

## Hyperoptic Limited

Report and Financial Statements

Year Ended

31 December 2019

Company Number 07222543



# **Hyperoptic Limited**

## **Report and financial statements for the year ended 31 December 2019**

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### **Directors**

D Tobak  
P White

### **Registered office**

Hythe House, 200 Shepherds Bush Road, London, W6 7NL

### **Company number**

07222543

### **Auditors**

BDO LLP, 55 Baker Street, London, W1U 7EU

# Hyperoptic Limited

## Strategic report for the year ended 31 December 2019

The directors present their strategic report on Hyperoptic Limited (the "Company") together with the audited financial statements for the year ended 31 December 2019.

### Principal activity

The Company's principal activity during the year was to develop facilities for the provision of high-speed internet broadband through fibre optic cabling.

### Business review

Turnover for the year was £39.2m (2018: £26.9m) an increase of 46% (2018: 62%). This represents an increase in new homes passed as well as an increase in penetration in existing networks. The gross profit margin increased to 81% (2018: 78%) due to the increased efficiencies of the core network as the Company achieves scale in terms of nationwide coverage and takes advantage of the underlying reduction in operating cost base. The operating loss for the year of £39.9m (2018: £14.2m) was driven by the group's planned expansion strategy, predominantly related to people and the increasing network coverage. Hyperoptic has continued to grow its network and has invested heavily in growing its homes passed footprint in the year investing £59.3m (2018: £35.9m) in the fibre network. The Company is well positioned to continue the expansion of the network into new sites within existing cities as well as expanding into new cities in the UK.

In November 2019 the private equity group KKR & Co. Inc. ("KKR") acquired a majority stake in the Company's ultimate parent undertaking from some of the existing shareholders. The investment by KKR and the new £500m loan facility will enable the Company to continue with its ambitious plans to build its hyperfast network infrastructure.

### Financial key performance indicators

The Company's key financial performance indicators are set out below:	2019 £'m	2018 £'m
Revenue	39.20	26.90
Gross profit	31.72	20.87
Gross profit margin	80.9%	77.6%
EBITDA	(24.77)	(5.80)

### Principal risks and uncertainties

Risk	Mitigation
<b>Health and safety</b> The Company is involved in activities and environments that have the potential to cause serious injury to its stakeholders, or to damage property, the environment or its reputation. It is reliant on a large subcontracted workforce operating to the Company's high standards and procedures.	The health and safety of people is the primary focus of the Company. In order to control risk and prevent harm, the Company is focused on achieving the highest standards of health and safety management. This is achieved by establishing effective health and safety procedures and ensuring that effective leadership and organisational arrangements are in place to operate these procedures.

# Hyperoptic Limited

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## Strategic report (continued) for the year ended 31 December 2019

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### Principal risks and uncertainties (continued)

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#### Coronavirus

The current Coronavirus pandemic may affect the Company's ability to continue growing the network at the existing rate due to staff illness and possible travel restrictions on engineers. Furthermore, the Company may be unable to connect new customers if access to their premises is restricted, and the Company may experience delays and shortages in its materials supply chain.

The board of directors (the "Board") and the Company are monitoring the situation closely. Where possible staff are able to work from home, and engineers have been provided with guidance for safe working practices. The Company has engaged with its suppliers to ensure that it maintains several months' supply of materials for the continuing rollout of the network.

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#### Market risk

Demand for the services of the Company may be vulnerable to sudden economic downturns, a lack of confidence in the housing market and the broader economy, reductions in government and private sector spending, regulatory developments (including building and fire regulations) and increases in costs.

The Company's strategic focus is on those market sectors in which a competitive advantage is maintained and that have the most potential for profitable growth. Members of the leadership team participate in political, economic and regulatory forums to maintain effective working relationships with the government and regulatory authorities.

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#### Brexit

The impact of Brexit continues to create uncertainty in the UK economy. This may result in general uncertainty in the economy leading to customers delaying purchasing decisions. It may also increase the level of counter-party credit and currency risk faced by the Company.

The Company continues to monitor the UK's progress towards Brexit and has developed plans to respond to a range of potential scenarios. This includes specific plans that cater for changes in market conditions, complications with the movement and availability of the workforce, pressure on the supply chain, delays in delivery of materials and components, changes in exchange rates and pricing impact of increased tariff and commodity costs. The Company has analysed the supply chain and does not see a significant impact on current or future projects. The Company does not deliver any contract, projects or services to any other country in the EU.

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#### Competition

The broadband telecom sector is highly competitive with low margins. If it does not compete effectively in its market sectors, the Company runs the risk of losing market share. While service quality, capability, reputation and experience are considered in client decisions, price often remains the key determining factor.

The Company mitigates competitive risk by seeking to target projects where it has a competitive advantage and can manage its costs and risks. The risk profile of every project is assessed at the planning stage to determine whether it is in line with the strategic objectives of the Company before approval of the project is given.

