CONNECT INFRASTRUCTURE TOPCO LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

COMPANY NUMBER 11319944

CONTENTS OF THE FINANCIAL STATEMENTS

COMPANY INFORMATION

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors present their strategic report with the audited financial statements for the year ended 31 December 2020.

Group overview

In a very difficult and challenging time for all, Connect Infrastructure Topco Limited (the 'Group') performed well in 2020, a year in which we cemented our position as the UK's third national digital infrastructure platform, rolling out competitive Full Fibre infrastructure at scale nationwide, and contributing to the Government's ambition of bringing gigabit-capable broadband to at least 85% of the UK by 2025. 2020 was the second full year for the Group, following the acquisition of CityFibre Infrastructure Holdings Limited ("CityFibre") in 2018.

In what has been a challenging year for most with the Coronavirus pandemic, it has become clear that our nation has become more reliant on digital infrastructure than ever before. Fortunately, the UK Government designated telecoms companies and their contractors as providers of essential services at the start of the Coronavirus pandemic, enabling us to continue our important work, rolling out new networks and maintaining connectivity to critical sites nationwide throughout lockdowns.

With a £4 billion investment programme under way to bring world-class, open access gigabit-speed networks to 30% of the UK market by 2025, our wholesale approach brings more choice for regional channel partners, carriers, national and local consumer Internet Service Providers (ISPs) including Vodafone, TalkTalk and Zen Internet, as well as providing a backbone infrastructure for 5G deployments by mobile phone operator customers like Three.

Last year we announced our ambition had grown from providing our services to 5 million homes to up to 8 million homes. We have increased the number of cities where we have Full Fibre build contracts in place from 16 at the end of 2019 to 43 at the end of 2020, we had 31 cities with active construction gangs in by the end of 2020 (2019: 12 cities), and live services have been established across 17 cities across the UK, an increase of 6 since December 2019. This expansion in our footprint included our acquisition in March 2020 of TalkTalk's Full Fibre infrastructure company FibreNation. Since then, we have integrated the FibreNation teams, operations and networks into CityFibre.

As well as widening our scope, we are also accelerating our build, both citywide and nationwide, to accelerate the benefits for communities across the UK. In 2020, CityFibre appointed Bechtel, one of the world's leading engineering, construction and project management companies, to ensure the delivery of our national build programme.

Alongside the progress made to our build, we also focused our attention on both 'filling' the network and 'thrilling' our customers. We continued to make considerable headway in our commercial relationships, supporting our existing customers to scale and refine their sales and marketing activities to drive take-up across our growing network footprint. We also continued to build and cultivate a pipeline of new strategic customers across the consumer and wholesale markets.

Finally, 2020 saw considerable investment in our platforms, systems and processes in order to deliver a truly world-class and differentiated experience at scale, both for our customers and theirs. Extensive progress was made in areas such as onboarding, ordering and customer installation that achieved industry-leading results including a 97% Right First Time score for customer installations.

Operational and commercial highlights from 2020 included:

<u>Accelerated Tender Awards Programme (ATAP)</u>

In November 2020, CityFibre announced that construction contracts for Full Fibre rollouts had been awarded across 27 towns and cities, addressing approximately up to 3 million premises.

The awards will create over 3,750 new local network construction jobs across the UK. These form part of CityFibre's announced recruitment and training programme, through which we expect to create up to 10,000 network construction jobs over the next three years to support our national rollout. To provide the new recruits with the best start, we have partnered with leading UK fibre telecoms training providers and are investing in dedicated facilities to help the next generation of engineers build our world-class networks.

The conclusion of the first phase of our ATAP brings the total value of CityFibre's build contracts to up to £2.5 billion. With 30 build partners now under contract, our construction supply chain is secured for rollouts targeting over 5 million premises across 65 towns and cities. Mobilisation of new partners and projects is already under way, and all 65 towns and cities are scheduled to be in build by the end of summer 2021.

CityFibre also launched the second phase of the ATAP through which it will award build contracts for up to a further 3 million premises. This will commit construction resource across the entirety of our up to 8 million Gigabit City Investment Programme target, which we are on track to have substantially completed by 2025 in support of the Government's target for national coverage.

Bechtel Appointment

Bechtel, one of the world's leading engineering, construction and project management companies, were appointed in September 2020 to support a major acceleration in our Full Fibre rollout following the award of £1.5 billion in construction contracts across an additional 27 towns and cities.

Bechtel is best known for the delivery of major infrastructure projects across the globe and has extensive experience in the communications infrastructure market. Bechtel has more than seven decades of experience in the UK market, successfully managing major construction contracts including the Channel Tunnel and High Speed 1.

The partnership with Bechtel is another important demonstration of how CityFibre is doing everything to ensure delivery and maximise our contribution while helping to ensure a healthy and competitive digital infrastructure market.

FibreNation Acquisition and Wholesale Agreement with TalkTalk

On 27 March 2020, CityFibre completed the acquisition of FibreNation from TalkTalk Group for £213.4 million (on a debt free, cash free basis and excluding transactions costs) in a transaction funded by a combination of CityFibre's existing debt package and additional equity raised. This purchase increased CityFibre's rollout target from 5 million to up to 8 million premises, helping to accelerate the availability of Full Fibre across the UK. CityFibre's acquisition of FibreNation was secured alongside a long-term wholesale agreement from TalkTalk. This transaction secures TalkTalk as one of our strategic customers with commitments across both residential and business markets.

During the year, CityFibre has completed a full integration of the FibreNation footprint into our commercial, technical and operational footprint, making it available to serve all our customers as part of a single national network.

Three Mobile

In February 2020, CityFibre was selected by mobile network operator Three as a preferred provider of backhaul connectivity outside London. The long-term framework enables Three to leverage CityFibre's rapidly growing national Full Fibre network to support its rollout of 5G services.

The first phase of the agreement saw CityFibre provide backhaul connectivity to Three's cell sites, with hundreds of sites connected in 2020 across a number of CityFibre's Gigabit City projects. The first connections to cell sites went live in the year before a further contract was signed by Three in September 2020 to connect an additional 1,300 key mobile masts across 59 towns and cities resulting in over 2,000 sites in total.

The deepening partnership sees Three and CityFibre further align on their rollout plans. This will help to increase the speed and efficiency of each deployment, providing a high quality 5G service across CityFibre's Gigabit City projects and delivering an improved network experience for Three's customers.

Internet Service Providers (ISPs)

Our ISP partners are critical to the delivery of CityFibre services to consumers and, as such, we continue to grow the number of ISP's we partner with across our network, a crucial factor in filing our network.

Vodafone have been our partner since 2017, and in December 2019 we signed an agreement to modify the terms of our existing partnership. This enabled CityFibre to open up its network to other consumer ISPs sooner. As we set out above, TalkTalk was also secured as a major wholesale customer across both consumer and business markets, and have committed to a long-term wholesale agreement across our existing and future network. In November 2020, we also signed a strategic partnership with Zen, one of the UK's most respected and successful national ISPs, to bring Full Fibre services to homes and business across the network.

In addition, CityFibre has signed contracts with a further 11 ISPs including Air Broadband, Highnet, Triangle Networks, Trunk Networks, Giganet, Quickline and purebroadband. These ISPs help to create a competitive ecosystem in the market resulting in greater choice and better service for consumers.

COVID-19

These accounts are presented during challenging times with the spread of the Coronavirus pandemic. CityFibre continues to follow all COVID-19 secure guidelines to minimise the risk of virus transmission to staff, contractors, customers and the general public. The health and safety of all continues to be our number one priority.

We took action early
CityFibre has always taken business continuity seriously. In February 2020 we set up a COVID-19 Task Force to monitor the emerging risk and Government advice daily. We used this to develop a clear mitigation strategy which has enabled us to minimise risk of exposure for all and stay open for business throughout the pandemic. It is also enabling us to monitor local situations and rapidly reinforce COVID secure protocol to reflect both local and nationwide changes to Government-enforced COVID rules.

We continue to build
Telecommunications infrastructure is critical to allow society to function and our economy to recover. Throughout this challenging period our field-staff and those of our contractors have been designated as 'key workers'. This has enabled us to continue to build to the levels of productivity agreed with local authorities, and to maintain our networks.

Our staff and contractors continue to adhere to strict protocols on social distancing – including with members of the public. They also continue to work to the highest health and safety construction standards. This includes leaving trenches in a safe and manageable state at the end of every working day.

We are minimising the use of our offices
Most of our staff continue to work from home to minimise exposure to risks. Agile-working staff also continue to avoid all non-essential travel. Where face-to-face engagement is unavoidable our staff adhere to strict social distancing guidelines.

We are protecting people
The health and safety of all continues to be our number one priority. Our teams adhere to all recommended working practices set out by the Government. Many of our operational staff are designated as key workers operating critical national infrastructure.

We are connecting and serving customers
COVID-19 continues to make the availability and reliability of connectivity services critical for UK businesses, households and local authorities. We are in daily conversation with the partners who support our service installation, maintenance and repair. By working together to ensure social distancing guidelines are followed and that personal protective equipment is available, we are experiencing no material impact on our day-to-day service operations.

Commercial Impact
The Group ended the year with more than twice the number of connections sold on our network across all our verticals from 12,553 in 2019 to 25,158 in 2020. This demonstrates strong growth in a difficult, COVID impacted year. Vodafone, our principal ISP through 2020, stopped their door to door and marketing activity from late March because of COVID-19 restrictions, as well as closing install bookings for new orders from late March until 1st June 2020. All installs booked prior to these dates were allowed to continue with COVID protection measures to ensure both contractor and customer safety. In addition, CityFibre also stopped our own pre-build resident engagement door knocking campaign from 18th March 2020.

During the balance of the year various marketing campaigns based on national and local guidelines were delivered, but overall both CityFibre and the ISPs were highly reliant on digital channels.

Overview of performance

Financial performance

Group turnover of £63.5 million represents growth of 15% compared to the prior year of £55.3 million. Underlying 'on-net' revenue growth on CityFibre's network (excluding non-recurring revenue for capacity sales of £3.6 million, 2019: £3.2 million) was up 31%, increasing from £20.1 million to £26.4 million while 'off-net' revenues relating to sales provisioned on other networks fell by 3% to £33.1 million, (2019: £34.3 million).

The Group's network assets at cost increased to £834.0 million from £416.4 million at 31 December 2019. This was principally driven by the construction of the Full Fibre infrastructure programme which gathered significant momentum in the year, in addition to network investments resulting from new sales.

Non-financial KPIs

Expansion of CityFibre's Full Fibre network continues to be a priority, with good progress over the year. Service availability for Consumer end customers increased from 11 cities at the start of the year to 27 by 31st December 2020, with homes passed growing by 408,000 in the year to achieve a key milestone of over 500,000 homes passed cumulatively by the end of 2020. A further 41 cities were approved for contractor awards giving a total approved footprint over 65 cities as CityFibre continue to build out to the stated ambition of up to 8 million premises.

