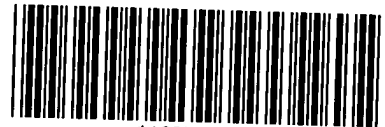


Gigaclear Limited

Annual Report and Accounts 2019

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Directors and advisers

Company registration number

07476617

Registered office

Building One
Wyndyke Furlong
Abingdon
Oxon
OX14 1UQ

Directors

Stephen Nelson - Non-Executive Chairman
Michele Armanini
Gareth Williams
Ian Wade
Andrew Matthews
Anthony Mooney

Auditors

Grant Thornton UK LLP
3140 Rowan Place
John Smith Drive
Oxford Business Park South
Oxford
OX4 2WB

Registrars

Neville Registrars Limited
Neville House
Steelpark Road
Halesowen
West Midlands
B62 8HD

<http://www.gigaclear.com>

Who we are

Gigaclear is an award-winning provider of ultrafast broadband to homes and businesses located in rural communities. We are on a mission to unlock the potential of rural communities across the UK by bridging the digital divide.

From our first network in Appleton, Oxfordshire, built in 2012 to the latest added in 2019, Geddington in Northamptonshire, we are now proud to be the leading rural full fibre broadband provider in the UK. This gives us the ability to offer ultrafast broadband services to our rural communities, allowing them to enjoy next generation speeds - all day, every day.

Our full fibre network is already present in over 200 rural communities and covers more than 22 counties across the South West, the Midlands and the South East. At year-end 2019, our network was capable of providing world class speeds to c. 100,000 rural homes and businesses.

Fibre is the Future

Gigaclear believes that access to reliable, ultrafast broadband changes lives by enabling rural communities to participate in modern commerce and to take advantage of the services, information and communication capabilities that are part of daily life in urban environments.

Gigaclear's next generation network bridges the digital divide, giving rural citizens the freedom to work and play at home while also helping companies to thrive, grow and compete in a digital age.

How we do it

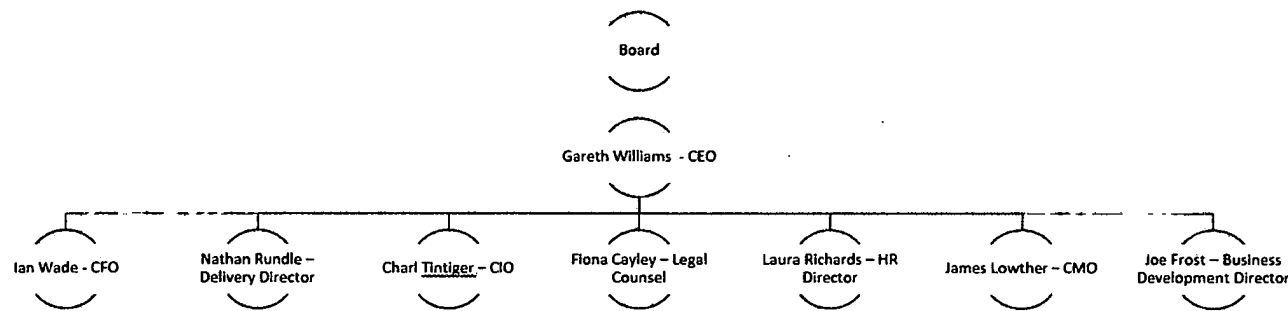
Gigaclear invests in rural communities by building state-of-the-art fibre networks. We do this in partnership with Building Digital UK (BDUK), Local Authorities, Highways England and a community of contractors who help us to deploy our networks.

Our teams work tirelessly to identify communities in need of our service.

Company structure

Management

Gigaclear is led by Gareth Williams and his management team. This team is dedicated to two primary goals: building to as many homes as is economically feasible in our designated build areas, and serving as many homes as possible at a fair and viable price point. The leadership team are skilled and experienced in Telecoms, Large Scale Infrastructure projects and creating award winning customer propositions.



The team manages 337 employees vs. 272 a year ago.

CEO Review

My first year with Gigaclear has been focused on transformational change. Operationally we made great headway in pivoting the business towards a step change in growth. We are doing this through operational imperatives and organisational change. In 2019, we regionalised our delivery capability, establishing five regional offices (six including HQ), capable of fully managing the delivery of networks in their respective territories. To bolster this effort, we recruited exceptional leaders to help us manage our regional operations and we added c.100 staff to aid us in this process.

Together with my Leadership Team, we identified a set of Key Programs to assist us in achieving our mission of ramping up our build activity while at the same time ensuring that we control our costs, deliver high quality networks, improve the efficiency of our processes and develop our internal talent pool. All of this, while at the same time, improving our customer experience, refining our product portfolio and improving service levels in all areas of the business. There is much to do but I am confident that we have put in place a solid foundation from which to grow and have implemented a number of key initiatives to help us improve further in 2020.

At the same time, we tackled a significant challenge in Devon & Somerset. We reached an agreement to exit our Connecting Devon And Somerset ("CDS") contracts in September. Commercially, the CDS contracts proved economically non-viable and it was not possible to restructure the agreements without breaching government procurement rules.

In a nutshell, we professionalised the business in 2019 and put in place the necessary foundations to achieve our long-term goal of becoming the UK's leading alternative provider of full fibre networks in rural communities.

In the midst of all of this change, the company continued to deploy its networks unabated:

- Our network passed 129,000 properties at year-end, an increase of 36,000 properties; and
- Pots 'ready for service' increased to 97,600, an increase of 31,600 properties.

On the retail side of the business, we strive to put the customer first. We took significant steps to improve our brand in 2019 and further professionalised our communication with prospective clients. I am pleased to report that our recent NPS survey yielded a result of +28 (BT's NPS for comparison is +5). We developed new pricing tiers in 2019 and partnered with Linksys to provide our clients with an industry leading mesh Wi-Fi solution, enabling our customers to enjoy ultrafast wireless broadband in their homes. We ended 2019 with almost 24,000 customers, an increase of 26% over 2018.

The Group generated revenue of £11.3m (2018: £9.0m). After overheads, depreciation and funding-related costs, the consolidated loss for the year was £33.8m (2018: loss of £27.4m). These losses are to be expected. The company is still very much in its growth phase and it is expected that we will continue to report losses in the near to medium term as the business scales. Our losses are driven by the investment we have made to build an organisation capable of delivering on our five year vision, coupled with the fact that the monetisation of networks, which requires an upfront investment in sales and marketing, lags the construction of networks.

In order to invest in our networks and cover our financial losses the Group requires access to capital. In 2019, our shareholders contributed £85m and Gigaclear entered into an £80m short term debt facility with three leading high street banks. We have subsequently refinanced this facility in 2020 with a £525m debt package, sized to meet our medium term capital needs.

In summary, 2019 was a successful first year in our transformation plan. We reorganised the company and secured the trust of the banking community, underpinning our capital needs for the foreseeable future. The need for fibre in the UK is now at the forefront of the political agenda and we have the team, the capability and the financial means to realise this market opportunity.



Gareth Williams
Chief Executive
29th April 2020

Strategic report

Key performance indicators

The Group tracks a number of key performance indicators in the management of its business. These include:

- Cost per property passed: The cost of building past each property in the network
- Average revenue per customer, excluding VAT
- Net new customer connections
- Build rate: The speed at which fibre networks are built and customers are connected

This year's build rate and cost per property were largely in line with management's expectations. During 2019 we experimented with several new commercial offers and discounts. This had a small negative impact on our cash ARPU of approximately 40p. We ended the year with 2% fewer clients than budgeted.

Funding

At our stage of development Gigaclear is dependent on external capital to fund our operations and to finance the construction of our networks. During the year, our shareholders provided the Company with £85m of additional equity finance.

In September, we signed an £80m debt facility as a prelude to the £525m debt package we signed on 17th March 2020 with Lloyds, NatWest, Santander and ABN Amro. This half a billion pound commitment is expected to fund the next stage of Gigaclear's growth. The debt package consists of a £485m seven-year capex facility and a £45 revolving credit facility. In some communities we hold contracts with local authorities to build our network using subsidies provided to us under a gap funded model from BDUK. In these communities, Gigaclear invests approximately £9 of its own capital for every £1 of subsidy it receives.

Corporate Social Responsibility

Gigaclear believes that a commitment to the principles of corporate social responsibility (CSR) makes good business sense and complements our core business strategy and corporate values. Our policy is based on the following principles:

- Minimise the impact and maximise the benefit that our work has on the environment and people around us
- Integrate CSR considerations into all of our business decisions
- Comply with, and exceed where practical, all applicable legislation, regulations and codes of practice; and
- Continually strive to improve our CSR performance.

In developing our strategy and setting out our policy we aim to deliver gradual but continuous improvements in our performance every year. As a result, our approach continues to evolve as we learn lessons along the way. To help define our policy we have divided it into four key areas:

- Our People
- Communities
- Environment
- Responsible Trading

Our progress and tracking of social and environmental performance is governed by the Board of Directors, and the wider Environmental, Social and Governance (ESG) requirements communicated to us by our majority shareholder.

