CITYFIBRE INFRASTRUCTURE HOLDINGS LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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 200 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.

As at 31 December 2022, Antin Infrastructure Partners had approximately €31 billion of Assets Under Management. The firm's 15 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 270 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 of a series of funds managed by the Alternatives Business within Goldman Sachs Asset & Wealth Management to make direct investments in infrastructure and infrastructure-related assets and companies globally. Goldman Sachs is a leading global investment banking, securities and investment management firm headquartered in New York and with offices around the world, including London. With over $305 billion of capital invested since 1986 and approximately $450 billion alternative assets (as of 31 December 2022)[1], Goldman Sachs Asset & Wealth Management is one of the world's leading private investing platforms with a mandate to manage Goldman Sachs' private corporate investment activities across dedicated corporate (private & growth equity), real estate, credit and infrastructure investment strategies. Since the inception of the infrastructure business in 2006, Goldman Sachs Asset & Wealth Management has raised more than $15 billion of capital dedicated to the infrastructure investment strategy and have total assets under management of approximately $8 billion.

West Street Infrastructure Partners has substantial experience in communication infrastructure assets. Its partner infrastructure funds have invested in the US telecoms sector in Unison and Vertical Bridge (telecoms towers), ExteNet (small cells and distributed network services), Global Compute (a new global data centre platform led by former Digital Realty co-founders and senior executives), and most recently ImOn Communications (a regional Fibre to the Premises platform). Affiliated funds managed by Goldman Sachs within Goldman Sachs Asset & Wealth Management, have invested in several European communication infrastructure companies, including Kabel Deutschland, Cablecom and Get.

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

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 $284 billion (AED 1,045 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 and the capital formation of high growth, communications and technology based companies.

Nick Dunn (Chief Financial Officer)

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

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

Simon Holden (Chief Operating Officer)

Prior to joining in March 2019, Simon was a partner at Goldman Sachs where he held senior roles in London and New York in the Investment Banking division as well as a number of leadership roles in the Telecom, Media and Technology banking team. Before that, Simon worked for Baring Brothers in London and Hong Kong. He trained as a Chartered Accountant with Coopers and Lybrand.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present their strategic report with the audited financial statements for the year ended 31 December 2022.

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 build a new generation of Full Fibre infrastructure(1) for the UK - a network capable of transforming the digital capabilities of citizens and businesses, sparking innovation and underpinning our economy in a gigabit age.

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

CityFibre has network rollouts already under way in 75 towns and cities and plans to pass up to 8 million homes and businesses with open-access Full Fibre infrastructure across over 250 towns, cities and villages in the UK.

CEO review

CityFibre is now the UK's largest independent Full Fibre platform and has continued to cement its position as a key national digital infrastructure operator. We have an effective mobilised supply chain and a portfolio of onboarded Internet Service Providers ("ISPs") which, coupled with significant secured equity and debt capital, sets ourselves up to meet our ambition of reaching up to 8 million homes. To date we have deployed network that has passed more than 2.5 million homes(2).

Our rollout of Full Fibre networks to over 250 cities, towns and villages is expected to deliver £38 billion(3) of direct and indirect economic growth to the UK economy helping to support the Government's nationwide levelling up programme.

Funding

In June 2022 we completed a £4.9 billion debt raise, comprising of committed facilities of £3.9 billion and an uncommitted accordion facility of £1 billion, in one of Europe's largest fibre financings. The new facilities, alongside existing equity investments, finance our rollout of up to 8 million homes, 800k businesses, 400k public sector sites and 250k 5G access points.

The facilities are underwritten by leading financial institutions including NatWest, Société Générale, Crédit Agricole CIB, BBVA, Intesa Sanpaolo, ING and SEB; with ABN AMRO, Lloyds Bank and M&G Investments, the international asset manager, joining as core lenders. UK Infrastructure Bank ("UKIB") also joined as a core lender recognising our contribution to critical national infrastructure and the Government's levelling up programme.

(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) Homes passed: This means that the property has fibre allocation and a fibre route available to the boundary of the premises, but it cannot be connected for various reasons such as economics, accessibility or permission refusal by a third party.
(3) Report "The impact of Full Fibre from CityFibre's Network" published March 2022, by Hatch, commissioned by Cityfibre.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Funding (continued)

During Q1 2023, a further £300 million equity was received in Connect Infrastructure Topco Limited from Mubadala Investment Company, increasing the total equity raised since June 2021 to over £1 billion. At the date of signing these financial statements, £555 million is held as cash and cash equivalents and short-term deposits in the ultimate parent company readily available to fund the ongoing business operations.

Regulatory

UK Government policy supports the development of long term competition in the provision of UK's fibre broadband. It has reiterated this policy goal in the Levelling Up White Paper published in February 2022. To support rollout in the hardest-to-reach areas, the Government is investing at least £1.2 billion in subsidies between now and 2024/25 through Building Digital UK's (BDUK's) Project Gigabit as part of a £5 billion funding commitment.

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 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 October 2021 BT Openreach introduced its Equinox discount pricing scheme for Full Fibre. Ofcom took a decision not to prevent the scheme entering into force and CityFibre appealed Ofcom's decision to the Competition Appeal Tribunal. Judgement was issued in July 2022 rejecting CityFibre's appeal but making important comments about Ofcom taking proactive steps to monitor that competition was emerging.

BT Openreach issued a further Equinox 2 discount pricing scheme in December 2022, making changes to the original offer and introducing further price reductions. Ofcom has consulted on whether to prevent the scheme from coming into force. Ofcom's provisional view is that it should take no action. CityFibre, along with other broadband network providers, has urged Ofcom to take action and prevent the new discount scheme. In March 2023, Ofcom announced that it would require more time to analyse the issues raised by respondents, and it now expects to publish its final decision by the end of May 2023.

Separately, in December 2022, CityFibre lodged a complaint under the Competition Act 1998 with Ofcom and the CMA alleging that BT Openreach is pursuing an anti-competitive strategy to foreclose the FTTP market and requesting action to bring that strategy to an end. Ofcom is considering the complaint.

Building the Network

2022 was our most productive year to date, adding over 1 million Ready for Service ("RFS")(1) homes to our network, a 40% increase on the prior year. Cumulatively, our nationwide Full Fibre network passed over 2.5 million homes by December 2022, with more than 2.2 million RFS by the end of the year.

The productivity improvements stemmed from a fully mobilised supply chain, with over 20 local and regional build partners working closely with us to commence 18 new towns and cities in 2022 and bring the rollout to 75 in production.

Primary build plans were finished in the year in Milton Keynes, Stirling, Peterborough and Coventry with the intention to densify and extend these over time. Our build Cost Per Premise ("CPP") continued to be on track with our plan despite wider economic inflationary pressures in energy costs, wage inflation and materials costs. We mitigated these pressures by cost control and design efficiencies including utilising Physical Infrastructure Access ("PIA") where available.

(1)RFS homes: This means that the property is available to place orders and make installation on.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Filling Our Network

During 2022 we continued to onboard ISPs onto our network with 33 having live customers at the end of the year. This included signing an extended national agreement with Zen to add a third major national Consumer ISP to the portfolio. We also signed an agreement with toob, a Full Fibre network builder and broadband provider, to create an industry first wholesale strategic relationship to bring our wholesale ISP customers across their built network. We will look to engage other fibre builders with this new model which will accelerate the addressable footprint for our wholesale ISP partners over time.

Our strategic partnership with Vodafone continued to scale across the footprint with 38 new towns and cities added to reach 62 live towns and cities by the end of the year. A major success in the year was creating an interconnected national access product which has fast-tracked access to RFS homes for our ISPs. Vodafone’s access to RFS homes increased from 72% of the network in 2021 to 93% by December 2022, and TalkTalk grew from 61% to 82%.

We installed 124k new Consumer connections (2021: 32k), with 88% coming from our major ISP partners, Vodafone and TalkTalk. It is encouraging to see our portfolio diversify with a greater proportion of connections from newly onboarded ISPs. Consumer live connections at 31 December 2022 were 174k (2021: 61k). We continue to successfully monetise our network, building across all verticals with the focus increasingly on delivering Consumer connections at scale, as demonstrated by connections in Q4 growing year-on-year by 265%.

Business connection sales also grew 8% from 1.8k to 2.0k with contract values of over £13 million (2021: c.£21 million). Public Sector continues to have an important role in anchoring networks, but due to the more advanced stage of our local deployments, fewer new connections were secured in 2022 compared to the prior year.

We also expanded our partnership with Kelly Group, our preferred supplier for Consumer connections enabling them to scale operations nationwide, undertaking customer connections on behalf of our ISP customers across its entire footprint.

A successful rebranding was undertaken in the year to support the next phase of growth with a refreshed visual identity, messaging and tone of voice. The new brand was designed to help drive awareness of CityFibre, the availability of our networks and to help communicate the benefits of Full Fibre to homes and businesses.

We are proud that our network continues to receive positive industry accolades winning the Best Infrastructure Partner over 100k premises at the ISPA awards for a second year running and the Operator Award at the FTTH Council Europe in May 2022.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

KPIs	2022	2021
Statutory revenue (£million)	31.0	54.0
Underlying revenue (£million)[1]	80.8	64.3
Adjusted EBITDA (£million)[1]	(69.4)	(49.5)
Capital Expenditure (£million)[2]	1,017.2	771.4
Number of towns and cities in production (number)	75	57
RFS Homes – additions (million)[3]	1.0	0.7
RFS Homes – cumulative (million)[3]	2.2	1.2
Live Consumer connections (000)[3]	174.4	60.9

[1] Refer to page 14 for definitions of Alternative Performance Measures
[2] Capital Expenditure consists of acquisitions of tangible assets and capitalisation of staff costs which together sum to the total additions in property, plant and equipment in Note 8.
[3] See pages 8 and 9 for definitions and further details regarding these KPIs.

Our People

We added 241 employees during 2022 as the mobilisation of our supply chain and increasing parallel deployments continued to grow at pace, increasing our average headcount by 18% to prior year. We put considerable focus on well-being, inclusion, diversity and nurturing young talent as we see this as integral to the overall success of the organisation. By working with build partners we have helped to create a wide range of apprenticeships and entry level roles.

