in our revenue mix is due to the increase in our network footprint while increasing the number of connections on our own network and improving penetration rates.

Increasing the live customer base by adding 163,000 net Consumer connections in 2023 (2022: 114,000) has driven the 41% 'on-net' revenue growth in the year. While our major ISPs Vodafone and TalkTalk remain a strong pillar for filling our network, smaller ISPs have showed continued growth and are proving to be highly effective in the local markets they operate in. This is further supported by the strong take-up and penetration rates in our more mature areas such a Milton Keynes where more than 30% of households are already on our network.

Network operating costs increased 11% to £56.9 million (2022: £51.2 million) as our network has scaled, due to our cost base being mainly driven by the size of the footprint rather than the number of customer endpoints. Underlying gross margin has improved by 6% to 43% due to the revenue growth detailed above.

Underlying administrative[(2)] expenses increased to £232.9 million (2022: £187.3 million). Key areas within these expenses are as follows:

- Staff costs, excluding those capitalised, were consistent with prior year at £46.2 million (2022: £46.2 million) as the business rationalised headcount to drive organisational efficiency and mitigate the impact of wage inflation.
- Other general administrative expenses decreased to £51.1 million (2022: £52.9 million) as financial control measures were successfully implemented despite the continued growth of the network footprint.
- Depreciation and amortisation increased by a total of £50.1 million to £136.0 million, reflecting the continued investment in the network rollout.
- Management incentives were a credit during the year of £0.4 million (2022: debit of £2.3 million) relating to equity-settled share-based payment charges of £0.4 million (2022: £0.7 million) operated by Connect Infrastructure Topco Limited, the ultimate parent company offset by a long-term incentive plan credit of £0.8 million due to leavers from the scheme in the year (2022: debit of £1.6 million).

In addition to the above we incurred £23.7 million of non-recurring operating items including £21.6 million of restructuring items and £2.1 million of other non-recurring administrative expenses. Restructuring charges primarily include redundancy costs and build partner settlement costs in connection with the efficiency programme implemented in 2023. Refer to page 14 for further details. Non-recurring fees during the year principally relate to certain strategic project costs and regulatory costs. Some of the strategic and efficiency programmes have a duration of more than one year.

Improved Adjusted EBITDA loss of £54.5 million (2022: £69.4 million) reflects the growth in revenue as discussed above. A reconciliation of operating loss to Adjusted EBITDA is shown on page 12.

(1) See Note 2 for definitions of 'on-net' and 'off-net' revenue.
(2) Underlying administrative expenses comprises statutory administrative expenses less non-recurring administrative expenses. See page 35 for further details on non-recurring administrative expenses.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Financial Review (continued)

Profit and loss (continued)

Underlying net finance costs, comprised of finance income of £47.7 million and finance costs of £173.1 million, increased by £60.3 million to £125.4 million (2022: £65.1 million) driven by increased use of the facility to support capital expenditure, combined with rising interest rates, the impact of which was partially mitigated by the hedging arrangements in place which are discussed further below.

In non-recurring net finance costs, we recognised an unrealised loss during the year, amounting to £80.0 million (2022: £180.8 million unrealised gain recognised in finance income), reflecting the movement in the fair value of hedging instruments. In addition to the existing instruments in place, three new arrangements were entered into in 2023 to maintain our hedging requirements under the external debt facility.

Reconciliation of operating loss to Adjusted EBITDA

	2023 £'000	2022 £'000
Operating loss	(213,852)	(209,831)
Add back:		
Depreciation	122,325	76,598
Amortisation	13,698	9,314
EBITDA	(77,829)	(123,919)
Management incentives (credit)/charge	(410)	2,333
Non-recurring operating items[1]	23,699	52,212
Adjusted EBITDA	(54,540)	(69,374)

[1]Refer to page 13 and 14 for details of Alternative Performance Measures

Statement of Financial Position

Property, plant and equipment at cost increased by £1,037.4 million to £3,718.3 million. This was principally driven by the construction of the Full Fibre infrastructure programme which continued throughout the year.

Within the above, the construction of new network assets, including both completed and assets under construction, at the end of 2023 totalled £990.2 million (2022: £945.6 million). Of this, around 98% (2022: 97%) related to the Full Fibre network build, while the remaining additions were to support customer connections in existing towns and cities, as well as enabling the assets for commercialisation. A further £17.1 million (2022: £28.0 million) was spent on fibre exchange(1) costs, along with initial network and equipment required to enable the Full Fibre network build. The expansion of the Full Fibre network has added over 1 million RFS premises during the year, reaching over 3.2 million cumulatively.

There was a notable increase in the Right of Use assets of £68.1 million to £117.4 million (2022: £49.3 million). This is due to £54.0 million of Physical Infrastructure Access (PIA) assets being recognised in 2023 in accordance with the treatment of leases under IFRS 16. PIA assets are underpinned by Ofcom's regulatory framework which enables leveraging off BT Openreach's existing infrastructure.

Interest bearing loans and borrowings increased from £1,809.7 million to £3,092.1 million in the year. This was due to drawdowns of the facility of £1,305.0 million to fund the construction of the network as described above, offset by an increase in unamortised finance costs of £22.6 million due to the allocation of transaction costs against the facility as it is drawn down.

(1)Fibre exchange: A site that houses active equipment for delivering Full Fibre services.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Financial Review (continued)

We recognised provisions of £33.1 million in 2023 in relation to the efficiency programme and leasehold dilapidations. The restructuring provision has been recognised in relation to the efficiency programme discussed previously, with the provision comprising redundancy costs and build partner exit costs not yet settled as well as costs in relation to minimum purchase obligations with materials suppliers. Refer to Note 20 for further details. The leasehold dilapidations provision has been recognised in relation to our office and fibre exchange leases for the estimated cost to return the properties to their original state and was driven by the expansion of our lease portfolio.

Funding and Cash flow

Operating cashflow for the period was a net outflow of £68.3 million, compared to a net outflow of £114.4 million in 2022. This is driven by an improvement in EBITDA of £46.1 million predominantly driven by revenue growth discussed previously.

Cashflows used in investing activities remained consistent with the prior year at £1,026.7 million (2022: £992.7 million) as we continued to construct the network while focusing on efficiencies and optimisation of our capital expenditure spend.

Financing cashflows were predominantly comprised of an increase in gross debt of £1,305.0 million to £3,135.0 million (2022: £1,830.0 million) discussed previously. This was offset by interest costs of £187.8 million (2022: £53.9 million) however noting the interest rate swap net settlements generated a benefit of £42.8 million (2022: loss of £0.5 million) as our hedging arrangements partially mitigated increases in interest rates.

Cash and cash equivalents at 31 December 2023 was £137.2 million (2022: £102.4 million).

Alternative Performance Measures

Certain analyses include Alternative Performance Measures ("APMs") which are not defined by generally accepted accounting principles (GAAP) as defined under UK-adopted international accounting standards or other generally accepted accounting principles. We believe this information, along with comparable GAAP measurements, is useful to users of the financial statements because it provides a basis for measuring our operating performance. Our management and Board of Directors uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating our operating performance. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Wherever appropriate and practical, we provide reconciliation to relevant GAAP measures.

APMs have been provided for the following reasons:

- to present users of the financial statements with a clear view of what we consider to be the results of our underlying operations, aiding the understanding of management analysis and enabling consistent comparisons over time
- to provide additional information to users of the financial statements about our financial performance or financial position

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Financial Review (continued)

Alternative Performance Measures (continued)

The following APMs appear in this document:

#	APM	Definition of APM
1	Underlying revenue	Underlying revenue comprises statutory revenue less non-recurring revenue. This reflects revenue results on a more comparable basis year on year, and as such may be helpful for users of the financial statements to understand the Group's performance.

	2023 £'000	2022 £'000
Underlying revenue	99,675	80,802
Non-recurring revenue	-	(49,829)
Statutory revenue	99,675	30,973

#	APM	Definition of APM
2	Non-recurring revenue	Non-recurring revenue in 2022 comprised a revenue reduction in relation to constrained variable consideration relating to payments made to a customer following a contract modification in 2019.
3	Non-recurring administrative expenses	Non-recurring administrative expenses of £23.7 million comprises £21.6 million relating to the efficiency programme and £2.1 million of other non-recurring administrative expenses. In 2023 the Group implemented a plan to restructure to its operations in order to improve operating efficiency after a period of significant scale through optimisation of internal headcount and capital expenditure. The total costs incurred in 2023 were £21.6 million with a cash cost of £17.2 million. The efficiency programme will continue in 2024 and therefore will incur further costs. The Group has exercised judgement in assessing whether restructuring items should be classified as exceptional. Due to the scale of the impact and material nature of the programme, the Group has assessed the classification as exceptional is appropriate. Other non-recurring administrative expenses of £2.1 million relate to strategic project and regulatory costs which are considered exceptional however these projects may last more than one year (2022: £2.4 million).
4	Non-recurring net finance costs	Non-recurring finance costs of £80.0 million relates to an unrealised loss on the fair value of hedging instruments (2022: £180.8 million unrealised gain).
5	Adjusted EBITDA	EBITDA, a non-GAAP alternative measure, is defined as operating loss adding back depreciation and amortisation. Adjusted EBITDA is defined as EBITDA adding back non-recurring revenue and administrative expenses, restructuring charges and management incentives charges. It is a measure closely tracked by management to evaluate operating performance and as such it may be helpful for users of the financial statements to understand performance on a comparable basis. The nearest equivalent measure on an IFRS basis is loss before interest and tax. See page 12 for reconciliation.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Principal risks and uncertainties

Risk	Mitigation
Outsourced Construction	
We award NEC (New Engineering Contract) contracts to principal construction partners in order to build our Full Fibre network and rely on their ability to deliver in line with agreed contractual terms and within the UK legal and regulatory framework. This exposes us to third party insolvency risks, the potential for contract dispute and litigation, and reputational damage should standards of corporate governance fall short of our requirements.	We have a robust supplier selection process and award long-term contracts to multiple principal construction partners to reduce the exposure to any one contractor and allowing for effective long-term resource planning. Principal contractors' financial positions are monitored, allowing us to make early interventions where required. Contracts are designed to ensure we only pay for what is built and ongoing review and monitoring takes place through contract and supplier relationship management. Principal construction partners are expected to comply with all UK laws and regulations, including having policies in place which meet the required standards and our own values.
Health & Safety	
We engage in activities and environments that have the potential to cause serious injury or harm. We rely upon our principal contractors to ensure their subcontracted workforce comply with our policies and procedures. Failure to meet those standards could lead to increased incidents, litigation and reputational damage resulting in the inability to secure future customers and government contracts.	We acknowledge our duty of care and are committed to upholding the highest standards of health and safety highlighted in our 'Golden Rules of Safety' and Safety, Health, and Environment (SHE) Handbook. We have a dedicated SHE team and helped to establish SHiFT (Safety & Health in Fibre Telecoms) a 28-member group aimed at driving up safety standards in the fibre industry. As an ISO45001 accredited organisation, and previous RoSPA Gold Award winner, we remain focussed on ensuring the health and safety of our employees, contractors, and the general public.
Regulatory Environment	
The UK telecommunications market is regulated by Ofcom who are responsible for overseeing quality and choice of services in the UK, and promoting competition, for the benefit of consumers, amongst the companies it regulates. A change in Government policy, or failure to address anti-competitive behaviours in the Full Fibre wholesale market, could affect our ability to compete.	We continue to engage proactively with both Ofcom and Government and take actions as necessary to ensure our position is appropriately represented and protected. We consult regularly with Ofcom and encourage them to undertake the necessary regulatory actions to safeguard our competitive position.
Liquidity	
Our ability to achieve our objectives is dependent on us effectively managing liquidity, including the ability to access existing and future equity and debt funding to complete the network build phase of the business lifecycle. We are also required to comply with banking draw stops and covenants and other financial obligations as they fall due.	We continue to manage our existing funding in line with our long-term business plan, including maintaining compliance with banking covenants and debt draw conditions. We forecast both short and long-term cash flow, perform sensitivity analysis and have experienced advisors in place to support debt and equity raises. We acknowledge that at times of global economic uncertainty market liquidity may reduce and we continue to proactively review and react accordingly to ensure we can meet future financing requirements.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Principal risks and uncertainties (continued)