Strong sales volume growth continued in 2020 with 100% year on year increase in on-net connections sold across all our verticals from 12,553 at the end of 2019 to 25,158 at the end of 2020, despite the challenges of COVID-19. The greatest successes were seen in the Mobile vertical, where 2,131 connections were sold (2019: 77). Our Business vertical, which relates to the Enterprise market, also saw steady growth with 1,192 new connections (2019: 1,143), up 4% on 2019 with contract values of over £15 million up 53% on the previous year (2019: £10 million). Public Sector continues to play a key role in anchoring our networks and sales of on-net connections in 2020 were up 18% from 1,499 in 2019 to 1,775 in 2020. This demonstrates the Group's success at monetising our network across multiple verticals.

The Group ended the year with 1,347 people, or 1,340 full-time equivalent staff ('FTEs'), compared to 773 FTE's at the end of 2019, as it scaled up capabilities and the support for the network rollout.

Key Appointments to the Board and Executive Team

CityFibre has made two key appointments to the Executive Team over the course of 2020. In June 2020 it was announced that Polly Weitzman, the former Ofcom General Counsel, was appointed Senior General Counsel, and in November 2020 it was announced that Nick Dunn was appointed as Chief Financial Officer, effective January 2021, to replace Terry Hart, who stepped down in July 2020 after nine years with the business.

Outlook

While challenging in the context of the pandemic, 2020 was another good year of progress across all areas, with scaling and build execution our primary focus, alongside delivering on our commitments to Vodafone, signing up TalkTalk, Zen Internet and 11 regional and local ISPs, and to our Business and Public Sector customers, as well as supporting the national 5G rollout by Three.

In March 2021, we announced 216 towns and villages that will benefit from our Full Fibre rollout, alongside the 69 already announced. These locations will see CityFibre extend its networks to much smaller conurbations, bringing the benefits of Full Fibre to communities outside the UK's major towns and cities. These locations will reach over 3 million homes and represent over £1.5 billion in private investment, bringing our committed build programme to around £4 billion, the largest private investment in the UK's digital infrastructure for a generation.

The scale of CityFibre's rollout has been made possible by the favourable regulatory environment established by Ofcom to encourage infrastructure competition, making it quicker and easier to deploy Full Fibre networks. Ofcom's Wholesale Fixed Telecoms Market Review, published in March 2021, supports competition in the sector as the key to investment as industry accelerates to meet the Government's target of bringing gigabit-capable broadband to at least 85% of the UK by 2025.

The nationwide build programme is expected to be substantially completed by the end of 2025 and will address approximately 30% of the UK market including up to 8 million homes, 800,000 businesses, 400,000 public sector sites and 250,000 5G access points. This will make it the largest independent Full Fibre platform in the country. CityFibre has published an interactive map on its website providing full transparency of its build plans: www.cityfibre.com/rollout.

CityFibre is also evaluating further opportunities to expand its nationwide rollout ambitions. This could entail the extension of more of its existing build projects alongside possible participation in the Building Digital UK (BDUK) rural programme.

CityFibre continues to be funded through a combination of its £775 million of debt package and £45m revolving credit facility, secured in December 2018, and a further £475 million (2019: £72 million) in equity injections from shareholders, who continue to be supportive of the Group's ambitious plans.

The COVID-19 pandemic has not changed our focus. Reliable, fast, symmetric broadband is critical now more than ever. The organisation has been highly flexible and nimble in its approach to dealing with a rapidly evolving situation.

I am confident that the Group will continue to make positive progress in achieving its strategic vision, and the Directors and I congratulate our staff on their commitment, tenacity and hard work in bringing the Group to this critical juncture in its development.

Financial Review

Profit and loss

Revenue increased to £63.5 million (2019: £55.3 million), largely attributable to the continued expansion in network footprint, and incremental revenues from both existing and new cities. Gross margin remained steady at 44% (2019: 43%).

Administrative costs increased by £29.5 million to £122.6 million (2019: £93.1 million), of which £14.4 million was higher staff costs as we scale our operations and £15.0 million due to higher depreciation and amortisation arising from the investment in our Full Fibre Network. Excluding non-recurring costs, depreciation and amortisation, underlying administrative costs increased by 63% to £57.8 million (2019: £35.4 million), as CityFibre scaled up for mobilisation across multiple locations across the UK.

- Staff costs, including recruitment fees, full-time contractors and Bechtel staff, increased by 59% to £39.2-million (2019: £24.6 million). Headcount at 31 December 2020 was 1,375, or 1,368 FTEs (including full-time contractors), up from 773 at 31 December 2019. The increase is primarily due to resource requirements for the Full Fibre network roll-out.
- Other general administrative costs increased to £18.8 million (2019: £10.8 million). In particular, IT costs increased to support the headcount increases and investment in new IT systems to support scaling.

Administrative costs include £64.8 million (2019: £57.7 million) of non-recurring costs, depreciation and amortisation and long-term incentive plan ('LTIP') charges. Principle items were as follows:

- Depreciation increased by £12.4 million from £14.7 million in 2019 to £27.1 million, due to increased network construction work performed in the year. The amortisation charge for the year increased to £8.0 million in 2020 (2019: £5.4 million), reflecting further development of the Group's network and IT systems.
- Other one-off costs fell from £37.6 million in 2019 to £26.2 million in 2020. These principally relate to a one-off contract change in 2019, with payments after 2019 being contingent on certain milestones being passed.
- Transaction costs of £3.5 million were incurred in 2020 relating to the acquisition of FibreNation from TalkTalk. No equivalent costs were incurred in 2019.

Operating loss increased to £94.6 million (2019: £69.1 million), due to the increase in administrative costs detailed above.

Loss after tax was £110.8 million (2019: £80.2 million), which includes financing costs of £13.7 million relating to interest on CityFibre's debt facilities (2019: £12.5 million).

Balance sheet

Additions to property, plant and equipment totalled £415.3 million (2019: £211.2 million), of which £371.8 million (2019: £174.2m) related to the construction of new network assets. Of this, £337.1 million related to the Full Fibre network build, while the remaining £34.7 million of network asset build was to support additional customer connections in existing towns and cities, as well as enabling the assets for commercialisation. A further £17.0 million was spent on fibre exchange costs, along with initial network and equipment required to enable the Full Fibre network build.

Gross debt at year end was £456.8 million (2019: £190.5 million); transaction costs capitalised against this balance gave rise to a balance sheet figure of £440.9 million (2019: £171.4 million). The Group will continue to draw from its £775 million debt package in 2021 to fund the capital expenditure required on new network builds.

Cash flow

Operating cash flow for the period was a net outflow of £30.4 million, compared to a net outflow of £47.9 million in 2019. At the year-end the cash balance was £106.5 million (2019: £16.6 million). During the year the Group received equity funding of £470.5 million (2019: £72.0 million) to fund capex associated with the Full Fibre network rollout.

CityFibre did not participate in any Government aid or loan schemes available as a result of the COVID-19 pandemic.

Principal risks and uncertainties

	Risk	Mitigation
Regulation & Government Policy	Despite the current clear support for alternative network operators, a shift in policy by Ofcom or Government could have an adverse impact on the Company.	The Group continues to engage proactively with Ofcom and Government and take actions necessary to ensure its position is appropriately represented and protected.
Technology	Fibre optic technology is widely acknowledged as being superior to other fixed line bearer media in terms of symmetrical data transmission capacity. However, alternative future technologies may in time emerge as a competitive threat in some markets.	New technologies are considered still likely to require fibre backhaul solutions, allowing the Group the opportunity to benefit from any change in access technology.
IT Systems, Data & Security	The Group's product is reliant upon secure, efficient, and reliable systems. Loss or misuse of data could lead to reputational damage, regulatory action under GDPR and potential fines.	All Security and Data services are configured in line with security policies and maintain legal compliance with standards such as ISO270001 and DPA 1998. We also have a fail-safe mechanism with proper access control, governance and controls, as well as security and data audits. We are investing in dedicated Information Security personnel and are investigating options for a new Security Information Event Management solution in line with our obligations under the upcoming Telecommunications Security Bill. We are also updating all training material related to GDPR and Information Security, and all staff will be required to take a refresher course.
Competition	A new entrant may emerge, building Full Fibre infrastructure in UK towns and cities where we are also building.	The Group currently represents a wholesale Full Fibre network of scale in the UK. Its access to capital, wholesale model, existing network assets, existing revenue streams and expertise give it a defendable competitive position. Our long-term contracts with ISPs continue to support this position.
Construction	The Group partners with construction firms to deploy network assets. This exposes the Group to the wider macro-economic impacts on these firms and their cost and resource bases.	The Group contracts with a number of construction partners to reduce the level of exposure to any single firm, with a robust supplier selection process. Clear timelines of work and our new contracting approach provides future commitment and allows long-term planning of resource, thereby reducing the risk from short and medium-term fluctuations in the labour market.

Construction (continued)		Re-measurable contracts in place with construction firms ensure that CityFibre only pays for what is built. Reduced labour availability or lower productivity, such as during the COVID-19 pandemic, do not therefore carry a short-term financial risk. The launch of our Advanced Tender Award Programme (ATAP) process (see the CEO review for further details) in 2020 improved our supplier selection policies in addition to our standard supplier checks which will mitigate against partner failure in the future.
Interest Rates	The Group has a floating interest rate exposure linked to LIBOR that it pays on its debt facility.	The Group has appropriate hedging instruments in place to mitigate its exposure to interest rate fluctuations.
Credit risk	Financial loss may occur if a customer fails to meet its contractual obligations.	Risk is limited by the high volume of low value customers across the Group. This lack of concentration of revenues reduces the financial exposure from default. The highest value customers have the greatest creditworthiness.
Liquidity risk	Reliance on shareholder equity funding. See pages 17 and 28 for more information.	Short term weekly cashflow forecasting, plus monthly longer term cashflow forecast to plan and manage cash requirements.

Responsible Business

CityFibre is a business with a clear purpose. The digital infrastructure we build will help transform society, underpin global Britain's economic future and unleash our full potential. As we build our networks, we have a duty to act responsibly, ensuring we play our part to leave a fairer, greener and healthier world behind us. Not to do so would be to undermine the positive legacy we are determined to build.

We already track and report internally on many important aspects of our environmental and social impact. However, we are continually benchmarking and measuring our activities to ensure we continue to set ambitious goals, and that we meet them.

To make sure we do this rigorously, we appointed Anthesis in December 2020, a world-leading sustainability consultancy, to help us craft a Responsible Business Strategy. They have already begun to engage stakeholders across our business to identify what we do well and what we could improve.

Anthesis will help us shape a strategy and governance model that can scale as we do and help us communicate and engage with our colleagues, customers and stakeholders to maximise the impact.

Alongside this important work, CityFibre is continuing our membership of Business in the Community (BITC). BITC is the largest and oldest business-led membership organisation dedicated to furthering responsible business. Our membership helps to highlight our intent in this area and provides access to tools to chart our progress alongside other businesses.

Our People

The CityFibre Way

As our business grows at pace, it is important to us that we do not lose sight of our company's culture that underpins everything we do. The CityFibre Way, launched in 2020, is how we think, act and work. It's our way of doing things. It identifies four key behaviours:

- Think smart, act fast;
- Back each other;
- Give it our best;
- Build a legacy.