We are extremely proud to have received a Times Top 50 Employer for Women award for the second year running in 2022. However, we recognise that women are still underrepresented in the telecoms, construction and technology industries and will continue to take steps to address the gender imbalance, with a gender diversity target of 35% in 2029 (2022: actual 27%).

The health, safety and wellbeing of employees and contractors is our primary concern and we conduct our operations in accordance with a ISO 45001:2018 certified health and safety management system. These high standards were validated by being awarded the 2022 Royal Society for the Prevention of Accidents (RoSPA) Gold Award during the year.

Our Planet

We recognise that, because of our activities, we can create negative impacts on the environment and understand that a damaged environment has broader consequences for the health and wellbeing of society. Climate change is one of the most pressing issues facing our planet today, and it is critical that we take action to reduce our carbon footprint and transition to sustainable energy sources. We are fully aware of our role as a driver of decarbonisation for the economy and society through replacing highly power consumptive copper based networks with dense low power fibre optic networks which run on pure light. 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 the UK.

In 2022 we completed an in depth analysis of past and future scope 1 (direct) and 2 (indirect) emissions to support decision making with reduction plans. 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 emissions. Further details on this can be found on page 25.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Outlook

In March 2023, CityFibre was awarded its first government contract under Government's 'Project Gigabit' programme, designed to support the rollout of 'gigabit-capable' infrastructure to rural hard-to-reach areas out of scope for commercial build. The £69 million contract was awarded to subsidise a rollout to 45k rural homes and businesses across Cambridgeshire.

CityFibre expects to deepen its participation in the Project Gigabit programme, and is already evolving its deployment plans, expanding and densifying its existing footprint alongside the project. In Cambridgeshire, this will see an additional 170k homes passed.

With our existing ISP partners now connected to our national network, we will continue to focus on supporting their delivery of marketing activities designed to accelerate service take-up. By continuing to invest in our own marketing efforts to drive leads to our partners, we believe we will reinforce a key strategic differentiator that is of real value to them.

Our newly refined Partner Programme, designed to offer a range of support options to incentivise our ISP partners and improve their performance, will be continually optimised throughout the course of the year. We will also continue to develop our product portfolio, ensuring partners are presented with a range of products that compete effectively on speed, reliability and wholesale price against those of our competitors.

Ensuring that our customers and end-users continue to choose CityFibre as their preferred network provider, we will retain our focus on the quality of our installation and service experience. Throughout 2022, we worked hard to improve these metrics and this was demonstrated by our TrustPilot score increasing from 'Good' to 'Great'. In spite of the material growth in connections planned throughout 2023, we will work hard to maintain this industry leading customer experience.

While the network availability of our infrastructure remains very high, providing a consistent service to our partners at 99.94%, we believe there is still potential for further small but valued improvement throughout the course of the year.

To support our rapid growth and set ourselves up for scale in recent years, we have had to radically increase the size of our organisation and especially our build team. This capacity has enabled us to mobilise our supply chain and onboard ISP partners to a network that now passes more than 2.5 million homes.

However, with our rollout now at a good pace across the country, it's time for us to begin our transformation from a scale-up fibre network builder into a world-class fibre network service provider focused on maintaining steady and efficient network expansion as well as a consistent, high-quality service.

As we drive for a more efficient model of building, installing customers and ongoing operations we have begun a significant redesign of our organisational structure. While this will result in a reduction in our total workforce, we believe the operational efficiencies will enable us to maintain our current run rate of build, and continue to accelerate the take-up of services through our ISP partners.

Greg Mesch
Chief Executive Officer
23 May 2023

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Financial Review

Profit and loss

Total revenue for the year was £31.0 million (2021: £54.0 million). The decrease in revenue of £23.0 million from 2021 was driven by an increase in the effect of constrained variable consideration representing a reduction to revenue of £49.8 million (2021: £10.3 million) and is considered non-recurring. These amounts relate to a customer contract modification discussed in more detail within the revenue accounting policy on page 42 and in Note 2.

Underlying revenue for the year amounted to £80.8 million (2021: £64.3 million). Within this, 'on-net'[(1)] revenue increased by 54%, rising to £50.0 million while 'off-net' revenue fell by 3% to £30.8 million. This resulted in 'on-net' revenue representing a higher proportion of total underlying revenue at 62%, up from 51% in the prior year. This positive change in our revenue mix is due to the increase in our network footprint and onboarding new ISPs, allowing us to increase the number of connections on our own network.

Increasing the live customer base of Consumer end connections has driven the 54% 'on-net' revenue growth in the year. Additionally, the new interconnected national access product has streamlined our ISPs access to RFS homes, with two of our major ISPs, Vodafone and TalkTalk, now having access to the majority of our footprint. While our major ISPs remain a strong pillar for filling our network, newly onboarded ISPs have gained momentum and contributed an increased proportion of our new Consumer connections.

Network operating costs increased 33% to £51.2 million, reducing underlying gross margin to 37% (2021: 40%). This includes costs relating to homes passed that will deliver future years' sales, as the network build expanded across a larger footprint. Having a highly operationally geared model in place, our margin is expected to rise with the natural phasing of customers over a number of years as we continue to fill the network.

Underlying administrative expenses increased to £187.3 million (2021: £128.9 million). Key areas within these expenses are as follows:

- Staff costs, excluding those capitalised, increased by 15% to £46.2 million. This represents the scaling of our operations to support the expanded network and to increase penetration across our footprint.
- Other general administrative expenses grew to £52.9 million (2021: £35.2 million) with increased marketing deployed to accelerate the growth of Consumer connections, and IT infrastructure related costs to support the growth of the business.
- Depreciation and amortisation increased by a total of £32.9 million, reflecting the level of investment in the network rollout.
- Management incentives charges of £2.3 million (2021: £0.4 million). Equity-settled share based payments operated by Connect Infrastructure Topco Limited, the ultimate parent company, amounted to £0.7 million (2021: £Nil), and long-term incentive plans of £1.6 million (2021: £0.4 million).

In addition to the above, we incurred £2.4 million (2021: £0.3 million) of non-recurring fees contributing to total administrative expenses. The fees incurred during the current year principally relate to rebranding costs.

Operating loss increased to £209.8 million (2021: £113.6 million), due to the increase in administrative expenses detailed above.

Adjusted EBITDA loss of £69.4 million (2021: £49.5 million) reflects the significant investment in operating costs and marketing required to scale the business to deliver our network infrastructure roll-out and support revenue growth. A reconciliation of operating loss to Adjusted EBITDA is shown on page 13.

We recognised an unrealised gain within finance income during the year, amounting to £180.8 million (2021: £Nil), reflecting the fair value of hedging instruments entered into during the current financial year.

[(1)] See Note 2 for definitions of 'on-net' and 'off-net' revenue.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Financial Review (continued)

Profit and loss (continued)

Finance costs increased significantly following the establishment of a £3.9 billion committed debt facility, discussed in more detail in Note 16. The profit and loss charge increased due to accelerated amortisation of transaction costs on repayment of the previous debt facility, as well as rises in interest rates during the year. We also increased use of our debt facility to support capital expenditure, funding the additions to property, plant and equipment discussed below.

Reconciliation of operating loss to Adjusted EBITDA

	2022 £'000	2021 £'000
Operating loss	(209,831)	(113,589)
Add back:		
Depreciation	76,598	46,398
Amortisation	9,314	6,656
EBITDA	(123,919)	(60,535)
Management incentives charges	2,333	431
Non-recurring operating items[1]	52,212	10,610
Adjusted EBITDA	(69,374)	(49,494)

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

Statement of Financial Position

Property, plant and equipment at cost increased by £1,017.2 million to £2,681.4 million. This was principally driven by the construction of the Full Fibre infrastructure programme which gathered further momentum in the year.

Within the above, the construction of new network assets totalled £945.6 million (2021: £713.8 million). Of this, around 97% (2021: 92%) 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 £28.0 million (2021: £43.5 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 homes during the year, reaching over 2.2 million cumulatively.

Funding and Cash flow

Gross debt at year end rose to £1,830.0 million (2021: £812.9 million) as we successfully negotiated the new debt facility as detailed in Note 16. The previous loan facility was repaid in full in June 2022 with a net £1,017.1 million drawn overall on the loans during the year.

There were also additional share issues during the year for which £310.0 million cash consideration was received from the ultimate parent company, Connect Infrastructure Topco Limited.

Cash and cash equivalents at 31 December 2022 was £102.4 million (2021: £47.0 million).

Operating cashflow for the period was a net outflow of £114.4 million, compared to a net outflow of £81.7 million in 2021.

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

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Financial Review (continued)

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

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.

	2022 £'000	2021 £'000
Underlying revenue	80,802	64,304
Non-recurring revenue	(49,829)	(10,308)
Statutory revenue	30,973	53,996

#	APM	Definition of APM
2	Non-recurring revenue	Non-recurring revenue comprises 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 £2.4 million includes rebranding and exceptional regulatory costs which are considered one-off in nature (2021: £0.3 million)
4	Non-recurring finance income	Non-recurring finance income of £180.8 million relates to the unrealised gain on initial recognition of the fair value of hedging instruments entered into in the period (2021: £Nil).
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 administrative expenses, non-recurring revenue 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 13 for reconciliation.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Principal risks and uncertainties

Risk	Mitigation
Outsourced Construction	
We award NEC (New Engineering Contract) contracts to principal construction partners in order to build the 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 contractors are expected to comply with all UK laws and regulations.
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 in relation to both our employees, contractors and the general public. We have a dedicated Safety, Health and Environment (SHE) team who have expanded in 2022 in line with the increase in build locations. Activities are conducted in accordance with ISO45001:2018 and the strong focus on safety standards was recognised in the 2022 RoSPA Gold Award.
Labour & Skills Shortage	
We rely on the ability to attract and retain people with the necessary skills and experience both in our own and subcontracted workforces. The UK currently has a record number of unfilled job vacancies and a major shortage of skills. Although not listed on the Migration Advisory Committee (MAC) Shortage Occupation List, construction and building trades remain in high demand, driving wage inflation in towns and cities where competitors are also building. We are exposed to these skills shortages which have the potential to impact both the build plan and costs.	We are actively working with our principal contractors to solve the skills and labour shortages they face including referral and reward incentive schemes, training and recruitment initiatives and increased awareness of CityFibre, its brand and core values to attract and retain workforce.
Supply Chain Disruption & Shortages	
The war in Ukraine, along with the increased tension in US-China relations continues to effect global supply chain security. We are exposed to the global demand for microchips which are required to build our infrastructure. Disruption in the microchip supply chain could impact the build plan.	We have a strategy in place to manage supply chain disruption which includes identifying key materials, ensuring dual suppliers are in place, maintaining increased minimum stock levels and factoring in long lead times to minimise disruption to the Full Fibre build.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Principal risks and uncertainties (continued)