Employees

At Gigaclear, engaged and empowered people are core to our success and as such we continually strive to improve the working environment. We do this by listening to our employees, committing to action, honest dialogue and regularly reviewing the progress we are making. In 2019 we achieved our company goal of supporting more than 25% of our employees to take their next career step with Gigaclear and we seek to build on this in the year ahead. We want our employees to feel proud to work for Gigaclear and to be proud of the progress we are making, encouraging collaborative working across the organisation to overcome our challenges. We strive through our recruitment and management practices to encourage diversity and offer an inclusive working environment where everyone has the opportunity to add value and fulfil their potential.

Strategic report

(continued)

At year end, the Gigaclear team consisted of 337 employees vs. 272 a year ago. The growth of our teams was predominantly in the regions in our quest to realise greater accountability, knowledge and responsiveness.

Health and Safety

The building of FTTP networks entails a large amount of civil works. At times, the construction of networks can potentially take place in hazardous environments. The safety of our employees, supply chain and the public is a top priority for Gigaclear.

Gigaclear's HSEQ department has established a detailed strategic plan tailored around our Safety First program. This program is focused on improving the quality and compliance of our operations, ensuring the protection and welfare of our workforce and those that may be affected by our activities. Key initiatives include the introduction of a universal identification and skills card, the development of thorough HSEQ standards and rules for contractors, increased compliance monitoring and enforcement measures to drive behavioural change and operational effectiveness.

The HSEQ Department, who oversee the delivery of the strategy, work closely with local authorities, the supply chain and delivery teams on a pragmatic and collaborative basis to drive improvement whilst continuing to consider the commercial and operational requirements of the business.

Environment

We believe that businesses are responsible for achieving good environmental practice and operating in a sustainable manner. We are therefore committed to reducing our environmental impact and continually improving our environmental performance as an integral and fundamental part of our business strategy and operating methods.

Not only is this sound commercial sense for all; it is also a matter of delivering on our duty of care towards future generations.

It is our policy to:

- Wholly support and comply with or exceed the requirements of current environmental legislation
- Comply with all relevant codes of practice
- Minimise our waste and then reuse or recycle as much of it as possible
- Minimise energy and water usage in our buildings, vehicles and processes in order to conserve supplies, and minimise our consumption of natural resources, especially where they are non-renewable
- Operate and maintain company vehicles (where appropriate) with due regard to environmental issues as far as reasonably practical and encourage the use of alternative means of transport and car sharing as appropriate
- Apply the principles of continuous improvement in respect of air, water, noise and light pollution from our premises and reduce any impacts from our operations on the environment and local community
- As far as possible purchase products and services that do the least damage to the environment and encourage others to do the same
- Assess the environmental impact of any new processes or products we intend to introduce in advance

Risks and uncertainties

Principal Risk	Mitigation and Considerations
Competition from BT and new FTTP entrants	<ul style="list-style-type: none"> • By design, Gigaclear builds in less competitive areas of the country. Our focus is on rural communities, which are more expensive to address, underserved by both BT and alternative players and for which subsidy and voucher schemes are likely to apply. • We apply rigorous screening and planning criteria before building networks in new communities. Our goal is to provide broadband in poorly served communities. • We do not believe that our target communities are capable of economically supporting multiple competitors. If a competitor accesses a community before Gigaclear this will likely make the area economically non-viable. We believe that there are at least 1.0 million homes in our footprint which satisfy our screening requirements.

Strategic report

(continued)

Principal Risk	Mitigation and Considerations
Price competition and / or lower than expected demand for our services	<ul style="list-style-type: none"> • In our footprint we compete against cheaper, inferior offerings. • On a per Mbit basis we are significantly cheaper than the competition but depending on the service, our monthly fee could be higher than the fee levied by our competitors for their inferior products. • We have seen decent take-up of our ultrafast products but not all prospective clients are aware of the benefits of our service or are currently prepared to pay more for a next generation service. In some cases, clients are not yet prepared to forgo bundled offerings (fixed line voice, TV) in favour of a superior, disaggregated broadband offering. • It is our belief that the passage of time plays in our favour and that ultimately most prospective clients will come to recognise the benefits of receiving an ultrafast broadband service and that most communication products will be disaggregated and provided over the top (e.g. Netflix, Amazon TV, Skype, etc.). • Nevertheless, we are not complacent or prepared to wait for the market to bend to our will. We are evaluating partnerships which will allow us to bundle third party offerings together with our broadband service in order to deliver additional value to our clients.
Failure to reduce the per unit cost of a home passed	<ul style="list-style-type: none"> • The long term economics of our business are dependent on our ability to reduce the average price of a home passed. • Gigaclear's BDUK contracts by definition require that we build networks in sparsely populated, fairly large geographic areas. The cost of establishing these networks is relatively high. Nevertheless, we believe that these foundational networks provide us with access to new, marginally cheaper to access properties and that by selectively utilising Openreach PIA infrastructure, coupled with new build methodologies we will ultimately improve our cost per home passed.
Internal disruption as we scale the business and seek to improve the cost of delivering homes	<ul style="list-style-type: none"> • Change comes with disruption. We have challenged the business to both increase the rate of build and to innovate new build methodologies / technological approaches to lower the cost of homes passed. • As the business tackles these challenges there is a risk that we could inadvertently stymie growth.
Availability of contractors and contractor resource	<ul style="list-style-type: none"> • Gigaclear is highly dependent on third party contractors to deliver our networks on contractual terms that make economic sense. • In 2019, we engaged with 10 key contractors across our footprint. • To ensure that our engagement with both our current and prospective contractors is well managed and well balanced we established a new department in 2019: the Commercial Services Directorate • This team is tasked with identifying, onboarding and managing our relationships with our community of contractors • This has proven to be a fruitful endeavour, and since the introduction of the team, we identified and have onboarded / are onboarding an additional 8 new suppliers.

Strategic report

(continued)

Principal Risk	Mitigation and Considerations
Safety, health and sustainability	<ul style="list-style-type: none"> • HSEQ (Health, Safety, Environment and Quality Management) Director appointed to establish a professional HSEQ department. • The HSEQ Department reports directly to the CEO and is independent from the delivery organisation. • The HSEQ Department is responsible for auditing work spaces, ensuring that quality is attained, that teams are properly equipped and trained and that we act in the best interests of our employees and the public. • We initiated a <i>Safety First</i> programme in 2019 and safety is now a mandatory agenda item for all contractor meetings.
Covid-19	<ul style="list-style-type: none"> • At time of going to press, the full impact of the Corona virus is difficult to assess but full compliance with applicable regulations and community welfare has been achieved, including: <ul style="list-style-type: none"> – Day-to-day office functions are conducted from employees' homes; – The Group manages a register, assessing the current status of an employee's health, recent travel activity and availability to work from and capability to work from home; – We also manage a risk register assessing the potential impact of the virus on our suppliers and where possible mitigate this risk; – Our delivery teams and contractors are still able to operate out in the field. Telecommunications employees are deemed to be key workers and are exempt from the social distancing and travel restriction rules; – At risk employees are required to self-isolate; – Employees are not allowed to enter communities that have confirmed cases of the virus; and – Regular dialogue with government bodies to ensure that our business can continue to deliver its networks in accordance with prevailing Health and Safety rulings.
Failure to retain key employees and identify future leaders	<ul style="list-style-type: none"> • Managers undertake a regular review with key employees to assess the extent to which they might be a flight risk. • Potential future leaders for key roles are identified, championed and given focussed support in terms of their career development. • Employees who are key contributors are included in the organisation's bonus scheme to aid retention. • Key employees are on longer notice periods to reduce the risk associated with them leaving. • A full review of key talent and leadership capability is carried out by the Board of Directors once a year.
Increased costs and reduced build rate due to ineffective contract management	<ul style="list-style-type: none"> • We established the Commercial Services Directorate in 2019 resulting in significant improvements in our process, systems and governance of our build programme • We are continuing to evolve our contractual framework to give the business greater real-time visibility and control over its delivery programmes.

Strategic report

(continued)

Principal Risk	Mitigation and Considerations
Losses and access to funding	<ul style="list-style-type: none"> • The construction of new ultrafast networks is highly capital consuming. • Gigaclear is currently loss making and is envisaged to remain so in the near term. • Consequently, the business is dependent on capital infusions to sustain its operations and growth ambitions. • We are fortunate to have the support of Infracapital who injected an additional £85m of equity into the business in 2019 and the support of the banking community who provided us with an £80m loan in 2019. On 17th March 2020 we closed a £525m debt financing which is sufficient to support our medium term growth aspirations. • It is important to note that our access to capital and the terms on which this capital is made available to us, is dependent on our operational and financial performance.
Interest rates	<ul style="list-style-type: none"> • Thus far the Group's use of debt has been limited and we have not hedged our interest rate exposure. • Under the terms of the £525m financing secured in March 2020, the business has committed to fixing the rate on at least 70% of its expected drawings over the term of the facility. • Hedging levels will be assessed quarterly and hedges will be put in place to ensure that interest rate risk is appropriately managed.

