# Entanet International Limited

Report and financial statements

Year ended

31 December 2018

Company Number: 03274237

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# Entanet International Limited
Contents



## Company Information

**Directors**

T A Hart
W G Mesch
S Holden

**Registered Office**

15 Bedford Street
London
WC2E 9HE

**Registered Number**

03274237 (England and Wales)

**Independent Auditor**

BDO LLP
55 Baker Street
London
W1U 7EU

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

**Principle activities and review of the business**

The company is a wholesale communications service provider, supporting a channel of partners and resellers with a wide range of connectivity and telecommunication products and services, including broadband, Ethernet, private and wide area networks, IP and PSTN telephony, colocation, hosting and associated services.

The company has continued to execute its core strategy of quality, efficient, and cost-effective sourcing, delivery and support of connectivity services and solutions to the channel. Further investments in core network, staff, systems and platform development have enabled the company to remain a leading player in the UK's wholesale connectivity market. The company increased headcount from 109 to 131 at 31 December 2018. The investment in increased headcount is intended to help accelerate the growth of the business.

Entanet's quality performance in serving the channel was recognised by achieving Investors in people accreditation at Silver Standard in addition to winning Best Channel Connectivity Supplier at the Comms Business Awards. The company was also shortlisted in the categories of Best Wholesale ISP and 20th Anniversary Award which recognises a company's commitment and success within the industry over the last two decades.

The key financial and other performance indicators during the year were as follows:

| | **2018** | **2017** |
|---|---|---|
| Turnover | £35.9m | £37.6m |
| Gross Profit | £8.2m | £8.7m |
| Gross Margin | 23% | 23% |
| EBITDA | £0.5m | £1.9m |
| Capital Expenditure | £1.3m | £0.6m |
| Headcount | 131 | 109 |

**Financial overview**

Although the Company experienced a slight decline of 4.4% in revenue compared to 2017, the Directors are confident that Entanet as part of the CityFibre Group will continue to provide a one-stop shop for all its partners' connectivity needs and direct access to modern full fibre infrastructure which will enable the Group to meet is target of five million fibre connected premises by 2025.

The company experienced a loss of £0.6m compared to a profit of £1.0m in 2017 due to higher administrative costs in 2018. To highlight the further investment, Entanet has doubled its capital expenditure to £1.3m from £0.6m.

**Principal risks and uncertainties**

The principal risks to the business are listed below, together with mitigating actions. The company maintains a risk register, with each risk assigned to a member of the senior management team, and which is regularly reviewed and assessed by the board.

**Cyber security**

The company's core network provides customers with access to the internet, presenting a risk of cyber threat. This risk is mitigated through well proven and dynamic procedures for identifying and neutralising such threats, including the constant monitoring of unusual traffic patterns by sophisticated applications.

**Competition**

Competition in the UK wholesale supply market remains strong, with continued merger and acquisition activity as key players seek ways to grow their customer and revenue base. This has given rise to further price competition, often at the expense of service quality. The company counters these risks by offering best of breed products and services to the channel, implementing new supplier relationships, also leveraging and improving on its relationships with key suppliers, partners and resellers.

**Network performance**

The company operates a core network which customers depend on for speed, capacity and reliability. Any interruption in network performance may have a detrimental effect on customers. The core network is designed to be fully resilient, so that should part of the network be interrupted, traffic is routed through alternative paths. Furthermore, the underlying network equipment and circuits are subject to a continual upgrade programme, whereby core routers are replaced and upgraded before end of life, and core circuit capacity increased in line with increase in traffic.

**Future Outlook**

The Company continues to make positive progress in achieving its strategic vision, and the Directors congratulate our staff on their commitment, tenacity and hard work in bringing the company to this critical juncture in its development. We completed 2018 with considerable momentum, and we are pleased that this momentum continues into 2019.

**On behalf of the board**

T A Hart
**Director**
**Date:** 29 November 2019

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

**Principal Activities**

The principal activities and review of business is set out in the Strategic Report.

**Results**

The statement of comprehensive income is set out on page 9 and shows the loss for the year.

No dividends have been paid or proposed (2017: £Nil).

**Directors**

The Directors of the Company during the year were:

Mark Collins (resigned on 1 July 2019)
Terence Hart
William Mesch
Simon Holden (appointed on 11 March 2019)

**Directors' Responsibilities**

The Directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable laws 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 Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy, at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of 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.