Risk	Mitigation
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. In 2022 we submitted a competition complaint to the Competition and Markets Authority in relation to BT Openreach exclusionary behaviours. 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 being able to effectively manage liquidity including the ability to access and secure future equity and debt funding to complete the network build phase of the business lifecycle. We are also required to comply with banking drawstops and covenants.	We secured £3.9 billion committed debt facility in 2022 and received a further investment of £300 million in equity in the ultimate parent company in early 2023. Through initiatives to drive ISP market penetration, cost rationalisation, business restructure and maximising the BDUK opportunity, we expect to be able to manage our funding requirements in line with our long term business plan. We monitor our compliance with bank facility terms on an ongoing basis, forecast both short- and long-term cash flow and perform sensitivity analysis.
Interest Rates	
In order to manage inflation, the Bank of England have increased interest rates and these are expected to peak in 2023. We have a floating interest rate exposure linked to SONIA that we pay on our debt facility which could result in higher cost of capital should interest rates remain high.	We have appropriate hedging instruments in place to mitigate our exposure to interest rate fluctuations within the terms of our existing financing facilities.
Global Economic & Geopolitical Uncertainty	
The global economic and geopolitical uncertainty fuelled by the war in Ukraine, rising food and energy costs, and the after-effects of both the COVID-19 pandemic and Brexit have contributed to the cost-of-living increases and inflation well above the Bank of England target of 2%. We and our principal contractors are exposed to these inflationary pressures, resulting in increased costs to build and operate our network. Customers are also experiencing the impacts of high inflation and may be less willing to pay for our products.	Where it is not possible to recover increased costs through Consumer Price Index linked contracts, we are able to flex the build plan to minimise the impacts of regional demand-driven wage inflation. We are also looking to secure Government grant funding under the Building Digital UK Gigabit programme which will support the build activity. In order to reduce build costs, we are able to use existing Physical Infrastructure Access (PIA). Product and pricing differentiation strategies are under regular review to support ISPs in attracting and converting customers to the network.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Principal risks and uncertainties (continued)

Risk	Mitigation
Competition	
The UK telecommunications sector is highly regulated. We compete with BT Openreach (the incumbent monopoly provider), Virgin Media O2 and a range of smaller fibre providers for customers. The business model depends on customers switching to Full Fibre on the CityFibre network, which relies on a sufficiently differentiated product and competitive pricing.	We have the largest independent Full Fibre network in the UK, the access to capital, wholesale model and existing revenue streams to defend our market position. The Building Digital UK programme provides an opportunity to widen the footprint with an expected increased take-up in locations where we will be the only Full Fibre network. Products and pricing are regularly reviewed to ensure offerings remain competitive.
Data and Cyber Security	
The telecommunications industry faces an increased threat of cyber-attack, being a critical part of UK infrastructure. The likelihood has further risen as a result of the war in Ukraine, with the National Cyber Security Centre (NCSC) advising of increased activity from overseas. NCSC has advised companies in the sector to stay vigilant and to take the necessary precautions to prevent and detect an attack. We are exposed to the threat both in terms of the operation of the network itself, the subsequent impact on customers and the potential for data breaches resulting in regulatory and financial penalties.	We manage information security in accordance with ISO27001 and are transitioning to the 2022 standard which includes specific telecommunications requirements. Annual compliance assessments take place through the government backed Cyber Essentials scheme and we also took part in EMPEX 2022; a government led cyber security test with other industry members. A Business Continuity Plan is in place. All employees are required to complete General Data Protection Regulation (GDPR) training and we continue to develop our data protection procedures to ensure compliance with regulations.
Environment, Social and Governance	
It is increasingly important that businesses conduct themselves in an ethical and sustainable way demonstrating strong corporate social responsibility. Environment, Social and Governance (ESG) disclosures are used by investors, suppliers, customers and employees when assessing a business and, for those that can demonstrate the actions they are taking, this can be a competitive differentiator. There is a risk if we do not achieve our Responsible Business strategy this may result in reputational damage, affecting our ability to attract future investment, customers, employees, and government funding.	The Responsible Business Strategy has been agreed and has Executive sponsorship with an ESG & Responsible Business Board Sub Committee and an ESG Steering Committee established. Specialist advisors have been engaged on topics including carbon emission reduction and social value impact and we have made commitments to decarbonise business operations, build climate resilient assets and low emission networks. As a Business in The Community (BITC) member we receive support, networking, and benchmarking to mature social interactions and work with schools, community centres and individuals. We take a zero-tolerance approach to corrupt behaviour and have policies, procedures and training in place to protect us from unethical conduct. This approach extends to suppliers who are required to work within the terms of the Supplier Code of Conduct.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (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, the communities and the environment in which we operate. 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. We have to date announced over 250 cities, towns and villages where we are building or intend to build, across the UK. We are also participating in the 'Project Gigabit' rural programme being overseen by BDUK.

<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. As fibre networks use light rather than electricity to transmit information, our network's energy consumption will be significantly lower than legacy high power demanding copper-based networks used by incumbent telecom operators. We also engage with external sustainability consultants to address our environmental impact. CityFibre targets technology suppliers who can provide a strong product roadmap and the innovation we require to maintain a world-class network into the future. Due to the scale of our network infrastructure and critical national dependency, we take into account Government advice in respect of national security issues when selecting suppliers and require our suppliers and contractors to work within the terms of our Supplier Code of Conduct. Please see the section on Business Ethics and Conduct on page 23 for further information.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Section 172 Statement (continued)

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 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:

Debt Raise

In June 2022 we announced we had secured a £4.9 billion debt package comprising of committed facilities of £3.9 billion and an uncommitted accordion facility of £1 billion. The new banking facilities see our Full Fibre infrastructure platform now backed by many of the world’s leading financial institutions.

Brand Update

In August 2022, we announced an overhaul of the CityFibre brand, updating our visual identity, messaging and tone of voice to reflect our status as the nation’s digital infrastructure challenger and to more effectively engage millions of people as we roll out our new networks across the country. The updated brand is designed to explain the superior user-experience when connected to CityFibre’s network, made possible by a new, Full Fibre infrastructure platform, unencumbered by legacy network or systems. This is ultimately aimed to support and augment our ISPs’ customers marketing communications to help them drive customer acquisitions as well as the migration of existing customers onto our network.

Network Build

In 2022, the board approved 4 new towns to bring the total to 75 towns and cities in production. This continued investment in the network unlocks significant economic potential and opportunities by boosting productivity and innovation for local communities.

Section 172 Statement (continued)

BDUK

In 2022, we decided to participate in bids for 3 Project Gigabit areas through BDUK, a central Government executive agency, formerly part of the Department of Culture, Media and Sport (now part of the newly formed Department of Science, Innovation and Technology). The procurement process invites bids for Government subsidies to extend Full Fibre builds into largely rural communities 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.

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 growing 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.

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.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Responsible Business (continued)

The CityFibre Way

At CityFibre we recognise that how we work together is as important as what we deliver. We have placed a great emphasis on developing a strong company culture from the offset, and we articulate this as a set of behaviours that form The CityFibre Way.

Throughout our growth phase, The CityFibre Way helped us attract, recruit and retain talent. In 2022, as the business went through a rebranding exercise, we identified the need to refresh the behaviours of The CityFibre Way to help us transition into this new phase of the business. The updated five behaviours, being Be the Groundbreaker, Collaborate to Innovate, Keep it Simple, Deliver Legendary Service and Back Each Other, were created with input from across the business. Our aspiration is to help our employees develop and maintain a challenger mindset to support our ambitious targets and deliver the best possible outcome for our customers.

In 2022, we continued to support employees through regular communications, professional development opportunities and well-being resources. We hosted a number of events around diversity and inclusion initiatives run by our employee networks, promoted the support offered by trained Mental Health First Aiders, and shared regular updates on relevant employee benefits such as the Employee Assistance Programme, Private Medical Insurance and Holiday Purchase scheme.

Our focus this year was around encouraging cross-functional collaboration, supporting new joiners to integrate into the business, and starting to transition people’s focus from a build-first to a customer-first mindset.

Diversity and Inclusion

Creating a culture of diversity and inclusion is a core priority of CityFibre, we see it 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 2022 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, and our improved internal blogs focussed on the people of CityFibre.

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 the 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 2022 (CONTINUED)

Responsible Business (continued)

Gender Diversity

As of 31 December 2022, CityFibre's gender split was as follows:

- Total Employees: 2,098 employees (excluding contractors), of which 27% identify as female (2021: 26%)
- Line Management Roles: 483 total, of which 25% identify as female (2021: 26%)
- There were 50 employees employed in the capacity of Executive or Director at CityFibre, of which 28% identify as female (2021: 24%).

Improving gender diversity is a core objective of CityFibre and we are progressing positively towards equity and increasing diversity. During the reporting year we completed extensive analysis of gender diversity across roles and in recruitment to develop an action plan for 2023 to 2030.

Women are underrepresented across the telecommunication, construction, and technology industries. We remain committed to being an equal opportunities employer and are proud of being awarded a Times Top 50 Employer for Women for the second year running in 2022. The business however recognises that more action is needed to address the gender imbalance.

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 2022 the Safety, Health, and Environment (SHE) team grew by over 40% by the end of the year. This growth was commensurate with the increase in the number of cities in progress with a network build and demonstrative of our commitment. Our strong safety focus and standards were further validated through being awarded the 2022 Royal Society for the Prevention of Accidents (RoSPA) Gold Award.

During 2022 there was 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 2022 is consistent with 2021 performance (1 RIDDOR).

There were 10 Major Injuries involving Principal Contractor or Subcontractor employees which were reportable under RIDDOR compared with 7 reported in 2021. 6 of the RIDDOR Major Injuries were related to work in 'Operations' whilst 4 were related to work in Network Build (NWB).