Risk	Mitigation
Interest Rates	
In order to bring inflation under control the Bank of England have increased interest rates. We have a floating interest rate exposure linked to SONIA that we pay on our debt facility. In addition, as we continue to invest in growth, near-term financing requirements could mean we are exposed to the higher costs of borrowing expected to continue in the short to medium term.	We have appropriate hedging instruments in place to mitigate our exposure to interest rate fluctuations within the terms of our existing financing facilities. Through the consistent delivery of our strategy, we expect to be able to secure future funding at competitive interest rates supported by our team of experienced advisors.
Global Economic & Geopolitical Uncertainty	
Continued global economic and geopolitical uncertainty remains a key challenge for UK businesses exposed to a variety of interconnected risks and their compounded effects. The wars in Ukraine and Gaza continue to drive high energy costs, and the after-effects of the pandemic and Brexit have resulted in a sustained period of high inflation, well above the Bank of England's 2% target. We, our principal contractors, and customers are exposed to these pressures.	We have long term energy contracts in place which minimise the impacts of energy market fluctuations. Principal construction partner contracts include the ability to benchmark where rate increases are above the Building Cost Information Service (BCIS) index. We conduct financial background checks prior to awarding contracts and have also strengthened customer collections processes. We continue to drive efficiencies wherever possible in order to reduce operating costs and manage the impacts of inflation.
Competition	
The UK telecommunications sector is highly regulated. We compete for customers with BT Openreach, Virgin Media O2/Nexfibre and a range of smaller fibre providers. Our business model depends upon customers switching to Full Fibre on the CityFibre network, which relies on a sufficiently differentiated product and competitive pricing. In addition, the Full Fibre market continues to go through a period of consolidation, the impacts of which are uncertain.	We have the largest independent Full Fibre network in the UK with access to capital and established revenue streams to defend our market position. Our participation in the Government's Project Gigabit programme allows us to drive engagement with ISPs in locations where there is limited Full Fibre competition. Our products and services are regularly reviewed to ensure our offer remains competitive. We continue to actively monitor the Full Fibre market and have an experienced team of advisors in place should we identify and choose to pursue opportunities to increase our market share.
Environment, Social and Governance	
It is important that businesses conduct themselves in an ethical and sustainable way demonstrating strong corporate social responsibility and providing long term benefits to the environment, society, and the economy. In addition, as a UK business we are required to incorporate sustainability goals in order to meet legislation and comply with mandatory reporting standards. Maintaining positive relationships with our stakeholders is critical to ensuring we leave a positive legacy and are able to attract customers, employees, government funding and the investment required to deliver our strategy.	Our Responsible Business Strategy includes commitments to our people, our society and our planet with Executive sponsorship and established committees in place. Our key aims include decarbonising business operations and building a low emission, climate resilient network. As a Business in The Community member, we continue to collaborate with schools, community centres and individuals to empower the growth of a resilient society, improving equality and opportunities. We encourage all our employees to take charitable leave to volunteer for a cause important to them and as a business are focused on supporting digital inclusion, fostering a lasting skills legacy, and addressing socio-economic disadvantages.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Principal risks and uncertainties (continued)

Risk	Mitigation
Environment, Social and Governance (continued)	
Failure to deliver the commitments outlined in our Responsible Business strategy could affect long term business performance, profitability, and liquidity.	Our zero-tolerance approach to corrupt behaviour is backed by policies, procedures, and training to protect us and our stakeholders from unethical conduct. This approach extends to suppliers who are required to work within the terms of our Supplier Code of Conduct.
Data and Cyber Security	
As the third largest telecommunications network in the UK, we form part of critical national infrastructure (CNI) and are exposed to the increased frequency and complexity of cyber-attacks. The National Cyber Security Centre (NCSC) has warned of an 'enduring and significant' threat to critical infrastructure. The sustained threat environment, combined with new and amplified threats from the emergence of Artificial Intelligence (AI), means we remain exposed to the threat of attacks on our network and through our supply chain with the potential for disruption to our ISP customers and operations and data breaches resulting in regulatory and financial penalties.	We continue to bolster our cyber and information security practices in response to the continued and varied threats we face including strengthening perimeter defences, monitoring network activity, patching updates, and penetration testing. We have strengthened both the IT organisation and our incident response capabilities, are continuing the transition to the ISO27001 2022 information security standard and are on track with implementation of the requirements under the Telecoms Security Act to ensure the security and resilience of our network. We remain part of the government backed Cyber Essentials scheme and continue to collaborate with Government, Ofcom, and Telecoms industry counterparts to share knowledge and information to improve collective responses. Our Business Continuity Plan outlines our response in the event of a cyber-attack and we conduct regular exercises, testing and war gaming. Our employees are required to undertake mandatory and targeted data protection training and we have also conducted awareness campaigns in response to the increase in phishing attacks.
Digital Disruption and Emerging Technology	
Generative AI introduces significant opportunities for the Telecoms industry which need to be balanced with the risks introduced through its adoption. The vast amounts of data processed by AI raises both cyber security and privacy issues, with the potential for AI driven cyber-attacks which exploit vulnerabilities in telecoms networks. Threats may also arise from deepfake content and algorithms that introduce bias to unfairly influence decision making. Lack of transparency in the application of AI may also lead to misinformation spread and a lack of trust. Generative AI tools also pose ethical, legal, and existential questions which are still being assessed by government and the NCSC, including the longer-term impacts on society and the workforce.	Whilst the UK Government has adopted a pro-innovation approach it has yet to legislate and instead has published a framework underpinned by five principles on the responsible development and use of AI. We recognise the transformative potential of AI in shaping the future of telecommunications and are developing our AI strategy which includes ethical and governance considerations. We are committed to ensuring our AI initiatives are guided by ethical principles, a security-first mentality, data privacy and responsible decision making with all new AI tools undergoing review by our Architecture Review Board. We consider diversity and ethics at every stage of AI development to remove limitations and biases and ensure we are transparent in the application and use of AI in our decision making. We have an AI Security Policy advising employees on the appropriate use of, and threats surrounding, AI including generative AI (GenAI) and Large Language Model (LLM) technologies.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Section 172 Statement

The Board acknowledges Section 172 (1) of the UK Companies Act 2006, and its duty to promote the success of the Company. The Directors must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so has regard (amongst other matters) to:

a) the likely consequences of any decision in the long term
b) the interests of the Company's employees
c) the need to foster the Company's business relationships with suppliers, customers and others
d) the impact of the Company's operations on the community and the environment
e) the desirability of the Company maintaining a reputation for high standards of business conduct
f) the need to act fairly between members of the Company.

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 our employees, relationships with suppliers, customers and the communities in which we operate. The Board understands the need to regularly review the identity of these stakeholders, as they make such decisions.

The Board receives regular feedback from its stakeholders through regular reporting through the Board and its sub-committees, to ensure their needs and views are taken into account. Where appropriate, direct engagement with stakeholders is used to inform the Board, such as regular employee engagement surveys and customer experience statistics. The Board also assesses whether stakeholder engagement best takes places at an operational level, particularly in relation to our suppliers and communities in which we operate, due to the size and spread of both the stakeholders and the business.

The Board also recognises the desirability of maintaining a reputation for high standards of business conduct through our published policies and training of CityFibre employees in those policies.

Our shareholders nominate directors that control the board of the ultimate holding company and are actively involved in our major decision making. 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:

<u>UK Cities and Towns</u>

We use 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, our 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. Additionally, we are now a key partner in the government's 'Project Gigabit' programme which will subsidise the roll-out of gigabit-capable infrastructure to rural homes and businesses and has therefore has opened up further towns and cities which would otherwise be excluded from commercial rollouts.

<u>Construction Partners</u>

Our construction partners are key to our success. We identify and select 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 we focus closely on the productivity of our construction partners, the health and safety of the construction workers building our networks is of paramount importance, as outlined in the section below on Health and Safety on page 22.

<u>Suppliers</u>

As we deploy our network, we are 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. 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.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Section 172 Statement (continued)

Suppliers (continued)

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 and Conduct on page 23 for further information.

Customers

We build our cities based on a “Well Planned City” design methodology we have developed. We are building our networks with sufficient capacity to serve consumer, business, public sector and mobile operator 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. We aim 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 us 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

We have central offices in Milton Keynes, Telford, London and Irlam which house technical, commercial, customer service and corporate teams supporting the business. We 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. Our preference is to hire locally and, where possible, we seek out potential employees who are in the early stages of their career who can be trained and grown in the business. We value 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 in benefitting the entire community. We are also actively working to ensure we build and maintain a diverse and inclusive workforce, a programme supported by our Diversity and Inclusion Leadership Group. The behaviours set out in The CityFibre Way guide 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 20 onwards.

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

BDUK

In 2023 the board approved the submission of bids for a number of contracts under the government’s £5 billion Project Gigabit programme. Project Gigabit is the government’s flagship £5 billion programme to enable hard-to-reach communities to access lightning-fast, gigabit-capable broadband. Project Gigabit is managed by Building Digital UK (BDUK), an executive agency of the Department for Science, Innovation and Technology (DSIT). These contracts will subsidise the rollout of ‘gigabit capable’ infrastructure to reach homes and businesses where commercial builds are not economically viable. Participation in the BDUK programme offers many advantages, including higher take up opportunity in areas of lower infrastructure competition and delivers comprehensive regional-scale coverage to grow market share for existing customers and encourage new ISPs to our wholesale platform. This decision was made with consideration as to the impact on stakeholders, in particular customers and UK towns and cities where communities are currently underserved by broadband infrastructure.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Section 172 Statement (continued)

Efficiency programme

In 2023 the board agreed to implement a headcount reduction and capex optimisation programme to realise efficiencies following a period of rapid scaling and due to the impact of increased cost of debt and rate of inflation. Following a review of the supply chain and organisational structure this resulted in a rationalisation of the number of build partners as well as a reduction in headcount. This decision was taken with consideration of the stakeholders primarily affected by this decision, particularly employees and construction partners, to ensure fair and appropriate processes were followed.

Corporate Development Activity

In 2023 the board agreed to pursue potential acquisition opportunities to further expand the network footprint through the strategic acquisitions of UK alt-nets alongside the continued growth through organic build. This will allow CityFibre to continue to scale at pace and allow our ISP partners and their end customers the ability to connect to an extended network footprint. The decision making process included consideration of the potential impact on stakeholders which predominantly related to customers and their ability to connect to a larger network.

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 unlock the country's full potential. Our Full Fibre rollout will deliver significant economic, social, and environmental benefits across the UK.

As we build our network, we have a duty to act responsibly, ensuring we play our part in leaving a fairer, greener, and healthier world behind. Not doing so would undermine the positive legacy we are determined to build and enable through our network. We drive change aligned with the three pillars of our Responsible Business strategy – Our People, Our Society and Our Planet.

Our People
We will only be able to make a genuinely positive impact if our CityFibre family, and those working alongside us, are happy, healthy, and representative of the diverse communities we serve. That is why we put considerable emphasis on well-being, inclusion, diversity, and nurturing young talent. We support our people to bring their authentic selves to work and build lasting careers where they feel counted, accountable, and empowered.

Our Society
Digital infrastructure is of critical importance to our society. We are committed to helping build inclusive, enabled, and engaged local communities in all our rollout locations. By working with build partners, we have also helped to create a wide variety of apprenticeships and entry-level roles. From supporting digital inclusion initiatives, investing in programs driving diverse participation in STEM education, or even just a community litter-pick, we are helping to make a difference.

Our Planet
Climate change is one of the most pressing issues facing our planet today. We are fully aware of our role as a driver of decarbonisation for the economy and society. We take our responsibility seriously and are determined to roll out a low emission Full Fibre network and play our part in a greener future for Britain. By being a responsible business this also means optimising our working practices, technologies and behaviours and working closely with expert partners and our supply chain.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Responsible Business Governance

Ensuring that we can effectively track and monitor our performance against our strategy is critical to realising our ambitions. To do so, we continually strive to improve the data quality and insight that allows us to understand the impact we are having. Additionally, with an established Environment, Social and Governance (ESG) & Responsible Business Board Sub-Committee that meets quarterly, an operational monthly ESG & Responsible Business Steering Committee as well as Executive level sponsorship, we benefit from the oversight, challenge, and input of a variety of key stakeholders to translate intent into action.

The CityFibre Way

CityFibre's strong company culture, underpinned by the CityFibre Way behaviours, stood us in good stead to withstand a challenging operating environment and significant organisational transformation.

The CityFibre Way behaviours were co-created by employees and capture CityFibre's challenger mindset. These behaviours; 'Be the Groundbreaker', 'Collaborate to Innovate', 'Keep it Simple', 'Deliver Legendary Service' and 'Back Each Other', supported employees' resilience and performance in 2023 against stretching targets that saw the business deliver more than one million Ready for Service premises for its customers.

Despite the challenges, diversity and inclusion initiatives continued to thrive, with the added inclusion of external guest speakers. This addition brought fresh perspectives and insights, enriching the dialogue within our organisation.

In our ongoing commitment to employee wellbeing we continued to provide employee benefits such as the Employee Assistance Programme, Private Medical Insurance, and the Holiday Purchase Scheme.

Diversity and Inclusion

Creating a culture of diversity and inclusion is a core priority of CityFibre. We see it as integral to the overall performance and success of the organisation. A diverse workforce brings a wide range of perspectives, skills, and experiences to the table, which can lead to increased creativity, innovation, and productivity. When coupled with our inclusive workplace environment, employees will feel valued and respected, regardless of their background or identity.

In 2023 we supported our employees to be more expressive and champion their diversity through our sponsorship of several Pride events, our partnership with the Women in Engineering Society, Talent Tech Charter, Work180, Vercida, and our improved internal blogs focussed on the people of CityFibre.

We also signed up to the Ofcom pledge to increase female leaders into the technology roles, working alongside industry peers to identify and implement initiatives to support this growth. This will continue to be a key focus in 2024.