**Independent 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 company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant information of which the auditors are unaware.

BDO LLP has expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

The report of the Directors was approved by the Board on 29 November 2019 and signed on its behalf by:

T A Hart
**Director**

## INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ENTANET INTERNATIONAL LIMITED

### Opinion

We have audited the financial statements of Entanet International Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

### Conclusions relating to going concern

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

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

### Other information

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

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

**Other information (continued)**

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

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

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

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

**Responsibilities of Directors**

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

In preparing the financial statements, the Directors are responsible for assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

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

**Auditor's responsibilities for the audit of the financial statements (continued)**

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

**Use of our report**

This report is made solely to the 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 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Nicole Martin (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London, UK
29 November 2019

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

# Entanet International Limited
## Statement of Comprehensive Income
## For the year ended 31 December 2018

| | Note | Year Ended 31 December 2018 £'000 | Restated Year Ended 31 December 2017 £'000 |
|---|---|---|---|
| **Revenue** | 4 | 35,922 | 37,568 |
| Cost of sales | | (27,750) | (28,833) |
| **Gross profit** | | **8,172** | **8,735** |
| Administrative expenses | | (8,744) | (7,621) |
| **Operating (loss)/profit** | 5 | **(572)** | **1,114** |
| Finance income | 7 | 18 | 30 |
| Finance charges | 7 | (5) | (17) |
| **(Loss)/profit before tax** | | **(559)** | **1,127** |
| Taxation | 9 | - | (52) |
| **(Loss)/profit for the year and total comprehensive income** | | **(559)** | **1,075** |

The results reflected above relate to continuing activities.

Refer to note 24 for information on the restatement.

The notes on pages 13 to 35 form part of these financial statements.

**Entanet International Limited**
Statement of Financial Position
As at 31 December 2018

| Company Number: 03274237 | Note | Year Ended 31 December 2018 £'000 | Restated Year Ended 31 December 2017 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible asset | 10 | 674 | 406 |
| Property, plant and equipment | 11 | 2,620 | 2,337 |
| Amounts owed by Group Undertakings | 12 | 5,390 | - |
| Total non-current assets | | 8,684 | 2,743 |
| **Current assets** | | | |
| Trade and other receivables | 12 | 7,203 | 14,243 |
| Cash and cash equivalents | 13 | 994 | 109 |
| Total current assets | | 8,197 | 14,352 |
| **Total assets** | | **16,881** | **17,095** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 16 | 200 | 200 |
| Retained earnings | 17 | 9,429 | 9,988 |
| Total equity | | 9,629 | 10,188 |
| **Non-current liabilities** | | | |
| Borrowings and loans | 15 | - | 280 |
| Total non-current liabilities | | - | 280 |
| **Current liabilities** | | | |
| Borrowings and loans | 15 | 114 | 114 |
| Trade and other payables | 14 | 7,138 | 6,513 |
| Total current liabilities | | 7,252 | 6,627 |
| **Total liabilities** | | 7,252 | 6,907 |
| **Total equity and liabilities** | | **16,881** | **17,095** |

Refer to note 24 for information on the restatement.

The financial statements were approved by the Board of Directors and authorised for issue on 29 November 2019.

T A Hart
**Director**

The notes on pages 13 to 35 form part of these financial statements.

**Entanet International Limited**
Statement of Changes in Equity
For the year ended 31 December 2018

| | Share Capital £'000 | Retained Earnings £'000 | Total Equity £'000 |
|---|---|---|---|
| **As at 1 January 2017** | **200** | **8,515** | **8,715** |
| **Comprehensive Income** | | | |
| Profit for the year | - | 1,075 | 1,075 |
| IFRS 15 Adjustment | - | 398 | 398 |
| **As at 31 December 2017 Restated** | **200** | **9,988** | **10,188** |

| | Share Capital £'000 | Retained Earnings £'000 | Total Equity £'000 |
|---|---|---|---|
| **As at 1 January 2018 Restated** | **200** | **9,988** | **10,188** |
| **Comprehensive Income** | | | |
| (Loss)/profit for the year | - | (559) | (559) |
| **As at 31 December 2018** | **200** | **9,429** | **9,629** |

Refer to note 24 for information on the restatement.