6 accidents (2021: 10) involving Members of The Public were reported to the Health & Safety Executive under RIDDOR as they met the reporting criteria of the injured party being taken directly to hospital where some form of treatment was given, from the scene of the accident.

Having established an industry group in 2021, to drive improvements in health and safety standards, we took the Safety & Health in Fibre Telecoms (SHIFT) Group to the next level, securing support and membership from 35 organisations including BT Openreach, Virgin Media O2, and numerous large alternative fibre network providers. The group and our leading role in it, was recognised in 2022 by important stakeholders such as The Department for Digital, Culture, Media, and Sport and Street Works UK.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (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 125% compared with the previous year. There were fewer contractor continual improvement plans (CCIPs) initiated because of the improved performance.

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 2022 include:

- The business continues to strengthen governance and support on information security including assigning a new Executive sponsor and recruiting an additional Information Security Officer.
- We took part in EMPEX 2022, a government led cyber security test with other industry members and the Department for Digital, Culture, Media, and Sport (DCMS).
- Endpoint security was upgraded allowing for Office 365 activity to be correlated with Microsoft systems holding the majority of our data and activity. The update gives greater visibility to risks and creates improved opportunity to mitigate them with rules at the endpoint.
- We extended use of a vulnerability management platform to scan data and cloud environments creating increased visibility of potential risks regarding data held on these servers.
- The GDPR refresher course has been updated to make it more engaging with target audience. All of our employees were required to complete this course in 2022.

During 2023 the business is targeting a transition from the 27001:2013 standard to the latest version (2022). The transition involves a significant update to process and monitoring and includes specific telecommunication requirements recognised as a leading industry standard.

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 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 ethical standards and to work within the terms of our Supplier Code of Conduct. We plan in 2023 to engage further with our build partners to develop joint initiatives and forums to raise awareness on ethical conduct in the workplace.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (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. Examples include our work with various schools, community centres, and individuals donating hardware and connection services.

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 2022 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. Supporting their investigation into waste risks for the utility industry, we actively participate in their expert steering group and have contributed to sample assessments of waste arisings.

We also continued our membership with INCA's (Independent Networks Cooperative Association) industry working group for sustainability and participated as panellists in a net zero discussion at the 2022 INCA annual conference.

Learning, Development, and Education

Our Learning and Development team offers a wide range of learning initiatives and support. For the 2022 period, 97% of our employees completed a learning activity. In total, almost 100k training hours were completed across over 1k instructor-led sessions and 600 available online courses.

Leadership Development
93 of our high potential managers completed our ASPIRE program, which provides them with the skills to step into a future management position. All who enrolled achieved a level 3 Chartered Management Institute (CMI) qualification in Leadership and Management.

Our leadership development program, LEAD, won the Employee Development Initiative of 2022 CMI award. In 2022, LEAD was completed by 153 of our line managers; with 33% going on to achieve their level 5 CMI qualification in Leadership and Management.

68 of our Heads of Departments attended high performing team workshops as part of our ACCELERATE leadership program.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Responsible Business (continued)

Learning, Development, and Education (continued)

Employee Mentoring
Our mentoring initiative utilising the mentoring platform, Mentorloop, won their 2022 most impactful mentoring programme award. In 2022 we saw 320 active participants engaging with mentoring, 38 of which were members of our Executive and senior management teams.

Externally
We support and deliver STEM events, workshops, and competitions in schools across the UK, driving aspiration by raising awareness of the telecom industry, and the skills and careers opportunities it offers. Furthermore, we participate in career events, interview skills workshops, and employability seminars.

Environmental Management

Protection and conservation of the environment is a key component to our society improvement and emission reduction plans. 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 2022.

In 2022 we reviewed the Pre-Qualification Questionnaire (PQQ) criteria to align with the growing regulator and stakeholder requirements for improved environmental performance. The PQQ is the first stage of the review which allows the business to ensure supply chain parties onboard with the same environmental protection values and standards as us. Over time, the PQQ will evolve to ensure onboarded parties are decarbonising their services and goods aligned with CityFibre's decarbonisation trajectory.

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 2022 we completed an in depth analysis of past and future scope 1 (direct) and 2 (indirect) emissions to support decision making with reduction plans. 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 commit to the Science Based Targets initiative (SBTi) in 2023 to set a Near Term target. The aim is to align the SBTi target decarbonisation pathway with the business objective of net zero emissions across scopes 1 and 2 by 2028.

As for business resilience to climate change, we completed the first stage analysis of the TCFD (Task Force on Climate-Related Financial Disclosures) analysis in late 2022. The study suggested key climate risks to the business and its network due to rising temperatures, surface water flooding, and storm damage to above-ground assets. In 2023 we will continue designing in mitigation to these risks to build a resilient network.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Responsible Business (continued)

Climate Action (continued)

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. In 2022 the business engaged a professional consultancy to undertake lifecycle analysis of our network used by the end-consumer. This helped to achieve better conclusions and recommendations regarding the impact of our installations and enabled us to provide better quality information to our stakeholders.

Energy Management

We are growing our network and assets at the fastest rate since CityFibre was established. In 2022 we had an additional 32 fibre exchanges that became ready for service (39% increase) and increased our fibre network length by almost 4,000 kilometres (25% increase). Growth of the business network is commensurate to the energy demand of the business which increased from 27 million kWh to 31 million kWh (13% 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 a 58% decrease in market-based scope 2 emissions in 2022 (1,847 tCO2e) in comparison to 2021 (4,420 tCO2e).

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Streamlined Energy Carbon Reporting (SECR) Report

The below table and supporting narrative summarise the 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. Greenhouse gas emissions for CityFibre have been assessed since 2019, so the previous three years’ information has been provided for comparison.

Reporting Year 1st January – 31st December	**2022**	**2021**	**2020**	**2019**
Location	UK	UK	UK	UK
Emissions from:				
Activities for which the company own or control including combustion of fuel and operation of facilities (Scope 1) (tCO2e)	373	148	-	-
Purchase of electricity (Scope 2) (location-based) (tCO2e)	3,389[1]	3,442	-	-
Purchase of electricity (Scope 2) (market-based) (tCO2e)	1,847[2]	4,420	-	-
Business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3 Category 6) (tCO2e)	1,914	1,390	-	-
Leased assets, where the company does not have operational control over emissions (Scope 3 Category 8) (tCO2e)	733	-	-	-
Total gross Scope 1, Scope 2, and Scope 3 emissions (location-based) (tCO2e)	**6,409**	**4,980**	**2,980**	**1,777**
Energy consumption used to calculate:				
Scope 1 emissions (1,000kWh)	1,400	600	-	-
Scope 2 emissions (1,000kWh)	17,500	18,900	-	-
Scope 3 emissions (1,000kWh)	11,700	7,100	-	-
Total gross energy consumption based on the above (1,000kWh)	**30,600**	**26,600**	**11,900**	**6,400**
Total gross energy consumption by network length (1,000kWh / km)	**1.6**	**1.7**	**1.2**	**1.0**
Intensity ratio: tCO2e (gross Scope 1, 2 + 3) per FTE (location-based)	3.2	2.7	2.2	2.5
Intensity ratio: tCO2e (gross Scope 1, 2 + 3) per £'000 sales revenue (location-based)	0.079	0.077	0.099	0.091

1. Reporting for 2022 splits out energy consumption of leased buildings into the relevant scope 3 category whereas previous years included it within scope 2 emissions.
2. Market based emissions reduced due to new contracts with an energy supplier providing 0 kgCO_2e/kWh contract rate.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

SECR Report (continued)

Methodology

We have engaged the consultants Anthesis to calculate the greenhouse gas emissions covering all material sources for which we are 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 our operations, which includes the sites operated from in the UK and business travel. Electricity has been extrapolated within all quarters where there was missing data for sites. Energy was converted to greenhouse gas estimates using the UK Government's GHG Conversion Factors for Company Reporting 2022. Further, business travel data for company and non-company vehicles were provided by us in terms of the mileage and fuel consumption, which were converted to kWh equivalent using the UK Government's GHG Conversion Factors for Company Reporting 2022.

Fugitive emissions that are the result of leakage from air conditioning have been included for the first time this year. The figures are estimated based on the floor area of our offices. Fugitive emissions from fibre exchanges has been assumed to be Scope 1, under our operational control, while for office consumption they have been categorised as part of Scope 2. The estimates are based on an EPA estimation method and that the refrigerant is R-410A. This method will be refined in future years based on more accurate knowledge of refrigerant use within our operations.

Energy Efficiency Action

In 2022 we undertook a comprehensive review of vehicles owned or on a long-term lease and analysed fuel consumption data, moving from calculations that estimated energy from mileage. This new intelligence will be used as a foundation for making electric vehicle rollout decisions.

We commissioned a feasibility study to use solar panels on the roofs of fibre exchange buildings and containers. This study will form part of the consideration for CityFibre in 2023 as to longer-term plans for energy management.

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.

On behalf of the Board.

Greg Mesch
Chief Executive Officer
23 May 2023

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 2022.

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;
- 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

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

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 31 May 2024, being a period greater than 12 months from the approval of the financial statements. 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.

Based on the cashflow projections and parent support, the Group and Company will have sufficient resources to pay their liabilities as they fall due and meet all drawdown conditions under the banking facilities.

DIRECTORS' REPORT (CONTINUED)

Going concern (continued)

Following the re-financing in June 2022 the Group has £3.9 billion committed facilities, as detailed in Note 16. At the date of approving these financial statements, £1.49 billion of the committed facilities were 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, £555 million of equity from shares issued by the ultimate parent company, Connect Infrastructure Topco Limited is held as cash and cash equivalents and short-term deposits and is readily available to fund the Group and Company business operations.

In carrying out the going concern assessment the Directors' have considered several scenarios including a base case and downside scenarios. The primary areas that have been incorporated into the downside scenario are as follows:

- Reduction in Consumer sales volumes combined with additional marketing spend to support ISPs to grow their customer base.
- Long term contracts with Business, Public Sector and Mobile customers maintained at current levels which requires no further network investment.
- Increase in capital and network expenditure cost, above increases already incorporated into the budget and long-range business plan which had taken into account currently observed inflationary pressures.