Regulatory developments

The UK Government has set the ambitious target of achieving nationwide deployment of gigabit-capable broadband networks by 2025. This goal accelerates the UK Government's previous goal of nationwide coverage by 2033. To enable the acceleration in full fibre delivery that this requires, DCMS commissioned the 'Future Telecoms Infrastructure Review' (FTIR) which set out changes to be made to the UK telecoms market policy framework. These policy recommendations are intended to reduce the barriers to rolling out fibre networks and to encourage competition at the network level. At a high level, these points concern:

- Reducing the cost of deploying full fibre networks as much as possible by addressing barriers to deployment. The Government has launched a Barrier Busting Taskforce with the objective of reducing the cost of deploying networks by identifying and removing barriers. Gigaclear will propose legislative and non-legislative measures to tackle the biggest barriers we see to deployment; supporting market entry and expansion by alternative network operators through effective access to Openreach's ducts and poles, complemented by access to other utility infrastructure, for example, sewers;
- Stable and long-term regulation that incentivises network investment and ensures fair and effective competition between new and existing network operators;
- An 'Outside In' approach to deployment that means gigabit-capable connectivity across all of the UK is achieved on a similar timescale, and no areas are left behind; and
- A switchover process to enable consumer migration to gigabit-capable services and the deactivation of the legacy copper network.

Together, these policy priorities seek to encourage investment in full fibre and are broadly supportive of Gigaclear's ambition of connecting 500,000+ rural properties by 2023.

As part of the 'Outside In' approach, HM Treasury has committed £5bn to a new simpler BDUK administered state aid programme to enable gap-funded support for fibre rollouts in hard to reach rural areas. The first of these contracts is expected to be open to tender in December 2020.

Beyond the elements set out within the FTIR, wider regulatory changes are also aimed at encouraging investment in new alternative operators. Thanks to changes in regulations that govern voice and broadband switching, from December 2020 customers will no longer need to contact their current provider in order to change provider. This will mean larger operators cannot rely on offering deals only to customers who are trying to move. This will help operators compete against larger, more established service providers.

Strategic report

(continued)

Financial Review

Revenue increased 26% to £11.3m from £9.0m in 2018. The increase in revenue was driven by selling into new network areas and increasing our penetration across our more mature networks.

The consolidated operating loss for the year was £32.6m (2018: £26.7m). As was the case in previous years, this is in line with forecasts. We continue to focus our efforts on building new network areas and as such Gigaclear carries the cost of a significant network delivery organisation that is not revenue generating. While the business is focused on growth and is making a significant investment in its networks assets it will continue to experience net operating losses. We expect to become profitable as the business matures and the rate of new network construction decelerates.

In 2019 we made significant investments in our organisation. We enhanced our delivery capability through the establishment of the regional delivery organisation and the Commercial Services Directorate and continued to invest in the capability of our IT & Systems department. These various initiatives brought additional costs into the business but are required to allow the business to step up the pace of construction in order to meet our delivery plans in the medium term.

Exceptionally, the Group incurred a number of costs related to the termination of the CDS contracts. We booked a provision of £0.9m, an amount we expected to pay as a settlement in relation to the contract termination. Furthermore, we additionally assessed, that without the CDS subsidies, a number of our assets and projects in CDS were no longer economically viable. Consequently, we took an asset impairment charge of £5.4m and wrote off approximately £0.6m of development costs.

The additional costs of scaling the business and the exceptional amounts increased our operating expenses for the year to £40.9m (2018: £30.0m).

During the year we incurred net finance costs of £1.1m (2018: £0.7m) on debt utilised to fund the business. In September we repaid our loan from the EIB and signed an £80m Bridge Facility. At 31st December, we had drawn £29m of the Bridge Facility.

The consolidated loss for the year was £33.8m (2018: loss of £27.4m).

The balance sheet remains well capitalised with net assets at the year-end of £184.6m (2018: £133.5m) reflecting the ongoing investment in the construction of new networks.

In 2019, the business was funded with £85m of additional equity and drawings on the Bridge Facility.

Cash at 31st December 2019 was £2.6m (2018: £5.3m).

On behalf of the Board,



Gareth Williams
Chief Executive Officer
29th April 2020

Directors' report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December 2019.

Directors

The Directors who held office during the year were:

Stephen Nelson – Appointed Non-Executive Chairman 1st April 2019
Michele Armanini
Gareth Williams - Appointed 4th February 2019
Ian Wade - Appointed 13th March 2019
Andrew Matthews - Appointed 16th April 2019
Anthony Mooney - Appointed 16th July 2019
Charles McGregor (Non-Executive Chairman) - Resigned 31st March 2019
Eddie Minshull - Resigned 31st March 2019
David Smyth - Resigned 14th February 2019

Director responsibilities

The Directors acknowledge their duty under s.172 of the Companies Act 2006 and consider that they have, both individually and together, acted in the way that, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, they have had regard (amongst other matters) to:

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

The Directors consider that the information already provided in the Strategic and Directors' Reports adequately covers these matters.

Going concern

Gigaclear's Directors continue to adopt the going concern basis of presentation for the Group's 2019 financial statements. The Directors have arrived at this opinion after reviewing the Company's annual and five year business plan, availability of funding, including the new £525m debt package, and are satisfied that the Company is able to adequately fund its operations for the foreseeable future.

Financial risks and risk management

Information relating to the Group's financial risk management is set out in the Strategic Review and in Note 28 – Financial Risk Management – of the financial statements.

Employees

Gigaclear is committed to offering equal opportunities of employment, training and career development. Its policies are designed to attract, develop and support the most highly skilled employees with the greatest potential, regardless of gender, sexual orientation, race, nationality, religion, age, disability or educational background.

The Company encourages the participation of all employees in the operation and progression of the Business. Gigaclear has developed numerous channels to regularly and reliably communicate with our people, including monthly staff briefings, more detailed quarterly business updates, use of platforms for sharing information and a quarterly employee newsletter. All managers are expected to hold regular 1 to 1's and team meetings. The Business' goals are well communicated and embedded within the performance management process with half yearly objective setting and a company bonus scheme for senior managers. Progress against the targets is shared monthly.

Gigaclear holds a detailed annual employee engagement survey and an action plan is formulated to drive improvement in employee satisfaction across the business. An Employee Engagement group meets bi-monthly to review progress against the action plan and to raise new items for consideration. Employees are encouraged to raise concerns with their managers, HR and HSEQ and there is a mechanism for anonymously asking questions and making suggestions.

Directors' report

(continued)

Gigaclear maintains a range of easily accessible written policies designed to ensure that it operates in a legal and ethical manner. These policies cover issues such as health & safety, data protection, ethical corporate governance, environmental issues as well as policies which help to ensure that we provide our employees with a positive working environment. These policies are regularly reviewed and updated.

Outlook

In 2019 we made tremendous progress towards our goal of preparing Gigaclear to make a step change in output. We will continue to transform Gigaclear throughout 2020 and we will continue to work with and onboard new contractor partners and innovate the way we build our networks. Our goal for 2020 is to progressively step up our delivery of homes passed at economically viable prices and to continue to grow our customer base, whilst providing excellent service to our existing customers.

Important events affecting the company since year-end

As discussed in the Funding section of the Strategic Report, the Company entered into a £525m financing arrangement on 17th March 2020. The Board, senior management and all employees remain attentive to the significant demands that the Covid-19 crisis is imposing on all communities with which the business is associated. Additional information relating to Covid-19 is set out in the Strategic Review.

Disclosure of information to auditor

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the company's auditor is unaware, and;
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

On behalf of the Board



Gareth Williams

Director

29th April 2020

Statement of Directors' responsibilities in respect of the Annual report, Strategic report, the Directors' report and the financial statements

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 they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) 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 group and parent company and of their profit or loss 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 estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Gigaclear Limited

Opinion

We have audited the financial statements of Gigaclear Limited ("the parent company") and its subsidiaries (together, "the group") for the year ended 31 December 2019 which comprise the Consolidated statement of comprehensive income, the Consolidated and Company statements of financial position, the Consolidated and Company statements of cash flows, the Consolidated and Company statements 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern

basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

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 group's or the parent 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

In our evaluation of the directors' conclusions, we considered the risks associated with the group's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the group's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group will continue in operation.

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

Independent auditor's report to the members of Gigaclear Limited

(continued)

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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statements set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditors-responsibilities. 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.

Grant Thornton UK LLP

Mark Bishop FCA

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor, Chartered Accountants
OXFORD

29th April 2020

Consolidated statement of comprehensive income

For the year ended 31st December 2019

	Notes	2019 £'000	2018 £'000
Continuing operations			
Revenue	6	11,265	8,979
Cost of sales		(2,962)	(2,431)
Gross profit		8,303	6,548
Operating expenses		(40,937)	(29,978)
Share-based payments	27	—	(3,288)
Operating loss	7	(32,634)	(26,718)
Finance income	10	54	185
Finance costs	10	(1,188)	(864)
Net finance expense		(1,134)	(679)
Loss before taxation		(33,768)	(27,397)
Taxation	11	—	—
Loss for the year		(33,768)	(27,397)
Total comprehensive loss for the year		(33,768)	(27,397)
Loss attributable to:			
Equity owners of parent company		(33,768)	(27,397)
Earnings per share			
Basic and diluted loss per share (£)		0.35	0.38

The notes on pages 23 to 45 form part of these financial statements.