The notes on pages 13 to 35 form part of these financial statements.

# Entanet International Limited

Statement of Cash Flows

For the year ended 31 December 2018

| | Year Ended 31 December 2018 £'000 | Restated Year Ended 31 December 2017 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| (Loss)/profit before tax | (559) | 1,127 |
| Adjustments for: | | |
| Amortisation | 75 | - |
| Depreciation | 971 | 942 |
| Interest received | (18) | (30) |
| Interest paid | 5 | 17 |
| | 474 | 2,056 |
| Changes in working capital: | | |
| Decrease in trade and other receivables | 1,650 | 3,124 |
| Increase /(decrease) in trade and other payables | 625 | (1,160) |
| Cash flow from operations | 2,275 | 1,964 |
| Taxation received | - | 210 |
| **Net cash generated from operating activities** | 2,749 | 4,230 |
| **Cash flows used in investing activities** | | |
| Purchases of property, plant and equipment | (1,254) | (595) |
| Purchase of intangible assets | (343) | (189) |
| **Net cash used in investing activities** | (1,597) | (784) |
| **Cash flows used in financing activities** | | |
| Advance to parent undertakings | - | (4,594) |
| Repayment of capital element of hire purchase contracts | (280) | (466) |
| Interest received | 18 | 30 |
| Interest paid | (5) | (17) |
| **Net cash used in financing activities** | (267) | (5,047) |
| **Net increase/(decrease) in cash and cash equivalents** | 885 | (1,601) |
| **Cash and cash equivalents at the beginning of the year** | 109 | 1,710 |
| **Cash and cash equivalents at the end of the year** | 994 | 109 |

Refer to note 24 for information on the restatement.

The notes on pages 13 to 35 form part of these financial statements.

## 1 Company information

The principal activity of the Company is a wholesale communications service provider, supporting a channel of partners and resellers with a wide range of connectivity and telecommunication products and services, including broadband, Ethernet, private and wide area networks, IP and PSTN telephony, colocation, hosting and associated services.

The Company is a private limited company domiciled in the United Kingdom and incorporated under registered number 03274237 in England and Wales. The Company's registered office is 15 Bedford Street, London, WC2E 9HE.

## 2 Basis of preparation

These financial statements of the Company have been prepared on a going concern basis, under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union, in accordance with the Companies Act 2006.

The financial statements are presented in Sterling (£), rounded to the nearest thousand pounds.

### Going concern

The financial statements relating to the Company have been prepared on the going concern basis.

The directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and for at least one year from the date of the signed accounts. For these reasons, they continue to adopt the going concern basis in preparing the Company's financial statements.

### New standards, amendments and interpretations

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

Details of the impact these two standards have had are given in note 24. 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 Company as they are either not relevant to the Company's activities or require accounting which is consistent with the Company's current accounting policies, with the exception of IFRS 16, the impact of which is detailed below.

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

*IFRS 16 "Leases" – (effective for reporting periods commencing 1 January 2019)*
IFRS 16 will be effective for periods commencing on or after 1 January 2019. Under the provisions of the standard most leases, including the majority of those previously classed as operating leases will be bought onto the statement of financial position, as both a right of use asset and a largely offsetting lease liability. The right of use asset and lease liability are both based on the present value of lease payments due over the term of the lease. The liability will accrue interest and be

**2 Basis of preparation (continued)**

**New standards, amendments and interpretations (*continued*)**

reduced by the value of the lease payments. The asset will be depreciated in line with IAS 16 'Property, Plant and Equipment'.

The policy is expected to mainly apply to properties and fibre network pathways where Entanet has substantially all of the capacity of the asset. Where Entanet has a contract to use a fibre pathway but does not have substantially all the capacity of the asset there is no lease and payments are expensed evenly over the period of usage of the asset. There will be some instances where Entanet has substantially all of the capacity of a pathway over a very minor part of the overall pathway but this is not deemed to be separable from the underlying asset and in this instance the whole contract will not be treated as a lease.

Where leases are of 12 months or less or of low value then payments made will be expensed evenly over the period of the asset in line with the practical expedients set out in IFRS 16.