Additionally, we provide training in equal opportunities to managers and other employees involved in recruitment or other decision making, where equal opportunities issues are likely to arise. This includes unconscious bias training and awareness. We provide training to all existing and new employees, and others engaged to work with us, to help them understand their rights and responsibilities under the Dignity at Work Policy and what they can do to help create a working environment free of bullying and harassment.

We provide additional training to managers via coaching from our Employee Relations team to enable them to deal more effectively with complaints of bullying and harassment. If the manager has not received training before dealing with a complaint, Human Resources will undertake coaching directly with the manager before they respond to the complaint.

We have also used the services of an external organisation to support individuals with dyslexia whilst enrolled into management training. Training content is designed in both audio and written formats and is accessible to all.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Gender Diversity

As of 31 December 2023, CityFibre's gender split was as follows:

- Total Employees: 1,644 employees (excluding contractors), of which 26% identify as female (2022: 27%)
- Line Management Roles: 384 total, of which 24% identify as female (2022: 25%)
- There were 51 employees employed in the capacity of Executive or Director at CityFibre, of which 29% identify as female (2022: 28%).

We recognise that women are still underrepresented in the telecommunications, construction and technology industries and will continue to take steps to address the gender imbalance, with a gender diversity target of 27% in 2024 in addition to specific gender pay gap and female promotion KPIs.

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 because of their employment. The health, safety and well-being of our employees and contractors is our primary concern and as the basis of our commitment to them, we maintain and conduct activity in accordance with a health and safety management system certified to ISO45001:2018.

In 2023 the business underwent a restructuring which resulted in a risk-based assurance approach to our Contractors' safety performance. This placed a large proportion of the Safety, Health and Environment (SHE) resource within the Integrated Build Teams with direct line management responsibility to their Heads of Area Build. The Corporate SHE Team was created to provide a centrally based support function across the areas of the business, including Network Build (NWB) and Operations (Ops). Indirect lines of engagement were maintained with the SHE Resource to ensure clarity, direction and support were provided.

Our strong safety focus and standards were again validated through achieving the Royal Society for the Prevention of Accident's (RoSPA) Highly Commended Award in the Industry Sector category. RoSPA recognised CityFibre's exceptional commitment to specialist areas of health and safety management within the telecommunications sector.

During 2023 we had one injury to a CityFibre employee, which was reportable as a 'Major' Injury under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, 2013 ('RIDDOR'). A full investigation was undertaken, and actions taken to prevent recurrence. Reportable events for 2023 is consistent with 2022 performance (1 RIDDOR).

There were 13 Major Injuries involving Principal Contractor or Subcontractor employees which were reportable under RIDDOR compared with 10 reported in 2022. 6 of the RIDDOR Major Injuries were related to work in 'Operations' whilst 7 were related to work in Network Build (NWB).

7 accidents (2022: 6) involving Members of The Public (MOP) were reported to the Health & Safety Executive under RIDDOR as they met the reporting criteria of the injured party being taken directly from the scene of the accident to hospital where some form of treatment was given, from the scene of the accident. After these accidents, various actions were taken to mitigate the risk of them occurring again. These include build partners being asked to produce specific MOP safety plans to reduce the risk profile and monthly MOP safety forums being established with all CityFibre build partners.

Having established the Safety & Health in Fibre Telecoms (SHiFT) Group in 2021, CityFibre drove the formalisation of the group in 2023, making it a Company Limited by Guarantee (CLG). This provides the necessary legal protection which enables the organisation to provide safety guidance to the industry. The first Fibre Industry Bulletin Regarding Everyones Safety (FIBRES) was produced as an action following lessons learned from a CityFibre near miss event, following which a number of further bulletins have been communicated to share lessons learned across the industry. In 2023, CityFibre secured commitment from the SHiFT Group membership, to establishing an annual event dedicated to health & safety. The first SHiFT Conference will take place in Coventry in April 2024.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Responsible Business (continued)

Health and Safety (continued)

Our Network Build Principal Contractor health and safety performance scores, aggregated across several different metrics including audit performance and service strike rates, showed an improvement of 28% compared with the previous year. Due to the improved performance fewer Contractor Continual Improvement Plans (CCIPs) were initiated.

Information Security and Cyber Risks

Effective information security is essential for maintaining the trust and confidence of customers, shareholders, and other stakeholders, as well as complying with legal and regulatory requirements. We implement robust security measures and implements regular monitoring to assess the effectiveness of those measures to prevent data breaches and other security incidents. The business does this in accordance with its certified Information Security Management System certified to ISO27001. In addition to this, we sign up to the government backed Cyber Essentials scheme and conducts yearly assessments on compliance.

Notable achievements and undertakings during 2023 include:

- Subscribed to a Cyber Security Incident Response Retainer service provided by Mandiant, to further bolster our incident response capabilities on a 24/7 basis.
- Purchased an additional email security platform to provide an additional layer of defence against increasingly sophisticated phishing and malware attacks.
- A gap analysis was carried out to identify any areas where changes to technology, policies or processes may be required to ensure adherence with the new regulations brought in as part of the Telecommunications Security Act (TSA). A programme of works has been initiated to ensure that all identified changes are implemented in line with the legal deadlines associated with the phases defined in the TSA Code of Practice, this programme will run until the end of the implementation period in March 2028.
- Applied for membership of the NCSC's CISP (Connect Inform Share Protect) platform.

The anticipated transition from the ISO 27001:2013 standard to the updated ISO 27001:2022 standard is scheduled to be carried out during 2024.

Business Ethics and Conduct

We work more productively within an environment of integrity, trust, and transparency. We take a zero-tolerance approach to corrupt behaviour and have put in place policies, training, and procedures to reduce the risks faced by our employees and our organisation to unethical conduct. 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.

We value transparency within our organisation and expect our suppliers and contractors to hold similar high standards. As part of our due diligence, we require our suppliers and contractors to document, and demonstrate their adherence to ethical standards through our pre-contract qualification process.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Responsible Business (continued)

Active in the Community

Our inclusive approach to network design and construction where we are building, enables nearly every potential premise to be connected to the Full Fibre network, whether the resident is an early adopter or not. This comprehensive investment approach is about including every potential customer in the rollout, and our open access approach means that consumers have broad choices and availability of broadband services.

As part of our network construction programmes across each build area, we support public realm improvements such as footpaths and grass verges, accessibility projects such as widening paths, and sponsorship of local development projects, such as memorial gardens.

We are committed to linking societal improvements with network build and operation. Optimising strategy design and execution, the business continues to draw on the expert resources and knowledge of Business in The Community (BITC). As members, we receive support, networking, and benchmarking to mature our social interactions, particularly on material topics such as digital literacy.

Importantly when we start up with a new city, we contact and network with the local authorities to understand the geography, businesses, and societal interactions. This includes looking at how we stimulate the demand and use of fibre across the social housing stock and support the most vulnerable in our society.

We also recognise the opportunity to deliver and develop the expected standards of Full Fibre rollout, giving the end consumer the service they deserve. During 2023 we continued our membership and actively involved ourselves with Street Works UK, the UK's only Trade Association representing utilities and their contractors on street works issues, promoting best practices and a two-way relationship with Government and other relevant stakeholders.

We also continued our membership with Independent Networks Cooperative Association's (INCA) industry working group for sustainability.

Learning, Development, and Education

Our Learning and Development team offers a wide range of learning initiatives and support. For the 2023 period, 85% of our employees completed a learning activity (this increases to 90% if you include the leavers in 2023). In total, almost 128,000 training hours were completed across over 700 instructor-led sessions and 550 separate online courses.

Environmental Management

Protection and conservation of the environment is a key component to the Responsible Business strategy pillars Our Society and Our Planet. To ensure we deliver activities compliantly and without net impact on the environment, we operate to a ISO14001 certified environmental management system. The business continues excellent performance in this area with no prosecutions or notices during 2023.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Responsible Business (continued)

Climate Action

Climate change is one of the most pressing issues facing our planet today, and its critical that we take action to reduce our carbon footprint and transition to sustainable energy sources. CityFibre, as a leading provider of Full Fibre infrastructure, can support UK decarbonisation by providing high-speed, low-latency connectivity that enables digitisation and the Internet of Things (IoT).

We have three focuses for climate action:

- Decarbonise the business operations and supply chain working towards the ambition of net-zero emissions.
- Build climate resilient assets and networks and develop business preparedness for climate events.
- Provide low emission networks for end consumers, as measured across the lifecycle of our service.

In 2023 we implemented our plan to address scope 1 (direct) and 2 (indirect) emissions, moved the majority of our electricity consumption to renewables and made commitment to the Science Based Targets initiative (SBTi) to submit net zero targets. We also modelled emission reductions including our estimate of scope 3 (indirect value chain) emissions; the model shows us that these indirect emissions will make up 90% of yearly total CityFibre emissions.

Using this intelligence, we plan to submit targets for validation to the SBTi in 2024 to align with the SBTi target decarbonisation pathway with the business objective of net zero emissions across scopes 1 and 2 by 2028.

We understand the importance of communicating clear, accurate, detailed analysis of greenhouse gas emissions particularly in business-to-business relationships and to the end-consumer.

Energy Management

We continued to grow our networks. In 2023 we had a population of 141 fibre exchanges - an additional five fibre exchanges were built in year though these are not commissioned for service yet (4% increase) and increased our fibre network length by almost 4,526 kilometres (23% increase).

To streamline grid energy management, the business has been moving contracts over to a single supplier and negotiating rates with fixed, limited term contracts due to the instability of the global energy market. The new contracts offer a 0 kgCO2e/kWh contract rate which, coupled with a change in greenhouse gas (GHG) accounting, led to an increase in renewable energy consumption from 50% in 2022 to 100% in 2023.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Streamlined Energy Carbon Reporting (SECR) Report

The below table and supporting narrative summarise the Streamlined Energy and Carbon Reporting (SECR) disclosure in line with the requirements for a "large" unquoted company, as per The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Further, the emissions reported were for the period commencing on 1st January 2023 to 31st December 2023. Greenhouse gas (GHG) emissions for CityFibre have been assessed since 2019, with the previous three years shown for comparison. Please note, since 2021 the methodology has changed, as described in the section below.

Reporting Year **1st January – 31st December**	**2023**	**2022**	**2021**	**2020**
Location	UK	UK	UK	UK
Emissions from:				
Emissions from activities for which the company own or control including combustion of fuel and operation of facilities (Scope 1) (tCO2e)	571	373	148	-
Emissions from purchase of electricity (Scope 2) (location-based) (tCO2e)	5,273	3,389	3,442	-
Emissions from purchase of electricity (Scope 2) (market-based) (tCO2e) [3]	-	1,847	4,420	-
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3) (tCO2e)	1,791	1,914	1,390	-
Emissions from leased assets, where the company does not have operational control over emissions (Scope 3 category 8) (tCO2e)[1]	317	733	-	-
Total gross Scope 1, Scope 2, and Scope 3 emissions (location-based) (tCO2e)	**7,952**	**6,409**	**4,980**	**2,980**
Energy consumption used to calculate:				
Scope 1 emissions (1,000kWh)	2,300	1,400	600	-
Scope 2 emissions (1,000kWh)	25,500	17,500	18,900	-
Scope 3 emissions (1,000kWh)[2]	5,200	11,700	7,100	-
Total gross energy consumption based on the above (1,000kWh)	33,000	30,600	26,600	11,900
Total gross energy consumption by network length (1,000kWh)	**1.4**	**1.6**	**1.7**	**1.2**
Intensity ratio: tCO2e (gross Scope 1, 2 + 3) per FTE (location-based)	4.7	3.2	2.7	2.2
Intensity ratio: tCO2e (gross Scope 1, 2 + 3) per £'000 sales revenue (location-based)	0.080	0.079	0.077	0.099

1. It was necessary to introduce the emissions from leased assets to account properly for emissions outside of CityFibre's operational control. Prior to 2021, these were incorrectly accounted for in Scopes 1 and 2.
2. Scope 3 energy consumption does not include the energy used for air, rail or taxi services, since these were accounted for using expenditure, rather than mileage, as in previous years. The emissions figure does include these using the Environmentally-Extended Input-Output (EEIO) method.
3. This is nil in 2023 because CityFibre is on a fully renewable tariff for electricity, so these are fully offset.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

Streamlined Energy Carbon Reporting (SECR) Report (continued)

Methodology

Anthesis Group is a leading environmental consultant engaged by CityFibre to calculate the above greenhouse gas emissions estimates to cover all material sources of emissions for which CityFibre is responsible. The methodology used was that of the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition, 2015). Responsibility for emissions sources was determined using the operational control approach. All emissions sources required under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 are included.

This estimate covers all of CityFibre's operations that are consolidated in the financial statement, which includes the sites operated from in the UK and UK business travel.

Diesel use in generators has been accounted for based on the quantity of fuel purchased to fill or top-up a generator.

Natural gas data received is used to estimate for the sites which are missing. Only four sites report natural gas data but there are assumed to be seven offices that consume natural gas. The annual consumption of the missing sites are estimated based on the median consumption of natural gas in the reporting offices taking account of the floor area of those sites.

Van mileage is tracked and emissions are estimated. The fleet of vans has increased significantly this year, from 14 to 90 and then back down to 79.