When these four behaviours come together, they shape our culture to bring out the best in us, set us apart from our competition, and make our customers remember us. The CityFibre way has proven hugely successful throughout the organisation with employees being able to recognise their qualities and the business potential creating a high energy working environment that our employees are proud to be a part of.

Diversity and Inclusion

We want our business to be innovative and productive so that we can deliver on our promises to our customers and theirs. A diverse workforce and inclusive work environment are critical to achieving this. The more we use diverse perspectives to help make our business decisions, the more competitive we will be in a fast-moving industry.

In 2020 we launched our Diversity and Inclusion Leadership Group gaining sponsorship across four employee networks that are open to all employees, providing support, information and guidance to members:

- Cultural Inclusion
- Disability and Carers
- Gender
- LGBT+

In addition, we have signed up to The TechTalent Charter, set up to address inequality in the UK tech sector. As signatories, we have committed to becoming a fully inclusive employer and have implemented several further initiatives designed to promote Diversity & Inclusion across CityFibre.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

Within our recruitment strategy, we have built-in stretch targets aimed to improve diversity in our workplace. Our partnership with Vercida allows us to advertise roles to those who are specifically looking for companies that place importance on diversity and wellbeing. We also engaged with Stonewall and renewed our agreement with the Women's Engineering Society.

We have also taken steps to tackle prejudice in the workplace by training all of our staff in unconscious bias and we will continue to work hard across all departments to break down barriers to inclusion across our business.

Gender Diversity

As of 31st December 2020, CityFibre's gender split was as follows:

- Total Employees: 1,347 employees (excluding contractors), of which 336 identify as female
- Line Management Roles: 297 total, of which 67 identify as female
- There were 37 employees employed in the capacity of Executive or Director at CityFibre, of which 9 (24.3%) were female.

CityFibre remains committed to being an equal opportunities employer. Women are underrepresented across the telecommunication, construction and technology industries; however, CityFibre is committed to improving our gender diversity and, in addition to the launch of the Gender Network, have put in place many initiatives to help achieve this. We have:

- Developed our diversity strategy to best support employees from all genders
- Launched our Gender Network which focuses on driving equity for all genders
- Reviewed Job Families and Reward ensuring equal pay for equal roles
- Broadened our talent attraction channels to reach all genders and increased the number of women hired
- Launched our LEAD Manager training to develop our managers
- Launched our family policies with an enhanced maternity offering
- Recognised as a Times Top 50 employer for women

Health and Safety

We proactively promote a culture where putting safety first comes first.

During 2020 there were 3 minor injuries to CityFibre staff, but none were lost-time injuries or reportable under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, 2013 (RIDDOR). There were 6 incidents reportable under RIDDOR in the year among our construction partners, which marks an increase from the 1 reported in 2019. For context, our indirect labour force approximately doubled year on year.

Throughout 2020 our Compliance team introduced additional initiatives to improve the generation and quality of performance data and contractor awareness; the implementation of an incident reporting tool providing data insights that focus on our most material risks, and the introduction of working groups to address five key areas of strategic improvement.

To support the network rollout programme our Health and Safety team has increased its resourcing levels from 3 to 20, ensuring adequate specialist support across the network build.

Compliance with our certified ISO Management Standards provides the basis of our commitment to our employees and the interested parties we serve. In 2020 we transitioned to the new ISO45001:2018 standard without any non-conformances and maintained certification to all other ISO standards.

Business Ethics

We work better within an environment of integrity and trust. CityFibre takes a zero-tolerance approach to corrupt behaviour and has put in place policies, training and procedures to reduce the risks faced by our employees and our organisation. We value transparency and expect our suppliers and contractors to hold similar high standards. As part of our due diligence, we require our suppliers and contractors to demonstrate their ethical standards and to work within the terms of our Supplier Code of Conduct.

In 2020, we undertook a full review of our existing controls, uplifting policies where additional mitigation was required. We continue to ensure due diligence of this topic before appointing suppliers and have introduced a more robust process for anti-bribery and corruption, compliance and conflict management.

Human Rights

As a responsible corporate citizen, the Group operates by applicable human rights laws, and respects and promotes human rights through our employment policies and practices, through our supply chain and the responsible provision of our products and services.

Our Supplier Code of Conduct sets out our compliance expectations with our supply chain.

Employee Satisfaction Survey

CityFibre conducted an Employee Survey in November 2020 through a specialist provider. CityFibre scored in the top 1-2% of surveyed companies on employee satisfaction and 9 out of 10 people recommended CityFibre as a great place to work.

COVID-19 Response

At CityFibre, we have always been proud of our employees and their agility and dedication to our mission. In March 2020, our industry was recognised as essential as we manage critical national infrastructure and we were allowed to continue and our operational and build teams were granted key worker status. We facilitated more of our people to work from home in a flexible working pattern. We provided IT and office equipment to those who needed it and helped employees adjust to the new working environment.

We transformed our workspaces and implemented strict controls to create a Covid safe environment, enforcing social distancing, protective screens and the wearing of face coverings. We implemented an app-based office booking system where employees who needed office space for essential work or safety reasons, could book their area.

Additional training and support were given to line managers to help adapt to the agile working systems. All line managers were offered training to help them identify and manage mental health difficulties. We extended our PPE range available to employees, including 'key worker' hi-vis clothing and branded reusable face coverings and our Network Build and Operations divisions directly supported our build partners to continue to build the network and serve our customers throughout each COVID-19 Lockdown. Guidance was provided in the form of standard operating procedures, COVID-19 toolbox talks, supply of RPE/PPE and key worker/CNI certification.

Multiple resources and initiatives were launched throughout the year to aid some of the challenges faced by our employees during lockdown, including information modules on "Working from Home", "Remote Working Support" and "Burnout". Virtual sessions were held focused on employee wellbeing, including financial wellbeing webinars, employee social events, sports sessions, and employees were asked to avoid organising meetings from 1pm-2pm to give staff time to switch off, go outside for a walk, exercise or have lunch with family or housemates.

To keep our staff in the loop and up to date with what is happening in the business we have previously held 'All-Hands' calls. Throughout 2020, the frequency of these calls increased to monthly, allowing everyone to keep up to date with developments in our business, to combat any feelings of isolation and to help each employee know that their efforts were appreciated, and they were contributing to the continuing development of the company.

Our Planet

At every stage of its lifecycle, the Full Fibre infrastructure CityFibre is building is less carbon-intensive than copper alternatives. As we build our networks we must act responsibly, ensuring we play our part to leave a fairer, greener and healthier world behind us.

CityFibre continues to comply with current mandatory legislation Streamlined Energy and Carbon Reporting (SECR) and Energy Savings Opportunity Scheme (ESOS).

CityFibre has appointed a new sustainability consultancy, Anthesis, a world-leading sustainability consultancy, to help us shape a Responsible Business Strategy with ambitious goals and a governance model that can scale as we do, and helps communicate and engage with our colleagues, customers and other stakeholders to maximise the impact. Within this framework we are also committed to the following carbon reduction activities:

- In line with our ISO14001 Environmental Management System standard certification, the Group's IT waste is directed to our Telford site where it is all recycled. The Group has also implemented waste disposal and recycling systems in new offices.
- Where possible, the Group continues to open small and satellite offices in the majority of cities we are working in to minimise travel.
- Encouraging agile working across the Group making use of video conferencing and other virtual collaboration tools, to reduce the need for travel. This has been crucial during the pandemic and there has been a significant reduction in travel emissions.
- All marketing paper collateral that can be, has been moved to FSC stock.
- Working with our fibre exchange energy management company, E&CM (Energy & Carbon Management), we have begun moving 30 of the 43 live fibre exchange sites over to green energy as of December 2020. The goal is to align them all on green energy by December 2022.

CityFibre has also formed a Sustainability Group, sponsored and led by the Chief Commercial Officer and consisting of a senior management representative from each area of the business. The group are working across the business to identify environmental and sustainability ideas, initiatives and risks.

Please also refer to the section on Energy and carbon reporting within the Directors' Report on page 17.

Our Society

When looking back over 2020, we cannot escape the huge impact that the COVID-19 pandemic has had on every aspect of our lives and business. The deployment of high-speed, reliable internet connections to our home, schools and public services is a vital element in enabling our society to adapt to the changing world of social distancing and home working and so, our work continued throughout the year. CityFibre has connected hundreds of businesses, enabling them to make the transition from bricks and mortar to online sales and services.

CityFibre provides gigabit-speed connectivity to thousands of public sector buildings, including in the region of 200 medical and care facilities and over 700 educational facilities including schools, academies, colleges and universities, enabling the remote video appointments and home-schooling which we have all grown to depend on.

Our City teams are involved in a variety of community engagement and social value initiatives across CityFibre's Gigabit Cities where build programmes are underway or in mobilisation. Many of these initiatives are bespoke to each city, depending on local opportunities and needs. Examples include:

- Supporting over 200 six-month job placements for 16-24 year olds under the Government's Kick Start scheme, providing structured training and development and real-world work experience, designed to help new entrants, build skills, experience and confidence.
- Working in partnership with social housing landlords on digital inclusion agenda developing initiatives to tackle digital poverty – this includes donating recycled laptops for local causes, supporting 'Laptops for Kids' National programmes along with local newspapers and supporting the broader 'Donate Digital' agenda in regions supporting broader disadvantaged groups.
- Supporting and sponsoring educational events, working to improve digital skills in our community, supporting interest and careers for young people in science, technology, engineering and mathematics (STEM) industries.

As part of our mission to bring Full Fibre internet to up to 8 million premises across the UK, we are running a recruitment and training programme to fill up to 10,000 network construction jobs. Through this programme, we provide free technical training, equipping people with the required skills for them to then seek employment through our build partners on projects throughout our Gigabit cities.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

In addition to our city-based projects, CityFibre works to benefit charities nationwide and make financial donations to support causes aligned to our company values. Most notable amongst these were our donations of £35,000 each to the Trussell Trust and Our Frontline (Mind UK) in recognition of the invaluable work they have done and continue to do to help frontline workers and low-income families most severely impacted by the Coronavirus crisis over the last year.

On behalf of the Board.

N J Dunn
Director
4 August 2021

DIRECTORS' REPORT

Directors

The Directors who served during the year were as follows:

M Azizi (resigned 25 February 2021)
M Botto Poala
P L H Camu
R S Clark
M J Crosbie
S J Ifker
A Belkahia (appointed 25 February 2021)
W G Mesch
S N J Holden
N J Dunn (appointed 20 January 2021)
S E Flood (appointed 1 December 2020)
S J Holliday
T A Hart (resigned 15 July 2020)

Going concern

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

As part of normal business practice the Group prepares an annual budget and a long-range business plan, which reflect our ambition to roll out a Full Fibre network to up to 8 million homes through a £4 billion investment programme, principally phased over the next 5 years. The financing required to fund these plans has not been fully committed and will naturally flow into the business over a similar period, and our shareholders have confirmed their ongoing support to secure the necessary funding. Since the Group was taken private in 2018, the current shareholders have injected close to £700 million to enable us to meet all our obligations, as well as supporting us in our ambition to deliver the third national digital infrastructure platform.