In the base case and downside scenarios, no additional debt or equity funding beyond what is currently available is required in the outlook period. 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, taking the current hedging instruments in place alongside the ability to execute any additional hedges as required, given the available liquid market.

The Directors have also considered a reverse stress test scenario to determine what circumstances would lead to an additional funding requirement in the next 12 months. Given the significant undrawn facilities and equity funding available this is modelled as a restriction under the drawdown conditions in relation to connected homes. The sequence of events that could lead to this is considered to be remote as it would require sales volumes to reduce below the current run rate despite more homes being available as the network expands. This is also calculated before reflecting any mitigating actions to reduce capital expenditure.

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 minimal unavoidable costs to provide a mitigation to the above risks. Revenue streams are also underpinned by minimum revenue guarantees on certain long-term contracts.

While the Directors recognise there are uncertainties in the current macro-economic environment, these are not considered to be material. The Directors believe they have the ability to take sufficient mitigating actions to offset the potential negative impact from these risk factors such that they believe it is appropriate to prepare the financial statements for the Group and Company on a going concern basis.

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 11.

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

After the statement of financial position date and up to the date of this report, no events have occurred that would require adjustment to or disclosure in the financial statements in accordance with UK adopted IFRS.

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
23 May 2023

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 2022 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

- 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 2022 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group and Parent Company financial statements is applicable law and UK adopted international accounting standards.

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.

Conclusions relating to going concern

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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the 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.

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 returns adequate for our audit have not been received from branches not visited by us; or

- the Parent Company financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of Directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and the industry in which it operates. We determined that the most significant laws and regulations that could give rise to material misstatement in the financial statements, include the Companies Act 2006, the applicable accounting framework, Corporation Tax, VAT, Employment Tax, Health and Safety legislation, and the Bribery Act 2010.

Our procedures in response to the above included:

- 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;
- 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
- Agreeing the financial statement disclosures to underlying supporting documentation.

We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud may occur. We determined these areas 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.

Our procedures in response to 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, as well as 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, 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 for the period to confirm existence through corroboration back to supporting documentation, including recalculations of deferred and accrued income, where applicable.

Specific consideration was made as to whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations and fraud. All team members were briefed to ensure they were aware of any relevant laws or regulations in relation to their work and fraud risks.

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.

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

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

23 May 2023

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 2022

	Note	2022 £'000 Underlying	2022 £'000 Non-recurring[1]	2022 £'000 Statutory	2021 Restated* £'000 Underlying	2021 Restated* £'000 Non-recurring[1]	2021 Restated* £'000 Statutory
Revenue	2	80,802	(49,829)	**30,973**	64,304	(10,308)	**53,996**
Cost of sales		(51,170)	-	**(51,170)**	(38,434)	-	**(38,434)**
Gross profit		29,632	(49,829)	**(20,197)**	25,870	(10,308)	**15,562**
Administrative expenses		(187,251)	(2,383)	**(189,634)**	(128,849)	(302)	**(129,151)**
Operating loss	3	(157,619)	(52,212)	**(209,831)**	(102,979)	(10,610)	**(113,589)**
Finance income	5,25	706	180,820	**181,526**	149	-	**149**
Finance cost	6	(65,844)	-	**(65,844)**	(16,324)	-	**(16,324)**
Loss on ordinary activities before taxation		(222,757)	128,608	**(94,149)**	(119,154)	(10,610)	**(129,764)**
Income tax credit/(charge)	7			**-**	**-**	**-**	**-**
Loss for the year and total comprehensive loss				**(94,149)**			**(129,764)**

[1]Refer to page 14 for details of Alternative Performance Measures
*The 2021 consolidated statement of profit or loss and other comprehensive income has been restated to reflect a prior year restatement in revenue (refer to Note 1 for further details) and recognition of deferred tax (refer to Note 13).

There was no other comprehensive income during the year (2021: £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 26 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Company number 08772997
As at 31 December 2022

	Note	2022	2021 Restated*
		£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	8	2,514,620	1,568,131
Right of use assets	19	49,300	41,619
Intangible assets	9	220,525	208,954
Derivative financial instrument	25	180,820	-
Total non-current assets		2,965,265	1,818,704
Current assets			
Inventory	10	2,339	2,641
Trade and other receivables	12	151,020	67,341
Cash and cash equivalents	11	102,443	46,978
Total current assets		255,802	116,960
Total assets		3,221,067	1,935,664
Equity and liabilities			
Equity			
Share capital	14	15,053	13,563
Share premium	15	1,603,118	1,305,626
Merger reserve	15	331	331
Retained deficit	15	(489,875)	(396,426)
Total shareholders' equity		1,128,627	923,094
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	16	1,809,672	796,080
Lease liability	19	40,104	35,371
Deferred revenue	17	45,435	39,080
Deferred tax liability	13	-	-
Total non-current liabilities		1,895,211	870,531
Current liabilities			
Lease liability	19	5,960	5,276
Deferred revenue	17	10,997	9,238
Trade and other payables	18	180,272	127,525
Total current liabilities		197,229	142,039
Total liabilities		2,092,440	1,012,570
Total shareholders' equity and liabilities		3,221,067	1,935,664

*The 2021 consolidated statement of financial position has been restated to reflect the recognition of a deferred tax asset to offset the deferred tax liability. Refer to Note 13 for further details.

These financial statements were approved by the Board of Directors and authorised for issue on 23 May 2023.
They were signed on its behalf by:

N J Dunn
Director
Notes 1 to 26 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained deficit £'000	Total shareholders' equity £'000
Balance at 1 January 2021	11,103	889,866	331	(281,162)	620,138
Prior year adjustment	-	-	-	14,500	14,500
Balance at 1 January 2021 – restated*	11,103	889,866	331	(266,662)	634,638
Comprehensive income					
Loss and total comprehensive loss for the year – restated*	-	-	-	(129,764)	(129,764)
Transactions with owners					
New share capital issued in the year	2,460	415,760	-	-	418,220
Balance at 31 December 2021 – restated*	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

*The 2021 consolidated statement of changes in equity has been restated to reflect the recognition of a deferred tax asset to offset the deferred tax liability. Refer to Note 13 for further details.

Notes 1 to 26 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flows utilised in operating activities			
Loss before taxation		(94,149)	(129,764)
Amortisation of intangibles	**9**	9,314	6,656
Finance income	**5**	(181,526)	(149)
Finance costs	**6**	65,844	16,324
Depreciation	**8, 19**	76,598	46,398
Decrease/(increase) in inventory	**10**	302	(25)
Increase in receivables		(34,869)	(18,817)
Increase/(decrease) in payables		43,433	(2,351)
Share based payment expense	**22**	700	-
Net cash utilised in operating activities		(114,353)	(81,728)
Cash flows utilised in investing activities			
Interest received		516	149
Purchase of intangible assets		(14,297)	(2,602)
Purchase of property, plant and equipment		(868,401)	(628,137)
Capitalised labour costs		(110,508)	(87,944)
Net cash utilised in investing activities		(992,690)	(718,534)
Cash flows generated from financing activities			
Proceeds from the issue of share capital		310,000	418,220
Costs of issuing share capital		(11,018)	-
Loan transaction costs paid	**16**	(89,512)	(3,876)
Repayment of borrowings	**16**	(1,126,721)	(45,000)
Proceeds from borrowings	**16**	2,143,810	401,097
Interest paid		(53,862)	(24,316)
Interest rate swap net settlements		(539)	-
Principal paid on lease liabilities	**19**	(9,650)	(4,970)
Net cash generated from financing activities		1,162,508	741,155
Net increase/(decrease) in cash and cash equivalents		55,465	(59,107)
Cash and cash equivalents at beginning of period	**11**	46,978	106,085
Cash and cash equivalents at end of period	**11**	102,443	46,978

Notes 1 to 26 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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's functional currency. Amounts are rounded to the nearest thousand, unless otherwise stated.

Going concern
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 31 May 2024, being a period greater than 12 months from the approval of the financial statements. 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.

Based on the cashflow projections and parent support, the Group and Company will have sufficient resources to pay their liabilities as they fall due and meet all drawdown conditions under the banking facilities.

Following the re-financing in June 2022 the Group has £3.9 billion committed facilities, as detailed in Note 16. At the date of approving these financial statements, £1.49 billion of the committed facilities were 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, £555 million of equity from shares issued by the ultimate parent company, Connect Infrastructure Topco Limited is held as cash and cash equivalents and short-term deposits and is readily available to fund the Group and Company business operations.

In carrying out the going concern assessment the Directors' have considered several scenarios including a base case and downside scenarios. The primary areas that have been incorporated into the downside scenario are as follows:

- Reduction in Consumer sales volumes combined with additional marketing spend to support ISPs to grow their customer base.
- Long term contracts with Business, Public Sector and Mobile customers maintained at current levels which requires no further network investment.
- Increase in capital and network expenditure cost, above increases already incorporated into the budget and long-range business plan which had taken into account currently observed inflationary pressures.

In the base case and downside scenario, no additional debt or equity funding beyond what is currently available is required in the outlook period. 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, taking the current hedging instruments in place alongside the ability to execute any additional hedges as required, given the available liquid market.

The Directors have also considered a reverse stress test scenario to determine what circumstances would lead to an additional funding requirement in the next 12 months. Given the significant undrawn facilities and equity funding available this is modelled as a restriction under the drawdown conditions in relation to connected homes. The sequence of events that could lead to this is considered to be remote as it would require sales volumes to reduce below the current run rate despite more homes being available as the network expands. This is also calculated before reflecting any mitigating actions to reduce capital expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

Going concern (continued)
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 minimal unavoidable costs to provide a mitigation to the above risks. Revenue streams are also underpinned by minimum revenue guarantees on certain long-term contracts.

While the Directors recognise there are uncertainties in the current macro-economic environment, these are not considered to be material. The Directors believe they have the ability to take sufficient mitigating actions to offset the potential negative impact from these risk factors such that they believe it is appropriate to prepare the financial statements for the Group and Company on a going concern basis.

New standards, interpretations and amendments effective from 1 January 2022
New standards that have been adopted in the annual financial statements for the year ended 31 December 2022, but have not had a significant effect on the Group are:

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

Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group’s activities or require accounting which is consistent with the Group’s current accounting policies.

New standards, interpretations and amendments not yet effective or relevant
There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The following amendments are effective for the period beginning 1 January 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback);
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current); and
- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants).