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# Hyperoptic Limited

Strategic report (*continued*)  
for the year ended 31 December 2019

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## Principal risks and uncertainties (continued)

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### Risk

### Mitigation

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#### Project delivery

Execution of projects involves professional judgement in estimating, planning, design and construction, often in complex environments. The Company's projects could encounter difficulties that could lead to cost and time overruns, lower revenues, litigation or disputes.

The Company's activities are guided by operating throughout the project lifecycle. These, combined with comprehensive management oversight, the risk management process, project reviews, quality audits, peer reviews and customer feedback help mitigate the risk to successful project delivery.

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#### Liquidity (financial risk)

Liquidity risk arises from the Company's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due, and could affect its ability to invest, win work or pay dividends.

The Company manages liquidity such that it always has sufficient liquidity to meet its liabilities when due. The Company continually monitors and stress tests its liquidity position. Funding arrangements are reviewed regularly and approved by the Board.

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#### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The principal credit risk for the Company arises from its trade debtors.

In order to manage the credit risk, the directors set credit limits for customers, and actively monitor customers that do not pay on time.

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#### Appointing and retaining talent

The success of the Company is dependent on being able to attract and retain people that have the necessary experience and expertise. Competition for high quality people is intense.

The Company knows that its people are at the heart of its on-going success. It seeks to offer market-competitive remuneration (which is reviewed regularly), training and career development opportunities, and to be an attractive and engaging employer.

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#### Systems, data, cyber security & GDPR

A loss of key systems through a lack of resilience or an information security breach or attack, could impact the successful delivery of projects and lead to a loss of confidential data, damaging the Company's reputation and brand.

Robust controls and procedures are in place to monitor the performance of the Company's systems and to identify and mitigate external threats. The Company is continually developing and upgrading its IT infrastructure, software and cyber threat and assessment capabilities. The Company continues to develop and enhance its data protection procedures in line with regulations.

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# Hyperoptic Limited

## Strategic report (*continued*) for the year ended 31 December 2019

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### Section 172 statement

The directors of the Company act in the way they consider, in good faith, will be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

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

### Strategy and business model

The Board believes it has established a strategy and business model that promotes long-term value for shareholders.

Hyperoptic is building a full fibre broadband network. It works with freeholders, developers, property managers and residents to bring award-winning services to residential and business developments, delivering a future-proof connection that increases the attractiveness and value of each property. Hyperoptic broadband is already available at selected sites in 39 UK towns & cities. The business model will deliver long term value by connecting new sites, towns and cities and increasing penetration rates at existing sites.

### Shareholder needs and expectations

The Board of Hyperoptic Limited acts within the powers granted by Thunderbird Topco Limited shareholder agreement. The Company's strategy and budgets are approved by the Thunderbird Topco Limited Board which is controlled by representatives of the shareholders. There is a monthly reporting process and regular feedback from the shareholders.

### Stakeholder and social responsibilities

The Board takes into account wider stakeholder and social responsibilities and their implications for long-term success. The wider stakeholder community has been identified as the employees, customers, suppliers and regulators.

### Health and Safety

The Board remains committed to the effective management and monitoring of health and safety and to providing a safe working environment for all employees and partners and to keeping members of the public with whom the Company comes into contact free from harm. Health and Safety remains a key strategic priority to further enhance the Company's performance and to develop the leadership skills and behaviour required to achieve a positive and high performing culture.

### Employees

The Board recognises the importance of engaging employees to help them make their fullest contribution to the business, which is fundamental to achieving the Company's strategy and long-term objectives. Hyperoptic uses a variety of media to inform employees about the Company's development and prospects and seeks and listens to employees' views and opinions.

The Company's annual "Kick off Meeting", which is open to all employees, is the forum by which the Chief Executive informs and updates staff on the Company's performance plans and future outlook and provides employees with an opportunity to provide feedback, ask questions, or to seek clarification, on the Company's purpose, goals and direction.

There is a quarterly "pulse" survey to check employee engagement and satisfaction, which is reviewed by the Board and senior leadership team to produce action plans to address areas of concern and improve staff retention.

# Hyperoptic Limited

## Strategic report *(continued)* for the year ended 31 December 2019

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### ***Employees (continued)***

The Company is committed to improving the skills of employees through training and development and through nurturing a culture in which employees feel valued for their contribution and motivated to achieve their full potential.

### ***Customers***

The Company aims to treat its customers fairly and do business with them in a sustainable way. It constantly strives to exceed its customers' expectations and it monitors customer satisfaction and feedback using Trustpilot surveys. On occasions where the Company falls short it offers reasonable compensation (including automatic compensation in line with Ofcom guidance) and has a comprehensive complaints code published on its website.

### ***Suppliers***

The Company aims to treat its suppliers fairly and do business with them in a sustainable way. It also has a responsibility to make sure that its suppliers operate with high ethical standards.

The Company has therefore established a procurement department to work closely with its supply base and to ensure it understands the way in which those businesses operates. The Company has conducted relevant business continuity planning in relation to significant risks, to minimise business disruption from its supply base.