If the standard had been adopted in the current 2018 year it is estimated the following changes would have been made to the income statement and statement of financial position:

**Income Statement**

Depreciation of Right Of Use ('IRU') asset: £0.317m
Interest charges: £0.031m
Removal of operating lease charges: (£0.337m)

**Statement of Financial Position**

ROU Asset: £1.463m
Lease Liability: (£1.492m)

These estimates assume the application of the modified retrospective approach as permitted by the standard and the current incremental costs of borrowing.

*Revenue*

Revenues are generated from ADSL network services (including broadband connections) and leased line network services (including ethernet, private and wide area networks).

*Performance obligations and timing of revenue recognition*
The majority of the Company's revenue is derived from leased lines and broadband sales. In both cases there is considered one main obligation to provide network services and hence revenue is 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. There are no obligations for refunds or returns.

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

**2 Basis of preparation (continued)**

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

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

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

*Practical exemptions*
The Company has taken advantage of the following practical expedients:

- completed contracts that begin and end within the same annual reporting period will not be revised; and
- for all reporting periods presented before the 1 January 2017, the Company will not disclose the amount of the transaction price allocated to the remaining performance obligations or identify when it expects to recognise that amount as revenue.

*Property, plant and equipment*

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

**2 Basis of preparation (continued)**

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Motor vehicles – 20% straight line
- Fixtures, fittings and equipment – 20% straight line

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, or if there is an indication of significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the Company Statement of Comprehensive Income.

*Intangible assets*

Software costs, including capitalised development costs, that are directly attributable to IT systems controlled by the Company are recognised as Intangible Assets and the costs are amortised over their useful lives not exceeding 5 years.

*Trade and other receivables*

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

*Trade and other payables*

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

*Impairment of non-financial assets*

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date

**2 Basis of preparation (continued)**

*Financial assets*

The Company classifies its financial assets as loans and receivables, or as available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired asset.

*Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the year in which they are incurred.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The costs associated with operating leases are taken to the income statement on an accrual's basis over the period of the lease.

*Net finance costs*

Finance costs comprise interest payable on borrowings, direct issue costs, dividends on preference shares and foreign exchange losses, and are expensed in the year in which they are incurred.

Finance income comprises interest receivable on funds invested, and foreign exchange gains. Interest income is recognised in profit or loss as it accrues using the effective interest method.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

**2 Basis of preparation (continued)**

*Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

Deferred tax is recognised on timing differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable timing differences.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

*Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are de-recognised from the balance sheet when the obligation specified in the contract is discharged, is cancelled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other operating income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting year.

*Employee benefits: Pension obligations*

The Company operates a defined contribution plan. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

*Share capital*

Ordinary shares are classified as equity. There are various classes of ordinary shares in issue, as detailed in note 16. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

## 3 Significant judgments and estimates

The preparation of consolidated financial statements under IFRS requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

*Recoverability of trade receivables*

Due to the nature of the business, there are high levels of trade receivables at the year end, and therefore a risk that some of these balances may be irrecoverable. A review of the Company's policy for accounting for bad debts is carried out by the finance director where debts are assessed and provided against when the recoverability of these balances is considered to be uncertain.

## 4 Revenue

The Company's revenue arises entirely from the rendering of services and in the geographical market of the United Kingdom.

**Revenue by Category**

| | **Year Ended 31 December 2018 £'000** | **Restated Year Ended 31 December 2017 £'000** |
|---|---|---|
| ADSL | 11,518 | 13,390 |
| Leased lines | 22,032 | 20,968 |
| Other | 2,372 | 3,210 |
| | 35,922 | 37,568 |

Refer to note 24 for information on the restatement.

## 5 Operating (loss)/ profit

The Company has identified a number of items which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the Company.