Should external funding anticipated in our business plans not be made available, the Directors believe that by taking prompt action to reduce the level of capital investment the business could continue to trade for a sufficient time to identify and secure alternative sources of equity or debt funding. However, we would see a materially adverse impact on both our working capital position and our ability to meet short term obligations as they arise. Therefore, given the Group's reliance on further external funding, these conditions indicate the existence of a material uncertainty that may cast doubt on the Group and Company's ability to adopt a going concern basis of preparation for the financial statements.

The Group's long-range business plan demonstrates that, although we expect to continue to be reliant on external funding in the near future due to the scale and pace of the network rollout, the Group continues to represent an attractive investment opportunity for a large pool of capital providers, providing strong returns and cash flow following the network build phase which is on track to be substantially complete by the end of 2025. It is this that gives us confidence in the ability to secure further external funding such that we have concluded it is appropriate to prepare the financial statements on a going concern basis and not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

For more detail please see Note 1 on page 28. For this reason, the Company and Group continue to adopt the going concern basis in preparing the financial statements.

Future outlook

The future outlook is detailed as part of the Strategic Report on page 4.

Energy and Carbon Reporting

As a growing business, we have increased our total greenhouse gas (GHGs) emissions from 1,777 tCO_2e in 2019 to 2,980 tCO_2e in 2020 – an increase of 68%. This increase in emissions should be considered against the context of substantial expansion in our physical infrastructure across the course of 2020, during which we increased our number of connections by 100%.

	2020	2019
Total UK energy use (kWh)[1]	11,905,215	6,394,241
Total UK (TCO2e) from energy use	2,980	1,777
Intensity ratio, tCO2e per FTE	2.2	2.5
Intensity ratio, tCO2e per total £'000 on-net sales revenue	0.099	0.081

[1] Note that Streamlined Energy and Carbon Reporting ('SECR') regulations require organisations to provide both a UK and global split of emissions. Presently CityFibre only have a UK presence so there are no overseas emissions at this time. The energy reporting includes kWh from scope 1 (natural gas and other fuels), scope 2 (electricity) and scope 3 (employee cars only).

Energy and carbon action

As a business we have been working hard to expand our office and fibre exchange sites in an environmentally responsible manner. We are acutely aware that as a rapidly expanding business, for which growth means initial investment and deployment in physical infrastructure, our emissions will initially increase in line with our expanding capacity to serve customers. With this in mind, we have been consciously rolling out energy efficiency initiatives in parts of our estate and infrastructure where there is scope for improvement. As such, during 2020, we have undertaken a range of initiatives:

- **Improving data quality and granularity:** moved to quarterly carbon reporting, collecting the required raw data from stakeholders more frequently and gaining improved understanding of the data trends.
- **Establishing a new sustainability strategy:** when finalised, the new strategy will document the wider Responsible Business strategy, including a roadmap to reduce carbon emissions.
- **Working to better understand the impact of the fibre installation process:** CityFibre has started to analyse the environmental impacts of the different methods of fibre installation used to build cities. With this insight CityFibre will be able to advise the more sustainable and least carbon intensive form of construction.
- **Site optimisation:** Working with our energy management company, CityFibre has begun to move fibre exchange electricity supply from brown to green tariffs.

Methodology

CityFibre's reporting year runs from 1st January to 31st December. CityFibre adopts an operational control approach to defining its organisational boundary. The GHG accounting and reporting followed the principles of relevance, completeness, consistency, accuracy and transparency. These principles have been applied when collecting, reviewing and verifying the data ahead of performing the GHG emission calculations. In accordance with the requirements of the following standards:

- World Resources Institute (WRI) Greenhouse Gas (GHG) Protocol Corporate Standard (revised version)
- Defra's Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting requirements, March 2019
- All 2020 emissions have been calculated using the Defra 2020 issue of the conversion factor repository

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period.

In preparing these financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;

- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Section 172 Statement

From 1 January 2019 legislation was introduced requiring companies to include a statement pursuant to section 172 of the Companies Act 2006.

The Board considers that all their decisions are taken with the long-term in mind, understanding that these decisions need to regard the interests of the company's employees, its relationships with suppliers, customers, the communities and the environment in which it operates. The Board also recognises the desirability of the company maintaining a reputation for high standards of business conduct, and the need to act fairly between members of the company.

<u>City Selection</u>

CityFibre uses a broad range of criteria to select new towns and cities in which to deploy our networks. These include but are not limited to; the size of the city, the extent and reach of our existing infrastructure, the ability to use third party infrastructure already in place, competitor presence or stated intention to build, estimated cost per premise, the Company's views on the likely success of winning commercial opportunities from the public sector (including through local Full Fibre procurement opportunities), indications from ISPs who are current or prospective customers, the attractiveness of the business market and the ability to connect mobile infrastructure. CityFibre have to date announced over 280 cities, towns and villages where the Company is building or intends to build, across the UK.

<u>Construction Partners</u>

CityFibre's construction partners are key to our success. The Company identifies and selects the best construction partner for each city based on a range of criteria including quality of build, ability to mobilise the local construction work force and the expected cost to build the network. While CityFibre focuses closely on the productivity of the Company's construction partners, the health and safety of the construction workers building our networks is of paramount importance, as outlined in the section above on COVID-19 on page 6, as well as within the section on Health and Safety on page 13.

<u>Suppliers</u>

As CityFibre deploys its network, the Company is making use of the very latest and best fibre technology available in the world. We believe that by investing in the best technology we will create a highly resilient network which will attract and retain customers across our key market verticals and build long term value. As fibre networks use light rather than electricity to transmit information, our network's energy consumption will be significantly lower than legacy copper-based networks used by incumbent telecom operators. CityFibre targets technology suppliers who can provide a strong product roadmap and the innovation we require to maintain a world-class network into the future. We take into account Government advice in respect of national security issues when selecting suppliers and require our suppliers and contractors to work within the terms of our Supplier Code of Conduct. Please see the section on Business Ethics on page 13 for further information.

<u>Employees</u>

CityFibre has major offices in Milton Keynes, Telford, London and Irlam which house technical, commercial and functional teams supporting the business. The Company also operate teams in each of the cities that are currently being built, to work closely with the local council, highways agency, our customers and our construction partners.

CityFibre's preference is to hire locally and the Group seeks out potential employees who are in the early stages of their career who can be trained and grow in the business. CityFibre values employees who have a local affinity with the city in which they work because we hope they will be proud of the legacy they are building for the benefit of the entire community. The company is also actively working to ensure we build and maintain a diverse and inclusive workforce which is why we have launched our Diversity and Inclusion Leadership Group in 2020. This year we also launched The CityFibre Way that identifies four key behaviours in how we think, act and work and conducted an Employee Survey in November 2020. Further information on these initiatives as well as our Gender Diversity reporting is within the Our People section on page 12 onwards.

Customers

CityFibre builds its cities based on a "Well Planned City" design methodology it has developed. The Company is building its networks to provide capacity for consumers, businesses, public sector sites and mobile operators. We aim to build enough capacity into our networks to serve all these customer groups. CityFibre is a wholesale only provider and the end users of our network consume services through other providers such as ISPs, business resellers, public sector systems integrators and mobile network operators. CityFibre aims to develop relationships with all the major national players who have the majority of the end users in the UK as their customers. We believe that our national scale makes CityFibre an attractive partner because it can provide an efficient platform for systems, service and marketing investment and a clear alternative to the two national incumbent networks in the UK.

CityFibre's shareholders nominate directors that control the board of the Company, and are actively involved in the major decision making of the Group. Those shareholders are active owners of other businesses in the infrastructure sector in the UK and Overseas and bring that experience to bear in the decision making of CityFibre.

The Board seeks to protect the reputation of the business and to maintain high standards of business conduct through its published policies and training of CityFibre employees in those policies.

Corporate Governance

The Board and the Board sub-committees for both Audit and Remuneration include representatives from CityFibre and from both shareholders that form the consortium that own and control the Group, as well as an Independent Chair, Steve Holliday.

Steve Holliday joined the Board in September 2019 as Independent Non-Executive Chair, and was the former Chief Executive of National Grid plc from 2007 to 2016. In December 2020, Sharon Flood joined the Board as an experienced Independent Non-Executive Director and Chair of the Audit Committee for Topco. She has a wealth of experience garnered from a number of senior finance and strategy roles, as well as other non-executive directorships.

Statement as to disclosure of information to auditors

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's Auditor for the purposes of their audit and to establish that the Auditor is aware of that information. The Directors are not aware of any relevant audit information of which the Auditor is unaware.

The Directors consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

On behalf of the Board.

N J Dunn
Director
4 August 2021

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF CONNECT INFRASTRUCTURE TOPCO LIMITED

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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.

We have audited the financial statements of Connect Infrastructure Topco Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2020 which comprise the consolidated statement of comprehensive income for the Group, the consolidated statement of financial position for the Group, the company statement of financial position, the consolidated statement of changes in equity for the Group, the company statement of changes in equity, the consolidated statement of cash flows for the Group and the company statement of cash flows and notes to the consolidated 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 accounting standards in conformity with the requirements of the Companies Act 2006 (IFRS) and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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.

Independence

We are independent of the Group and 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.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which states that the ability of the Group and Parent Company to continue as a going concern is reliant on the continued availability of support from the shareholders to secure external funding in the form of further equity or debt. Failure to obtain external funding would adversely impact the working capital position and the Group and Parent Company's ability to meet short term obligations as they arise.

As stated in note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the Group's and 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.

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

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

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- We have identified and assessed the potential risks related to irregularities, including fraud, by considering the following:
  - Enquiries of management regarding: the compliance with laws and regulations; the detection and response to the risk of fraud and any knowledge of actual, suspected or alleged fraud; and the controls in place to mitigate risks related to fraud or non-compliance with laws and regulations;
  - Obtaining an understanding of the legal and regulatory framework in which the Group operates. The key laws considered are accounting standards and the Companies Act 2006.
- We have responded to risks identified by performing procedures including the following:
  - Enquiry of in-house management, in-house legal counsel and external legal counsel concerning actual and potential litigation and claims;
  - Performing analytical procedures to identify any unusual or unexpected relationships which may indicate risks of misstatement due to fraud; and
  - Reading the minutes of meetings of those charged with governance.
  - Review of financial statements disclosures and testing to supporting documentation.
- We have also considered the risk of fraud through management override of controls by:
  - Testing on a sample basis the appropriateness of journal entries and other adjustments;
  - Assessing whether the judgements made in making accounting estimates are indicative of potential bias;

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

This report is made solely to the 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.

DocuSigned by:
Nicole Martin
4A244A56A3444DF
Nicole Martin (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London, UK

Date: 05 August 2021

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue	2	63,471	55,327
Cost of sales		(35,502)	(31,339)
Gross profit		27,969	23,988
Administrative expenses		(122,601)	(93,062)
Operating loss	3	(94,632)	(69,074)
Finance income	5	150	143
Finance cost	6	(14,412)	(13,002)
Share of post-tax losses of equity accounted joint venture	10	-	(5)
Loss on ordinary activities before taxation		(108,894)	(81,938)
Income tax (charge)/ credit	7	(1,902)	1,745
Loss for the year and total other comprehensive income		(110,796)	(80,193)

The consolidated statement of profit or loss and other comprehensive income has been prepared on the basis that all operations are continuing operations.