The Company is committed to doing all it can to assist in the eradication of slavery and human trafficking. It has a zero-tolerance approach to any slavery or human trafficking activity within its business or in its supply chain.

### ***Regulators and industry forums***

The Company operates under General Conditions of Entitlement (the "GCs") (established by Ofcom in accordance with the Communications Act 2003). There are three broad sections of the GCs: Network Functioning Conditions; Numbering and Technical Conditions; and Consumer Protection Conditions. The directors have established policies to ensure that the Company complies with these obligations as well as other requirements from voluntary codes. As requirements evolve or new ones are established, the Company reviews them and kicks off work streams to ensure that processes are amended accordingly.

The Company is engaged with policy and regulatory development at many levels. This ranges from the CEO having meetings with the Secretary of State, other Ministers and the Chair of Ofcom to the policy team interfacing at senior and working levels with DCMS, Ofcom and the Office of the Telecoms Adjudicator ("OTA"). The OTA are independent of Ofcom and primarily deal with major or strategic issues affecting the rollout and performance of Openreach products and services.

### ***Risk management***

The board seeks to embed effective risk management, considering both opportunities and threats, throughout the organization. The Board has established a risk committee to own the Company's risk management framework and ensure it identifies and addresses all relevant risks in order to execute and deliver the Company's agreed strategy. The principle risks and their mitigations are listed in the Strategic Report on pages 2-4.

The board is mindful of all stakeholder's risk tolerance and risk appetite when setting strategy and carefully determine the extent of risk exposure, especially in the areas of the Company's supply chain, project delivery and liquidity, that the stakeholders will accept.

# Hyperoptic Limited

## Strategic report (*continued*) for the year ended 31 December 2019

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### Corporate governance

The Board of Hyperoptic Limited is governed by the Thunderbird Topco Limited shareholder agreement.

The Board members have a collective responsibility and legal obligation to promote the interests of the Company, and are collectively responsible for defining corporate governance arrangements.

The Board is supported by committees drawn from the senior leadership that have the necessary skills and knowledge to help the Board discharge their duties and responsibilities effectively.

Good governance supports open and fair business, ensures that the Company has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Whilst Board oversight is always maintained, key decisions are made by the individuals and committees with the most appropriate knowledge and industry experience. Each Board member has a clear understanding of their accountability and responsibilities.

The Board receives regular and timely information (at least monthly) on all key aspects of the business including health and safety, risks and opportunities, the financial performance of the business, strategy, operational matters, market conditions and sustainability, all supported by Key Performance Indicators (KPIs).

Key financial information is collated from the Company's various accounting systems. The Company's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. Financial information is currently externally audited by BDO LLP on an annual basis.

This Strategic report was approved by order of the Board on 2 July 2020.



**D Tobak**

**Director**



# Hyperoptic Limited

## Report of the directors for the year ended 31 December 2019

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The directors present their report together with the audited financial statements for the year ended 31 December 2019.

### Future developments

The future developments of the business are discussed in the Strategic report on page 2

### Results and dividends

The statement of comprehensive income is set out on page 9 and shows the loss for the year. The directors do not recommend payment of a dividend (2018: £Nil).

### Directors

The directors of the Company during the year were:

B Ivanovic (Resigned 22 January 2020)  
D Tobak  
P White (Appointed 22 January 2020)

### Directors indemnities and insurance

The Company's Articles of Association provide for the indemnification of its directors and the company secretary to the extent permitted by the Companies Act 2006 and other applicable legislation, out of the assets of the Company, in the event that they incur certain expenses in connection with the execution of their duties. In addition, and in common with many other companies, the Company has directors' and officers' liability insurance, in respect of certain losses or liabilities to which officers of the Company may be exposed in the discharge of their duties.

### Information included in the strategic report

As permitted by s414C(11) of the Companies Act, certain directors' report requirements of Schedule 7 of the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to the Company's engagement with employees have been included in the Strategic Report on page 5.

### Financial instruments

The Company policy is to minimise the financial risks of interest rate volatility. The Company uses interest rate swap arrangements to fix the interest rate on a minimum of 50% and maximum of 110% of the principal outstanding on the £500m loan facility. As of 31 December 2019, the loan facility had a hedge of 56% on the principal outstanding on the loan. These cash flow hedges were effective monthly, matching the interest period of the loan facility. Management does not consider the unhedged proportion of the loan facility to be a significant risk to the business.

Borrowings due to fellow group companies are at a fixed interest rate. The payment of interest is deferred and will continue to be deferred on an ongoing basis.

### Research and development

The Company continues to invest in the development of both its website and its internal network management and customer relationship management software. Costs in respect of this development have been capitalised on the balance sheet.

# Hyperoptic Limited

## Report of the directors for the year ended 31 December 2019

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### Branch office

The Company has a branch office in Belgrade that provides support services.

### Equal opportunities

The Company is an active equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit.