Consolidated statement of financial position

As at 31st December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Intangible assets	12	49	49
Property, plant & equipment	13	233,301	162,053
		233,350	162,102
Current assets			
Inventories		645	436
Trade and other receivables	20	6,015	2,632
Cash and cash equivalents		2,586	5,348
Restricted cash	21	460	460
		9,706	8,875
Total Assets		243,056	170,978
Liabilities			
Current liabilities			
Trade and other payables	22	(19,327)	(9,435)
Borrowings	18	(28,879)	(2,408)
Contract liabilities	23	(1,315)	(1,310)
Lease liabilities	15	(292)	—
Provisions	25	(3,470)	(3,800)
		(53,283)	(16,953)
Non-current liabilities			
Borrowings	18	—	(19,262)
Other payables	24	(1,021)	(1,289)
Lease liabilities	15	(4,129)	—
		(5,150)	(20,551)
Total Liabilities		(58,433)	(37,504)
Net assets		184,623	133,474
Equity attributable to owners of the parent			
Share capital	26	1,031	818
Share premium	26	143,182	58,477
Retained profit/(losses)		40,410	74,179
Total equity and reserves		184,623	133,474

The notes on pages 23 to 45 form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 29th April 2020 and were signed on their behalf by:



Gareth Williams
Director

Company statement of financial position

As at 31st December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Intangible assets	12	49	49
Property, plant & equipment	13	233,301	162,053
		233,350	162,102
Current assets			
Inventories		645	436
Trade and other receivables	20	6,015	2,632
Cash and cash equivalents		2,586	5,347
Restricted cash	21	460	460
		9,706	8,875
Total Assets		243,056	170,977
Liabilities			
Current liabilities			
Trade and other payables	22	(19,327)	(9,435)
Borrowings	18	(28,879)	(2,408)
Contract liabilities	23	(1,315)	(1,310)
Lease liabilities	15	(292)	—
Provisions	25	(3,470)	(3,800)
		(53,283)	(16,953)
Non-current liabilities			
Borrowings	18	—	(19,262)
Other payables	24	(1,021)	(1,289)
Lease liabilities	15	(4,129)	—
		(5,150)	(20,551)
Total Liabilities		(58,433)	(37,504)
Net assets		184,623	133,473
Equity attributable to owners of the parent			
Share capital	26	1,031	818
Share premium	26	143,182	58,477
Retained profit/(losses)		40,410	74,178
Total equity and reserves		184,623	133,473

The notes on pages 23 to 45 form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 29th April 2020 and were signed on their behalf by:



Gareth Williams
Director

Consolidated statement of cash flows

For the year ended 31st December 2019

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Loss after tax		(33,768)	(27,397)
Adjustments for:			
Depreciation of tangible fixed assets	13	11,116	6,719
Share-based payments	27	—	3,288
Finance costs (net)	10	1,134	679
Impairment of tangible fixed assets	14	5,408	—
Loss on disposal of property, plant & equipment		767	—
Operating loss before changes in working capital		(15,343)	(16,711)
Increase in inventory		(210)	(189)
Increase in trade and other receivables		(3,793)	(723)
Increase in trade and other payables		9,681	9,569
Net cash outflow from operating activities		(9,665)	(8,054)
Investing activities			
Purchase of property, plant & equipment	13	(86,567)	(82,499)
Proceeds from sale of property, plant & equipment		25	—
Grant received in respect of BDUK	13	2,523	2,644
Interest received	10	54	185
Net cash flow from investing activities		(83,965)	(79,670)
Financing activities			
Proceeds from issue of ordinary shares net of costs	26	84,917	58,669
Repayment of borrowings and leasing liabilities		(22,258)	(602)
Interest paid	10	(791)	(868)
Proceeds from borrowings	18	29,000	—
Net cash flow from financing activities		90,868	57,199
Net decrease in cash and cash equivalents		(2,762)	(30,525)
Cash and cash equivalents at beginning of year		5,348	35,873
Cash and cash equivalents at end of year		2,586	5,348

The above cashflow excludes the restricted cash balance of £460,000. See Note 21 for further details.

The notes on pages 23 to 45 form part of these financial statements.

Company statement of cash flows

For the year ended 31st December 2019

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Loss after tax		(33,767)	(27,415)
Adjustments for:			
Depreciation of tangible fixed assets	13	11,116	6,719
Share-based payments	27	—	3,288
Finance costs (net)	10	1,134	679
Impairment of fixed assets	14	5,408	—
Loss on disposal of property, plant & equipment		767	—
Operating loss before changes in working capital		(15,342)	(16,729)
Increase in inventory		(210)	(189)
Increase in trade and other receivables		(3,793)	(706)
Increase in trade and other payables		9,681	9,572
Net cash outflow from operating activities		(9,664)	(8,052)
Investing activities			
Purchase of property, plant & equipment	13	(86,567)	(82,499)
Proceeds from sale of property, plant & equipment		25	—
Grant received in respect of BDUK	13	2,523	2,644
Interest received	10	54	185
Net cash flow from investing activities		(83,965)	(79,670)
Financing activities			
Proceeds from issue of ordinary shares net of costs	26	84,917	58,669
Repayment of borrowings and leasing liabilities		(22,258)	(602)
Interest paid	10	(791)	(868)
Proceeds from borrowings	18	29,000	—
Net cash flow from financing activities		90,868	57,199
Net decrease in cash and cash equivalents		(2,761)	(30,523)
Cash and cash equivalents at beginning of year		5,347	35,870
Cash and cash equivalents at end of year		2,586	5,347

The above cashflow excludes the restricted cash balance of £460,000. See Note 21 for further details.

The notes on pages 23 to 45 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31st December 2019

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Retained losses £'000	Total equity £'000
At 1st January 2018	626	127,362	2,245	(31,156)	99,077
Impact of change in accounting policy	—	—	—	(163)	(163)
Capital reduction	—	(127,362)	—	127,362	—
Issue of share capital on exercise of employee share options	44	11,210	(5,533)	5,533	11,254
Employee share based compensation	—	—	3,288	—	3,288
Issue of share capital on private placement	148	47,267	—	—	47,415
Transactions with owners	192	58,477	—	—	58,669
Loss for the year	—	—	—	(27,397)	(27,468)
Total comprehensive loss for the year	—	—	—	(27,397)	(27,468)
At 31st December 2018	818	58,477	—	74,179	133,474
At 1st January 2019	818	58,477	—	74,179	133,474
Issue of share capital on private placement	213	84,705	—	—	84,917
Transactions with owners	213	84,705	—	—	84,917
Loss for the year	—	—	—	(33,768)	(33,768)
Total comprehensive loss for the year	—	—	—	(33,768)	(33,768)
At 31st December 2019	1,031	143,182	—	40,410	184,623

The notes on pages 23 to 45 form part of these financial statements.

Company statement of changes in equity

For the year ended 31st December 2019

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Retained losses £'000	Total equity £'000
At 1st January 2018	626	127,362	2,245	(31,138)	99,095
Impact of change in accounting policy	—	—	—	(164)	(164)
Capital reduction	—	(127,362)	—	127,362	—
Issue of share capital on exercise of employee share options	44	11,210	(5,533)	5,533	11,254
Employee share-based compensation	—	—	3,288	—	3,288
Issue of share capital on private placement	148	47,267	—	—	47,415
Transactions with owners	192	58,477	—	—	58,669
Loss for the year	—	—	—	(27,415)	(27,415)
Total comprehensive loss for the year	—	—	—	(27,415)	(27,415)
At 31st December 2018	818	58,477	—	74,178	133,473
At 1st January 2019	818	58,477	—	74,178	133,473
Issue of share capital on private placement	213	84,705	—	—	84,917
Transactions with owners	213	84,705	—	—	84,917
Loss for the year	—	—	—	(33,767)	(33,767)
Total comprehensive loss for the year	—	—	—	(33,767)	(33,767)
At 31st December 2019	1,031	143,182	—	40,410	184,623

The notes on pages 23 to 45 form part of these financial statements.

Notes to the financial statements

1 Reporting entity

Gigaclear Limited (the "Company") is a limited company incorporated and domiciled in England. Its ultimate controlling party is Infracapital (Gc) Gp Limited.

The address of the Company's registered office is Building One, Wyndyke Furlong, Abingdon, Oxfordshire, OX14 1UQ. The consolidated financial statements of the Company as at and for the year ended 31st December 2019 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

The Group's principal activity is that of telecommunications service provider.

2 Going concern

Gigaclear's Directors continue to adopt the going concern basis of presentation for the Group's 2019 financial statements. The Directors have arrived at this opinion after reviewing the Company's annual and five year business plan, availability of funding, including the new £525m debt package, and are satisfied that the Company is able to adequately fund its operations for the foreseeable future.

3 Adoption of new and revised standards

IFRS 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases – Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as leases under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1st January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessments as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.1%.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 31st December 2018 (as disclosed in the financial statements to 31st December 2018) to the lease liabilities recognised at 1st January 2019:

	£'000
Total operating lease commitments disclosed at 31st December 2018	5,129
Discounted using incremental borrowing rate	(807)
Total lease liabilities recognised under IFRS 16 at 1st January 2019	4,322

Notes to the financial statements

(continued)

4 Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company's individual statement of comprehensive income has not been presented in the Group's annual financial statements as the company has taken advantage of the exemption not to disclose under Section 408(3) of the Companies Act 2006. The Company's comprehensive loss for the year ended 31st December 2019 was £33,767,000 (2018: £27,415,000) and is included in the consolidated statement of comprehensive income.