Notes 1 to 26 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020
Company number 11319944

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Property, plant and equipment	8	929,029	493,967
Intangible assets	9	432,246	251,603
Investment in joint venture	10	-	-
Total non-current assets		1,361,275	745,570
Current assets			
Inventory	11	2,617	7,281
Trade and other receivables	13	42,070	34,416
Cash and cash equivalents	12	106,492	16,574
Total current assets		151,179	58,271
Total assets		1,512,454	803,841
Equity			
Share capital	15	9,910	6,254
Share premium	16	1,085,945	619,101
Retained earnings	16	(223,305)	(112,509)
Total equity		872,550	512,846
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	17	440,900	171,387
Deferred revenue	18	29,273	18,987
Lease liability	20	25,055	11,367
Deferred tax	14	50,547	31,287
Total non-current liabilities		545,775	233,028
Current liabilities			
Deferred revenue	18	7,452	9,349
Lease liability	20	3,829	2,361
Trade and other payables	19	82,848	46,257
Total current liabilities		94,129	57,967
Total liabilities		639,904	290,995
Total equity and liabilities		1,512,454	803,841

These financial statements were approved by the Board of Directors and authorised for issue on 4 August 2021.
They were signed on its behalf by:

N J Dunn
Director

Notes 1 to 26 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital £'000	Share Premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019	5,499	544,434	(32,316)	517,617
Comprehensive loss				
Loss and total comprehensive income for the year	-	-	(80,193)	(80,193)
Transactions with owners				
Issue of shares	755	74,667	-	75,422
Balance at 31 December 2019	6,254	619,101	(112,509)	512,846
Balance at 1 January 2020	6,254	619,101	(112,509)	512,846
Comprehensive loss				
Loss and total comprehensive income for the year	-	-	(110,796)	(110,796)
Transactions with owners				
Issue of shares	3,656	466,844	-	470,500
Balance at 31 December 2020	9,910	1,085,945	(223,305)	(872,550)

Notes 1 to 26 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended to 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows utilised in operating activities			
Loss before taxation		(108,894)	(81,938)
Amortisation of intangibles	9	7,989	5,367
Finance income	5	(150)	(143)
Finance costs	6	14,412	13,002
Depreciation	8	27,060	14,712
Increase/ (decrease) in inventory	11	4,796	(2,697)
Increase in receivables		(4,656)	(11,218)
Increase in payables		25,147	15,010
Transaction related fees	3	3,524	-
Loss on disposal of joint venture		410	-
Share of loss from associated company	10	-	5
Deferred consideration		-	33
Net cash utilised in operating activities		(30,362)	(47,867)
Cash flows utilised in investing activities			
Interest received		150	363
Acquisition of intangible assets		(1,519)	(537)
Acquisition of property, plant and equipment		(332,619)	(157,199)
Acquisition of subsidiary (net of cash acquired)		(139,824)	-
Transaction related fees		(3,524)	-
Deferred consideration paid		-	(600)
Capitalised labour costs		(46,608)	(23,972)
Net cash utilised in investing activities		(523,944)	(181,945)
Cash flows generated from financing activities			
Proceeds from the issue of share capital		470,500	75,422
Repayment of borrowings	17	(45,000)	(45,000)
Repayment of borrowings on acquisition		(72,651)	-
Drawdown of borrowings	17	311,281	162,508
Interest paid		(16,851)	(11,656)
Principal paid on lease liabilities		(3,055)	(3,493)
Net cash generated from financing activities		644,224	177,781
Net increase/ (decrease) in cash and cash equivalents		89,918	(52,031)
Cash and cash equivalents at beginning of year	12	16,574	68,605
Cash and cash equivalents at end of year	12	**106,492**	**16,574**

Notes 1 to 26 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are summarised below. They have all been applied consistently throughout the year.

Basis of accounting
Connect Infrastructure Topco Limited is a private company limited by shares. The financial statements have been prepared on a going concern basis and in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS"). They have also been prepared with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Going concern
In order to assess the ability for the Group to be considered as a going concern, the Directors have identified the key factors relevant to the Group's viability, and have run scenario modelling to assess the impact on future cash flows over the 12 months from signing these accounts. The primary areas that have been considered and factored into the scenario modelling are as follows:

- The financing required to fund our plans has not been fully committed as it will naturally align to the period of the Full Fibre build programme, and our shareholders have confirmed their ongoing support to secure the necessary funding. In the event this future funding was not secured, the principle mitigation would be to pause CityFibre's network rollout to rapidly reduce short-term funding requirements and allow sufficient time to source alternative sources of equity or debt finance. The reduction in build activities would result in contract termination costs and be accompanied by a significant reduction in the level of internal resource to support the network build, as well as other operating cost reductions.
- Consumer revenues are assumed to continue to grow based on existing long-term contracts but restricted to the extent that network build plans would need to be amended.
- All contracted non-Consumer revenue streams assumed to continue, as they do not rely on the Full Fibre construction programme, but with no new sales in the Mobile and Public Sector verticals due to the high level of capex investments required. Current work-in-progress in these verticals are assumed to be completed to meet contractual obligations. The Business vertical, which is characterised by a much larger customer base with typically shorter contract lengths, has been assumed at reduced levels of sales and delivery activity compared to current forecasts.
- The scale and availability of the Group's debt facilities, including the ability to meet loan covenants. No issues were identified that would restrict access to funding, although there is a direct relationship with the Full Fibre infrastructure programme roll-out and non-Consumer sales, and so there would be a corresponding impact as either or both of these reduce, which was factored into the Directors' assessment.

Through the review of a number of scenarios factoring in the key risks identified, the Directors recognise the Group is reliant on further external funding which is not guaranteed. Failure to obtain external funding may adversely impact the working capital position and the Group and Parent Company's ability to meet short term obligations as they arise. These events or conditions indicate the existence of a material uncertainty that would cast significant doubt on the Group and Company's ability to continue as a going concern and adopt a going concern basis of preparation for the financial statements. However, the investment opportunity demonstrated in the Group's long-range business plan gives the Directors confidence in the ability to secure further external funding, such that they have concluded it is appropriate to prepare the financial statements on a going concern basis and not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

New standards, interpretations and amendments effective from 1 January 2020
New standards that have been adopted in the annual financial statements for the year ended 31 December 2020, but have not had a significant effect on the Group are:

- Definition of a Business (Amendments to IFRS 3);
- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7);
- COVID-19-Related Rent Concessions (Amendments to IFRS 16);
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and
- Revisions to the Conceptual Framework for Financial Reporting.

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

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

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

The Group is currently assessing the impact of these new accounting standards and amendments that are effective in future accounting periods but does not expect them to have a material impact on the Group.

Basis of consolidation
The consolidated financial statements incorporate the results of the Company and all of its subsidiary undertakings as at 31 December 2020. The results of subsidiary undertakings are included from the date of acquisition.

Connect Infrastructure Topco Limited was incorporated on 19 April 2018. On 21 June 2018, Connect Infrastructure Bidco Limited acquired the share capital of CityFibre Infrastructure Holdings Limited which included the following wholly owned subsidiaries: CityFibre Holdings Limited, CityFibre Networks Limited, Fibrecity Holdings Limited, Gigler Limited, CityFibre Metro Networks Limited, Fibrecity Bournemouth Limited, Entanet Holdings Limited and Entanet International Limited.

On 27 March 2020 the Group acquired the issued share capital of FibreNation Limited ('FibreNation') and Bolt Pro Tem Limited ('Bolt Pro Tem') by way of a cash purchase. The Group previously held 33% ownership of Bolt Pro Tem and treated it as a joint venture. The consideration for the acquisition was satisfied by the transfer of £140,703,000 from the Company to the shareholders of FibreNation and Bolt Pro Tem and settlement of £72,651,000 of debt acquired. Refer to note 26 for information on the accounting treatment of the acquisition.

Joint ventures
Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

These consolidated financial statements include the Group's share of the total recognised gains and losses of a joint venture (Bolt Pro Tem Limited) using the equity method, from the date that significant influence commenced, based on present ownership interests, less any impairment losses. Under the equity method, investments in joint ventures are carried in the Consolidated Statement of Financial Position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of the investment and the Group's share of any gain on contribution of assets to the joint venture.

During the year, the Group acquired the remaining shareholding of its joint venture, Bolt Pro Tem Limited, resulting in it becoming a subsidiary of the Group and ceasing to be a joint venture. Refer to note 10 for further information.

Revenue
Revenue represents network lease sales and installation sales to external customers, sales of internet services to business and residential customers, and recharge of work performed for the joint venture at invoiced amounts less value added tax or local taxes on sales.

Performance obligations and timing of revenue recognition
A significant portion of the Group's revenue is derived from network lease sales and installation sales. Both network service and installation revenue are considered part of the main obligation to provide network services and hence are recognised evenly over the period to which the services are granted, as customers simultaneously receive and consume fibre connectivity over the service period. Revenue is recognised from the date at which the network service becomes available for use by the customer. Where there are multiple connections within a contract, each connection is considered a separate performance obligation and revenue will be recognised at the point of each connection going live. There are no obligations for refunds or returns.

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

The Group also has contracts which grant the customer Indefeasible Right of Use (IRU) of an asset owned by the Group, as well as the provision of maintenance services over a period of time. The two are considered separate performance obligations. Revenue is recognised for the IRU of the asset at the point in time where the asset is considered transferred to the customer. Revenue from maintenance services is recognised over the period during which the service is granted.

Refer to note 18 for information on the amounts relating to remaining performance obligations.

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

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

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

The costs of fulfilling contracts do not result in the recognition of a separate asset because:

- such costs are included in the carrying amount of inventory for contracts involving capacity sales; and
- for service contracts, revenue is recognised over time by reference to the stage of completion meaning that control of the asset (the network service) is transferred to the customer on a continuous basis as work is carried out. Consequently, no asset for work in progress is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Property, plant and equipment
Property, plant and equipment are stated at cost, net of depreciation and any provisions for impairment. Where network assets are acquired as part of a contract including a provision of services, the asset is initially recognised at fair value to include the value of these services. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, on a straight line basis over the useful economic life of that asset as follows:

Leasehold property	5 years
Network assets – Duct	40 years
Network assets – Cabling	20 years
Plant and machinery	5 years
Fixtures and fittings	3 years
Motor vehicles	3 years

Useful economic lives and residual values are assessed annually. Any impairment in value is charged to the statement of profit and loss and other comprehensive income.

Intangible assets
Customer contracts, which have arisen through business combinations, are assessed by reviewing their net present value of future cash flows. Customer contracts are amortised straight line over their useful lives between five and forty years.

Software costs that are directly attributable to IT systems controlled by the Group are recognised as intangible assets and the costs are amortised straight line over their useful lives not exceeding five years.

Brand assets, which have arisen through business combinations, are assessed by reviewing their net present value of future cash flows. Brands are amortised straight line over their useful life not exceeding fifteen years.

Amortisation is included in general administrative costs in the statement of comprehensive income.