The Company has for many years focused on fostering a diverse and inclusive working environment and has implemented specific development programmes to assist business leaders in engaging further with their teams and in demonstrating the contribution that each individual can make to the success of the Company. The Company is committed to growing a diverse pool of talent for purposes of long term succession planning.

The Company gives full and fair consideration to applications for employment made by disabled people and encourages and assists the recruitment, training, career development and promotion of disabled people. The Company endeavours to retain and adjust the environment of employees who become disabled during the course of their employment.

### Post balance sheet events

To ensure that the business maintains sufficient cash reserves during the current Coronavirus crisis, on 25 March 2020 the Company drew down £35m from the existing revolving credit facility and on 31 March 2020 it drew down a further £60m from the existing syndicated debt facility.

### 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 purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

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

Approved by the Board of Directors on 2 July 2020 and signed on its behalf by :



D Tobak

Director

# Hyperoptic Limited

## Statement of directors' responsibilities for the year ended 31 December 2019

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### Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

# Hyperoptic Limited

## Independent auditor's report

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### INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF HYPEROPTIC LIMITED

#### Opinion

We have audited the financial statements of Hyperoptic Limited ("the Company") for the year ended 31 December 2019 which comprise the statement of comprehensive income, the statement of other comprehensive income, the statement of financial position, the 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 United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

# Hyperoptic Limited

## Independent auditor's report (*continued*)

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### **Other information (*continued*)**

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

In preparing the financial statements, the Directors are responsible for assessing the 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.

# Hyperoptic Limited

## Independent auditor's report (*continued*)

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### 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.

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

David Butcher (Senior Statutory Auditor)  
For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom

2 July 2020

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

# Hyperoptic Limited

## Statement of comprehensive income for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
<b>Turnover</b>	3	<b>39,205</b>	26,900
Cost of sales		(7,487)	(6,032)
<b>Gross profit</b>		<b>31,718</b>	20,868
Distribution costs		(4,049)	(3,799)
Administrative expenses		(68,358)	(31,819)
Other operating income	6	752	559
<b>Operating loss</b>	6	<b>(39,937)</b>	(14,191)
Interest receivable and similar income		114	30
Interest payable and similar expenses	7	(24,026)	(9,238)
Fair value movement on interest rate swap	14	(2,550)	-
<b>Loss on ordinary activities before taxation</b>		<b>(66,399)</b>	(23,399)
Taxation on loss on ordinary activities	8	(167)	(260)
<b>Loss for the financial year</b>		<b>(66,566)</b>	(23,659)

All amounts recognised relate to continuing activities.

The notes on pages 19 to 29 form part of these financial statements.

# Hyperoptic Limited

## Statement of other comprehensive income for the year ended 31 December 2019

	Note	2019 £'000	2018 Restated £'000
Loss for the financial year		(66,566)	(23,659)
Other comprehensive loss for the year	14	-	(305)
<b>Total loss and other comprehensive loss for the year</b>		<b>(66,566)</b>	<b>(23,964)</b>

The notes on pages 19 to 29 form part of these financial statements




# Hyperoptic Limited

## Statement of financial position at 31 December 2019

<b>Company number 07222543</b>	<b>Note</b>	<b>2019 £'000</b>	<b>2019 £'000</b>	<b>2018 £'000</b>	<b>2018 £'000</b>
<b>Fixed assets</b>					
Tangible assets	9		125,387		77,741
<b>Current assets</b>					
Stock	10	4,441		3,220	
Debtors	11	22,404		7,395	
Cash at bank and in hand		33,136		7,830	
		<u>59,981</u>		<u>18,445</u>	
<b>Creditors: amounts falling due within one year</b>	12	<u>(61,454)</u>		<u>(51,082)</u>	
<b>Net current liabilities</b>			(1,473)		(32,637)
<b>Creditors: amounts falling due after more than one year</b>	13		(201,522)		(80,897)
<b>Net liabilities</b>			<u>(77,608)</u>		<u>(35,793)</u>
<b>Capital and reserves</b>					
Called up share capital	15		60,965		36,214
Share premium account	19		184		184
Profit and loss account	19		(138,757)		(72,191)
<b>Shareholders' deficit</b>			<u>(77,608)</u>		<u>(35,793)</u>

The financial statements were approved by the board of directors and authorised for issue on 2 July 2020.

  
 D Tobak  
 Director

The notes on pages 19 to 29 form part of these financial statements.

# Hyperoptic Limited

## Statement of changes in equity For the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2018	36,214	184	(48,227)	(11,829)
Loss for the financial year	-	-	(23,659)	(23,659)
Other comprehensive loss			(305)	(305)
<b>Total comprehensive loss</b>	-	-	<b>(23,964)</b>	<b>(23,964)</b>
Balance as at 31 December 2018	<b>36,214</b>	<b>184</b>	<b>(72,191)</b>	<b>(35,793)</b>

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019	36,214	184	(72,191)	(35,793)
Loss for the financial year	-	-	(66,566)	(65,566)
<b>Total comprehensive loss</b>	-	-	<b>(66,566)</b>	<b>(66,566)</b>
Shares issued in business combination	24,751	-	-	24,751
<b>Total transactions with owners, recognised directly in equity</b>	<b>24,751</b>	-	-	<b>24,751</b>
Balance as at 31 December 2019	<b>60,965</b>	<b>184</b>	<b>(138,757)</b>	<b>(77,608)</b>

The notes on pages 19 to 29 form part of these financial statements.

