Entanet International Limited

Report and financial statements

Year ended

31 December 2017

Company Number: 03274237

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Entanet International Limited
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Company Information

Directors

M Collins
T A Hart
W G Mesch

Registered Office

Stafford Park 6
Telford
Shropshire
TF3 3AT

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 2017.

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.

On 1 August 2017 the company and its immediate parent undertaking, Entanet Holdings Limited, were acquired by CityFibre Infrastructure Holdings Limited ("CityFibre") for a cash consideration of £29.0m (on a debt free cash free basis and subject to adjustments). The Directors believe the Entanet acquisition brings together two complementary wholesale capabilities: CityFibre's national wholesale full fibre infrastructure and Entanet's established wholesale product portfolio and commercial relationships with Channel Partners. Entanet has become the primary route for CityFibre to market its full fibre connectivity through Entanet's network of Channel Partners.

The acquisition will enable Entanet to offer the delivery of wholesale services across CityFibre's full fibre infrastructure, providing differentiated gigabit speed full fibre connectivity services through its established base of Channel Partners.

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 106 at acquisition on 1 August 2017 to 115 at 31 December 2017. 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 winning Channel Marketing Team of the Year and Channel Account Team of the Year (Comms Dealer Awards), Best Vendor Account Management Team (CRN Sales and Marketing Awards) And Best ISP (Comms National Awards).
The key financial and other performance indicators during the year were as follows:

	2017	2016
Turnover	£37.4m	£35.8m
Gross Profit	£8.7m	£7.1m
Gross Margin	23%	20%
EBITDA (excluding exceptional items)	£2.1m	£1.9m
Capital Expenditure	£0.6m	£1.3m
Headcount	109	103

Financial overview

The company experienced a year of strong organic growth with revenue growth of 4.5% compared to 2016. The growth was largely driven by increasing demand for ethernet circuits, both in standalone connectivity and IP VPN network solutions.

Gross margin increased to 23% from 20% in the prior year. This was predominantly due to the 2016 acquisition cost of considerable growth in the consumer broadband base reducing the 2016 gross margin.

Profit after tax remained stable at £1.1m.

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.

On behalf of the board

T A Hart
Director
Date: 6 December 2018

Entanet International Limited
Directors' Report
For the year ended 31 December 2017

The Directors present their report together with the audited financial statements for the year ended 31 December 2017.

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 profit for the year.

Directors

The Directors of the Company during the year were:

Elsa Chen	(Resigned 1 August 2017)
Ian Brewer	(Resigned 1 August 2017)
Stephen Barclay	(Resigned 1 August 2017)
Mark Collins	(Appointed 1 August 2017)
Terence Hart	(Appointed 1 August 2017)
William Mesch	(Appointed 1 August 2017)

Directors' Responsibilities

The Directors are responsible for preparing the strategic report, annual 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 6 December 2018 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 2017 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and 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 2017 and of its profit 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 on 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
United Kingdom
6 December 2018

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 2017

	Note	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Revenue	4	37,417	35,754
Cost of sales		(28,691)	(28,637)
Gross profit		**8,726**	**7,117**
Administrative expenses		(6,670)	(5,218)
Depreciation		(942)	(810)
Operating profit	5	**1,114**	**1,089**
Finance income	7	30	15
Finance charges	7	(17)	(31)
Profit before tax		**1,127**	**1,073**
Taxation	9	(52)	41
Profit for the year and total comprehensive income		**1,075**	**1,114**

The results reflected above relate to continuing activities.

The notes on pages 13 to 32 form part of these financial statements.

Entanet International Limited
Statement of Financial Position
As at 31 December 2017