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| This has been derived at after charging: | | |
| Depreciation | 971 | 942 |
| Amortisation | 75 | - |
| Bad debts expense | 229 | 262 |
| Operating lease rentals - land and buildings | 71 | 63 |
| Operating lease rentals - other | 13,869 | 12,337 |
| Management recharge | 1,343 | 832 |
| Auditor remuneration (note 8) | 37 | 69 |

## 6 Directors and employees

### a) Staff costs

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Wages and salaries | 4,458 | 3,642 |
| Social security costs | 414 | 376 |
| Other pension costs | 79 | 55 |
| | 4,951 | 4,073 |

Average monthly number of people employed by activity:

| | Year Ended 31 December 2018 No. | Year Ended 31 December 2017 No. |
|---|---|---|
| Management and administration | 106 | 87 |
| Marketing and sales | 25 | 22 |
| | 131 | 109 |

### 6 Directors and employees (continued)

**b) Directors' emoluments**

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Salaries and fees | | 180 |
| Allowances | - | 15 |
| Bonuses | - | 134 |
| Post-employment benefits | - | 9 |
| | - | 338 |

| **Highest paid director** | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Salaries and fees | - | 76 |
| Allowances | - | 5 |
| Bonuses | - | 55 |
| Post-employment benefits | - | 4 |
| | - | 140 |

In the current year directors' salaries and emoluments are paid by Connect Infrastructure Bidco Limited, and recharged back as a management recharge for services provided.

The following table details the aggregate compensation paid in respect of the members of the Board of Directors.

**c) Key management compensation**

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Salaries and fees | - | 180 |
| Allowances | - | 15 |
| Bonus | - | 134 |
| Post-employment benefits | - | 9 |
| | - | 338 |

## 7 Net finance income

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Interest income | 18 | 30 |
| Total finance income | 18 | 30 |
| | | |
| Finance lease interest payable | 5 | 17 |
| Total finance cost | 5 | 17 |

## 8 Auditor remuneration

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Fee payable to Company's auditor and its associates for the audit of Company's financial statements | 37 | 55 |
| Fees payable to Company's auditor in respect of taxation compliance services | - | 14 |
| | 37 | 69 |

## 9 Taxation

| Analysis of charge in year | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Current tax charge on (loss)/profits for the year | - | 19 |
| Income tax expense/(credit) | - | 19 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | - | 33 |
| | - | 52 |

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, the Company's profits for the year ended 31 December 2018 and 31 December 2017 are taxed at an effective rate of 19% and 19.25% respectively.

In September 2016, the UK Government passed legislation that resulted in the substantively enacted tax rates in the UK being 17% from 1 April 2020. This has had a subsequent effect on the Company's deferred tax asset being recognised.

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

| | Year Ended 31 December 2018 £'000 | Restated Year Ended 31 December 2017 £'000 |
|---|---|---|
| (Loss)/profit on ordinary activities before tax | (559) | 1,127 |
| (Loss)/profit on ordinary activities multiplied by the rate of corporation tax in the UK as above | (106) | 217 |
| Effects of: | | |
| Fixed asset differences | - | 37 |
| Expenses not deductible | 7 | 2 |
| Group relief | - | (258) |
| Deferred tax not recognised | 100 | 52 |
| Deferred tax rate adjustment | (1) | 2 |
| Total taxation charge | - | 52 |

The Company has unrecognised deferred tax assets arising from losses and short-term timing differences of £152,000 (2017: £52,000) these have not been recognised due to the uncertainty surrounding future profits.

**10 Intangible assets**

| | Trademarks £'000 | Development costs £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2017 | 1 | 217 | 218 |
| Additions at cost | - | 189 | 189 |
| At 31 December 2017 | 1 | 406 | 407 |
| **Accumulated amortisation** | | | |
| At 1 January 2017 | 1 | - | 1 |
| Amortisation | - | - | - |
| At 31 December 2017 | 1 | - | 1 |
| **Net book value** | | | |
| At 31 December 2017 | - | 406 | 406 |
| **Cost** | | | |
| At 1 January 2018 | 1 | 406 | 407 |
| Additions at cost | - | 343 | 343 |
| At 31 December 2018 | 1 | 749 | 750 |
| **Accumulated amortisation** | | | |
| At 1 January 2018 | 1 | - | 1 |
| Amortisation | - | 75 | 75 |
| At 31 December 2018 | 1 | 75 | 76 |
| **Net book value** | | | |
| At 31 December 2018 | - | 674 | 674 |