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 2022 (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 2022. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

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

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. See judgements and estimates on page 48 for further details.

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

Accounting for certain costs incurred in fulfilling and obtaining a contract
The incremental commissions paid to sales staff for work in obtaining a contract with a customer are recognised as an asset if the entity expects to recover them and amortised on a straight-line basis over the average contract term of non-Consumer contracts of 4 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

Revenue (continued)

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.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

Intangible assets (continued)
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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

Leases (continued)
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.

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. Refer to Note 13, reflecting a change in accounting treatment. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

1. ACCOUNTING POLICIES (continued)

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 22 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.

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

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

- Reduction in Consumer sales volumes combined with additional marketing spend to support ISPs.
- Long-term contracts with Business, Public Sector and Mobile customers maintained at current levels which requires no further network investment.
- An increase in capital and network expenditure cost over and above current inflationary pressures.

Refer to the basis of preparation on page 40 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.

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, discount rate and growth rate. Further discussion and sensitivity analysis on these assumptions are included in Note 9.

Prior year restatement
Contract modification
In 2019 an existing customer contract was modified, materially varying the transaction price. Payments to the customer made by Cityfibre under this agreement were recognised erroneously in administrative expenses in previous periods. On further review, these payments should have been recognised as a reduction to revenue in accordance with IFRS 15 – Revenue from Contracts with Customers. Accordingly, in the prior year consolidated statement of profit or loss and other comprehensive income, a reclassification of £10.3 million has been made between administrative expenses and revenue, with no impact on operating loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

2. REVENUE

	2022 £'000 Underlying	2022 £'000 Non-recurring	2022 £'000 Statutory	2021 £'000 Underlying	2021 Restated* £'000 Non-recurring	2021 Restated* £'000 Statutory
On-net[1]	50,045	(49,829)	**216**	32,518	(10,308)	**22,210**
Off-net[2]	30,757	-	**30,757**	31,786	-	**31,786**
	80,802	(49,829)	**30,973**	64,304	(10,308)	**53,996**

All revenue arose in the United Kingdom.

Non-recurring on-net revenue comprises a £49.8 million revenue reduction in relation to constrained variable consideration (2021: £10.3 million).

[1]Being on the Group's network
[2]Being on third parties' networks
* The 2021 consolidated statement of profit or loss and other comprehensive income has been restated due to a change in accounting treatment relating to payments made to a customer following a contract modification in 2019. A reclassification of £10.3 million has been made between administrative expenses and revenue, with no impact on operating loss. Refer to Note 1 for further details.

3. OPERATING LOSS

Operating loss is after charging:

	2022 £'000	2021 £'000
Depreciation of property, plant and equipment (including right of use assets)	76,598	46,398
Amortisation of intangibles	9,314	6,656
Share based payment expense	700	-
Non-recurring fees (see Strategic Report on page 12)	2,383	302

The analysis of auditor's remuneration is as follows:

	2022 £'000	2021 £'000
Fees payable for the audit of the Group's annual financial statements	144	57
Fees payable for the audit of the Group's subsidiaries' financial statements	360	294
Total audit fees	504	351
Total fees	504	351

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 2022 (CONTINUED)

4. STAFF COSTS

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

	2022 Number	2021 Number
Commercial	132	131
Corporate	208	169
Customer	418	329
Delivery	904	764
Technology & Design	314	284
	1,976	1,677

The aggregate payroll costs of the above were:	2022 £'000	2021 £'000
Wages and salaries	111,662	94,263
Social security costs	13,582	10,907
Other pension costs	8,380	5,985
	133,624	111,155

Capitalised staff costs for 2022 are £87.4 million (2021: £70.9 million), and are included in the above figures. See Note 23 for directors' remuneration and key management compensation.

5. FINANCE INCOME

	2022 £'000 Underlying	2022 £'000 Non-recurring	2022 £'000 Statutory	2021 £'000 Underlying	2021 £'000 Non-recurring	2021 £'000 Statutory
Interest on bank deposits	516	-	**516**	8	-	**8**
Interest on loan receivable	190	-	**190**	141	-	**141**
Gain on change in fair value of hedging instrument (see Note 25)[1]	-	180,820	**180,820**	-	-	**-**
	706	180,820	**181,526**	149	-	**149**

[1]Being on the initial recognition of the fair value of hedging instruments entered into in the period. Refer to Note 25.

6. FINANCE COSTS

	2022 £'000	2021 £'000
Interest expense on financial liabilities measured at amortised cost	63,696	11,133
Interest rate swap net settlements	675	4,033
Unwind of discount on lease liability	1,473	1,158
	65,844	16,324

During the year, borrowing costs of £26.2 million (2021: £14.2 million) were capitalised in accordance with IAS 23. Refer to Note 8 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

7. TAXATION

	2022 £'000	2021 Restated* £'000
Recognised in profit and loss		
Current tax		
UK corporation tax based on the results for the year at 19% (2021: 19%)	-	-
Total current tax	-	-
Deferred tax		
Temporary differences on which deferred tax has been recognised	-	-
Tax on loss on ordinary activities	-	-

Factors affecting total tax result

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2021: 19%) as follows:

	2022 £’000	2021 Restated* £’000
Loss on ordinary activities before taxation	(94,148)	(129,764)
Tax on loss on ordinary activities at standard rate	(17,888)	(24,655)
Factors affecting result		
Remeasurement of deferred tax for changes in tax rates	(160)	(19,817)
Expenses not deductible for tax purposes	212	92
Origination of temporary differences on which no deferred tax asset has been recognised	16,346	47,757
Group relief surrendered	604	-
Recognition of previously unrecognised deferred tax assets	836	(3,410)
Others	50	33
Total tax result	-	-

Changes in tax rates and factors affecting the future tax charge

The normal rate of corporation tax is 19% for the financial year beginning 1 April 2022 and will increase to 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. Deferred tax balances as at 31 December 2022 have also been recognised at 25%.

*The tax charge has been restated to reflect the recognition of a deferred tax asset to offset the deferred tax liability. Refer to Note 13 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (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 2021	342	834,050	55,765	2,603	-	892,760
Additions	583	713,774	56,260	208	605	771,430
Disposals	-	-	(8)	(12)	-	(20)
At 31 December 2021 and 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	1,184	2,493,408	182,376	3,685	729	2,681,382
Accumulated depreciation						
At 1 January 2021	121	40,880	11,411	1,684	-	54,096
Charge in the year	113	28,806	12,654	390	-	41,963
Disposals	-	-	(8)	(12)		(20)
At 31 December 2021 and 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	444	119,151	44,624	2,543	-	166,762
Net book value						
At 31 December 2022	740	2,374,257	137,752	1,142	729	2,514,620
At 31 December 2021	691	1,478,138	87,960	737	605	1,568,131

Borrowing costs capitalised during the year amounted to £26.2 million (2021: £14.2 million). The loan facility in place until June 2022 was obtained specifically for the purpose of obtaining the qualifying asset and was therefore treated as a specific borrowings facility, where the actual borrowing costs incurred are eligible for capitalisation. The new loan facility is primarily for the purpose of obtaining the qualifying asset however also finances other expenditure and is therefore treated as a general borrowings facility. The capitalisation rate on the new facility was 3.4% (6.5% annualised).

Included in network assets above are network assets under construction and not yet depreciated which are held at a cost of £399.1 million (2021: £267.5 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 2022. 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 2022 (CONTINUED)

9. INTANGIBLE ASSETS

	Website costs £'000	Customer contracts £'000	Software costs £'000	Brand £'000	Goodwill £'000	Total £'000
Cost						
At 1 January 2021	63	90,830	13,022	2,148	114,068	220,131
Prior year adjustment					(3,181)	(3,181)
At 1 January 2021 – restated*	63	90,830	13,022	2,148	110,887	216,950
Additions	-	-	7,898	-	-	7,898
Disposals	(32)	-	-	-	-	(32)
At 31 December 2021 and at 1 January 2022	31	90,830	20,920	2,148	110,887	224,816
Additions	-	-	20,885	-	-	20,885
At 31 December 2022	31	90,830	41,805	2,148	110,887	245,701
Accumulated amortisation						
At 1 January 2021	57	3,954	4,738	489	-	9,238
Amortisation	4	3,253	3,256	143	-	6,656
Disposals	(32)	-	-	-	-	(32)
At 31 December 2021 and at 1 January 2022	29	7,207	7,994	632	-	15,862
Amortisation	2	3,253	5,916	143	-	9,314
At 31 December 2022	31	10,460	13,910	775	-	25,176
Net book value						
At 31 December 2022	-	80,370	27,895	1,373	110,887	220,525
At 31 December 2021	2	83,623	12,926	1,516	110,887	208,954

*The 2021 goodwill balance has been restated to reflect the recognition of a deferred tax asset to offset the deferred tax liability. Refer to Note 13 for further details.

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 unfeasible 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 2022 was £2.7 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 formally approved budgets for 2023, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

9. INTANGIBLE ASSETS (CONTINUED)

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 10%. The growth rate used beyond the period of cashflow projections of 2% is based on managements long-term view with reference to economic data relating to the United Kingdom.

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 1.3%
- A decrease in forecasted revenue growth and associated cost of sales by 28%

10. INVENTORY

	2022 £'000	2021 £'000
Completed assets held-for-sale	1,480	2,018
Raw materials and consumables	859	623
	2,339	2,641

Inventory is stated net of an impairment provision of £Nil (2021: £Nil). A total of £0.5 million was expensed through cost of sales during the year (2021: £Nil).

11. CASH AND CASH EQUIVALENTS

	2022 £'000	2021 £'000
Cash at bank	102,443	46,978

All cash and cash equivalent balances are denominated in Sterling.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

12. TRADE AND OTHER RECEIVABLES

	2022 £'000	2021 £'000
Trade receivables	24,057	11,661
Other receivables	9,091	9,499
VAT receivable	41,968	28,485
Prepayments	12,981	12,632
Prepaid loan transaction costs (see Note 16)	47,753	-
Amounts due from related parties	3,088	2,613
Accrued income	3,987	2,451
Contract asset	8,095	-
	151,020	67,341

Trade receivables are stated net of a total provision of £1.2 million (2021: £0.7 million). This includes expected credit losses of £0.7 million (2021: £0.02 million) and a provision for credit notes of £0.5 million (2021: £0.7 million). Refer to Note 21 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 £3.7 million has been recognised (2021: £4.0 million) and the amount of costs recognised as an expense in the period is £1.9 million (2021: £1.7 million).