Electricity has been extrapolated within all quarters where there were missing data for sites. The data quality is high and covers nearly 66% of sites throughout the year. The sampling error is estimated to be +/-7% on the final figure. Electricity is now 100% Green Tariffs and market-based emissions are zero.

Fugitive emissions that are the result of leakage from air conditioning have been included for the second time this year. The figures are estimated based on the floor area of the offices provided by CityFibre and a sample of refrigerant charging reports. Fugitive emissions are all assumed to be Scope 1. The refrigerant is assumed to be R-62 for offices and R410A for FEXs. This method will be refined in future years based on more accurate knowledge of refrigerant use within CityFibre's operations.

Further, business travel data for company and non-company vehicles were provided by CityFibre in terms of the mileage (kilometre) and expenditure. The mileage was converted to kWh equivalent using the UK Government's GHG Conversion Factors for Company Reporting 2022.

Energy was converted to greenhouse gas estimates using the UK Government's GHG Conversion Factors for Company Reporting 2023.

Energy Efficiency Action

In 2023 we have continued to review the feasibility of solar panels and are planning a trial of three sites in 2024.

The business reviewed the use of generators and standby generators for fibre exchange assets across England and Scotland with the view of migrating assets to wired energy supplies or transitioning to lower-emission fuel sources. Only three sites remain reliant on generators for power with plans to transition to DNO power for all three in early 2024.

On behalf of the Board.

Greg Mesch
Chief Executive Officer
24 April 2024

DIRECTORS' REPORT

The Directors present their report together with the strategic report and the audited financial statements of the Group for the year ended 31 December 2023.

Directors

The Directors who served during the year and up to the date of approval of these financial statements were as follows:

Greg Mesch
Simon Holden
Nick Dunn

Statement of 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Going concern

The Company is a holding entity and as such the going concern is dependent on the Group therefore the going concern assessment was performed as part of the Group's assessment.

The Directors have considered the appropriateness of the going concern basis of preparation following a detailed assessment of the risks to the Group up to September 2025, being a period greater than 12 months from signing the financial statements. A period greater than 12 months has been applied to take into account significant events expected to occur in relation to financing the Group. Following the re-financing in June 2022 the Group has £3.9 billion of committed facilities, as detailed in Note 16. At the date of approving these financial statements, £406 million of the committed facilities were available and undrawn. The facilities have drawdown conditions throughout the whole term and covenants that come into effect in later years. These drawdown conditions include (i) a debt to connections ratio (ii) a capex to debt ratio and (iii) a hedging requirement over the debt to limit the exposure to fluctuations in interest rates.

DIRECTORS' REPORT (CONTINUED)

Going concern (continued)

At the date of approving these financial statements, £533 million of equity from shareholders is held as cash and short-term deposits at the ultimate parent company, Connect Infrastructure Topco Limited and is readily available to fund the business operations.

In carrying out the going concern assessment the Directors have considered several scenarios including a base case and downside scenario. The assessment is based on a Board approved annual budget and long-range business plan. The primary areas that have been incorporated into the downside scenario are as follows:

- Reduction in consumer sales volumes
- Long term contracts with Business, Public Sector and Mobile customers with lower level of growth
- An increase in capital and network expenditure cost, over and above currently observed inflationary pressures
- Timing of receipt of BDUK subsidy income

In both the base case and downside scenarios, the Directors are confident that the drawdown conditions relating to the debt to connections ratio and capex to debt ratio will be met throughout the assessment period and the hedging requirement over the debt will be met with the current hedging instruments in place.

However, debt and equity funding currently available is expected to be fully utilised by mid 2025 in all scenarios. The Group is currently running a process to secure additional debt funding, for which external advisors have been appointed. At the time of signing these financial statements work on raising further debt funding has started, but the Directors are confident it will conclude successfully in the forthcoming months.

The Group is currently in the highly capital-intensive phase of the business plan where capital expenditure significantly outweighs trading cashflows. There is sufficient opportunity to slow down or pause the network rollout with relatively minimal unavoidable costs to extend the period in which the debt raising process needs to be completed.

As the Group and Company are reliant on securing further external funding which is not guaranteed, a material uncertainty exists which may cast significant doubt on the ability of the Group and Company to continue as a going concern and as a result they may be unable to realise this assets and discharge their liabilities in the normal course of business. The financial statements for the Group and Company are prepared on a going concern basis, with the identification of this material uncertainty, but the Directors have a reasonable expectation that the Group can continue in operation and meet its liabilities as they fall due.

The ultimate parent company, Connect Infrastructure Topco Limited, has confirmed it will continue to provide financial support to the Group and Company to such levels as to enable the Group and Company to be able to pay its debts as and when they fall due for payment, for at least 12 months from the approval of these financial statements.

Energy and Carbon Reporting

Please refer to the earlier section on Our Planet, within the Strategic Report on page 20 for further information.

Future outlook

The future outlook is detailed as part of the Strategic Report on page 10.

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 the 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.

The Board members have a collective responsibility and legal obligation to promote the interest of the Group and are collectively responsible for defining corporate governance arrangements. The Board recognises that good governance supports open and fair business, ensures that the Group has the right safeguards in place and that all decisions are underpinned by the appropriate considerations. To do so, the Board receives regular information on all key aspects of the business to maintain oversight and is supported by committees that have the necessary skills and knowledge to help the Board discharge their duties and responsibilities effectively.

Subsequent events

In February 2024, 12,396,694 shares at £2.42 per ordinary share, being £0.01 in nominal value and £2.41 of share premium on each share were issued to CityFibre Holdco Limited for a consideration of £30,000,000. This relates to equity funding from the ultimate parent company, Connect Infrastructure Topco Limited.

In March 2024, the ultimate parent company, Connect Infrastructure Topco Limited, agreed to acquire alternative fibre network operator Lit Fibre Holdings Limited through a share-based acquisition which will result in Newlight Partners becoming minority shareholders in Connect Infrastructure Topco Limited. The acquisition is expected to be completed in the second quarter of 2024.

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
24 April 2024

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 2023 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 2023 which comprise the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the Parent Company statement of financial position, the consolidated statement of changes in equity, the Parent Company statement of changes in equity, the consolidated statement of cash flows, the Parent Company statement of cash flows, and the notes to the financial statements, including a summary of significant accounting policies for both the Parent company and the Group. The financial reporting framework that has been applied in their preparation is applicable law UK adopted international accounting standards, and as regards the parent company and the Group 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 of the Accounting Policies to the financial statements, which indicates that the Group and Parent Company are reliant on securing further external funding which is not guaranteed. As stated in Note 1 for the Accounting Policies, these events or 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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Strategic Report and Directors' 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.

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

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.

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report 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 the Group, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company or Group financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was capable of detecting irregularities, including fraud[1]

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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion and enquiries with management, those charged with governance, and internal legal counsel; and
- Obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations.

we considered the significant laws and regulations to be the applicable accounting framework, UK tax legislation, Companies Act 2006.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be Health and Safety legislation, and the Bribery Act 2010.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Considering the involvement of tax specialists in the audit; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Obtaining an understanding of the Group's policies and procedures relating to:
    - Detecting and responding to the risks of fraud; and
    - Internal controls established to mitigate risks related to fraud.
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Understanding how the Group is complying with those legal and regulatory frameworks by making enquiries of management, those charged with governance, and in-house legal counsel;
- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Corroborating our enquiries through reviewing minutes of meetings of the Board of Directors and the Audit Committee to identify any known or suspected instances of non-compliance with laws and regulations and fraud; and
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls and the risk of fraud in revenue recognition.

We considered the processes and controls that the Group has established to address the risks identified or otherwise prevent, deter, and detect fraud and how management monitors those processes and controls.

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

Our procedures in respect of the above included:

- Considering the risk of fraud through management override of controls by:
  - testing the appropriateness of journal entries made throughout the year, which met a specific criteria, performing an assessment on a sample of the residual population, as well as assessing year-end consolidating journals by agreeing to supporting documentation; and
  - evaluating and, where appropriate, challenging assumptions and judgements made by management in determining significant accounting estimates for management bias, in particular in relation to impairment of goodwill and intangible assets, and the going concern assumption.
- Considering the risk of fraud in revenue recognition by:
  - testing, on a sample basis, the revenue recognised during the period to confirm existence through corroboration back to supporting documentation, including recalculations of deferred and accrued income balances at year end, where applicable.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

DocuSigned by:

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Sandra Thompson (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

Date: 25 April 2024

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 2023

	Note	2023 £'000 Underlying	2023 £'000 Non-recurring[1]	2023 £'000 Statutory	2022 £'000 Underlying	2022 £'000 Non-recurring[1]	2022 £'000 Statutory
Revenue	**2**	99,675	-	**99,675**	80,802	(49,829)	**30,973**
Cost of sales		(56,909)	-	**(56,909)**	(51,170)	-	**(51,170)**
Gross profit		42,766		**42,766**	29,632	(49,829)	**(20,197)**
Administrative expenses		(232,919)	(23,699)	**(256,618)**	(187,251)	(2,383)	**(189,634)**
Operating loss	**3**	(190,153)	(23,699)	**(213,852)**	(157,619)	(52,212)	**(209,831)**
Finance income	**5**	47,690	-	**47,690**	706	180,820	**181,526**
Finance cost	**6**	(173,128)	(80,014)	**(253,142)**	(65,844)	-	**(65,844)**
Loss on ordinary activities before taxation		(315,591)	(103,713)	**(419,304)**	(222,757)	128,608	**(94,149)**
Income tax charge	**7**			-			-
Loss for the year and total comprehensive loss				**(419,304)**			**(94,149)**

[1]Refer to page 13 and 14 for details of Alternative Performance Measures

There was no other comprehensive income during the year (2022: £Nil).

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 27 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Company number 08772997
As at 31 December 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current assets			
Property, plant and equipment	8	3,442,978	2,514,620
Right of use assets	19	117,449	49,300
Intangible assets	9	233,145	220,525
Derivative financial assets	26	111,740	180,820
Trade and other receivables	12	27,813	-
Total non-current assets		3,933,125	2,965,265
Current assets			
Inventory	10	2,017	2,339
Trade and other receivables	12	99,945	151,020
Cash and cash equivalents	11	137,241	102,443
Total current assets		239,203	255,802
Total assets		4,172,328	3,221,067
Equity and liabilities			
Equity			
Share capital	14	15,053	15,053
Share premium	15	1,603,118	1,603,118
Merger reserve	15	331	331
Retained deficit	15	(908,741)	(489,875)
Total shareholders' equity		709,761	1,128,627
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	16	3,092,106	1,809,672
Lease liability	19	86,890	40,104
Deferred revenue	17	45,694	45,435
Provisions	20	19,650	-
Derivative financial liabilities	26	10,934	-
Total non-current liabilities		3,255,274	1,895,211
Current liabilities			
Lease liability	19	11,506	5,960
Deferred revenue	17	7,857	10,997
Provisions	20	13,455	-
Trade and other payables	18	174,475	180,272
Total current liabilities		207,293	197,229
Total liabilities		3,462,567	2,092,440
Total shareholders' equity and liabilities		4,172,328	3,221,067

These financial statements were approved by the Board of Directors and authorised for issue on 24 April 2024
They were signed on its behalf by:

N J Dunn
Director
Notes 1 to 27 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained deficit £'000	Total shareholders' equity £'000
Balance at 1 January 2022	13,563	1,305,626	331	(396,426)	923,094
Comprehensive income					
Loss and total comprehensive loss for the year	-	-	-	(94,149)	(94,149)
Transactions with owners					
New share capital issued in the year	1,490	308,510	-	-	310,000
Cost of issuing share capital	-	(11,018)	-	-	(11,018)
Share based payment expense	-	-	-	700	700
Balance at 31 December 2022	15,053	1,603,118	331	(489,875)	1,128,627
Comprehensive income					
Loss and total comprehensive loss for the year	-	-	-	(419,304)	(419,304)
Transactions with owners					
Share based payment expense	-	-	-	438	438
Balance at 31 December 2023	15,053	1,603,118	331	(908,741)	709,761

Notes 1 to 27 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Cash flows utilised in operating activities			
Loss before taxation		(419,304)	(94,149)
Depreciation of property, plant and equipment	**8**	108,635	70,723
Depreciation of right of use assets	**19**	13,690	5,875
Amortisation of intangibles	**9**	13,698	9,314
Finance income	**5**	(47,690)	(181,526)
Finance costs	**6**	253,142	65,844
Decrease in inventory	**10**	322	302
Increase in receivables		(2,921)	(34,869)
Increase in payables		6,804	43,433
Increase in provisions		4,453	-
Share based payment expense	**23**	438	700
Loss on disposal of property, plant and equipment		394	-
Net cash utilised in operating activities		(68,339)	(114,353)
Cash flows utilised in investing activities			
Interest received		3,854	516
Purchase of intangible assets		(17,800)	(14,297)
Purchase of property, plant and equipment		(900,161)	(868,401)
Capitalised labour costs		(112,592)	(110,508)
Sale of property, plant and equipment		20	-
Net cash utilised in investing activities		(1,026,679)	(992,690)
Cash flows generated from financing activities			
Proceeds from the issue of share capital		-	310,000
Costs of issuing share capital		-	(11,018)
Loan transaction costs paid	**16**	(14,830)	(89,512)
Repayment of borrowings	**16**	-	(1,126,721)
Proceeds from borrowings	**16**	1,305,000	2,143,810
Interest paid		(187,755)	(53,862)
Interest rate swap net settlements		42,750	(539)
Principal paid on lease liabilities	**19**	(15,349)	(9,650)
Net cash generated from financing activities		1,129,816	1,162,508
Net increase in cash and cash equivalents		34,798	55,465
Cash and cash equivalents at beginning of period	**11**	102,443	46,978
Cash and cash equivalents at end of period	**11**	137,241	102,443

Notes 1 to 27 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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 preparation
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 UK adopted IFRS. The consolidated financial statements are presented in GBP, which is also the Group and Company’s functional currency. Amounts are rounded to the nearest thousand, unless otherwise stated.