Company Number: 03274237	Note	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000	As at 1 Jan 2016 £'000
Assets				
Non-current assets				
Intangible asset	10	406	217	-
Property, plant and equipment	11	2,337	2,684	2,231
Total non-current assets		2,743	2,901	2,231
Current assets				
Trade and other receivables	12	12,203	8,903	9,320
Cash and cash equivalents	13	109	1,710	2,558
Deferred tax	9	-	33	-
Total current assets		12,312	10,646	11,878
Total assets		**15,055**	**13,547**	**14,109**
Equity and liabilities				
Equity				
Share capital	17	200	200	200
Retained earnings	18	9,590	8,515	7,400
Total equity		9,790	8,715	7,600
Non-current liabilities				
Borrowings and loans	15	280	393	279
Provisions		-	-	1,270
Total non-current liabilities		280	393	1,549
Current liabilities				
Borrowings and loans	15	114	466	314
Trade and other payables	14	4,871	3,973	4,646
Total current liabilities		4,985	4,439	4,960
Total liabilities		5,265	4,832	6,509
Total equity and liabilities		**15,055**	**13,547**	**14,109**

The financial statements were approved by the Board of Directors and authorised for issue on 6 December 2018.

T A Hart
Director

The notes on pages 13 to 32 form part of these financial statements.

Entanet International Limited

Statement of Changes in Equity
For the year ended 31 December 2017

	Share Capital	Retained Earnings	Total Equity
	£'000	£'000	£'000
As at 1 Jan 2016	**200**	**7,401**	**7,601**
Comprehensive Income			
Profit for the year	-	1,114	1,114
As at 31 Dec 2016	**200**	**8,515**	**8,715**
As at 1 Jan 2017	**200**	**8,515**	**8,715**
Comprehensive Income			
Profit for the year	-	1,075	1,075
As at 31 Dec 2017	**200**	**9,590**	**9,790**

The notes on pages 13 to 32 form part of these financial statements.

Entanet International Limited
Statement of Cash Flows
For the year ended 31 December 2017

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Cash flows from operating activities		
Profit before tax	1,127	1,074
Adjustments for:		
Depreciation	942	810
Interest received	(30)	(15)
Interest paid	17	31
	2,056	1,900
Changes in working capital:		
Decrease in trade and other receivables	1,084	866
Increase in trade and other payables	880	61
Decrease in provisions	-	(1,270)
Cash flow used in operations	1,964	(343)
Taxation received	210	131
Net cash generated from operating activities	4,230	1,688
Cash flows used in investing activities		
Purchases of property, plant and equipment	(595)	(1,263)
Purchase of intangible assets	(189)	(217)
Net cash used in investing activities	(784)	(1,480)
Cash flows from financing activities		
Advance to parent undertakings	(4,594)	(574)
Repayment of capital element of hire purchase contracts	(466)	(466)
Interest received	30	15
Interest paid	(17)	(31)
Net cash used in financing activities	(5,047)	(1,056)
Net decrease in cash and cash equivalents	(1,601)	(848)
Cash and cash equivalents at the beginning of the year	1,710	2,558
Cash and cash equivalents at the end of the year	109	1,710

The notes on pages 13 to 32 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 Stafford Park 6, Telford, Shropshire, TF3 3AT.

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.

This is the first year in which the financial statements have been prepared under IFRS. The policies applied under the entities previous accounting framework, FRS 102 (under which the financial statements were prepared previously) are not materially different to IFRS and have not had an impact on equity and profit or loss, at the date of transition at 31 December 2016.

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.

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

New standards, amendments and interpretations

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Company. Management anticipates that all of the pronouncements will be adopted by the Company's accounting policies for the first year beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below and based on a preliminary assessment the Company believes that their adoption will have a significant impact on its results or financial position.

The following standards took effect in the year but have not had a material impact on the Company's financial statements:

- *IAS 27 "Consolidated and Separate Financial Statements" (effective in accounting periods beginning 1 January 2016)*

IAS 27 has been amended to provide an additional measurement option for investments in separate entity financial statements.

2 Basis of preparation (continued)

- *IAS 16 "Property, Plant and Equipment" (effective in accounting periods beginning 1 January 2016*

The IASB has clarified that a depreciation method based on revenue is not an appropriate method in determining a pattern in which the assets future economic benefits are consumed.

The following standards have been endorsed by the EU but are effective subsequent to year end:

- *IFRS 15 "Revenue from Contracts with Customers" (effective in accounting periods beginning 1 January 2018)*

IFRS 15 is intended to clarify the principles of revenue recognition and establish a single framework for revenue recognition. This supersedes IAS 18 Revenue and the core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Following an assessment of the practical implications of the adoption of IFRS 15: Revenue from contracts with customers on the revenue recognition policies of the Group, the directors have determined the effect of the change in policy to be adopted; the expected changes are outlined as follows:

An additional amount of £1,366,000 of deferred revenue will be recognised, an increase of £1,503,000 in accrued revenue will be recognised; with the combined effect will be reflected as a decrease in retained earnings at the date of transition being 1 January 2017.