13. DEFERRED TAX

	2022 £'000	2021 Restated* £'000
Balance at start of period	-	-
Deferred tax (credit)/charge in the year	-	-
Balance at end of period	-	-

*Refer to the note below reflecting the prior year recognition of deferred tax assets to offset against the deferred tax liability and the impact on the financial statements.

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

	2022 £'000	2021 £'000
Excess of tax base of property, plant and equipment over its carrying amount	28,898	23,605
Unused tax losses	55,707	41,864
Short-term timing differences	19,778	16,073
	104,383	81,542

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (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 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)	-	-	-	-	-

31 December 2021	Asset £'000	Liability £'000	Net £'000	(Charged) /credited to profit or loss £'000	(Charged) /credited to equity £'000
Other temporary and deductible differences	21,309	-	21,309	-	-
Business combinations	-	(21,309)	(21,309)	-	-
Tax assets/(liabilities)	21,309	(21,309)	-	-	-
Set off of tax	(21,309)	21,309	-	-	-
Net tax assets/(liabilities)	-	-	-	-	-

Restatement of deferred tax asset

The Group has a deferred tax liability in relation to temporary differences on intangibles assets recognised as part of acquisition accounting for business combinations in Group's consolidated financial statements. Such intangible assets are not permitted to be recognised in the acquiree's separate financial statements.

The acquiree had previously recognised a deferred tax asset on tax losses to the extent of deferred tax liabilities pertaining to the same legal entity for the same tax authority, which was carried forward to the Group's consolidated financial statements. Upon acquisition accounting, the Group did not reassess whether an additional deferred tax asset could have been recognised to the extent of an additional deferred tax liability on intangible assets recognised in the consolidated financial statements.

There has previously been a diversity of practice in relation to the accounting treatment for the recognition of deferred tax assets on business combinations in accordance with IAS 12. There has been solidification following publication of recent reviews, which have clarified the position, resulting in the recognition of a deferred tax asset on consolidation to offset the deferred tax liability. This is because the taxable temporary differences associated with the intangible assets relates to the same tax authority (UK) as the Group's deferred tax asset, and as such the asset meets the criteria for recognition. In addition, the offset criteria of IAS 12 are also met and therefore the deferred tax amounts are presented net in the consolidated statement of financial position. Where entities acquired in a business combination have tax attributes on acquisition, the deferred tax asset recognised on those assets will adjust goodwill. Any further deferred tax asset recognised for tax attributes within the existing Group will be credited to the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

13. DEFERRED TAX (continued)

This change in accounting treatment has been applied retrospectively by restating each of the affected financial statement line items as follows. A third consolidated statement of financial position has not been presented as of 1 January 2020 on the basis that the directors have concluded that the adjustment is materially consistent with the impact and disclosure made in respect of the year ended 31 December 2021 (refer to the adjusting entries, below).

Consolidated statement of financial position:

	2020 £'000	Adjustment £'000	2020 £'000
Non-current assets			
Intangible assets	210,893	(3,181)	207,712
Non-current liabilities			
Deferred tax	17,681	(17,681)	-
Equity			
Retained deficit	(281,162)	14,500	(266,662)

	2021 £'000	Adjustment £'000	2021 £'000
Non-current assets			
Intangible assets	212,135	(3,181)	208,954
Non-current liabilities			
Deferred tax	21,309	(21,309)	-
Equity			
Retained deficit	(414,554)	18,128	(396,426)

Consolidated statement of changes in equity:

	2020 £'000	Adjustment £'000	2020 £'000
Retained deficit	(281,162)	14,500	(266,662)

	2021 £'000	Adjustment £'000	2021 £'000
Retained deficit	(414,554)	18,128	(396,426)

Consolidated statement of profit or loss and other comprehensive income:

	2021 £'000	Adjustment £'000	2021 £'000
Income tax charge/(credit)	(3,628)	3,628	-
Loss for the year and total comprehensive loss	(133,392)	3,628	(129,764)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

14. CALLED UP SHARE CAPITAL

	2022 £'000	2021 £'000
Authorised, called up, allotted and fully paid		
1,499,580,745 ordinary shares of £0.01 each (2021: 1,350,542,283)	14,996	13,506
5,653,865 deferred ordinary shares of £0.01 each (2021: 5,653,865)	57	57
	15,053	13,563

	2022 Number
Ordinary shares (issued)	
Balance at start of period	1,350,542,283
Share issue	149,038,462
Balance at end of period	1,499,580,745

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

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

On 21 February 2022, 72,115,385 shares at 1p per ordinary share were issued for a consideration of £150.0 million. On 24 May 2022, 24,038,462 shares at 1p per ordinary share were issued for a consideration of £50.0 million. On 6 June 2022, 4,807,692 shares at 1p per ordinary share were issued for a consideration of £10.0 million. On 30 November 2022, 48,076,923 shares at 1p per ordinary share were issued for a consideration of £100.0 million.

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

	2022 £'000	2021 £'000
Bank loan	1,809,672	796,080
Due within one year	-	-
Due after one year	1,809,672	796,080
	1,809,672	796,080

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

16. INTEREST BEARING LOANS AND BORROWINGS (continued)

The carrying value of the loan is stated net of unamortised finance costs of £20.3 million (2021: £16.8 million). The loan at 31 December 2021 carried interest at 2.75%-3% above SONIA and was fully repaid in June 2022.

In June 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 2022 was £47.8 million (2021: £nil).

Interest is paid at SONIA plus 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. 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 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

	2022 £'000	2021 £'000
Bank and other loans		
In more than two years but not more than five years	-	796,080
In more than five years	1,809,672	-
	1,809,672	796,080

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

17. DEFERRED REVENUE

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied at 31 December 2022 was £56.4 million (2021: £48.3 million) and is expected to be recognised as revenue in future periods as follows:

Period of performance obligation

	2022 £'000	2021 £'000
In one year or less or on demand	10,997	9,238
In more than one year but not more than two years	11,298	10,089
In more than two years but not more than five years	12,791	10,520
In more than five years	21,346	18,471
	56,432	48,318

Deferred revenue	2022 £’000	2021 £’000
Current	10,997	9,238
Non-current	45,435	39,080
	56,432	48,318

£9.2 million of the deferred revenue at 31 December 2021 was recognised as revenue during the current year (2021: £7.7 million).

18. TRADE AND OTHER PAYABLES

	2022 £'000	2021 £'000
Trade payables	38,196	14,950
Other taxation and social security	4,406	3,808
Other payables	27,723	1,566
Amounts due to related parties	145	-
Accruals	109,802	107,201
	180,272	127,525

Included within other payables is an amount of £27.2 million (2021: £Nil) relating to constrained variable consideration not yet settled, which has been recognised in the current year in relation to a contract modification signed in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

19. LEASES

Nature of leasing activities (in the capacity as lessee)

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

Right of use assets	**Leasehold Property £'000**	**Network Assets £'000**	**Plant and Machinery £'000**	**Vehicles £'000**	**Total £'000**
At 1 January 2021	5,950	3,871	20,397	205	30,423
Additions	1,508	107	13,702	322	15,639
Disposals	-	-	-	(8)	(8)
Depreciation	(1,801)	(422)	(2,042)	(170)	(4,435)
At 31 December 2021 and 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	5,740	5,651	37,747	162	49,300

Lease liabilities	**Leasehold Property £'000**	**Network Assets £'000**	**Plant and Machinery £'000**	**Vehicles £'000**	**Total £'000**
At 1 January 2021	6,367	1,513	20,795	209	28,884
Additions	1,425	133	13,702	323	15,583
Disposals	-	-	-	(8)	(8)
Interest expense	216	52	878	12	1,158
Lease payments	(2,099)	(278)	(2,411)	(182)	(4,970)
At 31 December 2021 and 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	6,012	2,622	37,264	166	46,064

Lease liabilities	**2022 £'000**	**2021 £'000**
Current	5,960	5,276
Non-current	40,104	35,371
	46,064	40,647

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

19. LEASES (continued)

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.

	2022 £'000	2021 £'000
Short-term lease expense	4,976	4,245
Low-value lease expense	-	12

Total undiscounted lease payments	Up to 3 Months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
As at 31 December 2022	1,666	4,294	4,930	11,951	23,223
As at 31 December 2021	1,426	3,850	4,708	12,726	28,843

20. CAPITAL COMMITMENTS

	2022 £'000	2021 £'000
Contracted but not provided for	65,779	53,297

Capital commitments include amounts in relation to contracts signed in 2022 for which construction will take place in 2023 and future years.

21. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise borrowings, cash and cash equivalents and various items such as trade receivables and payables that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group regularly reviews hedging and treasury requirements, and has used hedging instruments in 2022. The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk and credit risk. Operations are financed through working capital management and external debt facilities.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

21. FINANCIAL INSTRUMENTS (continued)

The contractual maturities of the loans including estimated interest payments excluding the impact of hedging:

	2022 £'000	2021 £'000
Due within one year	117,000	29,530
Due within one to two years	117,000	31,718
Due within two to five years	365,000	881,621
Due in more than five years	2,026,000	-
	2,625,000	942,869

Future interest payments 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 2022 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 and investments. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of the total provision below.

	2022 £'000	2021 £'000
Trade receivables (gross)	25,248	12,353
Expected credit losses	(142)	(24)
Expected credit losses – credit impaired	(540)	-
Provision for credit notes	(509)	(668)
Total provision	(1,191)	(692)
Trade receivables (net)	24,057	11,661

The expected credit losses for trade receivables are as follows:

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)

In addition to the above 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 £0.5 million (2021: £Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

21. FINANCIAL INSTRUMENTS (continued)

Trade receivable ageing **31 December 2021**	**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	0.0%	0.0%	0.0%	0.3%	
Gross carrying amount	3,959	867	(535)	8,062	12,353
Expected credit losses	-	-	-	(24)	(24)

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 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 £180.8 million (2021: £Nil). Refer to Note 25 for further details.

22. 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 £0.7 million has been recognised in the year in the statement of profit and loss and comprehensive income (2021: £Nil).