Going concern

The Company is a holding entity and as such the going concern is dependent on the Group therefore the going concern assessment was performed as part of the Group’s assessment.

The Directors have considered the appropriateness of the going concern basis of preparation following a detailed assessment of the risks to the Group up to September 2025, being a period greater than 12 months from signing the financial statements. A period greater than 12 months has been applied to take into account significant events expected to occur in relation to financing the Group. Following the re-financing in June 2022 the Group has £3.9 billion of committed facilities, as detailed in Note 16. At the date of approving these financial statements, £406 million of the committed facilities were available and undrawn. The facilities have drawdown conditions throughout the whole term and covenants that come into effect in later years. These drawdown conditions include (i) a debt to connections ratio (ii) a capex to debt ratio and (iii) a hedging requirement over the debt to limit the exposure to fluctuations in interest rates.

At the date of approving these financial statements, £533 million of equity from shareholders is held as cash and short-term deposits at the ultimate parent company, Connect Infrastructure Topco Limited and is readily available to fund the business operations.

In carrying out the going concern assessment the Directors have considered several scenarios including a base case and downside scenario. The assessment is based on a Board approved annual budget and long-range business plan. The primary areas that have been incorporated into the downside scenario are as follows:

- Reduction in consumer sales volumes
- Long term contracts with Business, Public Sector and Mobile customers with lower level of growth
- An increase in capital and network expenditure cost, over and above currently observed inflationary pressures
- Timing of receipt of BDUK subsidy income

In both the base case and downside scenarios, the Directors are confident that the drawdown conditions relating to the debt to connections ratio and capex to debt ratio will be met throughout the assessment period and the hedging requirement over the debt will be met with the current hedging instruments in place.

However, debt and equity funding currently available is expected to be fully utilised by mid 2025 in all scenarios. The Group is currently running a process to secure additional debt funding, for which external advisors have been appointed. At the time of signing these financial statements work on raising further debt funding has started,, but the Directors are confident it will conclude successfully in the forthcoming months.

The Group is currently in the highly capital-intensive phase of the business plan where capital expenditure significantly outweighs trading cashflows. There is sufficient opportunity to slow down or pause the network rollout with relatively minimal unavoidable costs to extend the period in which the debt raising process needs to be completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

Going concern (continued)

As the Group and Company are reliant on securing further external funding which is not guaranteed, a material uncertainty exists which may cast significant doubt on the ability of the Group and Company to continue as a going concern and as a result they may be unable to realise their assets and discharge their liabilities in the normal course of business. The financial statements for the Group and Company are prepared on going concern basis, with the identification of this material uncertainty, but the Directors have a reasonable expectation that the Group can continue in operation and meet its liabilities as they fall due.

The ultimate parent company, Connect Infrastructure Topco Limited, has confirmed it will continue to provide financial support to the Group and Company to such levels as to enable the Group and Company to be able to pay its debts as and when they fall due for payment, for at least 12 months from the approval of these financial statements.

New standards, interpretations and amendments effective from 1 January 2023

New standards that have been adopted in the annual financial statements for the year ended 31 December 2023, but have not had a significant effect on the Group are:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements);
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes); and
- International Tax Reform – Pillar Two Model Rules (Amendment to IAS 12 Income Taxes) (effective immediately upon the issue of the amendments and retrospectively).

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 2024:

- Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases);
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 Presentation of Financial Statements);
- Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements); and
- Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures)

The following amendments are effective for the period beginning 1 January 2025:

- Lack of Exchangeability (Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

Basis of consolidation
The consolidated financial statements incorporate the results of the Company and all of its subsidiary undertakings as at 31 December 2023. 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 and treated the reconstructed Group as if it had always been in existence. Any difference between the nominal value of shares issued in the share exchange and the book value of the shares obtained is recognised in a merger reserve.

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

On 1 August 2017 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 £19.0 million from the Company to the shareholders of Entanet Holdings Limited and £10.4 million 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 £140.7 million from the Company to the shareholders of FibreNation and Bolt Pro Tem and settlement of £72.7 million of debt acquired.

Revenue
Revenue represents network services provided to external customers, at invoiced amounts less value added tax or local taxes on sales, discounts, rebates and incentives payable to customers. 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 part of a series of distinct services that are substantially the same and have the same pattern of transfer to the customer and hence form one performance obligation. There are no obligations for refunds, returns or warranties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

Revenue (continued)
Performance obligations and timing of revenue recognition (continued)

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 revenue 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. A contract asset is recognised in relation to invoiced variable consideration not yet recognised. When the right to consideration is conditional only on the passage of time, the balance does not meet the definition of a contract asset and is classified as an unbilled receivable and disclosed as accrued income. This typically arises where the timing of the related billing cycle occurs in a period after the performance obligation is satisfied.

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 relating to the IRU of the asset is considered a finance lease under IFRS 16 and is recognised at the point in time where the asset is considered transferred to the customer, which is when the asset is live and available for use by the customer and requires limited judgement. Revenue from maintenance services falls within the scope of IFRS 15 and 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.

Determining the transaction price
Where revenue is derived from fixed contracts, the amount of revenue to be earned from each contract is determined by the amounts defined in the contract.

Certain contracts for network services include variable consideration where discounts, rebates or incentives are payable to the customer or where minimum volume commitments are linked to available capacity on the network.

The estimation of the variable consideration amount is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

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 for Consumer contracts of 5 years. No judgement is needed to measure the amount of costs of obtaining contracts as 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 granting the customer IRU of an asset; 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

Revenue (continued)

Contract modifications
Contract modifications occur upon approval of a change in scope of performance obligations or price (or both) in a contract. Upon modifications, if new services are added at their own standalone selling prices, such modification is accounted as if it is a contract separate from the existing contract. In all other cases, the effects of contract modification are accounted prospectively since the remaining services under the modified contract are distinct from those already rendered under the pre-modified contract. However, if it is determined that the remaining services are not distinct, the change is accounted for as part of the original contract and a cumulative catch up is recognised in revenue.

Identification of financing component
Where payments are received in advance of provision of services for contracts which extend beyond one year, the Group considers no financing component to exist. These payment terms are structured for reasons other than the provision of finance to the Group, and because alternate structures of the payment terms would affect the nature and risk assumed by the Group.

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, where significant judgement is required to determine the appropriate period and is dependent on the nature of the contract.

Consumer contract installation fees are spread over 5 years, which is the estimated average lifetime of the end contract between the consumer and the ISP based on industry data.

Where variable consideration is dependent on certain performance milestones being achieved, by either the customer or the Group, an assessment is made to determine whether a change to the transaction price is recognised as a deduction from revenue, in accordance with IFRS 15. Customer minimum volume commitments are dependent on the Group’s network build and hence not fixed consideration within the transaction price.

Judgement is applied to determine whether the variable consideration should be constrained by applying factors such as the length of the contract, the number and range of outcomes under the contract, past history of generating revenue and the overall impact of external factors outside the Group’s control that will impact future revenue recognition.

Borrowing costs
The Group capitalises borrowing costs that are directly attributable to the construction of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group considers qualifying assets to relate to network assets under construction. Borrowing costs eligible for capitalisation relate to the interest expense calculated using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

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. Employee costs arising directly from the construction or acquisition of an asset are capitalised to the relevant asset type. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life on a straight-line basis 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
Intangible assets acquired separately are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

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, including capitalised employee costs relating to software development, 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 5 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 15 years.

Amortisation is included in general administrative costs in the consolidated statement of profit or loss and other 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.

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 recognised on goodwill shall not be reversed in a subsequent period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

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 growth, discount rates 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.

Derivative instruments

The Group has hedging instruments (interest rate swaps and interest rate caps) in place to manage the interest rate risk on its external debt facility. Derivatives are initially recognised at fair value at the date the derivative contract is entered into and subsequently re-measured to fair value at each reporting date. Changes in the fair value of derivatives are recognised in profit and loss in finance costs or finance income as appropriate. The group does not currently apply hedge accounting for its hedging instruments. A derivative is presented as non-current if the maturity of the instrument is more than 12 months and is not expected to be realised or settled within 12 months.

Any fees relating to these instruments are included in finance costs and are charged to the consolidated statement of profit or loss and other comprehensive income 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. Financial liabilities are initially measured at fair value and subsequently 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 profit or loss and other comprehensive income. The effective interest rate exactly discounts estimated future cash payments, including all transaction costs paid that form an integral part of the instrument, through the expected life of the financial liability.

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or have expired. The difference between the carrying value of the financial liability and consideration paid is recognised in profit and loss.

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 2023 (CONTINUED)

1. ACCOUNTING POLICIES (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 the consolidated statement of profit or loss and other comprehensive income 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.

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 2023 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

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 tax assets are also recognised where taxable temporary differences relate to the same tax authority as the available tax attributes. In these instances, the offset criteria in IAS 12 is also met and deferred tax amounts are presented net in the consolidated statement of financial position. Deferred tax liabilities are not discounted.

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. 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.

Share based payments
The ultimate parent company, Connect Infrastructure Topco Limited issues equity-settled share-based payments to certain employees. Share based payments are treated as equity settled when there is no obligation to settle in cash and are measured at fair value at the date of the grant. Refer to Note 23 for further detail.

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

Grant income
Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Government grants whose primary condition is that the group should purchase, construct, or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grant income is recorded within other operating income. No grant income has been recognised in 2023 as grant conditions have not been met, but is expected to be recognised in future years in relation to BDUK's Project Gigabit rural programme. The primary purpose of the programme is to provide funding to build infrastructure and ensure UK properties have access to gigabit broadband and therefore the grant is treated as related to assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

Key judgements and sources of estimation uncertainty
The preparation of the financial statements in conformity with UK adopted 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.

Judgements

Lease term
Right of use assets relating to PIA (Physical Infrastructure Access) assets were recognised in the year in accordance with IFRS 16 Leases. Identifying the appropriate lease term required judgement to identify the enforceable term where the lease is renewable. This required management's interpretation of the terms of the contract to determine that the lessor cannot cancel the lease except in specific instances of breaches of contract or changes in regulation. In determining the appropriate lease term, management also considered the nature of the arrangement where the intention is to use the assets for the full life of the network alongside other factors including the uncertainty in the future regulatory market and reference to the length of sales contracts which utilise these assets. This resulted in a lease term of 5-20 years dependent on the asset.

Right to direct the use of asset
An additional judgement was required in relation to the PIA assets discussed above. The terms of the contract do not expressly state that CityFibre has the right to direct how and for what purpose the asset is used throughout the period of used, however management have applied judgement to determine that CityFibre does in practice have decision making rights over the assets based on evidence over the operation of the assets, and have therefore concluded it is appropriate to recognise as a lease under IFRS 16 Leases.

Going concern assessment
The Directors have assessed the going concern position of the Group and Company in light of the key risk factors for the Group and Company 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:

- Reduction in consumer sales volumes
- Long term contracts with Business, Public Sector and Mobile customers with lower level of growth
- An increase in capital and network expenditure cost, over and above current inflationary pressures.
- Timing of receipt of BDUK subsidy income

Refer to the basis of preparation on page 39 where these are discussed further.

Impairment of non-current assets
For the purpose of impairment testing, goodwill and other assets that do not generate cash flows independent from other assets are 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. Identifying the appropriate CGUs requires management judgement. 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 2023 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

Key judgements and sources of estimation uncertainty (continued)

Estimates

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 the revenue growth, terminal penetration rate (% of customers connected to the CityFibre network), discount rate and growth rate. Further discussion and sensitivity analysis on these assumptions are included in Note 9.

2. REVENUE

	2023 £'000 Underlying	2023 £'000 Non-recurring	2023 £'000 Statutory	2022 £'000 Underlying	2022 £'000 Non-recurring	2022 £'000 Statutory
On-net[1]	70,708	-	70,708	50,045	(49,829)	216
Off-net[2]	28,967	-	28,967	30,757	-	30,757
	99,675	-	99,675	80,802	(49,829)	30,973

All revenue arose in the United Kingdom.

Non-recurring on-net revenue in the prior period comprised of a £49.8 million revenue reduction in relation to constrained variable consideration.