These consolidated financial statements were authorised for issue by the Board of Directors on 29th April 2020.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis and as a going concern.

c) Functional and presentation currency

These consolidated financial statements are presented in Pound Sterling, which is the company's functional currency. All information presented in Pound Sterling has been rounded to the nearest thousand, except when otherwise indicated.

d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are disclosed below.

- *Depreciation, useful lives and residual values of property, plant & equipment*

The Directors estimate the useful lives and residual values of property, plant & equipment in order to calculate the depreciation charges. Changes in these estimates could result in changes being required to the annual depreciation charges in the statement of comprehensive income and the carrying values of the property, plant & equipment in the statements of financial position.

Plant and equipment in our networks represents underground fibre, cabling and contracted civil engineering works. It also represents 'point of presence' which includes cabinets, switches, chambers and pots. The annual depreciation is sensitive to the estimated service lives allocated to each type of asset. Asset lives are assessed annually and change when necessary to reflect management's current estimates of remaining useful lives in light of technological change and condition of the assets.

5 Significant accounting policies

Except for the changes outlined in Note 3 arising from the adoption of IFRS 16, the accounting policies set out below have been applied consistently to all periods presented in the historical consolidated financial information.

Basis of consolidation

The historical financial information consolidates the financial results of the Company and all its subsidiary undertakings drawn up to 31st December each year.

A subsidiary is determined based on whether the Company is able to control the entity. Control exists where the Company has power over the entity; is exposed to or has rights to variable returns from the entity and has the ability to use its power over the entity to affect the amount of the return. Power is the right to direct the relevant activities of the entity, being those activities that significantly affect the entity's returns. Exposure to variable returns exists where the return to the Company has the potential to vary as a result of the entity's performance. The historical consolidated

Notes to the financial statements

(continued)

5 Significant accounting policies (continued)

financial information has been prepared by using the principles of acquisition accounting ("the purchase method"), which includes the results of the subsidiaries in the historical consolidated financial information from their date of acquisition (i.e. when control commences) until the date that control ceases.

Changes in the investment subsidiaries that do not lead to a change of control are accounted for directly in equity and accordingly no profit or loss arises.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

Acquisition related costs are expensed as incurred.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated fully on consolidation.

The subsidiaries of the Group are listed in note 16.

Foreign currency translation

Functional and presentational currency

Items included in the financial results of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate (the functional currency). The historical consolidated financial information is presented in Pounds Sterling.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Notes to the financial statements

(continued)

5 Significant accounting policies (continued)

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Group does not have any financial assets categorised as FVTPL or FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset

All income and expenses relating to financial assets that are recognised in profit or loss are presented with finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Impairment of financial assets

IFRS 9's impairment requirements use forward-looking information to recognise expected credit losses – the "expected credit loss (ECL) model." This replaces IAS 39's "incurred loss model." Instruments within the scope of IFRS 9 include trade receivables.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and determining expected credit losses. The information reviewed includes including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognised for the first category while "lifetime expected credit losses" are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Notes to the financial statements

(continued)

5 Significant accounting policies (continued)

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating expected losses, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assesses impairment of trade receivables on a collective basis (as they possess shared credit risk characteristics) and are grouped based on days past due. Note 28 provides a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables. Financial liabilities are initially measured at fair value and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, all financial liabilities are measured at amortised cost using the effective interest method except for financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Equity

Equity comprises the following:

- Share capital represents amounts subscribed for shares at nominal value
- Share premium represents amounts subscribed for share capital in excess of nominal value and net of issue costs
- Retained earnings represents the accumulated profits and losses attributable to equity shareholders
- Shared-based employee remuneration is credited to the share-based payment reserve until the related share options are exercised. Upon exercise the share-based payment reserve is transferred to retained earnings
- Non-controlling interest represents the share of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests

Property, plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost less the estimated residual value of each asset over their expected useful economic lives, as follows:

Plant and Machinery

– Underground infrastructure	Straight-line over 25 years
– Access equipment	Straight-line over 7-12 years
– Point of presence	Straight-line over 10 years
– Other plant and machinery	Straight-line over 3-5 years

Motor vehicles	Straight-line over 3 years
Office equipment	Straight-line over 3 years
Computer equipment	Straight-line over 3 years
Right-of-use assets	Straight-line over the lease term
Leasehold property improvements	Straight-line over the lease term

The carrying values of plant and equipment are reviewed at each statement of financial position date to determine whether there are any indications of impairment. If any such indication exists, the assets are tested for impairment to estimate the assets' recoverable amounts. Any impairment losses are recognised in the statement of comprehensive income.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the statement of comprehensive income.

Notes to the financial statements

(continued)

5 Significant accounting policies (continued)

Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Amortisation is calculated on a straight-line basis over the estimate useful life of the asset as follows:

Customer contracts	Straight-line over 20 years
--------------------	-----------------------------

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset.

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost and comprise cash in hand, cash at bank, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Leases

As described in Note 3, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means that comparative information is still reported under IAS 17 and IFRIC 4.

For any new contracts entered into or after 1st January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as a 'contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;
- the Group has the right to direct the use of the identified asset throughout the period of use.

Notes to the financial statements

(continued)

5 Significant accounting policies (continued)

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables

Revenue

Revenue consists of internet connectivity fees, customer connection fees, commission earned on the sale of VOIP services to customers by an external service provider and other income from the sale of stock and network build carried out for customers who do not have an ongoing contract with the Group.

To determine whether to recognise revenue, the Group follows a 5-step process:

- 1 Identifying the contract with a customer
- 2 Identifying the performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to the performance obligations
- 5 Recognising revenue when/as performance obligations(s) are satisfied.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position (see Note 21). Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Internet connectivity fees

Revenue from the monthly fees charged to customers for providing access to the internet is recognised in line with the time period for which the connection is provided. Fees are charged and payable monthly in advance and revenue for dates beyond the current accounting period is reported in the statement of financial position as a contract liability.

Notes to the financial statements

(continued)

5 Significant accounting policies (continued)

Customer connection fees

Connection fees are one-off fees charged to customers at the outset of the contract to cover set up and installation services. These fees are included in the client's first invoice and are payable together with the first monthly connectivity fee. As such, the Group judges that connection services form a part of a bundle of services to deliver internet connectivity services. The revenue from the connection fees is therefore recognised over the same time period as the customer's internet connectivity services contract. Revenue which relates to the portion of the customer's contract which is beyond the current accounting period is reported in the statement of financial position as a contract liability. Customer contracts vary in length, the standard residential contract is 18 months, business contract is 24 months, and wholesale customer contract is 12 months.

VOIP Commission

VOIP services are provided to the Group's customers by an external service provider. The Group receives commission for each customer who subscribes to a VOIP service. The commission is received monthly in arrears and is recognised in the period for which the commission is paid.

Other Income

Other income relates to sales of stock and network build activity carried out for customers who do not have a contract with the Group for the provision of ongoing services. The revenue is recognised in the financial statements when the stock has been transferred or the building work is complete.

Employee benefits

Contributions to pension schemes

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately in an independently administered fund. Contributions to the Company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

Short term employee benefits

Wages, salaries, paid annual leave, paid sick leave and bonuses are recognised as an expense in the period in which the associated services are rendered by employees.

The Group operated an equity-settled share-based compensation plan until April 2018. Under the plan, the fair value of the employees' services received in exchange for the grant of options was recognised as an expense over the vesting period, based on the group's estimate of awards that would eventually vest, with a corresponding increase in equity.

Fair value was determined using the Black-Scholes option pricing model. At each statement of financial position date, the number of options that were expected to vest was estimated. The impact of any revision of original estimates, if any, was recognised in profit or loss, with a corresponding adjustment to equity, over the remaining vesting period.

The proceeds received when vested options were exercised, net of any directly attributable transaction costs, were credited to share capital and share premium.

On 9th March 2018, Infracapital (GC) SLP LP announced an offer to acquire the shares in the company that it didn't already own. The offer was declared unconditional on 13th April 2018. The outstanding employee share options at this date were accelerated and exercised. They were then purchased by Infracapital as part of the acquisition process.

Current and deferred income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered or paid to the taxation authorities. A provision is made for corporation tax for the reporting period using the tax rates that have been substantially enacted for each company at the reporting date in the country where each company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

Deferred income tax is provided in full on an undiscounted basis, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes to the financial statements

(continued)

5 Significant accounting policies (continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Government grants

Government grants are offset against fixed assets in the balance sheet and depreciated over the expected useful lives of the assets to which they relate. Where a grant has been received in advance of the acquisition of the related asset, the grant is included in deferred income until the acquisition occurs.

6 Revenue

	2019 £'000	2018 £'000
Internet connectivity fees	10,667	8,459
Customer connection fees	406	300
VOIP commission	122	171
Other income	70	49
	11,265	8,979

Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period amounted to £1,171,000 (2018: £619,000).