**11 Property, plant and equipment**

| | Motor vehicles £'000 | Fixtures, fittings and equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2017 | 11 | 6,121 | 6,132 |
| Additions | - | 595 | 595 |
| At 31 December 2017 | 11 | 6,716 | 6,727 |
| **Depreciation** | | | |
| At 1 January 2017 | 11 | 3,437 | 3,448 |
| Charge for the year | - | 942 | 942 |
| At 31 December 2017 | 11 | 4,379 | 4,390 |
| **Net book value** | | | |
| At 31 December 2017 | - | 2,337 | 2,337 |
| **Cost** | | | |
| At 1 January 2018 | 11 | 6,716 | 6,727 |
| Additions | - | 1,254 | 1,254 |
| Disposals | | (637) | (637) |
| At 31 December 2018 | 11 | 7,333 | 7,344 |
| **Depreciation** | | | |
| At 1 January 2018 | 11 | 4,379 | 4,390 |
| Charge for the year | - | 971 | 971 |
| Disposals | | (637) | (637) |
| At 31 December 2018 | 11 | 4,713 | 4,724 |
| **Net book value** | | | |
| At 31 December 2018 | - | 2,620 | 2,620 |

The net book value of assets held under hire purchase contracts was as follows:

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Fixtures, fittings and equipment | 364 | 894 |

## 12 Trade and other receivables

| | Year Ended 31 December 2018 £'000 | Restated Year Ended 31 December 2017 £'000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade receivables | 3,140 | 3,145 |
| Amounts owed by group undertakings | - | 6,876 |
| Prepayments and accrued income | 4,063 | 4,222 |
| | 7,203 | 14,243 |

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| **Amounts falling due after one year:** | | |
| Amounts owed by group undertakings | 5,390 | - |
| | 5,390 | - |

A provision of £889,306 (2017: £397,809) has been made against the trade receivables balance.

Amounts owed by group undertakings are subject to interest at 5% and repayable on 14 December 2023.

All receivables are denominated in sterling.

## 13 Cash and cash equivalents

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Cash at bank and in hand | 994 | 109 |

All bank balances are denominated in sterling.

## 14 Trade and other payables

| | Year Ended 31 December 2018 £'000 | Restated Year Ended 31 December 2017 £'000 |
|---|---|---|
| Trade payables | 2,237 | 2,259 |
| Taxation and social security | 410 | 313 |
| Accruals and deferred income | 3,358 | 3,941 |
| Amounts due to group undertakings | 1,133 | - |
| | 7,138 | 6,513 |

## 14 Trade and other payables (continued)

Trade and other payables comprise amounts outstanding for trade purchases and on-going costs. All trade and other payables are due in less than one year. All balances are denominated in Sterling.

## 15 Borrowings and loans

**Hire Purchases**
Minimum lease payments under hire purchase fall due as follows:

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Within one year | 114 | 280 |
| Between 1-2 years | - | 114 |
| | 114 | 394 |

**Obligations under finance lease and hire purchase contracts**

The Company has taken out various hire purchases contracts on fixtures fittings and equipment, which have a net carrying value of £364,000 (2017: £894,000). Obligations under hire purchase contracts are secured on the related fixed asset. The arrangements attract interest ranging from nil% to 4.75%, are repayable over periods ranging between 1 year and 2 years and are secured on the assets to which they relate.

## 16 Share capital

| | Year Ended 31 December 2018 No. | Year Ended 31 December 2017 No. |
|---|---|---|
| **Authorised** | | |
| 1,000,000 ordinary shares of £1 each | 1,000,000 | 1,000,000 |
| **Allotted, called up and fully paid** | | |
| 200,100 ordinary shares of £1 each | 200 | 200 |

## 17 Reserves

*Retained earnings*

Includes all current and prior periods retained profits and losses.

## 18 Commitments

*Capital commitments*

There were no capital commitments at 31 December 2018 and 31 December 2017.

*Operating lease commitments*

The Company holds various properties and network leases under non-cancellable operating lease agreements.

The future aggregated minimum lease payments under non-cancellable operating leases are as follows:

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Within 1 year | 8,137 | 8,697 |
| Later than 1 year and less than 5 years | 7,785 | 7,388 |
| After 5 years | 84 | 488 |
| | 16,006 | 16,573 |

The operating lease commitment for the rental of the property is calculated on a straight-line basis over the length of the lease.