Revenue for the year ended 31 December 2017 will decrease by the amount of £276,000.

An additional amount of £276,000 of deferred revenue, and an increase of £274,000 in accrued revenue, will be recognised at 31 December 2017.

A contract asset will be recognised amounting to £210,000 and reflected as an increase in retained earnings at the date of transition being 1 January 2017.

Expenses for the year ended 31 December 2017 will decrease by £53,000 in respect of expensed sales commissions in 2017.

The overall net impact in equity at 31 December 2017 will be a £398,000 increase.

- *IFRS 16 "Leases" (effective in accounting periods beginning 1 January 2019)*

IFRS 16 Leases is expected to have a significant impact on the amounts recognised in the Company's financial statements. On adoption of IFRS 16, the Company will recognise within the balance sheet a right of use asset and a lease liability for all applicable leases. Within the income statement, rent expense with be replaced with depreciation and interest. This will result in a decrease in cost of sales and an increase in finance costs. The standard will also impact a number of statutory measures such as operating profit and cash generated from operations. The full impact of IFRS 16 is currently under review, including understanding the practical application of the principles of the standard. It is therefore not practical to provide a reasonable estimate of the financial effect until this is complete.

2 Basis of preparation (continued)

- *IFRS 2 "Share based payments"*

There are a number of changes and clarifications affecting IFRS 2, including various clarifications emphasising that vesting conditions, other than market conditions, are considered in determining the number of instruments expected to vest and not in determining the values of the individual instruments.

- *IAS 12 "Income taxes"*

This clarification is intended to reduce the diversity in practice in the accounting for deferred tax assets arising on unrealised losses. The amendments clarify that in order to compute a temporary difference, the carrying amount is compared to its tax base. In doing so, the entity should not consider how the related assets will be recovered (such as through sale), or the probability that any resulting deferred tax asset will be recoverable.

The Company receives research and development tax credits for the work it performs in research and development and such receipts are recognised in the Statement of Comprehensive Income.

- *IAS 7 "Statement of Cash Flows"*

This amendment arising from the disclosure initiative results in changes in liabilities arising from financing activities being analysed between five categories.

Revenue

Revenues generated from ADSL network services (including broadband connections) and leased line network services (including ethernet, private and wide area networks) are recognised on a straight line basis over the year of the services rendered. Billings in advance for future periods after the reporting date are deferred and recognised as deferred income on the balance sheet. Revenues generated from call charges are recognised on an accruals basis in the reporting year in which the calls are made. Revenues generated from excess usage (overage) are recognised on an accruals basis in the reporting year in which usage has been exceeded by customers.

Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the year in which the services are provided in accordance with the stage of completion of the contract when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably, and;
- the costs incurred and the costs to complete for the contract can be measured reliably.

2 Basis of preparation (continued)

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.

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:

- Plant, machinery and 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

Customer contracts, which have arisen through a business combination, are assessed by reviewing their net present value of future cash flows. Customer contracts are amortised over their useful life, not exceeding 5 years.

Software 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.

2 Basis of preparation (continued)

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.

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 accruals 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.

2 Basis of preparation (continued)

Cash and cash equivalents

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

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.

2 Basis of preparation (continued)

Share capital

Ordinary shares are classified as equity. There are various classes of ordinary shares in issue, as detailed in note 17. 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 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
ADSL	13,390	13,847
Leased lines	20,817	18,587
Other	3,210	3,320
	37,417	35,754

5 Operating 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.

	2017 £'000	2016 £'000
This has been derived at after charging:		
Depreciation:		
- property, plant and equipment - owned	702	571
- property, plant and equipment - leased	340	239
Bad debts expense	262	153
Operating lease rentals - land and buildings	63	63
Operating lease rentals - other	12,337	12,439
Management recharge	832	225
Staff costs (note 6)	4,073	3,815
Auditor remuneration (note 8)	69	31