# Hyperoptic Limited

## Statement of cash flows for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
<b>Cash flows from operating activities</b>			
Loss for the financial period		(66,566)	(23,964)
Adjustments for:			
Depreciation		15,163	8,394
Amortisation of issue costs on long-term loans		11,542	1,277
Interest receivable		(114)	(30)
Interest payable		12,469	7,961
Fair value movement on swaps		2,550	305
Taxation expense		167	260
Increase in inventory		(1,221)	(1,745)
Increase in receivables		(2,749)	(3,589)
Increase in payables		8,012	17,175
		<hr/>	<hr/>
		(20,747)	6,044
Interest payable		(12,469)	(7,961)
Tax charge		(167)	(260)
		<hr/>	<hr/>
<b>Net cash utilised in operating activities</b>		<b>(33,383)</b>	<b>(2,177)</b>
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Acquisition of fixed assets		(39,286)	(26,385)
Capitalised staff costs		(23,524)	(14,930)
Interest received		114	30
		<hr/>	<hr/>
<b>Net cash utilised in investing activities</b>		<b>(62,696)</b>	<b>(41,285)</b>
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of equity		24,751	-
Issue of long-term loans		266,500	52,085
Repayment of long-term loans		(157,570)	-
Issue costs on new long-term loans		(12,296)	(7,760)
		<hr/>	<hr/>
<b>Net cash generated from financing activities</b>		<b>121,385</b>	<b>44,325</b>
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		<b>25,306</b>	<b>863</b>
Cash and cash equivalents at the beginning of the period		7,830	6,967
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period</b>		<b>33,136</b>	<b>7,830</b>
		<hr/>	<hr/>

The notes on pages 19 to 29 form part of these financial statements.

# Hyperoptic Limited

## Notes forming part of the financial statements for the year ended 31 December 2019

### 1 Accounting policies

Hyperoptic Limited is a private company, limited by shares and domiciled in England and Wales. The registered office is set out on the contents page 1. The nature of the Company's operations and its principal activities are set out in the strategic report.

These financial statements have been prepared in accordance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland' and the Companies Act 2006. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates (see note 2). It also requires management to exercise judgement in applying the Company's accounting policies.

The following principal accounting policies have been applied:

#### *Going concern*

At the end of the reporting period the Company has current liabilities in excess of its current assets by £1,473,000 (2018: £32,637,000) and total liabilities in excess of total assets by £77,608,000 (2018: £35,973,000).

Subsequent to the year-end the Company faced a significant disruption in the business due to government's lockdown in view of the outbreak of the Coronavirus. The directors have prepared a cash flow forecast covering a period of 12 months from the date of these Financial Statements.

The demand for broadband services increased during the lockdown, however, the movement restrictions caused operational limitations for the Company to expand its network and service new customers. Therefore, to ensure that the business maintains sufficient cash reserves during the current Coronavirus crisis the Company drew down £35m from the existing revolving credit facility and a further £60m from the existing term debt facility in March 2020. The directors have performed a stress test of the Company's cash flow forecasts for next 12 months by substantially reducing the growth in customers and revenue for a period of 6 months from March 2020 to September 2020 to assess potential liquidity requirements. The directors believe that any cash flow needs of the Company can be covered through the existing cash balances and the significant undrawn loan facility available to the Company. Under the stressed scenario, the Company expects the recovery of business activities towards the end of 2020 which is considered reasonable given the lockdown was lifted on 15 June 2020 allowing the Company to re-initiate its plans to accelerate its network expansion.

The directors have assessed the conditions precedent required to be met in order to drawdown further loans and consider that the Company is in a strong position to meet such conditions precedent. Moreover, the covenants are also likely to be met comfortably over the going concern assessment period.

In addition, the Company has received a letter of support from its ultimate parent company and a commitment that amounts owing to group undertakings of £38,788,000 will not be recalled for a period of at least 12 months from the date of these financial statements.

Given the facts and circumstances, the directors believe that the Company will have sufficient funds to continue for the foreseeable future. Therefore, they consider it appropriate to prepare the financial statements on a going concern basis.

#### *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost less depreciation. Costs capitalised include internal personnel costs incurred to bring the network asset up to working condition. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives.