## 19 Financial instruments

### Classification and measurement

| Financial assets | Year Ended 31 December 2018 £'000 | Restated Year Ended 31 December 2017 £'000 |
|---|---|---|
| At cost less impairment | | |
| Financial assets | 13,587 | 6,818 |
| | 13,587 | 6,818 |

Financial assets measured at amortised cost comprise cash, trade receivables and other receivables, as follows:

| | Year Ended 31 December 2018 £'000 | Restated Year Ended 31 December 2017 £'000 |
|---|---|---|
| Trade receivables | 3,140 | 3,145 |
| Other receivables | 4,063 | 3,564 |
| Cash at bank | 994 | 109 |
| Amounts owed by group undertakings | 5,390 | - |
| | 13,587 | 6,818 |

| Financial liabilities | Year Ended 31 December 2018 £'000 | Restated Year Ended 31 December 2017 £'000 |
|---|---|---|
| At amortised cost | | |
| Financial liabilities | 5,295 | 5,265 |
| | 5,295 | 5,265 |

Financial liabilities measured at amortised cost comprise trade payables, taxation and social security, accruals, other loans and net obligations under hire purchase contracts, as follows:

| | Year Ended 31 December 2018 £'000 | Restated Year Ended 31 December 2017 £'000 |
|---|---|---|
| Trade payables and other creditors | 2,237 | 2,259 |
| Taxation and social security | 410 | 313 |
| Accruals | 1,401 | 2,299 |
| Amounts due to group undertakings | 1,133 | - |
| Obligations under hire purchase contracts | 114 | 394 |
| | 5,295 | 5,265 |

## 20 Financial instruments (continued)

### Risk management

The Company's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk.

Risk management is carried out by the board of directors. The Company uses financial instruments to provide flexibility regarding its working capital requirements and to enable it to manage specific financial risks to which it is exposed.

*Market risk*

*Liquidity risk*

A maturity analysis of the Company's hire purchase contracts is shown below:

| | Year Ended 31 December 2018 £'000 | Year Ended 31 December 2017 £'000 |
|---|---|---|
| Less than one year | 114 | 285 |
| One to two years | - | 114 |
| Total including interest cash flows | - | 399 |
| Less: interest cash flows | (5) | (5) |
| Total principal cash flows | 109 | 394 |

*Interest rate risk*

The interest rate profile of the Company's borrowings is shown below:

**Interest rate profile of interest-bearing borrowings**

| | Year Ended 31 December 2018 | | Year Ended 31 December 2017 | |
|---|---|---|---|---|
| | Debt £'000 | Interest Rate | Debt £'000 | Interest Rate |
| **Fixed rate borrowings** | | | | |
| Hire purchase contracts | 109 | 0.00%-4.75% | 394 | 0.00%-4.75% |
| **Weighted average cost of fixed rate borrowings** | | 2.48% | | 2.48% |

Details of the above borrowings can be found in note 15 above..

*Capital disclosures*

The Company is both equity and debt funded, and these two elements combine to make up the capital structure of the business. Equity comprises share capital, share premium and retained losses and is equal to the amount shown as 'Equity' in the balance sheet. Debt comprises various items which are set out in further detail above and in note 15.

## 20 Financial instruments (continued)

### Risk management (continued)

The Company's current objectives when maintaining capital are to:

- Safeguard the Company's ability as a going concern so that it can continue to pursue its growth plans.
- Provide a reasonable expectation of future returns to shareholders.
- Maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term.
- The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt.

During the years ended 31 December 2018 and 31 December 2017 the Company's strategy remained unchanged.

*Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. In order to minimise the risk, the Company endeavours only to deal with companies which are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk is the value of the outstanding amount.

The Company does not consider that there is any concentration of risk within either trade or other receivables. There were minimal impairments to trade or other receivables in each of the years presented.

Credit risk on cash and cash equivalents is considered to be very low as the counterparties are all substantial banks with high credit ratings.

## 21 Related parties transactions

During the year, the Company charged £211,000 (2017: £90,000) to Entanet Holdings Limited, the parent, in respect of work performed on behalf of the parent company in the year.

During the year, the Company was charged £1,343,000 (2017: £959,000) by Entanet Holdings Limited, the parent, in respect of management work performed in the year.

### 22 Parent company and controlling party

The largest group in which the results of the company are consolidated is that headed by Connect Infrastructure Topco Limited, a company incorporated in England and Wales.