Goodwill
Goodwill arising in a business combination is recognised as an asset at the date that control is obtained (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred over the share acquired by the Group in the fair value of the entity's identifiable net assets at the acquisition date. Goodwill is not amortised but is tested for impairment on an annual basis, and more frequently if any impairment triggers are identified.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) in accordance with IAS 36 Impairment of Assets. A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other group(s) of assets.

These tests consist of comparing the carrying amount of the assets or (groups of) CGUs with their recoverable amount. The recoverable amount of an asset, a (group of) CGU(s) is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated to reducing firstly the carrying amount of any goodwill allocated to the unit and then the other assets of the unit pro rata. on the basis of the carrying amount of each asset in the unit. An impairment loss recognized on goodwill shall not be reversed in a subsequent period.

Impairment of non-current assets
Whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable an asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) if that is less than the asset's carrying amount.

The carrying values of property, plant and equipment and intangible assets other than goodwill, within a cash generating unit, are reviewed for impairment only when events indicate the carrying value may be impaired.

Impairment of non-current assets (continued)
Impairment indicators include both internal and external factors. Examples of internal factors include analysing performance against budgets and assessing absolute financial measures for indicators of impairment.

Where impairment indicators are present, the recoverable amounts of assets are measured. Asset recoverability requires assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets, using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of uncertain matters. In particular, management has regard to assumptions in respect of revenue mix and growth rates.

Inventory
Inventory is stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Inventory includes equipment necessary to install fibre optic networks and also include the cost of specific network assets allocated for sale under IRU agreements, rather than for use in the group's network service provision business. In the prior period, inventory included equipment necessary to install fibre optic networks however in the current year this has been treated as work in progress property, plant and equipment.

Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Finance costs
Finance costs are charged to the statement of comprehensive income over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument. Hedging fees are included in finance costs and are charged to the profit and loss account as incurred.

Financial liabilities and equity
Financial liabilities, including trade payables and bank loans, are recognised when the Group becomes party to the contractual arrangements of the instrument and are recorded at amortised cost using the effective interest method. All related interest charges on loans are recognised as an expense in 'finance cost' in the statement of comprehensive income.

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Financial assets
Trade and other receivables are initially recorded at their fair value and subsequently carried at amortised cost, less provision for impairment. A provision for impairment of trade receivables is determined using the IFRS 9 simplified approach to measuring expected losses. In calculating the provision, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and cash in hand, and short-term highly liquid investments with an original maturity of three months or less.

Short-term deposits
Short-term deposits comprise investment amounts placed on deposit with major banks for either fixed terms or maturity notice periods which exceed 3 months and are less than 12 months.

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. The value of the short-term leases expense is disclosed in Note 20.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

The Group determines its incremental borrowing rate by obtaining interest rates from external financing sources. The Group has chosen to use the same discount rate across all classes of assets, as this is materially appropriate across the assets. The discount rate used is the same as the incremental cost of borrowing under the Group's debt facility – this is deemed appropriate as the majority of leases by value have a similar term to the expected life of the capex funded by the debt facility.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease; and
- initial direct costs incurred

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

For contracts that both convey a right to the group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the service portion of lease charges separately for leasehold property leases but not for network asset and plant and equipment type leases.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the date of the statement of financial position.

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Taxation (continued)
Deferred taxation liabilities are recognised on all taxable temporary differences. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date. The carrying value of deferred taxation assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Pension Costs
Contributions to the Group's defined contribution pension scheme are charged to the statement of profit and loss and other comprehensive income in the period in which they become payable.

Key judgements and sources of estimation uncertainty
The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or where assumptions or estimates are significant to the financial statements are detailed below.

Classification of network assets as inventory
Certain network assets have been historically classified as inventory assets. Management believes this classification continues to be appropriate given that the Group intends to sell network capacity assets on a regular basis where it is considered to be a strategically viable product.

Revenue recognition of contracts with customers
The amount and timing of revenue from contracts with customers is dependent on the judgement used in determining both the timing of the satisfaction of performance obligations and the transaction price and amounts allocated to performance obligations. The Group recognises revenue from the date the network is available for use by the customer and is recognised evenly over the period for which the services are granted.

Assessment of useful economic lives of property, plant and equipment
The Group depreciates the property, plant and equipment, using the straight-line method, over their estimated useful lives. The estimated useful life reflects management's estimate of the period that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Changes in the expected level of usage and technological developments could affect the useful economic lives of these assets which could then consequentially impact future depreciation charges.

Impairment of non-current assets
Where impairment indicators are present, the recoverable amounts of assets are measured. Asset recoverability requires assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets, using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of uncertain matters. In particular, management has regard to assumptions in respect of revenue mix and growth rates.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) where the asset belongs. Discussion on the identification and allocation of CGUs is included on page 35 and note 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Business Combination
Under IFRS 3, the acquirer must allocate the consideration paid to all identifiable assets acquired, and liabilities assumed, as at the date of acquisition at fair value. This allocation must occur at a Cash Generating Unit ("CGU") level.

IAS 36 defines a CGU as "the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets".

The Group reports under two CGUs, being CityFibre (fibre optic infrastructure services) and Entanet (wholesale internet service provision). The Goodwill arising from the acquisition in the period has been wholly allocated to the fibre optic infrastructure services CGU. This has been assessed as appropriate by the Directors following consideration of internal reporting used by management and the overall operation of the expanded business. In particular, consideration was given to how the value of the Group's business is generated through using a shared network model which makes it unfeasible to identify a CGU at a lower level.

Where an entity acquires an intangible asset as part of a business combination, the intangible asset is recognised separately if it meets the following criteria: the asset is separately identifiable; the asset is controlled by the entity; and the asset provides a future economic benefit. Management uses various valuation techniques which require judgement when determining the fair values of certain assets and liabilities acquired in a business combination.

The Group recognised Goodwill of £96,339,000 and other identifiable intangible assets of £87,100,000. This is disclosed in note 9 and note 26.

Going concern assessment
The directors have assessed the going concern position of the Group in light of the key risk factors for the business, and recognising that while there is a material uncertainty with respect to the reliance on further external funding, that it is appropriate to prepare the financial statements on a going concern basis. The primary areas of judgement that have been considered and factored into scenario modelling to consider the future viability of the business are:

- Equity funding and how to mitigate if no further funding is received from the Group's shareholders.
- Impact on construction spend following an immediate suspension of the network rollout.
- The scale and availability of the Group's debt facilities, including the ability to meet loan covenants.

Refer to the basis of accounting on page 28 where these are discussed further.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2. REVENUE

	2020 £'000	2019 £'000
Fibre optic infrastructure services ('On-net')	30,384	19,702
Other wholesale internet service provision ('Off-net')	33,087	35,625
	63,471	55,327

3. OPERATING LOSS

Operating loss is after charging:

	2020 £'000	2019 £'000
Depreciation of property, plant and equipment	27,060	14,712
Amortisation of intangibles	7,989	5,367
One-off transaction costs	3,524	-
Other one-off fees (see Strategic Report on page 4)	26,234	37,552

The analysis of auditor's remuneration is as follows:

Fees payable for the audit of the Group's annual financial statements	28	20
Fees payable for the audit of the Group's subsidiaries' financial statements	345	225
Total audit fees	373	245
Total non-audit services	-	-
Total fees	373	245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

4. STAFF COSTS

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

	2020 No	2019 No
Sales	108	65
Operations	873	471
Administration	113	70
	1,094	606

The aggregate payroll costs of the above were:	2020 £'000	2019 £'000
Wages and salaries	26,161	17,950
Social security costs	3,610	2,477
Other pension costs	3,041	1,411
	32,812	21,838

The analysis of payroll costs above includes only expensed costs. Capitalised staff costs for 2020 are £42,165,000 (2019: £19,210,000).

5. FINANCE INCOME

	2020 £'000	2019 £'000
Interest on bank deposits	150	143
	150	143

6. FINANCE COSTS

	2020 £'000	2019 £'000
Interest on bank loans	13,697	12,549
Other interest	-	5
Interest on lease liability	715	448
	14,412	13,002

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

7. TAXATION

	2020 £'000	2019 £'000
Current tax		
UK corporation tax based on the results for the year at 19% (2019: 19%)	-	-
Total current tax	-	-
Deferred tax		
Effect of change in tax rates	3,564	-
Temporary differences on which deferred tax asset has been recognised	(1,662)	(1,745)
Tax on charge/ (credit) on ordinary activities	1,902	(1,745)

Factors affecting current tax credit
The tax assessed for the period differs from the standard rate of corporation tax in the UK of 19% (2019: 19%) as follows:

	2020 £'000	2019 £'000
Loss on ordinary activities before taxation	(108,894)	(81,938)
Tax on loss on ordinary activities at standard rate	(20,690)	(15,568)
Factors affecting charge		
Effect of change in tax rates	153	542
Expenses not deductible for tax purposes	1,761	7,113
Unwind of deferred tax liability on fair value adjustments relating to prior period	-	(862)
Other temporary differences	2,201	2,063
Origination of temporary differences on which no deferred tax asset has been recognised	18,477	4,967
Total taxation charge/ (credit)	1,902	(1,745)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold property	Network assets	Plant and machinery	Right of use assets	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2019	-	292,378	9,471	-	894	302,743
Additions	-	174,196	18,529	18,031	430	211,186
Disposals	-	-	-	-	-	-
At 31 December 2019	-	466,574	28,000	18,031	1,324	513,929
At 1 January 2020	-	466,574	28,000	18,031	1,324	513,929
Acquisition	-	45,914	-	806	33	46,753
Additions	241	371,783	25,667	16,643	1,035	415,369
At 31 December 2020	241	884,271	53,667	35,480	2,392	976,051
Accumulated depreciation						
At 19 April 2019	-	4,803	413	-	34	5,250
Charge in the year	-	8,910	3,365	2,189	248	14,712
At 31 December 2019	-	13,713	3,778	2,189	282	19,962
At 1 January 2020	-	13,713	3,778	2,189	282	19,962
Charge in the year	19	17,447	5,534	2,868	1,192	27,060
At 31 December 2020	19	31,160	9,312	5,057	1,474	47,022
Net book value						
At 31 December 2020	222	853,111	44,355	30,423	918	929,029
At 31 December 2019	-	452,861	24,222	15,842	1,042	493,967

Included above are network assets under construction and not yet depreciated which are held at a cost of £20,735,000 (2019: £14,755,000) at the date of the statement of financial position.

A review was carried out to determine if there were any indicators of impairment of the Group's network assets at 31 December 2020. Each of the indicators set out in IAS 16 were considered and none were identified.