# Hyperoptic Limited

## Notes forming part of the financial statements for the year ended 31 December 2019 (continued)

### 1 Accounting policies (continued)

#### Depreciation rates applied

Leasehold improvements	- 20% straight line
Network asset	- 10% straight line
Physical infrastructure asset	- 5% straight line
Software	- 20-25% straight line
Motor vehicles	- 20% straight line
Office equipment	- 25% straight line

At each reporting date fixed assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss to recognise. If there is an indication of possible impairment this is recognised immediately in the income statement.

#### Revenue

Revenue is attributable to the sale of high speed Internet broadband and the installation of the infrastructure related to that provision. Revenue is recognised net of sales tax and discounts when the amount of revenue can be reliably measured.

Installation fees are recognised evenly over the period of the contract.

Revenue from internet and broadband services provided to residential customers is recognised on a monthly basis commencing when the services are provided.

#### Derivative instruments

The Company uses interest rate swaps and floor contracts to adjust interest rate exposures. The fair value of interest rate swap and floor contracts are determined by calculating the present value of the estimated future cash flows based on observable yield curves.

#### Financial instruments

Financial assets, other than investments and derivatives are initially measured at transaction price and subsequently held at cost, less any impairment. Derivatives are initially recognised at fair value and the movement recorded in the statement of Other Comprehensive Income. Financial liabilities are initially measured at transaction price and subsequently held at amortised cost.

#### Operating leases

Rentals under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

#### Stock

Stock is valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving items. Cost is based on the cost of purchase on a first in, first out basis.

#### Customer Acquisition Costs

The directly attributable costs of acquiring customers is capitalised and amortised on a straight-line basis over the expected life of the customer. The expected life of a customer is estimated to be 36 months. These customer acquisition costs have been capitalised within prepayments.

# Hyperoptic Limited

## Notes forming part of the financial statements for the year ended 31 December 2019 (*continued*)

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### 1 Accounting policies (*continued*)

#### *Taxation*

The tax expense for the period comprises current and deferred tax. Tax is recognised in statement of comprehensive income, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

#### *Foreign currencies*

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the reporting date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the statement of comprehensive income.

### 2 Significant judgements and estimate

The preparation of financial statements under FRS 102 requires management to make judgements, estimates and assumptions which affect the application of certain accounting policies and reported amounts in the financial statements. The areas requiring a higher degree of complexity or judgement or where the effect of assumptions or estimates are significant to the financial statements are detailed below:

#### *Useful economic life of tangible fixed assets*

The Company depreciates the tangible fixed assets over their useful economic lives which reflects management's estimate for the period that the Company intends to derive future economic benefits from the use of those tangible fixed assets. Changes in the expected level of usage of technological developments could affect the useful economic lives and residual value of these assets. This could affect the future depreciation charge of these assets. The carrying amount of the group's tangible fixed assets are disclosed in note 9 to the financial statements.

### 3 Turnover

All turnover arose from the Company's principal activities within the United Kingdom.

# Hyperoptic Limited

Notes forming part of the financial statements  
for the year ended 31 December 2019 (continued)

## 4 Employees

	2019 £'000	2018 £'000
Staff costs including directors' remuneration, consist of:		
Wages and salaries	41,938	23,345
Social security costs	3,750	2,748
Pension costs	940	272
Less: costs capitalised	(23,524)	(14,930)
	<u>23,104</u>	<u>11,435</u>

The average monthly number of employees, including directors, during the year was 1,179 (2018: 667), split as follows:

	2019	2018
Directors	2	2
Head office	132	68
Customer services	67	46
IT and Systems	29	23
Marketing and Sales	162	109
Network and Field	787	419
	<u>1,179</u>	<u>667</u>

## 5 Key management and directors remuneration

Key management personnel include all directors and senior executives of the Company, who together have authority and responsibility for planning, directing and controlling the activities of the group. The total compensation paid to key management personnel for services provided to the Company was £2,415,030 (2018: £1,361,201). The Company paid into the pension scheme for 10 (2018:10) key management personnel.

The directors remuneration for the period was:

	2019 £'000	2018 £'000
Emoluments	<u>661</u>	<u>294</u>

Emoluments of the highest paid director was £661,460 (2018: £294,040). Company pension contributions of £8,858 (2018: £5,225) were made to a defined contribution scheme on their behalf.

# Hyperoptic Limited

## Notes forming part of the financial statements for the year ended 31 December 2019 (*continued*)

### 6 Operating loss

	2019 £'000	2018 £'000
This has been arrived at after charging/(crediting):		
Depreciation of tangible fixed assets - owned by the Company	15,163	8,394
Auditors' remuneration:		
- Audit services	85	47
- Tax services	57	12
- Other services	-	8
Operating lease expense	2,334	797
Research and development expense	376	276
Difference on foreign exchange	(46)	45
Other income	(752)	(559)

Other income relates to the receipt of service level credits from a supplier.