Copies of Connect Infrastructure Topco Limited accounts can be obtained from The Registrar of Companies, Companies House, Cardiff, CF4 3UZ. At 31 December 2018 the ultimate parent, Connect Infrastructure Topco Limited, and therefore the Company, was jointly-controlled by a consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners. At 31 December 2017 the directors did not consider there to be an ultimate controlling party.

### 23 Subsequent event

No events after the reporting period occurred which are required to be disclosed.

### 24 Effects of Changes in Accounting Policies

The Company adopted IFRS 15 and IFRS 9 with a transition date of 1 January 2018. As a result of the adoption of IFRS 15 and the changes in the revenue accounting policy, prior year financial statements were restated. The Company has not identified any restatement required on adoption of IFRS 9.

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

**Effects of Changes in Accounting Policies (continued)**

The tables below show the amount of adjustment for each financial statement line affected by the application of IFRS 15 Revenue from Contracts with Customers.

| | Adjustment | 31 December 2017 As originally presented £'000 | IFRS 15 £'000 | 31 December 2017 As restated £'000 |
|---|---|---|---|---|
| **Revenue** | (a) | 37,417 | 151 | 37,568 |
| Cost of sales | | (28,691) | (142) | (28,833) |
| **Gross profit** | | **8,726** | **9** | **8,735** |
| Administrative expenses | (a) | (6,670) | (9) | (6,679) |
| Depreciation | | (942) | - | (942) |
| **Operating profit** | | **1,114** | **-** | **1,114** |
| Finance income | | 30 | - | 30 |
| Finance charges | | (17) | - | (17) |
| **Profit before tax** | | **1,127** | **-** | **1,127** |
| Taxation | | (52) | - | (52) |
| **Profit for the year and total comprehensive income** | | **1,075** | **-** | **1,075** |

**Effects of Changes in Accounting Policies (continued)**

| Company Number: 03274237 | Adjustment | 31 December 2017 As originally presented £'000 | IFRS 15 £'000 | 31 December 2017 As restated £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Intangible asset | | 406 | - | 406 |
| Property, plant and equipment | | 2,337 | - | 2,337 |
| Total non-current assets | | 2,743 | - | 2,743 |
| **Current assets** | | | | |
| Trade and other receivables | (b) | 12,203 | 2,040 | 14,243 |
| Cash and cash equivalents | | 109 | - | 109 |
| Deferred tax | | - | - | - |
| Total current assets | | 12,312 | 2,040 | 14,352 |
| **Total assets** | | **15,055** | **2,040** | **17,095** |
| **Equity and liabilities** | | | | |
| **Equity** | | | | |
| Share capital | | 200 | - | 200 |
| Retained earnings | (b) | 9,590 | 398 | 9,988 |
| Total equity | | 9,790 | 398 | 10,188 |
| **Non-current liabilities** | | | | |
| Borrowings and loans | | 280 | - | 280 |
| Provisions | | - | - | - |
| Total non-current liabilities | | 280 | - | 280 |
| **Current liabilities** | | | | |
| Borrowings and loans | | 114 | - | 114 |
| Trade and other payables | (b) | 4,871 | 1,642 | 6,513 |
| Total current liabilities | | 4,985 | 1,642 | 6,627 |
| **Total liabilities** | | 5,265 | 1,642 | 6,907 |
| **Total equity and liabilities** | | **15,055** | **2,040** | **17,095** |

**Effects of Changes in Accounting Policies (continued)**

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

**IFRS 15 Revenue from Contracts with Customers (IFRS 15)**

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

**(a)** Revenue for the year ended 31 December 2017 will increase by the amount of £151,000 and cost of sales will also increase by £142,000. Additionally, administrative expenses will increase by £9,000.

**(b)** Installation fees were previously recognised at the point of completion, however are now recognised evenly over the period during which the service is granted. An adjustment was made for all contracts started in prior periods but not completed by the end of the period to recognise £2.0m of accrued revenue, and to defer £1.6m of revenue for the period ended 31 December 2017.The overall net impact on equity at 31 December 2017 will be a £398,000 increase.

Finance costs on upfront payments from customers

Deferred revenue is currently recognised within liabilities when customers are invoiced by the Company in advance of services being provided. Under IFRS 15, there is a requirement to recognise a finance cost in connection with payments received up front from customers ahead of services being provided.

**IFRS 9 Financial Instruments (IFRS 9)**

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