[1]Being on the Group's network
[2]Being on third parties' networks

3. OPERATING LOSS

Operating loss is after charging:

	2023 £'000	2022 £'000
Depreciation of property, plant and equipment	108,635	70,723
Depreciation of right of use assets	13,690	5,875
Amortisation of intangibles	13,698	9,314
Loss on disposal of assets	394	-
Share based payment expense	438	700
Non-recurring administrative expenses:		
Restructuring charges (see Strategic Report on page 13)	21,641	-
Other non-recurring administrative expenses (see Strategic Report on page 13)	2,058	2,383
Total non-recurring administrative expenses	23,699	2,383

Depreciation on network assets is recognised as part of administrative expenses as consumption of network assets does not correlate with cost of sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. OPERATING LOSS (continued)

The analysis of auditor's remuneration is as follows:

Fees payable for the audit of the Group's annual financial statements	96	144
Fees payable for the audit of the Group's subsidiaries' financial statements	426	360
Total audit fees	522	504
Total fees	522	504

4. STAFF COSTS

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

	2023 Number	2022 Number
Commercial	98	132
Corporate	225	208
Customer	411	418
Delivery	770	904
Technology & Design	372	314
	1,876	1,976

The aggregate payroll costs of the above were:	2023 £'000	2022 £'000
Wages and salaries	123,090	111,662
Social security costs	14,069	13,582
Other pension costs	10,286	8,380
	147,445	133,624

Capitalised staff costs for 2023 are £94.6 million (2022: £87.4 million), and are included in the above figures. Redundancy costs of £6.6 million are included in the above figures which form part of the restructuring charges classified as a non-recurring operating item.

See Note 24 for directors' remuneration and key management compensation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

5. FINANCE INCOME

	2023 £'000 Underlying	2023 £'000 Non-recurring	2023 £'000 Statutory	2022 £'000 Underlying	2022 £'000 Non-recurring	2022 £'000 Statutory
Interest on bank deposits	4,315	-	**4,315**	516	-	**516**
Interest on loan receivable	120	-	**120**	190	-	**190**
Interest rate swap net settlements	43,255	-	**43,255**	-	-	-
Gain on change in fair value of hedging instrument (see Note 26)	-	-	-	-	180,820	**180,820**
	47,690	-	**47,690**	706	180,820	**181,526**

6. FINANCE COST

	2023 £'000 Underlying	2023 £'000 Non-recurring	2023 £'000 Statutory	2022 £'000 Underlying	2022 £'000 Non-recurring	2022 £'000 Statutory
Interest expense on financial liabilities measured at amortised cost	167,557	-	**167,557**	63,696	-	**63,696**
Interest rate swap net settlements	-	-	-	675	-	**675**
Unwind of discount on provisions	1,642	-	**1,642**	-	-	-
Interest on lease liability	3,929	-	**3,929**	1,473	-	**1,473**
Loss on change in fair value of hedging instrument (see Note 26)	-	80,014	**80,014**	-	-	-
	173,128	80,014	**253,142**	65,844	-	**65,844**

During the year, borrowing costs of £40.6 million (2022: £26.2 million) were capitalised in accordance with IAS 23. Refer to Note 8 for further details.

7. TAXATION

	2023 £'000	2022 £'000
Recognised in profit and loss		
Current tax		
UK corporation tax based on the results for the year at 23.52% (2022: 19%)	-	-
Total current tax	-	-
Deferred tax		
Temporary differences on which deferred tax has been recognised	-	-
Tax on loss on ordinary activities	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

8. TAXATION (continued)

Factors affecting total tax result

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 23.52% (2022: 19%) as follows:

	2023 £'000	2022 £'000
Loss on ordinary activities before taxation	(419,304)	(94,149)
Tax on loss on ordinary activities at standard rate	(98,620)	(17,888)
Factors affecting result		
Remeasurement of deferred tax for changes in tax rates	(49)	(160)
Expenses not deductible for tax purposes	(571)	212
Origination of temporary differences on which no deferred tax asset has been recognised	195,186	16,346
Origination of temporary differences on which no deferred tax asset has been recognised (prior year)	(101,187)	-
Group relief surrendered	4,757	604
Recognition of previously unrecognised deferred tax assets	-	836
Recognition of deferred tax assets on consolidation	831	-
Other timing differences	(347)	50
Total tax result	-	-

Changes in tax rates and factors affecting the future tax charge

The normal rate of corporation tax is 25% for the financial year beginning 1 April 2023. The increase in tax rate to 25% was reflected in the deferred tax balances from 31 December 2021 and deferred tax balances as at 31 December 2023 continue to be recognised at 25%.

Origination of temporary differences

We expect a large proportion of our capital spend on the Full Fibre roll-out to be eligible for the Government's capital allowances super deduction regime, which provides enhanced and accelerated tax relief for qualifying capital expenditure. Claims for these enhanced deductions have now been made in respect of the qualifying period from 1 April 2021 to 31 December 2022. £101.5 million of the £101.2 million unrecognised deferred tax movement in relation to prior years is as a consequence of these claims.

The unrecognised deferred tax movement of £194.8 million in the current year also includes the impact of the capital allowances super deduction enhanced relief for the period to 31 March 2023, together with trading losses and short term timing differences arising in respect of interest not currently deductible for tax purposes by virtue of the Corporate Interest Restriction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold property	Network assets	Plant and machinery	Fixtures and fittings	Land	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2022	925	1,547,824	112,017	2,799	605	1,664,170
Additions	259	945,584	70,359	886	124	1,017,212
At 31 December 2022 and at 1 January 2023	1,184	2,493,408	182,376	3,685	729	2,681,382
Additions	-	990,238	46,081	788	300	1,037,407
Disposals	-	(444)	-	-	-	(444)
At 31 December 2023	1,184	3,483,202	228,457	4,473	1,029	3,718,345
Accumulated depreciation						
At 1 January 2022	234	69,686	24,057	2,062	-	96,039
Charge in the year	210	49,465	20,567	481	-	70,723
At 31 December 2022 and at 1 January 2023	444	119,151	44,624	2,543	-	166,762
Charge in the year	218	77,141	30,640	636	-	108,635
Disposals	-	(30)	-	-	-	(30)
At 31 December 2023	662	196,262	75,264	3,179	-	275,367
Net book value						
At 31 December 2023	522	3,286,940	153,193	1,294	1,029	3,442,978
At 31 December 2022	740	2,374,257	137,752	1,142	729	2,514,620

Borrowing costs capitalised during the year amounted to £40.6 million (2022: £26.2 million). The facility is treated as a general borrowings facility with a capitalisation rate of 7.7% (2022: 6.5%).

Included in network assets above are network assets under construction and not yet depreciated which are held at a cost of £426.5 million (2022: £399.1 million) 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 2023. Each of the indicators set out in IAS 36 were considered and none were identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

9. INTANGIBLE ASSETS

	Website costs £'000	Customer contracts £'000	Software costs £'000	Brand £'000	Goodwill £'000	Trademark £'000	Total £'000
Cost							
At 1 January 2022	31	90,830	20,920	2,148	110,887	1	224,817
Additions	-	-	20,885	-	-	-	20,885
At 31 December 2022 and at 1 January 2023	31	90,830	41,805	2,148	110,887	1	245,702
Additions			26,318				26,318
At 31 December 2023	31	90,830	68,123	2,148	110,887	1	272,020
Accumulated amortisation							
At 1 January 2022	29	7,207	7,994	632	-	1	15,863
Amortisation	2	3,253	5,916	143	-	-	9,314
At 31 December 2022 and at 1 January 2023	31	10,460	13,910	775	-	1	25,177
Amortisation	-	3,253	10,302	143	-	-	13,698
At 31 December 2023	31	13,713	24,212	918	-	1	38,875
Net book value							
At 31 December 2023	-	77,117	43,911	1,230	110,887	-	233,145
At 31 December 2022	-	80,370	27,895	1,373	110,887	-	220,525

The Group is required to test, on an annual basis, whether goodwill or other indefinite life assets have 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.

Management have identified the cash generating units (CGUs) of the Group to be 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 how management internally monitors the 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 inappropriate to identify a CGU at a lower level.

The carrying amount of goodwill of £110.9 million is wholly allocated to the on-net CGU, as the intention of the transactions from which the goodwill arose, was to drive growth of the on-net business. The carrying value of the CGU at 31 December 2023 was £3.7 billion. The Directors have assessed the recoverable amount of the CGU to be higher than the carrying amount. The recoverable amount of the above CGU has been determined from value in use calculations based on cash flow projections from Board approved budgets for 2024, and long-range plans covering the period to 31 December 2040. This period has been deemed appropriate based on the duration of the capital-intensive build phase of the Full Fibre programme and the timing of the benefits and economies of scale that are expected to transpire in the long-term.

The process for preparing the long-range plans takes into account past experience, current market conditions and challenges, the macroeconomic, competitive, regulatory and technological environment, and future growth opportunities. Refer to page 48 and below for further detail on key assumptions.

The pre-tax discount rate applied to cash flow forecasts is based on the weighted average cost of capital (WACC) approach, which uses a market participant's cost of equity and pre-tax cost of debt and reflects the risks inherent in the cash flows. The assumptions used in the calculation of the group's weighted average cost of capital are benchmarked to externally available data. The pre-tax discount rate used in performing the value in use calculation was 9.7% (2022: 8.8%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

9. INTANGIBLE ASSETS (continued)

The growth rate used beyond the period of cashflow projections of 2% (2022: 2%) is based on managements long-term view with reference to economic data relating to the United Kingdom. In the opinion of the directors, disclosure of the value of the terminal penetration rate would be seriously prejudicial to the commercial interests of the Group, and as such has not been disclosed.

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

- An increase in the discount rate by 1.8%
- A decrease in forecasted revenue and associated cost of sales by 18%
- A reduction in the terminal penetration rate by 19%

10. INVENTORY

	2023 £'000	2022 £'000
Completed assets held-for-sale	1,499	1,480
Raw materials and consumables	518	859
	2,017	2,339

Inventory is stated net of an impairment provision of £Nil (2022: £Nil). A total of £0.4 million was expensed through cost of sales during the year (2022: £0.5 million).

11. CASH AND CASH EQUIVALENTS

	2023 £'000	2022 £'000
Cash at bank and in hand	137,241	102,443

All cash and cash equivalent balances are denominated in Sterling.

12. TRADE AND OTHER RECEIVABLES

	2023 £'000	2022 £'000
Trade receivables	25,069	24,057
Other receivables	6,994	9,091
VAT receivable	12,663	41,968
Prepayments	18,351	12,981
Prepaid loan transaction costs (see Note 16)	21,019	47,753
Amounts due from related parties	3,599	3,088
Accrued income	7,646	3,987
Contract asset	4,604	8,095
	99,945	151,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

12. TRADE AND OTHER RECEIVABLES (continued)

Trade receivables are stated net of a total provision of £5.2 million (2022: £1.2 million). This includes expected credit losses of £5.2 million (2022: £0.7 million) and a provision for credit notes of £nil (2022: £0.5 million). Refer to Note 22 for further discussion of credit risk.

Other receivables include sales commissions related to costs to obtain a contract under IFRS 15 Revenue from Contracts with Customers of which an asset of £3.8 million has been recognised (2022: £3.7 million) and the amount of costs recognised as an expense in the period is £1.3 million (2022: £1.9 million).

Contract asset balances relate to incurred variable consideration in relation to incentives paid to customers not yet recognised under IFRS 15 Revenue from Contracts with Customers. The increase in the year related to additional marketing incentives provided to our ISPs to drive targeted take-up of consumer connections. Amounts are recognised as a deduction to revenue when performance obligations are satisfied.

Contract asset	**2023 £'000**	**2022 £'000**
Current	4,604	8,095
Non-current	27,813	-
	32,417	8,095
As at 1 January	8,095	-
Amounts recognised as a contract asset during the year	26,050	8,145
Amounts recognised as a deduction to revenue during the year	(1,728)	(50)
As at 31 December	32,417	8,095

13. DEFERRED TAX

	2023 £'000	**2022 £'000**
Balance at start of period	-	-
Deferred tax charge in the year	-	-
Balance at end of period	-	-

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

	2023 £'000	**2022 £'000**
Excess of tax base of property, plant and equipment over its carrying amount	3,517	28,898
Unused tax losses	228,482	55,707
Short-term timing differences	74,314	19,778
	306,313	104,383

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

13. DEFERRED TAX (continued)

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below:

31 December 2023	Asset £’000	Liability £’000	Net £’000	(Charged)/ credited to profit or loss £’000	(Charged) /credited to equity £’000
Other temporary and deductible differences	409,465	-	409,465	-	-
Business combinations	-	(19,586)	(19,586)	-	-
Excess of tax base of property, plant and equipment over its carrying amount	-	(389,879)	(389,879)	-	-
Tax assets/(liabilities)	409,465	(409,465)	-	-	-
Set off of tax	(409,465)	409,465	-	-	-
Net tax assets/(liabilities)	-	-	-	-	-

31 December 2022	Asset £’000	Liability £’000	Net £’000	(Charged)/ credited to profit or loss £’000	(Charged) /credited to equity £’000
Other temporary and deductible differences	20,419	-	20,419	-	-
Business combinations	-	(20,419)	(20,419)	-	-
Tax assets/(liabilities)	20,419	(20,419)	-	-	-
Set off of tax	(20,419)	20,419	-	-	-
Net tax assets/(liabilities)	-	-	-	-	-

14. CALLED UP SHARE CAPITAL

	2023 £'000	2022 £'000
Authorised, called up, allotted and fully paid		
1,499,580,745 ordinary shares of £0.01 each (2022: 1,499,580,745)	14,996	14,996
5,653,865 deferred ordinary shares of £0.01 each (2022: 5,653,865)	57	57
	15,053	15,053

	2023 Number
Ordinary shares (issued)	
Balance at start of period	1,499,580,745
Share issue	-
Balance at end of period	1,499,580,745

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (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.