9. INTANGIBLE ASSETS

	Website costs £'000	Customer contracts £'000	Software costs £'000	Brand £'000	Goodwill £'000	Total £'000
Cost						
At 19 April 2019	20	125,601	4,103	2,088	126,042	257,854
Additions	-	-	2,584	-	-	2,584
At 31 December 2019	20	125,601	6,687	2,088	126,042	260,438
At 1 January 2020	20	125,601	6,687	2,088	126,042	260,438
Acquired	-	87,100	727	-	96,339	184,166
Additions	-	-	4,466	-	-	4,466
At 31 December 2020	20	212,701	11,880	2,088	222,381	449,070
Accumulated amortisation						
At 19 April 2019	2	2,478	771	217	-	3,468
Amortisation	6	3,896	1,322	143	-	5,367
At 31 December 2019	8	6,374	2,093	360	-	8,835
At 1 January 2020	8	6,374	2,093	360	-	8,835
Amortisation	6	6,073	1,767	143	-	7,989
At 31 December 2020	14	12,447	3,860	503	-	16,824
Net book value						
At 31 December 2020	6	200,254	8,020	1,585	222,381	432,246
At 31 December 2019	12	119,227	4,594	1,728	126,042	251,603

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

The opening carrying amount of goodwill of £126,042,000 is allocated between the CityFibre (fibre optic infrastructure services) and Entanet (wholesale internet service provision) CGU's with £26,500,000 being allocated to Entanet and £99,542,000 being allocated to CityFibre. The additional Goodwill arising from the acquisition during the year of £96,339,000 has been allocated to the CityFibre CGU, resulting in the total Goodwill allocated to this CGU being £195,881,000. Discussion on the identification of this CGU is included in note 1.

The Entanet CGU has a recoverable amount of £27,918,000 which exceeds its carrying amount by £1,418,000. The recoverable amount of the above CGU has been determined from value in use calculations based on cash flow projections from formally approved budgets and long-range plans covering a five-year period to 31 December 2025.

The CityFibre CGU has a recoverable amount of £6,247,163,000 which exceeds its carrying amount by £6,051,282,000 due to the future value expected to be derived from the wider on-net business which this goodwill has been allocated to. The recoverable amount of the above CGU has been determined from value in use calculations based on cash flow projections from formally approved budgets and long-range plans covering a ten-year period to 31 December 2030. This period has been deemed appropriate based on the duration of the capital intensive build period of the Full Fibre programme and the timing of the benefits and synergies, which underly the goodwill value, that are expected to transpire in the long term.

9. INTANGIBLE ASSETS (continued)

Discount rates are based on the Group's beta, adjusted to reflect management's assessment of specific risks related to the cash generating unit. Growth rates beyond the first five years are based on economic data pertaining to the United Kingdom.

Other major assumptions are as follows:	CityFibre (Wholesale internet service provision) %	Entanet (Fibre optic infrastructure services) %
Discount rate	10	10
Growth rate	2	2

If the following changes were made to the above key assumptions, the carrying amount and recoverable amount would be equal:

Sensitivity analysis:	CityFibre (Wholesale internet service provision) %	Entanet (Fibre optic infrastructure services) %
Discount rate	increase from 10% to 12%	-
Growth rate	reduction from 2% to 0%	-
Length of the period	-	reduction from 10 to 5 years

10. INVESTMENTS

Bolt Pro Tem Limited ceased being a joint venture with a 33% ownership interest during the year following the acquisition of the remaining shareholding on 27th March 2020. The fair value of the previously held equity interest was measured on the basis of the fair value of the net assets acquired which were deemed to be in line with book value. Based on the net liabilities of £1,230,000 of Bolt Pro Tem Limited and a £nil net book value of the joint venture at acquisition date, a loss on the previously held interest of £410,000 has been recognised in the year. Refer to note 26 for further information on the accounting treatment of the business combination.

11. INVENTORY

	2020 £'000	2019 £'000
Completed assets held-for-sale	2,018	2,735
Raw materials and consumables	599	4,546
	2,617	7,281

Inventory is stated net of an impairment provision of £nil (2019: £nil).

12. CASH AND CASH EQUIVALENTS

	2020 £'000	2019 £'000
Cash at bank	106,492	16,574
	106,492	16,574

13. TRADE AND OTHER RECEIVABLES

	2020 £'000	2019 £'000
Trade receivables	10,174	11,775
Other debtors	22,354	14,370
Lease receivable	-	442
Prepayments	6,717	5,446
Accrued income	2,825	2,383
	42,070	34,416

Trade receivables are stated net of a doubtful debt provision of £443,000 (2019: £558,000). See note 22 for further discussion of credit risk.

14. DEFERRED TAX

	2020 £'000	2019 £'000
Balance at start of year	31,287	33,032
Deferred tax liability recognised on acquisition	16,548	-
Deferred tax charge in the year	1,902	(1,745)
Deferred tax liability acquired	810	-
Balance at end of year	50,547	31,287

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

	2020 £'000	2019 £'000
Short term timing differences	8,382	5,092
Difference of taxation allowances over depreciation on fixed assets	12,016	4,971
Tax losses available	34,444	13,951
	54,842	24,014

Deferred tax assets have not been recognised on the basis that it is uncertain that future taxable profits will be available against which the Group can utilise the benefits there from.

15. CALLED UP SHARE CAPITAL

	2020 £'000	2019 £'000
Authorised, called up, allotted and fully paid		
987,518,278 A Ordinary shares of £0.01 each (2019: 621,933,092)	9,875	6,219
425,000 B1 Ordinary shares of £0.01 each (2019: 425,000)	4	4
1,700,000 B2 Ordinary shares of £0.01 each (2019: 1,700,000)	17	17
648,000 C1 Ordinary shares of £0.01 each (2019: 648,000)	7	7
648,000 C2 Ordinary shares of £0.01 each (2019: 648,000)	7	7
	9,910	6,254

15. CALLED UP SHARE CAPITAL (continued)

	2020 Number
Ordinary shares (issued)	
Balance at start of year	625,354,092
Share issue	365,585,186
Balance at end of year	990,939,278

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

B1 and B2 Ordinary shares entitle the holder to participate in any dividend, distribution or return of capital attaching to them. They do not entitle the holder to vote.

C1 and C2 Ordinary shares do not entitle the holder to participate in any dividend, distribution or return of capital, nor do they entitle the holder to vote.

During the year, 200,400,000 A Ordinary shares were issued with a nominal value of £0.01 for a consideration of £1.25 per share, 60,000,000 A Ordinary shares were issued with a nominal value of £0.01 for a consideration of £1.30 per share and 105,185,186 000 A Ordinary shares were issued with a nominal value of £0.01 for a consideration of £1.35 per share.

16. RESERVES

Share premium
This relates to the excess of consideration received for ordinary share capital issued above the nominal value of the shares.

Retained earnings
This relates to the accumulated retained earnings for the current year.

17. INTEREST BEARING LOANS AND BORROWINGS

	2020 £'000	2019 £'000
Bank loan	440,900	171,387
	440,900	171,387
Due within one year	-	-
Due after one year	440,900	171,397
	440,900	171,387

The carrying value of the loan is stated net of unamortised finance costs of £15,915,000 (2019: £19,147,000). The bank loan carries interest at 2.75%-3% above LIBOR.

Maturity analysis

	2020 £'000	2019 £'000
Bank and other loans		
In more than two years but not more than five years	440,900	-
In more than five years	-	171,387
	440,900	171,387

17. INTEREST BEARING LOANS AND BORROWINGS (continued)

Reconciliation of cash and non-cash movement

	2020 £'000
Balance at 1 January 2020	171,387
Loan drawdown	311,281
Loan balance repaid	(45,000)
Non-cash movement – amortisation of financing costs	3,232
Balance at 31 December 2020	440,990

18. DEFERRED REVENUE

Unsatisfied performance obligations
The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied at the 31 December 2020 was £36.724m (2019: £28.336m) and is expected to be recognised as revenue in future periods as follows:

Period of performance obligation

	2020 £'000	2019 £'000
In one year or less or on demand	7,452	9,349
In more than one year but not more than two years	4,320	3,042
In more than two years but not more than five years	7,365	5,606
In more than five year	17,588	10,339
	36,725	28,336

19. TRADE AND OTHER PAYABLES

	2020 £'000	2019 £'000
Trade payables	11,434	13,438
Other taxation and social security	2,750	1,842
Other creditors	1,969	601
Accruals	66,695	30,376
	82,848	46,257

20. LEASES

Nature of leasing activities (in the capacity as lessee)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

20. LEASES (continued)

Right of use assets	**Leasehold Property £'000**	**Network Assets £'000**	**Plant and Machinery £'000**	**Vehicles £'000**	**Total £'000**
At 1 January 2020	4,063	3,290	8,489	-	15,842
Additions	3,658	1,006	13,793	260	18,717
Effects of modification to lease terms	(369)	-	(899)	-	(1,268)
Depreciation	(1,402)	(425)	(986)	(55)	(2,868)
As 31 December 2020	5,950	3,871	20,397	205	30,423

Lease liabilities	**Leasehold Property £'000**	**Network Assets £'000**	**Plant and Machinery £'000**	**Vehicles £'000**	**Total £'000**
At 1 January 2020	4,209	906	8,613	-	13,728
Additions	3,909	856	13,812	262	18,839
Effects of modification to lease terms	(441)	-	(903)	-	(1,344)
Interest expense	194	48	469	5	716
Payments	(1,504)	(297)	(1,196)	(58)	(3,055)
As 31 December 2020	6,367	1,513	20,795	209	28,884

The Group has recognised short-term and low-value leases through the Consolidated Statement Of Profit Or Loss And Other Comprehensive Income, as detailed below.

	£'000
Short-term lease expense	1,362
Low value lease expense	14

As 31 December 2020	**Up to 3 Months £'000**	**Between 3 and 12 months £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Lease payments	1,044	2,785	3,733	7,484	21,063

21. CAPITAL COMMITMENTS

	2020 £'000	**2019 £'000**
Contracted but not provided for	51,143	49,751
	51,143	49,751

Capital commitments include amounts in relation to sales contracts signed in 2020 for which construction will take place in 2021 and future years.

22. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise borrowings, cash and cash equivalents and various items such as trade receivables and payables that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group has not entered into derivatives transactions during the year; the Group regularly reviews hedging and treasury requirements, and has taken out hedging instruments in 2020. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and credit risk. Operations are financed through working capital management and external loan funding.

Liquidity risk
In order to maintain liquidity to ensure that sufficient funds were available for ongoing operations and future developments, the Group uses long-term finance in the form of a bank loan. The loan carries covenants that relate to leverage and interest cover; however covenants do not apply for the current year.

The Group's trade payables, other payables and accrued expenses are generally due between one and three months and the Group's other financial liabilities were due as follows:

Interest bearing loans and borrowings - gross payments	**2020**	**2019**
	£'000	**£'000**
Due within one year	17,974	12,791
Due within one to two years	17,974	13,783
Due within two to three years	19,434	13,783
Due within three to four years	20,951	14,810
Due within four to five years	478,310	15,881
Due within five to six years	-	206,751
	554,643	277,799

Future payments of interest have been calculated based on the principal at 31 December 2020 and the prevailing interest rate. Future payments do not reflect either reductions in interest rates as the Group de-leverages, or is able to borrow at more favourable rates.

Interest rate risk
As at 31 December 2020 the bank loan is the only financial instrument subject to interest rate risk. Management do not consider this risk to be material as the Group has taken out appropriate hedging instruments in 2020 to mitigate its exposure to interest rate fluctuations.