### 7 Interest payable

	2019 £'000	2018 £'000
Amounts due to group undertakings	3,683	3,272
Interest due on loans	8,786	4,689
Amortisation of loan issue costs	11,557	1,277
	<u>24,026</u>	<u>9,238</u>

### 8 Taxation on loss on ordinary activities

	2019 £'000	2018 £'000
<i>Analysis of tax charge in the year</i>		
<b>Current tax</b>		
UK corporation tax	-	-
Foreign corporation tax – prior period	-	-
Foreign corporation tax – current period	167	260
<b>Total current tax</b>	<u>167</u>	<u>260</u>



# Hyperoptic Limited

## Notes forming part of the financial statements for the year ended 31 December 2019 (continued)

### 8 Taxation on loss on ordinary activities (continued)

#### Factors affecting tax charge for the year

The tax assessed for the year is higher than (2018: higher than) the standard rate of corporation tax in the UK. The differences are explained below:

	2019 £'000	2018 £'000
Loss on ordinary activities before tax	(63,849)	(23,399)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	(12,131)	(4,446)
Effects of:		
Expenses not deductible for tax purposes	6,696	787
Deferred tax not recognised and other adjustments	4,785	3,037
Company relief surrendered	650	622
Foreign tax suffered	167	260
Total tax charge for year	167	260

#### Factors that may affect future tax charges

The Company has an unrecognised deferred tax asset arising from its unrelieved trading losses and fixed asset timing differences, which has not been recognised due to the uncertainty over the level and timing of profits in the future. The unrecognised deferred tax asset is made up as follows:

	2019 £'000	2018 £'000
Unrecognised deferred tax asset	12,326	7,911

The unrecognised deferred tax asset relates to unrelieved trading losses available to carry forward £38,617,138 (2018: £23,818,165), fixed asset timing differences £33,511,233 (2018: £20,321,810) and other timing differences of £378,603 (2018: £52,996).

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

In November 2019, the Prime Minister announced that he intended to cancel the future reduction in corporation tax rate from 19% to 17%. This announcement does not constitute substantive enactment and therefore deferred taxes at the balance sheet date continue to be measured at the enacted tax rate of 17%. However, it is possible that the corporation tax rate remains at 19% after 1 April 2020.

# Hyperoptic Limited

Notes forming part of the financial statements  
for the year ended 31 December 2019 (*continued*)

## 9 Tangible assets

	Leasehold Improvements £'000	Network Asset £'000	Physical Infrastructure Access £'000	Software £'000	Motor Vehicles £'000	Office Equipment £'000	Total £'000
<i>Cost</i>							
At 1 January 2019	1,015	76,326	12,424	8,472	6	2,003	100,246
Additions	284	46,647	12,640	2,401	-	837	62,809
	<u>1,299</u>	<u>122,973</u>	<u>25,064</u>	<u>10,873</u>	<u>6</u>	<u>2,840</u>	<u>163,055</u>
<i>Depreciation</i>							
At 1 January 2019	202	16,468	540	4,638	6	651	22,505
Charge for the year	225	9,912	977	3,462	-	587	15,163
	<u>427</u>	<u>26,380</u>	<u>1,517</u>	<u>8,100</u>	<u>6</u>	<u>1,238</u>	<u>37,668</u>
<i>Net book value</i>							
At 31 December 2019	<u>872</u>	<u>96,593</u>	<u>23,547</u>	<u>2,773</u>	<u>-</u>	<u>1,602</u>	<u>125,387</u>
At 31 December 2018	<u>813</u>	<u>59,858</u>	<u>11,884</u>	<u>3,834</u>	<u>-</u>	<u>1,352</u>	<u>77,741</u>

## 10 Stock

	2019 £'000	2018 £'000
CPE, switch and material stock	<u>4,441</u>	<u>3,220</u>

# Hyperoptic Limited

Notes forming part of the financial statements  
for the year ended 31 December 2019 (continued)

## 11 Debtors

	2019 £'000	2018 £'000
Trade debtors	3,994	3,223
Other debtors	1,246	553
Amounts owed by group undertakings	12,626	-
Prepayments and accrued income	3,251	1,521
VAT recoverable	1,287	2,061
Derivative financial instruments (note 14)	-	37
	<u>22,404</u>	<u>7,395</u>

## 12 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	5,304	6,636
Amounts owed to group undertakings	38,788	35,321
Corporation tax	(99)	170
Other taxation and social security	957	744
Accruals and deferred income	13,431	8,060
Pension payable	415	90
Other creditors	145	61
Derivative financial instruments (note 14)	2,513	-
	<u>61,454</u>	<u>51,082</u>

Included within amounts owed to group undertakings is a loan from JHW Bidco Limited of £15,000,000 (2018: £15,000,000). The loan is repayable in full upon written demand made by the lender. Interest is payable at a rate of 12% per annum. Interest due for the period to 31 December 2019 of £3,789,302 (2018: £3,271,936) is included within amounts owed to group undertakings. The payment of interest has been deferred by the related group undertaking and will continue to be deferred on an ongoing basis. Other balances included within amounts owed to group undertakings are not subject to any interest charges or repayment terms. The Company has received a letter of support from its ultimate parent company and a commitment that the amounts owing to group undertakings of £38,788,000 will not be recalled for a period of at least 12 months from the date of these financial statements.