During the year, 14,872 shares (2021: 22,500) were forfeited by leavers and transferred to the Employee Benefit Trust (the Trust). The details of this plan are discussed below.

Management Incentive Plan	**2022 Weighted average price**	**2022 Number**	**2021 Weighted average price**	**2021 Number**
Outstanding at 1 January	£7.92	272,626	£3.50	199,500
Granted during the year	-	-	£16.11	95,626
Forfeited during the year	£4.77	(14,872)	£3.50	(22,500)
Outstanding at 31 December	£8.11	257,754	£7.92	272,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

22. SHARE BASED PAYMENTS (continued)

The JSOP is a new incentive plan, where a class of equity shares in Connect Infrastructure Topco Limited were issued to Managers of the Group on 22 December 2022. Under the arrangement, each share issued is jointly held by the Trust and the Manager. A total of 25,000 shares have been issued to the Managers of the Group.

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. There is no expense recognised in the year.

Expected volatility has been estimated between 17.6% and 19.6% using peer group equity volatilities adjusted for the effects of different levels of leverage between Connect Infrastructure Topco Limited and the peer group and no dividend yield has been assumed.

The following inputs were also used in determining the fair value of options granted:

	2022
Weighted average share price	£2.07
Strike Price per ordinary share	£2.14 - £2.69
Option life	2 to 4 years
Risk free interest rate	3.6% - 3.7%

A discount for lack of marketability (DLOM) of 30.0% - 32.5% was applied to the JSOP Shares based on the Finnerty (2012) model. This model is widely used to quantify the discount based on the time to liquidity and expected series volatility for the shares.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

23. 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 2022 were as follows:

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

All subsidiaries are registered at the following address: 15 Bedford Street, London, WC2E 9HE. All transactions with subsidiary undertakings in the year eliminate on consolidation.

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

- Bolt Pro Tem Limited (Company number: 08975479)
- CityFibre Networks Limited (Company number: 07193219)
- Fibrecity Bournemouth Limited (Company number: 06585858)
- Gigler Limited (Company number: 06555306)

At 31 December 2022, the ultimate parent company of the Group was Connect Infrastructure Topco Limited. At 31 December 2022, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

23. RELATED PARTY TRANSACTIONS (continued)

Parent companies

The parent companies of the Group at 31 December 2022 were as follows:

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

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

	2022 £'000	2021 £'000
Connect Infrastructure Bidco Limited	(181)	(648)
CityFibre Holdco Limited	17	15
Connect Infrastructure Topco Limited	465	2,281
	301	1,648

The balances due from/(to) parent companies at 31 December 2022, are as follows:

	2022 £'000	2021 £'000
Connect Infrastructure Bidco Limited	(145)	62
CityFibre Holdco Limited	49	32
Connect Infrastructure Topco Limited	3,039	2,528
	2,943	2,622

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 2022 £'000	Key management personnel 2021 £'000	Total directors 2022 £'000	Total directors 2021 £'000	Highest paid director 2022 £'000	Highest paid director 2021 £'000
Fees	4,096	3,551	1,186	1,137	443	427
Benefits in kind	288	221	117	61	47	33
Pension contributions	91	125	-	-	-	-
Bonus	2,391	2,572	756	965	288	342
	6,866	**6,469**	**2,059**	**2,163**	**778**	**802**
Social security costs	935	893	284	299	107	111
Total emoluments	**7,801**	**7,362**	**2,343**	**2,462**	**885**	**913**

The share based payment charge related to key management personnel was £Nil (2021: £Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

23. RELATED PARTY TRANSACTIONS (CONTINUED)

During the year, the Group was charged by SH Consulting Services Ltd, a company whose Director, Steve Holliday, is also a non-executive Director of Connect Infrastructure Topco Limited, the ultimate parent entity of the Group, £89,000 (2021: £75,000), in respect of services received. Of this, £23,000 (2021: £19,000) was owed at the year-end.

24. PENSIONS

A defined contribution pension scheme is operated by the Group on behalf of the employees of the Group. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension charge represents contributions payable by the Group to the fund and amounted to £8.4 million (2021: £6.0 million). Contributions totalling £0.9 million (2021: £0.7 million) were payable to the fund at the period end and are included in other payables.

25. DERIVATIVE FINANCIAL INSTRUMENT

	2022 £'000	2021 £'000
Derivative financial assets		
Interest rate swaps	174,042	-
Interest rate caps	6,778	-
	180,820	-

The hedging instruments were entered into during the current 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.

26. SUBSEQUENT EVENTS

After the statement of financial position date and up to the date of this report, no events have occurred that would require adjustment to or disclosure in the financial statements in accordance with UK adopted IFRS.

COMPANY STATEMENT OF FINANCIAL POSITION

Company number 08772997

As at 31 December 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Investments	C4	214,886	214,886
Intercompany loan	C5	3,258,676	1,948,920
Derivative financial instrument	25	180,820	-
Total non-current assets		3,654,382	2,163,806
Current assets			
Trade and other receivables	C6	51,289	5,023
Cash and cash equivalents	C7	35,263	19,227
Total current assets		86,552	24,250
Total assets		3,740,934	2,188,056
Equity			
Share capital	14	15,053	13,563
Share premium	15	1,603,118	1,305,626
Retained earnings	15	312,164	68,378
Total shareholders' equity		1,930,335	1,387,567
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	16	1,809,672	796,080
Total non-current liabilities		1,809,672	796,080
Current liabilities			
Trade and other payables	C8	927	4,409
Total current liabilities		927	4,409
Total liabilities		1,810,599	800,489
Total shareholders' equity and liabilities		3,740,934	2,188,056

The parent company profit and total comprehensive income for the year was £243.8 million (2021: £53.8 million).

These financial statements were approved by the Board of Directors and authorised for issue on 23 May 2023.

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 2022

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2021	11,103	889,866	14,598	915,567
Comprehensive income				
Profit and total comprehensive income for the year	-	-	53,780	53,780
Transactions with owners				
New share capital issued in the year	2,460	415,760	-	418,220
Balance at 31 December 2021	13,563	1,305,626	68,378	1,387,567
Comprehensive income				
Profit and total comprehensive income for the year	-	-	243,786	248,403
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

Notes C1 to C10 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Profit before tax		243,786	53,780
Finance income		(309,909)	(69,546)
Finance costs		64,375	14,026
Increase in receivables		(46,657)	(4,902)
Decrease in payables		(1,449)	(45)
Net cash utilised in operating activities		(49,854)	(6,687)
Cash flows from investing activities			
Interest received		313	-
Loan to subsidiary		(1,106,581)	(794,323)
Net cash utilised in investing activities		(1,106,268)	(794,323)
Cash flows from financing activities			
Proceeds from the issue of share capital		310,000	418,220
Costs of issuing share capital		(11,018)	-
Loan transaction costs paid		(89,512)	(3,876)
Repayment of borrowings	**16**	(1,126,721)	(45,000)
Proceeds from borrowings	**16**	2,143,810	401,097
Interest paid		(53,862)	(23,177)
Interest rate swap net settlements		(539)	-
Net cash generated from financing activities		1,172,158	747,264
Net increase/(decrease) in cash and cash equivalents		16,036	(53,746)
Cash and cash equivalents at beginning of period		19,227	72,973
Cash and cash equivalents at end of period	**C7**	35,263	19,227

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 £408,000 (2021: £440,000) 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

	2022 £'000	2021 £'000
Investments	214,886	214,886

Subsidiaries

The subsidiary undertakings of the Company at 31 December 2022 are disclosed in Note 23 of the Group consolidated financial statements.

C5. INTERCOMPANY LOAN

	2022 £'000	2021 £'000
Intercompany loan – non-current	3,258,676	1,948,920

Intercompany loans are based on an agreement originally signed on 14 December 2018. During the year ended 31 December 2022, the Company updated its formal loan arrangements with its subsidiaries. These loans have a term of 5 years and an interest rate of 5%. Refer to Note C9 for further detail.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

C6. TRADE AND OTHER RECEIVABLES

	2022 £'000	2021 £'000
Other receivables	16	2,037
Prepayments and accrued interest	432	364
Prepaid loan transaction costs	47,753	-
Amounts owing from parent undertakings	3,088	2,622
	51,289	5,023

Amounts owing from subsidiaries relates to intercompany recharges and amounts paid by the entity on behalf of subsidiaries within the Group. Refer to Note C9 for further detail. The Directors do not consider there to be a material risk of impairment with respect to receivables which are due from related parties. See Note 21 of the Group consolidated financial statements for further discussion of credit risk.

C7. CASH AND CASH EQUIVALENTS

	2022 £'000	2021 £'000
Cash at bank	35,263	19,227

All cash and cash equivalent balances are denominated in Sterling.

C8. TRADE AND OTHER PAYABLES

	2022 £'000	2021 £'000
Trade payables	-	31
Accruals	795	4,378
Other payables	13	-
Amounts owed to parent undertakings	119	-
	927	4,409

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 23 of the Group consolidated financial statements). At 31 December 2022, the ultimate parent company of the Group was Connect Infrastructure Topco Limited. At 31 December 2022, 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):

	2022 £’000	2021 £’000
CityFibre Holdings Limited	27,517	15,499
CityFibre Limited	18,600	-
Entanet Holdings Limited	56	187
Entanet International Limited	177	-
FibreNation Limited	2,024	1,723
Connect Infrastructure Bidco Limited	(181)	(648)
CityFibre Holdco Limited	17	15
Connect Infrastructure Topco Limited	465	2,281
Total services provided/(received)	48,675	19,057

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 2022, are as follows:

	2022 £'000	2021 £'000
CityFibre Holdings Limited	3,123,727	1,834,194
Entanet Holdings Limited	19,017	9,898
FibreNation Limited	115,932	104,828
Total due from group undertakings	3,258,676	1,948,920

Parent undertakings:

The balances due from/(to) the Company's parent companies, which include intercompany trade balances at 31 December 2022, are as follows:

	2022 £'000	2021 £'000
Connect Infrastructure Bidco Limited	(119)	62
CityFibre Holdco Limited	49	32
Connect Infrastructure Topco Limited	3,039	2,528
Total due from parent undertakings	2,969	2,622
Total related party balances	3,261,645	1,951,542

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 25.

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