6 Directors and employees

a) Staff costs (including directors)

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Wages and salaries	3,642	3,421
Social security costs	376	345
Other pension costs	55	49
	4,073	3,815

Average monthly number of people (including executive directors) employed by activity:

	Year Ended 31 Dec 2017 No.	Year Ended 31 Dec 2016 No.
Management and administration	87	88
Marketing and sales	22	15
	109	103

6 Directors and employees (continued)

b) Directors' emoluments

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Salaries and fees	180	303
Allowances	15	26
Bonuses	134	36
Post-employment benefits	9	15
	338	380

Three of the Company's directors were in the Company's defined contribution pension scheme during the years above.

Highest paid director	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Salaries and fees	76	130
Allowances	5	7
Bonuses	55	12
Post-employment benefits	4	7
	140	156

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 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Salaries and fees	180	413
Allowances	15	35
Bonus	134	37
Post-employment benefits	9	18
	338	503

Key management personnel include all directors who together have authority and responsibility for planning, directing, and controlling the activities of the Company. Three directors were in the Company's defined contribution pension scheme during the periods above.

7 Net finance costs

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Interest income	30	15
Total finance income	30	15
Finance lease interest payable	17	31
Total finance cost	17	31

8 Auditor remuneration

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Fee payable to Company's auditor and its associates for the audit of Company's financial statements	55	24
Fees payable to Company's auditor in respect of taxation compliance services	14	7
	69	31

9 Taxation

Analysis of charge in year	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Current tax charge on profits for the year	19	-
Adjustments in respect of prior periods	-	(12)
Income tax expense/(credit)	19	(12)
Deferred tax		
Origination and reversal of timing differences	33	(28)
Adjustments in respect of prior years	-	(1)
	52	(41)

The standard rate of corporation tax in the UK changed from 20 per cent to 19 per cent with effect from 1 April 2017. Accordingly, the Company's profits for the year ended 31 December 2016 and 31 December 2017 are taxed at an effective rate of 20 per cent and 19.25 per cent respectively.

In September 2016, the UK Government passed legislation that resulted in the substantively enacted tax rates in the UK being 17 per cent 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 19.25 per cent (2016: 20.00 per cent). The differences are explained below:

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Profit on ordinary activities before tax	1,127	1,074
Profit on ordinary activities multiplied by the rate of corporation tax in the UK as above	217	215
Effects of:		
Fixed asset differences	37	-
Expenses not deductible	2	1
Adjustments to tax charge in respect of prior years	-	(12)
Group relief	(258)	(250)
Deferred tax not recognised	52	-
Deferred tax rate adjustment	2	5
Total taxation charge/ (credit)	52	(41)

10 Intangible assets

	Trademarks £'000	Development costs £'000	Total £'000
Cost			
At 1 January 2016	1	-	1
Additions at cost	-	217	. 217
At 31 December 2016	1	217	218
Accumulated amortisation			
At 1 January 2016	1	-	1
Amortisation	-	-	-
At 31 December 2016	1	-	1
Net book value			
At 31 December 2016	-	217	217
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

11 Property, plant and equipment

	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost			
At 1 January 2016	11	5,007	5,018
Additions	-	1,263	1,263
Disposals	-	(149)	(149)
At 31 December 2016	11	6,121	6,132
Depreciation			
At 1 January 2016	11	2,776	2,787
Charge for the year	-	810	810
Disposals	-	(149)	(149)
At 31 December 2016	11	3,437	3,448
Net book value			
At 31 December 2016	-	2,684	2,684
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

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

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Fixtures, fittings and equipment	894	1,257

12 Trade and other receivables

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Amounts falling due within one year:		
Trade receivables	3,145	3,519
Amounts owed by group undertakings	6,876	3,020
Prepayments and accrued income	2,182	2,154
Corporation tax	-	210
	12,203	8,903

A provision of £397,809 (2016: £196,844) has been made against the trade receivables balance.

All receivables are denominated in Sterling.

13 Cash and cash equivalents

	Year Ended 31 Dec 2017 ££'000	Year Ended 31 Dec 2016 £'000
Cash at bank and in hand	109	1,710

All bank balances are denominated in Sterling.