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

16. INTEREST BEARING LOANS AND BORROWINGS

	2023 £'000	2022 £'000
Bank loan	3,092,106	1,809,672
Due within one year	-	-
Due after one year	3,092,106	1,809,672
	3,092,106	1,809,672

The carrying value of the loan is stated net of unamortised finance costs of £42.9 million (2022: £20.3 million).

In 2022 the Group entered into a loan facility of £3.9 billion comprising a £1.25 billion term loan, a £2.5 billion capex facility and a £150 million revolving credit facility. On securing the loan, financing costs of £75.8 million were incurred and recognised as a prepayment. Commitment fees incurred on the undrawn balance are also recognised as a prepayment when incurred. These loan transaction costs are then allocated against the loan balance as the facility is drawn down and amortised using the effective interest method. The balance of prepaid loan transaction costs at 31 December 2023 was £21.0 million (2022: £47.8 million).

Interest is paid at SONIA plus 2.95%-3.85% (2022: 2.6%-3.85%) dependent on the facility type and the Group's leverage. The facility has a 7 year term to 30 June 2029 with a bullet repayment at the end of the term.

Certain members of the Group have granted security over certain of their assets in order to secure the interest bearing loans and other borrowings arising under the Company's finance documents. CityFibre Holdco Limited has granted the following English law security in favour of the finance parties: (1) a fixed charge over its shares in CityFibre Infrastructure Holdings Limited; and (2) a security assignment of any intercompany loan receivables owed to it by CityFibre Infrastructure Holdings Limited. In addition, each "Obligor" has granted the following English law security in favour of the finance parties: (1) a fixed charge over its bank accounts, material commercial contracts, book and other debts and its shares in any material subsidiary; and (2) a security assignment of its secured hedging agreements, material commercial contracts, intragroup loan receivables, and certain insurance policies. Further, each Obligor has entered into a cross-guarantee of the liabilities of the other Obligors under the finance documents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

16. INTEREST BEARING LOANS AND BORROWINGS (continued)

The "Obligors" are CityFibre Infrastructure Holdings Limited, CityFibre Limited, CityFibre Holdings Limited, CityFibre Networks Limited, Entanet Holdings Limited, Entanet International Limited, FibreNation Limited and Bolt Pro Tem Limited.

There are also performance bonds in place with Lloyds Bank plc, which are required by The Electronic Communications Code (Conditions and Restrictions) Regulations 2003 to provide cover for funds for specified liabilities for Code operators, being CityFibre Metro Networks Limited and FibreNation Limited, should they arise during the liability period.

Maturity analysis

	2023 £'000	2022 £'000
Bank and other loans		
In more than two years but not more than five years	-	-
In more than five years	3,092,106	1,809,672
	3,092,106	1,809,672

17. DEFERRED REVENUE

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied at 31 December 2023 was £53.6 million (2022: £56.4 million) and is expected to be recognised as revenue in future periods as follows:

Period of performance obligation

	2023 £'000	2022 £'000
In one year or less or on demand	7,857	10,997
In more than one year but not more than two years	8,812	11,298
In more than two years but not more than five years	9,957	12,791
In more than five years	26,925	21,346
	53,551	56,432

Deferred revenue	2023 £'000	2022 £'000
Current	7,857	10,997
Non-current	45,694	45,435
	53,551	56,432

£11.0 million of the deferred revenue at 31 December 2022 was recognised as revenue during the current year (2022: £9.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

18. TRADE AND OTHER PAYABLES

	2023 £'000	2022 £'000
Trade payables	31,625	38,196
Other taxation and social security	4,289	4,406
Other payables	28,181	27,723
Amounts due to related parties	693	145
Accruals	109,687	109,802
	174,475	180,272

Included within other payables is an amount of £27.3 million (2022: £27.2 million) relating to variable consideration not yet settled and credits due to customers. The movement is comprised of a reduction in variable consideration not yet settled due to invoicing during the year of £5.8 million, offset by an increase in credits due to customers of £5.9 million.

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 contractual lease term. The group holds a variety of leases, encompassing both fixed-payment and variable-payment arrangements. Refer to page 48 for key judgements on lease term and right to direct the use of asset.

Right of use assets	Leasehold Property £'000	Network Assets £'000	Plant and Machinery £'000	Vehicles £'000	Total £'000
At 1 January 2022	5,657	3,556	32,057	349	41,619
Additions	2,129	2,652	8,775	-	13,556
Depreciation	(2,046)	(557)	(3,085)	(187)	(5,875)
At 31 December 2022 and at 1 January 2023	5,740	5,651	37,747	162	49,300
Additions	4,418	63,390	14,518	-	82,326
Disposals	(98)	-	(389)	-	(487)
Depreciation	(3,432)	(4,730)	(5,402)	(126)	(13,690)
At 31 December 2023	6,628	64,311	46,474	36	117,449

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

19. LEASES (continued)

Lease liabilities	Leasehold Property £'000	Network Assets £'000	Plant and Machinery £'000	Vehicles £'000	Total £'000
At 1 January 2022	5,909	1,420	32,964	354	40,647
Additions	2,129	2,652	8,813	-	13,594
Interest expense	211	93	1,161	8	1,473
Lease payments	(2,237)	(1,543)	(5,674)	(196)	(9,650)
At 31 December 2022 and at 1 January 2023	6,012	2,622	37,264	166	46,064
Additions	2,439	57,858	3,954	-	64,251
Disposals	(99)	-	(400)	-	(499)
Interest Expense	332	2,157	1,435	5	3,929
Lease payments	(3,088)	(8,045)	(4,083)	(133)	(15,349)
At 31 December 2023	5,596	54,592	38,170	38	98,396

Lease liabilities	2023 £'000	2022 £'000
Current	11,506	5,960
Non-current	86,890	40,104
	98,396	46,064

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.

	2023 £'000	2022 £'000
Short-term lease expense	3,611	4,976
Low-value lease expense	-	-

20. PROVISIONS

	Leasehold dilapidations £'000	Restructuring provision £'000	Total £'000
At 1 January 2023	-	-	-
Provision recognised – charged to profit and loss	-	4,453	4,453
Provision recognised – charged to right of use assets	18,008	-	18,008
Provision recognised – charged to plant and equipment	-	9,002	9,002
Unwinding of discount	1,642	-	1,642
At 31 December 2023	19,650	13,455	33,105
Current	-	13,455	13,455
Non-current	19,650	-	19,650
	19,650	13,455	33,105

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

20. PROVISION (continued)

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. The cost is recognised as depreciation of right of use assets over the remaining term of the lease. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease. These have been recognised in the current year across the lease portfolio following evidence being made available to enable a reliable estimate to be made of the costs.

The Group has recognised a restructuring provision in relation to the efficiency programme. The amount provided represents the best estimate of the Group’s liability. The provision includes redundancy costs and build partner exit costs not yet settled which required limited judgement to determine the amount using the most likely outcome method. These amounts are charged to the statement of profit or loss and other comprehensive income. It also comprises a provision in relation to minimum purchase obligations with our materials suppliers. This amount is charged to property, plant and equipment where these materials will be utilised in the network build and do not give rise to an obsolescence risk. Judgement has been applied in determining the amount of the obligation as at 31 December 2023 due to uncertainty around the outcome of further commercial negotiations. As there are a range of possible outcomes the expected value method has been used. These amounts will be paid within 12 months of year end.

21. CAPITAL COMMITMENTS

	2023 £'000	2022 £'000
Contracted but not provided for	80,452	65,779

Capital commitments include amounts in relation to contracts signed in 2023 for which construction will take place in 2024 and future years.

22. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise borrowings, cash and cash equivalents and various items such as trade receivables and payables that arise directly from its operations. The Board has overall responsibility for the determination of the Group’s risk management objectives and policies. The Group has a risk management policy which is regularly reviewed by the Audit Committee and Board. The overall objective of risk management is to control and minimise threats to the achievement of objectives. The main risks arising from the Group’s financial instruments are liquidity risk, interest rate risk and credit risk. Further details regarding these risks are set out below:

Liquidity risk
In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses long-term finance in the form of bank loans as detailed in Note 16. There are drawdown conditions tested at each drawdown of the facility relating to a debt to connections ratio and a capex to debt ratio. The Group monitors its compliance with bank drawdown conditions on an ongoing basis, forecasts both short and long-term cash flow and performs sensitivity analysis.

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. The carrying amount represents the amount included in the Statement of Financial Position which includes the impact of discounting. The total amount represents the undiscounted future cash outflows. It is determined with reference to the conditions existing at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

22. FINANCIAL INSTRUMENTS (continued)

2023	Carrying Amount £'000	Total £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Trade and other payables	174,475	174,475	174,475	-	-	-
Borrowings (including interest obligations)	3,092,106	4,610,000	257,000	262,000	813,000	3,278,000
Lease liabilities	98,396	143,962	11,495	10,667	28,631	93,169
Derivative financial liabilities	10,934	10,934	-	-	10,934	-
Total	3,375,911	4,939,371	442,970	272,667	852,565	3,371,169

2022	Carrying Amount £'000	Total £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Trade and other payables	180,272	180,272	180,272	-	-	-
Borrowings (including interest obligations)	1,809,672	2,625,000	117,000	117,000	365,000	2,026,000
Lease liabilities	46,064	68,888	5,959	4,931	11,951	46,047
Total	2,036,008	2,874,160	303,231	121,931	376,951	2,072,047

Future interest payments relating to borrowings have been calculated based on the principal at the year end date and the prevailing interest rate. Future payments do not reflect variability due to change in interest rates, reductions as the Group de-leverages or is able to borrow at more favourable rates.

Interest rate risk
As at 31 December 2023 the bank loan is the only financial instrument subject to interest rate risk due to floating interest rates. To manage this risk the Group has entered into hedging instruments to cover at least 70% of outstanding gross debt.

Credit risk
The Group's principal financial assets are bank balances and cash, trade and other receivables (excluding prepayments and VAT receivable.). The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of the total provision below.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. CityFibre’s trade receivables are categorised based on customer type given the differences in the nature of the debtor which can lead to different risk profiles. The finance team monitors its credit risk through regular review of the trade receivables ageing analysis to identify and manage recoverability issues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

22. FINANCIAL INSTRUMENTS (continued)

	2023 £'000	2022 £'000
Trade receivables (gross)	30,283	25,248
Expected credit losses	(163)	(142)
Expected credit losses – credit impaired	(5,051)	(540)
Provision for credit notes	-	(509)
Total provision	(5,214)	(1,191)
Trade receivables (net)	25,069	24,057

The expected credit losses for trade receivables are as follows:

Trade receivable ageing

31 December 2023	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Expected loss rate	0.4%	0.6%	0.3%	0.7%	
Gross carrying amount	11,220	4,858	3,958	10,247	30,283
Expected credit losses	(50)	(30)	(13)	(70)	(163)

The group applies the IFRS 9 simplified approach to measuring expected credit losses for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information. This includes evaluating current and future macroeconomic conditions and adjusting loss rates to reflect the likely ability of the customers to settle the receivables.

Based on our assessment above, on expected credit losses, management have determined certain customers have an increased credit risk due to a deterioration in their financial position and have therefore determined an expected credit loss of the full value of the outstanding receivable balance of £5.1 million (2022: £0.5 million).

Trade receivable ageing

31 December 2022	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Expected loss rate	0.1%	0.2%	0.7%	1.2%	
Gross carrying amount	11,348	2,300	1,833	9,767	25,248
Expected credit losses	(13)	(4)	(12)	(113)	(142)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

22. FINANCIAL INSTRUMENTS (continued)

Classes and categories of financial instruments and their fair values

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 cash and cash equivalents and all financial liabilities are measured at amortised cost, except for hedging instruments classified as derivative financial assets as detailed below.

The fair value measurement of the Group's financial liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

Financial instruments that are measured at fair value and are classified within the fair value hierarchy as level 2 are derivative assets with a fair value of £111.7 million (2022: £180.8 million) and derivative liabilities of a fair value of £10.9 million (2022: £nil). The valuation technique adopted for the derivatives is the mark-to-market method. Refer to Note 26 for further details.

23. SHARE BASED PAYMENTS

The ultimate parent company, Connect Infrastructure Topco Limited, operates two share-based payments plans, a Management Incentive Plan (MIP) and a Joint Share Ownership Plan (JSOP).