7 Operating loss

	2019 £'000	2018 £'000
Operating loss on continuing operations is stated after charging:		
Depreciation of tangible fixed assets	11,116	6,724
Auditor's remuneration	50	32
Auditor's remuneration (non-audit work)	8	12
Operating leases	—	603
Loss on disposal of property, plant & equipment	767	—
Impairment of tangible assets	5,408	—
Provision for network remedial costs	—	3,800

8 Auditors' remuneration

	2019 £'000	2018 £'000
Amounts receivable by the Group's auditors for the audit of these financial statements	45	42
Under/(over) accrual of amounts receivable by the Group's current/previous auditor for the audit of the prior year's financial statements	5	(10)
Amounts receivable by the Group's auditor and its associates in respect of:		
Taxation compliance services	8	9
Amounts receivable by the Group's previous auditor and its associates in respect of taxation compliance services	—	3
	58	44

All fees were paid to Grant Thornton UK LLP, apart from £3,000 paid to KPMG LLP in 2018 for taxation compliance services and the reversal of the over accrual for the audit of the prior year's financial statements in 2018.

Notes to the financial statements

(continued)

9 Average staff numbers

	2019 Number	2018 Number
Technical & Operations	229	164
Sales & Marketing	42	43
Administration	31	23
Management	8	10
	310	240

Staff costs	2019 £'000	2018 £'000
Salaries, bonus & allowances	16,190	11,502
Social security	1,909	1,281
Pension contributions	339	167
Share based payments	—	3,288
	18,438	16,238

10 Finance income and finance costs

	2019 £'000	2018 £'000
Interest on short term bank deposits	54	185
Finance income	54	185
Interest on bank loan	(1,014)	(864)
Interest expense for leasing arrangements	(174)	—
Finance costs	(1,188)	(864)
Net finance costs recognised in profit or loss	(1,134)	(679)

11 Taxation

	2019 £'000	2018 £'000
Current tax expense	—	—
Origination and reversal of temporary differences	(—)	(—)
Deferred tax credit	(—)	(—)
Total tax credit	(—)	(—)

Notes to the financial statements

(continued)

11 Taxation (continued)

The current tax charge for the year differs from that resulting from the loss before tax at the standard rate of corporation tax in the UK. The differences are explained below:

	2019 £'000	2018 £'000
Loss before tax	(33,767)	(27,486)
Current tax at 19% (2018: 19.0%)	(6,416)	(5,222)
Effects of:		
Tax losses carried forward	6,375	4,522
Non-deductible expenses	13	695
Fixed asset adjustments	28	5
Total tax credit	—	—

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1st April 2017) and to 18% (effective 1st April 2020) were substantively enacted on 26th October 2015, and an additional reduction to 17% (effective 1st April 2020) was substantively enacted on 6th September 2016. This would reduce the company's future current tax charge accordingly. The unrecognised deferred tax asset at 31st December 2019 has been calculated based on these rates. In the Spring Budget 2020, The Government announced that from 1st April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17th March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

The Group is still in the early stages of networks going live, and has to date not generated a profit. The Group requires a certain number of live networks and a certain level of penetration across these networks to generate a profit. Due to the uncertainty as to when the Group will be able to utilise the tax losses a deferred tax asset has not been recognised.

The Group has not recognised a deferred tax asset in respect of £12,399,00 of tax losses and £2,743,000 in respect of fixed asset timing differences carried forward (2018: £9,487,000).

12 Intangibles

Group and Company	Customer Relationships £'000
Cost	
At 1st January 2018	224
Additions	—
Disposals	(175)
At 31st December 2018	49
Additions	—
Disposals	—
At 31st December 2019	49
Amortisation & Impairment	
At 1st January 2018	175
Amortisation charge for the year	—
Impairment charge	—
Disposals	(175)
At 31st December 2018	—
Amortisation charge for the year	—
Impairment charge	—
At 31st December 2019	—
Net book value	
At 31st December 2017	49
At 31st December 2018	49
At 31st December 2019	49

Intangibles relate to the valuation of the customers acquired as part of the acquisition of the trade and assets of Aylesbury Vale Broadband on 30th December 2017.

Notes to the financial statements

(continued)

13 Property, plant & equipment

Group	Buildings £'000	Plant & machinery £'000	Office equipment £'000	Computer equipment £'000	Under construction £'000	Motor vehicles £'000	Total £'000
Cost							
At 1st January 2018	—	84,768	2,243	15	8,670	112	95,808
Additions	—	19,463	2,425	—	57,838	177	79,903
Disposals	—	(36)	(88)	(15)	(4)	—	(143)
Transfers	—	24,051	8	—	(24,059)	—	—
At 31st December 2018	—	128,246	4,588	—	42,445	289	175,568
Adjustment on transition to IFRS16	4,007	—	—	—	—	—	4,007
Additions	512	28,912	1,299	—	54,340	3	85,066
Disposals	—	(224)	(349)	—	(1,059)	(80)	(1,712)
Transfers	—	55,644	—	—	(55,644)	—	—
At 31st December 2019	4,519	212,578	5,538	—	40,082	212	262,929
Depreciation and impairment							
At 1st January 2018	—	5,882	948	15	—	46	6,891
Charge for the year	—	5,765	904	—	—	55	6,724
Disposals	—	(36)	(49)	(15)	—	—	(100)
At 31st December 2018	—	11,611	1,803	—	—	101	13,515
Charge for the year	668	9,118	1,260	—	—	70	11,116
Disposals	—	(1)	(341)	—	—	(69)	(411)
Impairment	—	—	—	—	5,408	—	5,408
At 31st December 2019	668	20,728	2,722	—	5,408	102	29,628
Net book value							
At 31st December 2017	—	78,886	1,295	—	8,670	66	88,917
At 31st December 2018	—	116,635	2,785	—	42,445	188	162,053
At 31st December 2019	3,851	191,850	2,816	—	34,674	110	233,301

Plant and machinery and assets under construction relate substantially to the cost, less depreciation, of the broadband network. The annual impairment review at the reporting date indicates that the estimated future cash flows of the network excluding the network in Devon and Somerset, discounted to their present value of money, significantly exceed the carrying amount of the asset and therefore the asset is not considered impaired. The network in Devon and Somerset was reviewed as a separately identifiable asset at the reporting date and as the estimated future cash flows of the asset, discounted to their present value of money is less than the carrying amount of the asset, an impairment charge of £5,408,000 was recorded.

The assets included as Buildings are all right-of-use assets.

Notes to the financial statements

(continued)

13 Property, plant & equipment (continued)

Company	Buildings £'000	Plant & machinery £'000	Office equipment £'000	Under construction £'000	Motor vehicles £'000	Total £'000
Cost						
At 1st December 2018	—	84,732	2,242	8,670	112	95,756
Additions	—	19,463	2,425	57,838	177	79,903
Disposals	—	—	(87)	(4)	—	(91)
Transfer	—	24,051	8	(24,059)	—	—
At 31st December 2018	—	128,246	4,588	42,445	289	175,568
Adjustment on transition to IFRS16	4,007	—	—	—	—	4,007
Additions	512	28,912	1,299	54,340	3	85,066
Disposals	—	(224)	(349)	(1,059)	(80)	(1,712)
Transfer	—	55,644	—	(55,644)	—	—
At 31st December 2019	4,519	212,578	5,538	40,082	212	262,929
Depreciation and impairment						
At 1st December 2018	—	5,846	947	—	46	6,839
Charge for the year	—	5,765	904	—	55	6,724
Disposals	—	—	(48)	—	—	(48)
At 31st December 2018	—	11,611	1,802	—	101	13,515
Charge for the year	668	9,118	1,260	—	70	11,116
Disposals	—	(1)	(341)	—	(69)	(411)
Impairment	—	—	—	5,408	—	5,408
At 31st December 2019	668	20,728	2,722	5,408	102	29,628
Net book value						
At 31st December 2017	—	78,886	1,295	8,670	66	88,917
At 31st December 2018	—	116,635	2,785	42,445	188	162,053
At 31st December 2019	3,851	191,850	2,816	34,674	110	233,301

Plant and machinery and assets under construction relate substantially to the cost, less depreciation, of the broadband network. The annual impairment review at the reporting date indicates that the estimated future cash flows of the network excluding the network in Devon and Somerset, discounted to their present value of money, significantly exceed the carrying amount of the asset and therefore the asset is not considered impaired. The network in Devon and Somerset was reviewed as a separately identifiable asset at the reporting date and as the estimated future cash flows of the asset, discounted to their present value of money is less than the carrying amount of the asset, an impairment charge of £5,408,000 was recorded.

The assets included as Buildings are all right-of-use assets.

Notes to the financial statements

(continued)

14 Impairment

During the year the Company recognised an impairment loss of £5,408,000 (2018: £NIL) in respect of the historic cost of the network asset under construction in Devon and Somerset. The loss is included within total administration costs in the Statement of Comprehensive Income. The impairment loss is shown as part of the charges against Plant & Machinery in Note 13. The impairment arose following the cancellation of the contract to complete the BDUK build in Devon and Somerset in 2019. Following the contract cancellation the Company carried out an assessment of the cost of work completed to date, the estimated future costs to complete the network build and compared these to the expected future value in use of the asset.