## 13 Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Loan	201,000	80,528
Accruals and deferred income	375	222
Other creditors	147	147
	<u>201,522</u>	<u>80,897</u>

# Hyperoptic Limited

## Notes forming part of the financial statements for the year ended 31 December 2019 (continued)

### 13 Creditors: amounts falling due after more than one year (continued)

On 1 November 2019, KKR indirectly acquired a majority stake in the Company's parent undertaking and the existing loan facilities agreement of £250m was closed.

A new loan facilities agreement of £500m with an additional £35m revolving credit facility was established and an initial drawdown of £171,000,000 was made against this facility agreement on 1 November 2019. £157,570,000 was used to repay the old facility.

The new facility bears interest at LIBOR plus a 3.5% margin during the draw down period, with repayment falling due on 1 November 2026.

On 30 December 2019 a further drawdown of £30,000,000 was made against the facility agreement.

### 14 Financial instruments

	2019 £'000	2018 £'000
<b>Financial assets measured at fair value through the statement of other comprehensive income</b>		
Interest rate swaps	(2,513)	36
<b>Financial assets that are debt instruments measured at amortised cost</b>		
Trade debtors	3,994	3,223
Other debtors	2,533	2,614
Amounts due from group undertakings	12,626	-
<b>Financial liabilities measured at amortised cost</b>		
Bank loan	(201,000)	(92,071)
Trade creditors	(5,304)	(6,636)
Accruals	(10,142)	(5,096)
Amounts owed to group undertakings	(38,895)	(35,321)
Other creditors	(560)	(151)

The Company purchased interest rate swaps to manage interest risk volatility on firm future commitments. The fair value of these derivative financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates.

### 15 Share capital

	2019 Number	Allotted, called up and fully paid 2018 Number	2019 £'000	2018 £'000
Ordinary shares of £1 each	60,965,344	36,213,506	60,965	36,214

# Hyperoptic Limited

## Notes forming part of the financial statements for the year ended 31 December 2019 (continued)

### 16 Commitments under operating leases

As at 31 December 2019, the Company had commitments under non-cancellable operating leases as set out below:

	Land and buildings 2019 £'000	Land and buildings 2018 £'000	Other operating leases 2019 £'000	Other operating leases 2018 £'000
In under one year	1,946	985	1,406	786
In one to five years	5,191	1,026	1,361	872
Later than five years	4,523	315	-	-
Total	11,660	2,326	2,767	1,658

### 17 Net debt reconciliation

	1 January 2019 £'000	Cashflows £'000	Non-cash movements £'000	31 December 2019 £'000
Cash and cash equivalents	7,830	25,306	-	33,136
Bank Loans	(92,070)	(108,930)	-	(201,000)
Interest accrued but not yet paid	(719)	-	(832)	(1,551)
Interest rate swaps	37	-	(2,550)	(2,513)
Total	(84,922)	(83,624)	(3,382)	(171,928)

There are no restrictions over the use of the cash and cash equivalents balances which comprises cash at bank and in hand, and bank overdrafts.

### 18 Related party transactions

The Company has taken advantage of the exemption conferred by FRS 102 Section 33 "Related Party Disclosures" paragraph 33.1A not to disclose transactions with group companies on the grounds that 100% of the voting rights in the Company are controlled by the group.

The only related party transaction not covered is the rental of the Company's Serbian office premises from a director of the ultimate parent company. This totalled £70,000 in the year (2018: £70,000). This is rented on an arm's length basis at prevailing market rent. The balance outstanding due by the Company to the director as at the year end was £nil (2018: £17,161).

### 19 Controlling party

100% of the share capital is held by the Company's immediate parent company JHW Bidco Limited a company registered in England and Wales. The Company's ultimate parent company is Thunderbird Topco Limited, a company registered in Jersey. Thunderbird Topco Limited is controlled by KKR.

# Hyperoptic Limited

## Notes forming part of the financial statements for the year ended 31 December 2019 (*continued*)

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### 20 Reserves

#### Share premium account

Share premium includes amount subscribed on issue of equity shares in excess of the nominal value, net of any issue costs.

#### Profit and loss account

Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

### 21 Non-adjusting Subsequent Events

On 25 March 2020 the Company drew down £35m from the existing revolving credit facility and on 31 March 2020 it drew down a further £60m from the existing syndicated debt facility.

During the first quarter of 2020, the World Health Organisation declared the outbreak of a novel coronavirus ("COVID-19") as a "Public Health Emergency of International Concern", which continues to spread throughout the world and has adversely impacted global and local commercial activity and contributed to the significant declines and volatility in financial markets. The outbreak has caused a significant business disruption and impacted the growth of the Company due to lockdown across the UK.

The Company continues to monitor the impact of the COVID-19 outbreak closely and expect a recovery in the business activity following the ease in the lockdown on 15 June 2020. The impact on going concern is disclosed in note 1.