The MIP relates to certain classes of shares in Connect Infrastructure Topco Limited issued to selected executive directors and senior employees (Managers) from 2019 to 2021 based on the unrestricted market value (UMV) of the shares.

The fair value of the shares has been measured as at grant date and expensed over a straight line period using an estimated vesting period of between 2 and 5 years. Shares will vest in accordance with vesting schedules with accelerated vesting if an exit event occurs. Managers are required to be in service for the relevant vesting period. There is no obligation to settle in cash, therefore the Group accounts for the MIP as an equity-settled plan. A share based payment expense of £0.4 million has been recognised in the year in the statement of profit and loss and comprehensive income (2022: £0.7 million).

During the year, 20,026 shares (2022: 14,872) were forfeited by leavers and transferred to the Employee Benefit Trust (the Trust). The details of this plan are discussed below.

Management Incentive Plan	**2023 Weighted average price**	**2023 Number**	**2022 Weighted average price**	**2022 Number**
Outstanding at 1 January	£8.11	257,754	£7.92	272,626
Forfeited during the year	£6.33	(20,026)	£4.77	(14,872)
Outstanding at 31 December	£8.25	237,728	£8.11	257,754

The JSOP is an incentive plan, where a class of equity shares in Connect Infrastructure Topco Limited were issued to Managers of the Group in 2022. Under the arrangement, each share issued is jointly held by the Trust and the Manager. A total of 25,000 shares were issued to the Managers of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

23. SHARE BASED PAYMENTS (continued)

Each share is issued at an initial market value of £38.07, where a Manager will subscribe for the share by paying the unrestricted market value of £4.57 and the remaining amount is funded by a loan agreement entered into between Connect Infrastructure Topco Limited and the Trust.

The fair value of the Award shares has been estimated at the grant date at £11.29 using the Monte Carlo simulation form of the Option Pricing Method, taking into account the terms and conditions on which the shares were issued. This fair value has been derived from forecast projections and an estimated vesting period whereby the shares are subject to Managers being in employment until the occurrence of an exit event, upon which they will fully vest. There is no obligation to settle in cash, therefore the Group accounts for the JSOP as an equity-settled plan. A share based payment expense of £0.03 million has been recognised in the year in the statement of profit and loss and comprehensive income (2022: £nil).

Joint Share Ownership Plan	**2023 Weighted average price**	**2023 Number**	**2022 Weighted average price**	**2022 Number**
Outstanding at 1 January	£11.29	25,000	-	-
Issued during the year	-	-	£11.29	25,000
Outstanding at 31 December	£11.29	25,000	£11.29	25,000

24. RELATED PARTY TRANSACTIONS

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

Subsidiaries

The subsidiary undertakings of the Group at 31 December 2023 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	Holding company	100
CityFibre Metro Networks Limited	UK	Provision of telecommunication networks	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

24. RELATED PARTY TRANSACTIONS (continued)

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:

- Bolt Pro Tem Limited (Company number: 08975479)
- CityFibre Networks Limited (Company number: 07193219)
- Fibrecity Bournemouth Limited (Company number: 06585858)

Gigler Limited was dissolved on 6 February 2024 following a group re-organisation project.

At 31 December 2023, the ultimate parent company of the Group was Connect Infrastructure Topco Limited. At 31 December 2023, Connect Infrastructure Topco Limited was controlled by a consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners and minority shareholders, Mubadala Investment Company and Interogo Holding.

Parent companies

The parent companies of the Group at 31 December 2023 were as follows:

Company	Country of incorporation	Principal activities
Connect Infrastructure Topco Limited	UK	Holding company
Connect Infrastructure Bidco Limited	UK	Holding company
CityFibre Holdco Limited	UK	Holding company

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

	2023 £'000	2022 £'000
Connect Infrastructure Bidco Limited	(548)	(181)
CityFibre Holdco Limited	22	17
Connect Infrastructure Topco Limited	489	465
	(37)	301

The balances due from/(to) parent companies are as follows:

	2023 £'000	2022 £'000
Connect Infrastructure Bidco Limited	(693)	(145)
CityFibre Holdco Limited	71	49
Connect Infrastructure Topco Limited	3,528	3,039
	2,906	2,943

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

24. RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel

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

	Key management personnel 2023 £'000	Key management personnel 2022 £'000	Total directors 2023 £'000	Total directors 2022 £'000	Highest paid director 2023 £'000	Highest paid director 2022 £'000
Remuneration	4,544	4,096	1,242	1,186	465	443
Benefits in kind	292	288	111	117	41	47
Pension contributions	117	91	-	-	-	-
Bonus	3,711	2,391	1,043	756	395	288
	8,664	6,866	2,396	2,059	901	778
Social security costs	1,179	935	331	284	124	107
Total emoluments	9,843	7,801	2,727	2,343	1,025	885

The share based payment charge related to key management personnel was £Nil (2022: £Nil).

During the year, the Group was charged by SH Consulting Services Limited, a company whose Director, Steve Holliday, is also a non-executive Director of Connect Infrastructure Topco Limited, the ultimate parent entity of the Group, £94,000 (2022: £89,000), in respect of services received. Of this, £28,000 (2022: £23,000) was owed at the year-end.

25. PENSIONS

A defined contribution pension scheme is operated by the Group on behalf of the employees of the Group. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension charge represents contributions payable by the Group to the fund and amounted to £10.3 million (2022: £8.4 million). Contributions totalling £0.9 million (2022: £0.9 million) were payable to the fund at the period end and are included in other payables.

26. DERIVATIVE FINANCIAL INSTRUMENT

	2023 £'000	2022 £'000
Derivative financial assets		
Interest rate swaps	108,092	174,042
Interest rate caps	3,648	6,778
	111,740	180,820
Derivative financial liabilities		
Interest rate swaps	10,934	-
	10,934	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

26. DERIVATIVE FINANCIAL INSTRUMENT (continued)

The hedging instruments were entered into during the current and previous financial year and are subject to netting arrangements that allow for the net interest amounts to be paid to the receiving party as opposed to the counterparties exchanging gross amounts at settlement date. The group does not currently apply hedge accounting for its hedging instruments.

27. SUBSEQUENT EVENTS

In February 2024, 12,396,694 shares at £2.42 per ordinary share, being £0.01 in nominal value and £2.41 of share premium on each share were issued to CityFibre Holdco Limited for a consideration of £30,000,000. This relates to equity funding from the ultimate parent company, Connect Infrastructure Topco Limited.

In March 2024, the ultimate parent company, Connect Infrastructure Topco Limited, agreed to acquire alternative fibre network operator Lit Fibre Holdings Limited through a share-based acquisition which will result in Newlight Partners becoming minority shareholders in Connect Infrastructure Topco Limited. The acquisition is expected to be completed in the second quarter of 2024.

COMPANY STATEMENT OF FINANCIAL POSITION

Company number 08772997

As at 31 December 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current assets			
Investments	C4	214,886	214,886
Intercompany loan	C9	4,620,431	3,258,676
Derivative financial assets	C10	111,740	180,820
Total non-current assets		4,947,057	3,654,382
Current assets			
Trade and other receivables	C6	25,984	51,289
Cash and cash equivalents	C7	63,292	35,263
Total current assets		89,276	86,552
Total assets		5,036,333	3,740,934
Equity			
Share capital	14	15,053	15,053
Share premium	15	1,603,118	1,603,118
Retained earnings	15	312,190	312,164
Total shareholders' equity		1,930,361	1,930,335
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	16	3,092,106	1,809,672
Total non-current liabilities		3,092,106	1,809,672
Current liabilities			
Trade and other payables	C8	2,932	927
Derivative financial liabilities	C10	10,934	-
Total current liabilities		13,866	927
Total liabilities		3,105,972	1,810,599
Total shareholders' equity and liabilities		5,036,333	3,740,934

The parent company profit and total comprehensive income for the year was £0.03 million (2022: £243.8 million).

These financial statements were approved by the Board of Directors and authorised for issue on 24 April 2024

They were signed on its behalf by:

N J Dunn
Director

Notes C1 to C10 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Share capital	Share premium	Retained earnings	Total Shareholders' Equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2022	13,563	1,305,626	68,378	1,387,567
Comprehensive income				
Profit and total comprehensive income for the year	-	-	243,786	243,786
Transactions with owners				
New share capital issued in the year	1,490	308,510	-	310,000
Costs of issuing share capital	-	(11,018)	-	(11,018)
Balance at 31 December 2022	15,053	1,603,118	312,164	1,930,335
Comprehensive income				
Profit and total comprehensive income for the year	-	-	26	26
Balance at 31 December 2023	15,053	1,603,118	312,190	1,930,361

Notes C1 to C10 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Profit before tax		26	243,786
Finance income		(248,710)	(309,909)
Finance costs		247,571	64,375
Increase in receivables		(855)	(46,657)
Increase/(Decrease) in payables		1,108	(1,449)
Net cash utilised in operating activities		(860)	(49,854)
Cash flows from investing activities			
Interest received		3,124	313
Loan to subsidiary		(1,119,400)	(1,106,581)
Net cash utilised in investing activities		(1,116,276)	(1,106,268)
Cash flows from financing activities			
Proceeds from the issue of share capital		-	310,000
Costs of issuing share capital		-	(11,018)
Loan transaction costs paid		(14,830)	(89,512)
Repayment of borrowings	**16**	-	(1,126,721)
Proceeds from borrowings	**16**	1,305,000	2,143,810
Interest paid		(187,755)	(53,862)
Interest rate swap net settlements		42,750	(539)
Net cash generated from financing activities		1,145,165	1,172,158
Net increase in cash and cash equivalents		28,029	16,036
Cash and cash equivalents at beginning of period		35,263	19,227
Cash and cash equivalents at end of period	**C7**	63,292	35,263

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 statement of profit or loss and other comprehensive income of the parent company is not presented as part of these financial statements.

C3. DEFERRED TAX

The Company has unrecognised deferred taxation of £nil (2022: £408,000) 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

	2023 £'000	2022 £'000
Investments	214,886	214,886

Subsidiaries

The subsidiary undertakings of the Company at 31 December 2023 are disclosed in Note 24 of the Group consolidated financial statements.

C5. INTERCOMPANY LOAN

	2023 £'000	2022 £'000
Intercompany loan – non-current	4,620,431	3,258,676

Intercompany loans are based on an agreement originally signed on 14 December 2018. During the year ended 31 December 2023, the Company updated its formal loan arrangements with its subsidiaries. From 1 December 2023, the loan has a term ending on 30 June 2029 with an interest rate of 6% (previously 5%). Refer to Note C9 for further detail.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

C6. TRADE AND OTHER RECEIVABLES

	2023 £'000	2022 £'000
Other receivables	529	16
Prepayments and accrued interest	1,182	432
Prepaid loan transaction costs	21,018	47,753
Amounts owing from parent undertakings	3,255	3,088
	25,984	51,289

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 22 of the Group consolidated financial statements for further discussion of credit risk.

C7. CASH AND CASH EQUIVALENTS

	2023 £'000	2022 £'000
Cash at bank and in hand	63,292	35,263

All cash and cash equivalent balances are denominated in Sterling.

C8. TRADE AND OTHER PAYABLES

	2023 £'000	2022 £'000
Trade payables	17	-
Accruals	2,365	795
Other payables	9	13
Amounts owed to parent undertakings	541	119
	2,932	927

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 24 of the Group consolidated financial statements). At 31 December 2023, the ultimate parent company of the Group was Connect Infrastructure Topco Limited. At 31 December 2023, Connect Infrastructure Topco Limited was controlled by a consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners and minority shareholders, Mubadala Investment Company and Interogo Holding.

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

	2023 £'000	2022 £'000
CityFibre Holdings Limited	30,821	27,517
CityFibre Limited	-	18,600
Entanet Holdings Limited	5,461	56
Entanet International Limited	-	177
FibreNation Limited	3,966	2,024
Connect Infrastructure Bidco Limited	(422)	(181)
CityFibre Holdco Limited	22	17
Connect Infrastructure Topco Limited	144	465
Total services provided	39,992	48,675

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

C9. RELATED PARTY TRANSACTIONS (continued)

Related party balances

Group undertakings:

The balances due from group undertakings, which comprise intercompany loan balances at 31 December 2023, are as follows:	**2023**	**2022**
	£'000	**£'000**
CityFibre Holdings Limited	4,485,556	3,123,727
Entanet Holdings Limited	22,224	19,017
FibreNation Limited	112,651	115,932
Total due from group undertakings	4,620,431	3,258,676

Parent undertakings:

The balances due from/(to) the Company's parent companies, which include intercompany trade balances at 31 December 2023, are as follows:

	2023	**2022**
	£'000	**£'000**
Connect Infrastructure Bidco Limited	(541)	(119)
CityFibre Holdco Limited	71	49
Connect Infrastructure Topco Limited	3,184	3,039
Total due from parent undertakings	2,714	2,969
Total related party balances	4,623,145	3,261,645

There were no other related party transactions.

C10. FINANCIAL INSTRUMENTS

The main financial instruments for the Company are the intercompany loan receivables and the derivative financial instrument shown in Note 26.

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