The impairment loss represents the difference between the historic cost of the asset and its recoverable amount, being its value in use, with a discount rate of 10%. The recoverable amount of the asset is £14,372,000.

The annual impairment review of the network asset outside of Devon and Somerset indicates that this asset is not impaired.

15 Leases

Lease liabilities are presented in the Statement of Financial Position as follows:

The Company has leases for 5 office buildings and 1 group of car park spaces. Each lease is reflected in the balance sheet as a right-of-use asset and a lease liability. Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. The Company is prohibited from selling or pledging the underlying leased assets as security. The Company must keep the leased assets in a good state of repair and return them in the original condition at the end of the lease. Further, the Company must insure the leased properties and incurs maintenance fees on them in accordance with the lease contracts.

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognised on the balance sheet:

Right-of-use asset	No. of right-of-use assets	Range of remaining term	Average remaining lease term	No. of leases with termination options
Office buildings	5	Less than 1 year – 9 years	4 years	3
Car park	1	Less than 1 year	Less than 1 year	0

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31st December 2019 were as follows:

	Minimum lease payments due						Total £'000
	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	After 5 years £'000	
31st December 2019							
Lease payments	465	705	713	662	674	2,001	5,220
Finance charges	(173)	(159)	(135)	(114)	(91)	(127)	(799)
Net present values	292	546	578	548	583	1,874	4,421

Total cash outflow for leases for the year ended 31st December 2019 was £588,000.

Additional information on the right-of-use assets by class of assets is as follows:

	Carrying amount (Note 13) £'000	Depreciation expense £'000	Impairment £'000
Buildings	3,851	668	—

Notes to the financial statements

(continued)

16 Investment in subsidiaries

Company

	2019 £'000	2018 £'000
Cost and net book value		
At 31st December	—	—

Company subsidiary undertakings

The Company had the following subsidiary companies at 1st January 2019.

Subsidiary company	Control	Equity interests		Principal activities
		2019 %	2018 %	
Cotswolds Broadband C.I.C	Direct	n/a	100	Telecoms provider
Rutland Telecoms Limited	Direct	n/a	100	Telecoms provider
FTTC Limited	Indirect	n/a	100	Telecoms provider

The subsidiary companies did not trade during 2019. The Company applied for them to be removed from the Register of Companies and they were dissolved on 31st December 2019.

All subsidiary companies were incorporated and operated in England and their financial results are consolidated in the Group's financial information.

The registered address for the subsidiaries was Building One, Wyndyke Furlong, Abingdon, Oxon, OX14 1UQ.

17 Financial assets and liabilities

Note 5 provides a description of each category of financial assets and financial liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	2019 Amortised Cost £'000	2018 Amortised Cost £'000
Current financial assets		
Trade and other receivables	399	224
Other short-term financial assets	6	15
Cash and cash equivalents	2,586	5,348
Restricted cash	460	460
Total assets	3,451	6,047

	2019 Amortised Cost £'000	2018 Amortised Cost £'000
Financial liabilities		
Non-current borrowings	—	19,262
Non current lease liabilities	4,129	—
Current borrowings	28,879	2,408
Trade and other payables	18,897	8,879
Total liabilities	51,905	30,549

A description of the Group's financial instrument risks, including risk management objectives and policies is given in Note 28.

Notes to the financial statements

(continued)

18 Borrowings

	2019 £'000	2018 £'000
Current liabilities	28,879	2,408
Non-current liabilities	—	19,262
	28,879	21,670

The borrowings at 31st December 2018 related to the £22,272,000 from the European Investment Bank. This loan was repaid in September 2019. On 27th August 2019 the Company entered into a Facility Agreement with Lloyds Bank plc, National Westminster Bank plc and Santander UK plc. Under the terms of the Facility, the Company can draw up to £80,000,000. Each loan is repayable 3 months after its receipt, with the repayment able to be refinanced with a new loan. The rate of interest applicable to borrowing under the Facility is the aggregate of LIBOR and a margin of 2.00% per annum. In addition, the Company is required to pay a commitment fee of 0.7% on the undrawn portion of the Facility. The Facility Agreement was terminated on 20th March 2020 and the outstanding loans repaid in full with the first drawing from the new £525m debt financing.

The changes in the Company's liabilities arising from financing activities can be classified as follows:

	Long-term borrowings £'000	Short-term borrowings £'000	Lease liabilities £'000	Total £'000
1st January 2018	21,653	619	—	22,272
Cash flows:				
- Repayment	—	(602)	—	(602)
Non-cash:				
- Reclassification	(2,391)	2,391	—	—
31st December 2018	19,262	2,408	—	21,670
Adoption of IFRS 16	—	—	4,322	4,322
Revised 1st January 2019	19,262	2,408	4,322	25,992
Cash flows:				
- Repayment	(19,262)	(2,408)	(588)	(22,258)
- Proceeds	—	29,000	—	29,000
Non-cash:				
- Accrued interest	—	82	—	82
- Arrangement fees prepaid	—	(203)	—	(203)
- New lease commitments	—	—	512	512
- Interest charge	—	—	175	175
31st December 2019	—	28,879	4,421	33,300

19 Other financial instruments

The carrying amount of the following financial assets and liabilities is considered a reasonable approximation of fair value:

- trade and other receivables
- cash and cash equivalents
- trade and other payables

Notes to the financial statements

(continued)

20 Trade and other receivables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade receivables, gross	644	409	644	409
Allowance for credit losses	(20)	(6)	(20)	(6)
Trade receivables	624	403	624	403
Allowance for expected credit losses	(225)	(179)	(225)	(179)
Financial assets	399	224	399	224
Social security and other taxes	3,652	1,342	3,652	1,342
Other receivables	1,964	1,066	1,964	1,526
	6,015	2,632	6,015	3,092

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

All of the Group's trade and other receivables in the comparative periods have been reviewed for impairment. Impaired trade receivables result from former customers where the receivable has proved difficult to collect.

Note 28 includes disclosures relating to IFRS 9 - credit risk exposures and analysis relating to the allowance for expected credit losses.

21 Restricted cash

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Restricted cash	460	460	460	460
	460	460	460	460

The Group deposits sums externally with Telecoms Guarantee Limited, whose Director is Gareth Williams, a Director of Gigaclear Limited. The sums are required to be held by law to cover obligations to repair and make good any roads that are damaged during the construction of new networks.

These sums are protected in the event the Company enters into administration and as such, have been classified as 'Restricted'.

22 Trade and other payables: Amounts falling due within one year

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade payables	6,818	3,196	6,818	3,196
Other taxation & social security	722	556	722	556
Accruals	11,782	5,044	11,782	5,044
Other payables	5	639	5	639
	19,327	9,435	19,327	9,435

Notes to the financial statements

(continued)

23 Contract liabilities

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
	1,315	1,310	1,315	1,310

Contract liabilities are amounts charged to customers in advance of the satisfaction of the Group's performance obligations for which the revenue is charged, as described in Note 5:

- Internet connectivity fees are charged to customers monthly in advance; the revenue is recognised in line with the time period to which the charge relates, and the majority of the contract liabilities relates to internet connectivity fees invoiced in advance which will be recognised in the next reporting period
- Customer connection fees are charged to customers at the same time as their first invoice for monthly connectivity fees. The connection fees are judged to form a bundle with the internet connectivity fees and are deferred as contract liabilities and recognised on a straight line basis over the length of the customer's contract.

The amounts recognised as contract liabilities will generally be utilised within the next reporting period.

24 Other payables: Amounts falling due after more than one year

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Other payables	1,021	1,289	1,021	1,289

25 Provisions

All provisions are considered current. The provision relates to remedial works required to address areas of the network build which have not been completed in accordance with current standards.

The provision has been estimated based on a statistical audit of work performed. Defective areas of the network will be remediated as discovered and in consultation and in compliance with the Highways Authority standards. It is estimated that it will take approximately two to three years to utilise the provision.

The carrying amounts and the movements in the provision account are as follows:

Network remedial cost	£'000
Carrying amount 1st January 2019	3,800
Amount utilised	(330)
Carrying amount 31st December 2019	3,470

Notes to the financial statements

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26 Share capital

	2019		2018	
	Number	£'000	Number	£'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	103,071,114	1,031	81,821,114	818

The Ordinary shares have attached to them full voting, dividend and capital distribution rights. They do not have rights of redemption.

Changes in issued share capital and share premium:

	Number of shares	Nominal value £'000	Share premium £'000	Total £'000
At 31st December 2018:				
Ordinary shares of 1p each	81,821,114	818	58,477	59,295
Ordinary share issues (February)	10,250,000	103	40,814	40,917
Ordinary share issues (April)	5,500,000	55	21,945	22,000
Ordinary share issues (June)	5,500,000	55	21,945	22,000
At 31st December 2019:				
Ordinary shares of 1p each	103,071,114	1,031	143,181	144,212

All of the above shares were issued for cash to finance the ordinary activities of the Group.

Share premium is net of capitalised transaction costs of £83,000 incurred in the year (2018: £585,000).