14 Trade and other payables

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Trade payables	2,259	1,724
Taxation and social security	313	304
Accruals and deferred income	2,299	1,945
	4,871	3,973

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 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Within one year	114	467
Between 1-2 years	280	393
	394	860

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 £894,000 (2017: £1,257,347). 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 Provisions

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Provisions for liabilities and claims		
At beginning of year	-	1,270
Utilised in the year	-	(1,270)
At end of year	-	-

During 2016, the Company settled a claim from the liquidator of Changtel Limited, a company previously associated with the Company. This related to certain loan repayments received in the normal course of business by the Company in 2013 which were subject to a claim under S127 of the Insolvency Act notified in 2016.

An exceptional charge of £1,269,879 was recorded in 2015 in respect of the provision that was made for the cost of settlement together with associated legal costs. All claims have been settled in full during 2016 at the amounts provided and there is no further liability in 2017 in this regard.

17 Share capital

	Year Ended 31 Dec 2017 No.	Year Ended 31 Dec 2016 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

18 Reserves

Retained earnings

Includes all current and prior periods retained profits and losses.

19 Capital commitments

Capital commitments

There were no capital commitments at 31 December 2017 and 31 December 2016.

Operating lease commitments

The Company has leased various properties under non-cancellable operating lease agreements.

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

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Within 1 year	8,697	7,257
Later than 1 year and less than 5 years	7,388	7,963
After 5 years	488	439
	16,573	15,659

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

20 Financial instruments

Classification and measurement

Financial assets	**Year Ended 31 Dec 2017 £'000**	**Year Ended 31 Dec 2016 £'000**
At cost less impairment		
Financial assets	4,778	6,733
	4,778	6,733

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

	Year Ended 31 Dec 2017 £'000	**Year Ended 31 Dec 2016 £'000**
Trade receivables	3,145	3,519
Other receivables	1,524	1,504
Cash at bank	109	1,710
	4,778	6,733

Financial liabilities	**Year Ended 31 Dec 2017 £'000**	**Year Ended 31 Dec 2016 £'000**
At amortised cost		
Financial liabilities	4,536	13,331
	4,536	13,331

Financial assets 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 Dec 2017 £'000	**Year Ended 31 Dec 2016 £'000**
Trade payables	2,259	1,724
Taxation and social security	313	304
Accruals	1,570	1,005
Obligations under hire purchase contracts	394	860
	4,536	3,893

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 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Less than one year	285	484
One to two years	114	414
Total including interest cash flows	399	898
Less: interest cash flows	(5)	(38)
Total principal cash flows	394	860

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 Dec 2017		Year Ended 31 Dec 2016	
	Debt £'000	Interest Rate	Debt £'000	Interest Rate
Fixed rate borrowings				
Hire purchase contracts	394	0.00%-4.75%	860	0.00%-6.00%
Weighted average cost of fixed rate borrowings		2.48%		3.63%

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

As the interest rates on hire purchase contracts are fixed, interest rate risk is considered to be very low.

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 2017 and 31 December 2016 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 do 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 was charged £738,000 (2016: £nil) by CityFibre Infrastructure Holdings Limited, the ultimate parent, in respect of management work performed in the year.

During the year, the Company was charged £131,000 (2016: £225,000) by Entanet Holdings Limited, the parent, in respect of management work performed in the year.

22 Transition to IFRS

These financial statements, for the year ended 01 January 2016, are the first the Company has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2015, the Company prepared its financial statements in accordance Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland. There was no effect to the Company from the transition to IFRS.

23 Parent company and controlling party

The largest and smallest group in which the results of the company are consolidated is that headed by CityFibre Infrastructure Holdings limited a company incorporated in England and Wales.

Copies of CityFibre Infrastructure Holdings limited accounts can be obtained from The Registrar of Companies, Companies House, Cardiff, CF4 3UZ. The directors consider that CityFibre Infrastructure Holdings limited to be the ultimate controlling party.

24 Subsequent event

On 21 June 2018, Connect Infrastructure Bidco Limited (a newly formed company indirectly jointly-controlled by a consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners) completed the acquisition of shares in the ultimate parent of the Company, CityFibre Infrastructure Holdings Limited.