Credit risk
The Group's principal financial assets are bank balances and cash, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful debts. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Trade receivable ageing	**2020**	**2019**
	£'000	**£'000**
Under 30 days overdue	7,577	9,921
31 to 60 days overdue	1,104	1,634
61 to 90 days overdue	313	64
Over 90 days overdue	1,180	156
	10,174	11,775

A provision of £148,000 (2019: £186,000) was made against doubtful receivables during the year and the balance of the provision was £443,000 at 31 December 2020 (2019: £558,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

22. FINANCIAL INSTRUMENTS (continued)

Fair values

In management's opinion there is no material difference between the book value and fair value of any of the Group's financial instruments.

Classes of financial instruments

The classes of financial instruments are the same as the line items included on the face of the statement of financial position and have been analysed in more detail in the notes to the accounts. All the Group's financial assets are categorised as loans and receivables and all financial liabilities are measured at amortised cost.

23. RELATED PARTY TRANSACTIONS

The Company has a related party relationship with its subsidiaries, its associates, its Directors and the Directors of its subsidiaries.

Subsidiaries
The subsidiary undertakings of the Company at 31 December 2020 were as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

23. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Transactions with key management personnel

The key management personnel are the Directors and members of the executive management team.
Key management compensation was as follows:

	Key management personnel 2020 £'000	Key management personnel 2019 £'000	Highest paid director 2020 £'000	Highest paid director 2019 £'000
Fees	2,720	2,197	372	350
Benefits in kind	155	122	29	17
Pension contributions	124	55	-	-
Bonus	3,382	2,119	542	403
Other fees	243	132	-	-
	6,624	4,625	943	770
Social security costs	910	621	130	105
Total emoluments	7,534	5,246	1,073	875

During the year, the Group was charged by SH Consulting Services Ltd, a company whose Director, Steven Holliday, is also a non-executive Director of Connect Infrastructure Topco Limited, £68,000 (2019: £25,000), in respect of services received. Of this, £15,000 (2019: £25,000) was owed at the year-end.

In the prior year, 3,227,500 shares were issued to key management personnel for a consideration of £3,227,500. No shares were issued in the current year.

In the prior year, a non-interest bearing loan totalling £1,700,000 was issued to, and subsequently repaid in full by, Simon Holden, a Director of the Company. No such transactions took place in the current year.

At 31 December 2020 the Group was jointly-controlled by a consortium formed by Antin Infrastructure Partners and West Street Infrastructure Partners.

24. PENSIONS

A defined contribution pension scheme is operated by the Group on behalf of the employees of the Group. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension charge represents contributions payable by the Group to the fund and amounted to £3,041,000 (2019: £1,411,000). Contributions totalling £446,000 (2019: £208,000) were payable to the fund at the year end and are included in creditors.

25. SUBSEQUENT EVENTS

In March 2021, a non-interest bearing loan totalling £50,000 was issued to Sharon Flood, a director of the Company.

In March 2021, 107,142,858 A ordinary shares at £1.40 per share were issued for a consideration of £150,000,000.

In July 2021, 78,736,842 A ordinary shares at £1.90 per share were issued for a consideration of £149,600,000.

25. SUBSEQUENT EVENTS (continued)

In March 2021, 74,074 B1 ordinary shares at £1.35 per share were issued for a consideration of £100,000, 1,075,268 B2 ordinary shares at £1.86 per share were issued for a consideration of £2,000,000, 100,313 C1 ordinary shares at £2.13 per share were issued for a consideration of £213,667 and 100,313 C2 ordinary shares at £2.13 per share were issued for a consideration of £213,667.

In April 2021, 833,775 B1 ordinary shares at £1.40 per share were issued for a consideration of £1,167,285.

26. Business Combinations

Acquisition of FibreNation Limited and Bolt Pro Tem Limited

On 27 March 2020, Connect Infrastructure Topco Limited acquired the entire issued ordinary share capital of FibreNation Limited (via CityFibre Infrastructure Holdings Limited) and Bolt Pro Tem Limited (via CityFibre Holdings Limited).

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of the entities acquired as at the date of acquisition were:

Fair value recognised on acquisition	**Net book value**	**Fair value adjustment**	**27 March 2020**
			£'000
Assets			
Property, plant and equipment (Note 8)	48,455	(1,701)	46,754
Identified intangible assets (Note 9)	2,840	84,987	87,827
Loan receivable	4,790	(4,790)	-
Investments	2,000	(2,000)	-
Trade and other receivables	976	-	976
Cash and cash equivalents	878	-	878
Inventory	11,244	(11,112)	132
	71,183	65,384	136,567
Liabilities			
Trade and other payables	(4,507)	-	(4,507)
Intercompany loans	(72,651)	-	(72,651)
Deferred revenue	(118)	-	(118)
Deferred tax liability (Note 14)	(810)	(16,549)	(17,359)
	(78,086)	(16,549)	(94,635)
Total identifiable net assets at fair value			41,932
Goodwill arising on acquisition (Note 9)			96,339
Borrowings differential receivable			2,021
Fair value of previously held share in Bolt Pro Tem Limited (Note 10)			410
Purchase consideration transferred			140,702

The fair value of the trade and other receivables amounts to £976,000 which is the same value as the gross amount of trade receivables. The Group expects that all of this value will ultimately be received.

26. Business Combinations (continued)

A borrowings differential of £2,021,000 is repayable to CityFibre by TalkTalk in relation to an agreement on the difference in intra-group borrowings balance at acquisition date.

Refer to note 10 for further discussion on the treatment of the previously held share in Bolt Pro Tem Limited. The deferred tax liability principally comprises the tax effect of amortisation of intangible assets recognised upon consolidation.

The goodwill of £96,339,000 encompasses the following factors:

- Ability to renew the TalkTalk contract beyond the initial contractual term and sustain the relationship in the longer term;
- Opportunities to onboard other ISPs within the FTTP business;
- Ability to leverage the wider CityFibre footprint to further increase the TalkTalk base into more cities/geographies;
- Opportunity to increase end customer volumes on the CityFibre network and maintain market share in the face of mounting competitive pressures and technology advancements; and
- The value of having a trained and efficient workforce in place.

Goodwill has been allocated entirely to the fibre optic infrastructure services CGU. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of acquisition, FibreNation Limited contributed £727,000 of revenue and a £6,810,000 loss before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been £832,000 and loss before tax from continuing operations for the Group would have been £7,982,000.

From the date of acquisition, Bolt Pro Tem contributed £565,000 of revenue and £694,000 to loss before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been £776,000 and loss before tax from continuing operations for the Group would have been £741,000.

Analysis of cash flows on acquisition

Cash consideration of the acquisition	(140,702)
Net cash acquired with the subsidiaries	878
Net cash from acquisition of subsidiaries (included in cash flows from investing activities)	(139,824)
Repayment of intercompany loans (included in cash flows from financing activities)	(72,651)
Transaction costs of the acquisition (included in cash flows from investing activities)	(3,524)
Net acquisition related cash flows	**(215,999)**

There were no deferred consideration clauses within the terms of the acquisition agreement.

Intercompany loans of £72,651,000 were acquired as part of the business combination and were settled immediately on acquisition. A borrowings differential of £2,021,000 is repayable to CityFibre by TalkTalk in relation to an agreement on the difference in intra-group borrowings balance at acquisition.

Transaction costs of £3,524,000 were expensed and are included in administrative expenses in relation to the acquisition.

COMPANY STATEMENT OF FINANCIAL POSITION

Company number 11319944

As at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Investments	C4	1,095,570	621,570
Total non-current assets		1,095,570	621,570
Current assets			
Cash and cash equivalents	C5	173	3,727
Loan receivable		15	15
Trade and other receivables		27	-
Total current assets		215	3,742
Total assets		1,095,785	625,312
Equity			
Share capital	15	9,910	6,254
Share premium	16	1,085,945	619,101
Retained earnings	16	(352)	(156)
Total equity		1,095,503	625,199
Liabilities			
Current liabilities			
Trade and other payables	C6	282	113
Total current liabilities		282	113
Total liabilities		282	113
Total equity and liabilities		1,095,785	625,312

The parent company loss for the year was £196,000 (2019: £96,000)

These financial statements were approved by the Board of Directors and authorised for issue on 4 August 2021.

They were signed on its behalf by:

N J Dunn
Director

Notes C1 to C7 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital	Share premium	Retained earnings	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2019	5,499	544,434	(60)	549,873
Comprehensive loss				
Loss and total comprehensive loss for the year	-	-	(96)	(96)
Transactions with owners				
Shares issued	755	74,667	-	75,422
Balance at 31 December 2019	6,254	619,101	(156)	625,199
Comprehensive loss				
Loss and total comprehensive loss for the year	-	-	(196)	(196)
Transactions with owners				
Shares issued	3,656	466,844	-	470,500
Balance at 31 December 2020	9,910	1,085,945	(352)	1,095,503

Notes C1 to C7 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020	2019
		£'000	£'000
Cash flows utilised in operating activities			
Loss before tax		(196)	(96)
Increase in payables		168	65
Increase in receivables		(26)	(15)
Net cash utilised in operating activities		(54)	(46)
Cash flows utilised in investing activities			
Additional investment in subsidiary		(474,000)	(72,000)
Net cash utilised in investing activities		(474,000)	(72,000)
Cash flows from financing activities			
Proceeds from the issue of share capital		470,500	75,422
Net cash from financing activities		470,500	75,422
Net increase in cash and cash equivalents		(3,554)	3,376
Cash and cash equivalents at beginning of year		3,727	351
Cash and cash equivalents at end of year	C5	173	3,727

Notes C1 to C7 form part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C1. ACCOUNTING POLICIES

The accounting policies of the Company are consistent with those adopted by the Group with the addition of the following:

Investments
Investments are stated at their cost less impairment losses.

C2. LOSS OF PARENT COMPANY

As permitted by section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The Company reported a loss after taxation for the financial year ended 31 December 2020 of £196,000 (2019: £96,000).

C3. DEFERRED TAX

The Company has unrecognised deferred taxation of £58,000 (2019: £26,000) in respect of tax losses. The Company has not recognised any deferred tax asset due to lack of certainty over recovery of the asset.

C4. INVESTMENTS

	2020	2019
	£'000	£'000
Investments	1,095,570	621,570
	1,095,570	621,570

Subsidiaries

The subsidiary undertakings of the Company at 31 December 2020 are disclosed in note 23.

C5. CASH AND CASH EQUIVALENTS

	2020	2019
	£'000	£'000
Cash at bank	173	3,727

C6. TRADE AND OTHER PAYABLES

	2020	2019
	£'000	£'000
Accruals and deferred income	36	28
Amounts payable to group undertakings	246	85
	282	113

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C7. RELATED PARTY TRANSACTIONS

The Company has a related party relationship with its subsidiaries and with its Directors and executive officers (see note 23).

During the year the company received services from:

	2020 £'000	2019 £'000
CityFibre Infrastructure Holdings Limited	161,000	85,000
Total services received	161,000	85,000

Group undertakings

The balances due from group undertakings, which includes intercompany trade balances at 31 December 2020, is as follows:

	2020 £'000	2019 £'000
CityFibre Infrastructure Holdings Limited	246,000	85,000
	246,000	85,000

There are no other related party transactions.