Capital and reserves

The Consolidated and Company statements of changes in equity are set out on pages 21 and 22 of this report.

Notes to the financial statements

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27 Share based payments

Share options

The Company operated both an approved and an unapproved share option plan for the benefit of employees and contractors and directors which was closed in April 2018.

824,400 share options were granted to employees in January 2018. The outstanding shares held by employees on the date of the acquisition of the majority share of Gigaclear Limited by Infracapital were accelerated and exercised in May 2018. 4,413,046 options were exercised, at exercise prices varying between £0.34 and £3.25.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The fair value of employee share options is measured using the Black-Scholes pricing model.

The total expenses recognised for the year and the total liabilities recognised at the end of the year arising from share based payments are as follows:

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2019		2018	
	Number	WAEP £	Number	WAEP £
Outstanding at the beginning of the year	—	—	3,764,646	2.40
Granted during the year	—	—	824,400	3.25
Lapsed during the year	—	—	(176,000)	2.26
Exercised during the year	—	—	(4,413,046)	2.55
Outstanding at the year end	—	—	—	—
Exercisable at the year end	—	—	—	—

The fair value of services received in return for share options granted was measured by reference to the fair value of share options granted. The fair value of employee share options was measured using the Black-Scholes pricing model.

Measurement inputs and assumptions are as follows:

	Awarded 2019	Awarded 2018
Fair value at grant date	—	£1.40 – £1.57
Weighted average fair value at grant date	—	£1.49
Weighted average share price	—	£3.25
Exercise price	—	£3.25
Expected volatility	—	45.4%
Expected dividends	—	—
Option life	—	7.0yrs – 9.0yrs
Risk-free interest rate	—	1.43%

The total expenses recognised for the year and the total liabilities recognised at the end of the year arising from share based payments are as follows:

	2019 £'000	2018 £'000
Equity settled share based payment expense	—	3,288
Share options exercised	—	(5,533)
Total carrying amount of liabilities	—	—
Total intrinsic carrying amount of liabilities in respect of vested benefits	—	—

Notes to the financial statements

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28 Financial risk management

Financial risk management objectives and policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its risks. The Group does not engage in speculative transactions or hedging transactions.

The Group's principal financial instruments consist of cash and cash equivalents and loans. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments such as trade receivables and trade payables that arise directly from its operations.

The Directors have overall responsibility for the establishment and oversight of the Group's risk management and they recognise that financial risk management is an area in which they may need to develop specific policies should the Group become exposed to further financial risks as the business develops. The Directors currently ensure that the Group has sufficient cash and cash equivalents to ensure there is sufficient reserves to support the business operations. The exposure to other financial instruments are limited to those generated through the operations and borrowings.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, liquidity risk, and market price risk. This note presents information about the Group's exposure to each of these risks. The Board reviews and agrees policies for managing each of these risks as and when they arise. Further quantitative disclosures are included throughout the financial information.

There have not been any material changes in respect of the exposure to financial risks during the periods presented.

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty fails to discharge an obligation to the Group. The Group is exposed to credit risk from financial assets including cash and cash equivalents held at banks, trade and other receivables.

The credit risk in respect of cash balances held with banks and deposits with banks are managed by ensuring that deposits are only placed with major reputable financial institutions. The Group does not hold collateral in relation to its cash and cash equivalent balances held with banks.

The Group provides credit to customers in the normal course of business. The credit risk is substantially mitigated by the fact that customers are required to pay for the services they receive in advance. Notwithstanding this, there is still some residual exposure where customer payments fail. The Group does not hold any security on the trade receivables balance.

Trade receivables

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for the trade receivables due from the broadband customers as these do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The expected loss rates are based on the payment profile for sales over the past 48 months before 31st December and 1st January respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forward looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. The Group has identified gross domestic product (GDP) to be the most relevant factor and accordingly adjusts historical loss rates for expected changes in these factors. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written off (i.e., derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Group on alternative payment arrangements are considered to be indicators that there is no reasonable expectation of recovery.

On the above basis the expected credit loss for trade receivables as at 31st December 2019 was determined as follows:

	Trade receivables days past due						Total
	Current	Up to 30	31-60	61-90	91 to 120	More than 120	
31st December 2019							
Expected credit loss rate	3%	27%	55%	72%	70%	83%	
Gross carrying amount £'000	141	27	16	9	9	231	433
Lifetime expected credit loss	4	7	9	7	6	192	225

Notes to the financial statements

(continued)

28 Financial risk management (continued)

The closing balance of the trade and other receivables at amortised cost less allowance as at 31st December 2019 reconciles with the trade and other receivables at amortised cost less allowance opening balance as follows:

	Trade and other receivables £'000
Loss allowance at 1st January 2018 calculated under IAS 39	30
IFRS9 Transition adjustment	71
Opening loss allowance as at 1st January 2018	101
Loss allowance recognised during the year	89
Receivables written off during the year	(5)
Loss allowance as at 31st December 2018	185
Loss allowance recognised during the year	60
Loss allowance as at 31st December 2019	245

Market price risk

Market price risk is the risk that changes in market prices such as foreign exchange and interest rates will affect the Group's income. The Directors do not consider market price risk to be a material risk to the Group.

Interest rate risk

Under the terms of the £525m financing secured in March 2020, the business has committed to fixing the rate on at least 70% of its expected drawings over the term of the facility.

Hedging levels will be assessed quarterly and hedges will be put in place to ensure that interest rate risk is appropriately managed.

Currency risk

The Group's operations are entirely in the United Kingdom resulting in minimal exposure to currency risk. No sensitivity analysis of currency risk has therefore been shown.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. As part of its overall prudent liquidity risk management, the Group actively manages its operating cash flows and the availability of funding through an adequate amount of committed credit facilities and ability to close out market positions.

Fair values of financial assets and liabilities

It is the Directors' opinion that the carrying values of the Group's and the Company's financial assets and liabilities as at 31st December 2019 and 31st December 2018 are not materially different from their fair values. They have therefore not been shown separately.

29 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital with an appropriate level of leverage for the size of the business so as to maintain investor, creditor and market confidence and to sustain future development of the business. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt. There have been no changes to the Group's approach to capital management during the period ended 31st December 2019.

The Group's capital structure comprises all components of equity (i.e. share capital, share premium, retained losses and other reserves and as at 31st December 2019 this amounted to £184,623,000 (2018: £133,474,000).

30 Contingent liabilities

The Group had no contingent liabilities at 31st December 2019 or 2018.

Notes to the financial statements

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31 Related parties

The Group has elected to take advantage of the exemption from disclosing transactions with wholly owned group entities.

Transactions with key management personnel – Directors' remuneration

Key management personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Key management of the Group are considered to be the Directors of Gigaclear Limited. Key management personnel remuneration includes the following:

	2019 £'000	2018 £'000
Short-term employee benefits		
Salaries and fees including bonuses and car allowances	1,132	794
Social security costs	85	280
	1,217	1,074
Post-employment benefits		
Defined contribution pension plans	4	10
Share-based payments	—	1,185
Total remuneration	811	2,269

Total remuneration paid to the highest paid Director amounted to £543,000 (2018: £255,000) including pension contributions of £NIL (2018: £4,000).

Pension contributions were made in respect of two Directors (2018: 4). A compensation for loss of office payment of £79,000 was paid to one Director (2018: NIL).

Infracapital (GC) SLP LP (Infracapital)

During 2019 Infracapital purchased 21,250,000 additional Ordinary Shares in the Group for total cash consideration of £85,000,000 under the terms of the investment agreement signed on 23rd January 2019.

Telecoms Guarantee Limited

Telecoms Guarantee Limited was incorporated to hold sums required by law to be deposited outside of the Group to ensure that appropriate guarantees are in place to cover the Group's obligations to repair and make good any roads dug up during the building of the networks. In the event that a contractor fails to honour its obligation to repair and make good, sums held by Telecoms Guarantee Limited can be applied for this purpose. Telecoms Guarantee Limited and Gigaclear Limited have a common director, Gareth Williams.

As at 31st December 2019 the total amount outstanding was £460,000 (2018: £460,000).

32 Commitments

Capital commitments

	2019 £'000	2018 £'000
Contracts placed for future capital expenditure not provided in the financial statements	91,858	65,270

Capital commitments at 31st December 2019 are in relation to future capital expenditure to complete network builds in Essex, Gloucestershire (Fastershire), Berkshire, Northamptonshire, Wiltshire and West Oxfordshire for projects won under the Phase 2 and Phase 3 Broadband Delivery UK (BDUK) government scheme.

33 Post balance sheet events

On 17th March 2020 the Company signed a £525m debt package with Lloyds, NatWest, Santander and ABN Amro. The debt package consists of a £485m seven-year capex facility and a £45m revolving credit facility. The margin on the facility in the first year is 2.75% over LIBOR. On 14th April 2020 we fixed the rate on approximately 1/3rd of our expected drawings under the facility.

Whilst the impact of the Covid-19 virus remains to be fully assessed, the activities of the company have been able to continue substantially normally, with the build activity categorised as essential construction by the Government, and all administrative work able to be carried out by employees working from home.

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