

Hyperoptic Limited

Report and Financial Statements

Year Ended

31 December 2021

Company Number 07222543

Hyperoptic Limited

Report and financial statements for the year ended 31 December 2021

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Directors

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R Woodward

Registered office

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Company number

07222543

Auditor

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

Hyperoptic Limited

Strategic report for the year ended 31 December 2021

The Directors present their strategic report on Hyperoptic Limited (the “Company”) together with the audited financial statements for the year ended 31 December 2021.

Principal activity

The Company’s principal activity during the year was to develop facilities for the provision of high-speed internet broadband by deploy and operate a Fibre to the Premise (FTTP) network and through fibre optic cabling in buildings.

Strategy and business model

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

The Company’s strategy is to deploy and operate a FTTP or “full fibre” network in buildings and geographic areas with a high customer acquisition potential.

Hyperoptic has a focus on multiple dwelling units in both existing and new development and works closely with freeholders, developers, property managers and residents to bring award-winning gigabit services to residential and business developments that increases the attractiveness and value of each property. Hyperoptic broadband is already available at selected sites in 64 UK towns & cities. The business model will deliver long term value by increasing penetration rates at existing sites, targeting attractive new sites across the UK and extending the Company’s network reach to serve all forms of property types in selected towns and cities.

The Company’s goal is to continue to grow its customer base by providing exceptional customer service and competitive product offerings whilst extending its national fibre network footprint to more than two million homes and businesses.

The Company uses both internal resource and outsource suppliers to build its fibre network.

Financial key performance indicators

The Company’s key financial performance indicators are set out below:	2021	2020
Revenue	£65.1m	£51.7m
Gross profit	£52.5m	£42.3m
Gross profit margin	80.6%	81.8%
EBITDA ¹	£(7.4)m	£(12.2)m
Capital Investment ²	£112.2m	£66.6m
Subscribers ³	224,080	180,397
Average revenue per user (ARPU ⁴)	£26.8	£26.7
Total Homes Passed ⁵	751,585	531,578

¹ EBITDA represents the operating loss for the period adding back depreciation and amortisation

² Capital Investment is made up of acquisition of fixed assets and capitalisation of staff costs which together make up the additions in tangible assets for the Company in note 9 of the financial statements.

³ Subscribers are counted at 31 December 2021 and defined as all residential or business premises paying for service under a commercial contract.

⁴ ARPU represents total revenue from subscribers divided by average subscribers

⁵ Total Homes Passed is defined as homes that are connected to the network or are able to be readily connected to the network through completion of a standard end-user connection.

Hyperoptic Limited

Strategic report (*continued*) for the year ended 31 December 2021

Business review

Hyperoptic is on a mission to be the broadband provider of choice for partners, residents and businesses alike, giving its users the connectivity they deserve, underpinned by five-star customer service. Hyperoptic continues to successfully expand its FTTP network reach by working as a true partner to property owners, developers, and professionals, designing and installing dedicated fibre infrastructure to new buildings and existing developments.

The results for the twelve months to 31 December 2021 show that Hyperoptic is delivering on its ambitions. The Company continued to grow its full fibre network, turnover and customer base compared with the previous twelve month period. This growth was driven by both the continued increase in homes passed during the period as well as an increase in penetration of the existing network footprint.

Although Covid-19 continued to impact network build operations in the first half of 2021, the impact was considerably less than that experienced in 2020 and the company has put in place effective plans to maintain operational effectiveness during any period of restrictions, with a focus on safety measures for employees and customers alike.

Total homes passed reached 751,585 at 31 December 2021 as the Company continued to increase its rate of network build. During the year the Company created partnerships with both Map Group and Lanes Group to provide turnkey network build services, adding to the direct labour resources of the Company and therefore supporting the ongoing acceleration of its network build programme.

During the year the Company agreed nationwide partnerships with the biggest housebuilders in the UK including Barratt Homes, CALA Homes, and Avant Homes, where its fibre broadband will be installed as standard as part of the build process for all new build homes. It now has over 250 developer partnerships across Britain. Hyperoptic is also working with over 50 councils to install its services into existing and new social housing properties having continued to agree rights to install fibre across a number of London Boroughs and councils nationwide.

Hyperoptic's customer base grew by 43,683 (24%) to a total of 224,080 for the year ending 2021 and the Company continued to expand its service offering during the year with the following being some of the highlights:

- In March the Company introduced a new affordable tariff called 'Hyperoptic's Fair Fibre Plan,' for customers on specific means-tested benefits.
- In June the Company launched a site-wide Wi-Fi offering for the build to rent market offering seamless connectivity to a customer's individual network as the move around a development and its communal areas.
- In August 2021, the Company introduced 24-month contracts providing more choice and value to match customer commitment periods.

During the year the Company was also recognised by both customers and the industry for the quality of its customer offering. In July 2021, Hyperoptic surpassed 10,000 5-star Trustpilot reviews and is currently achieving a 4.7-star Trustpilot rating demonstrating the Company's focus on customer satisfaction. In September 2021 Hyperoptic won "Broadband Provider of the Year" at the Connected Britain awards.

Financial Review

Turnover for the year was £65.1m (2020: £51.7m), an increase of £13.4m or 26% (2020: £12.5m or 32%). This represents revenue from subscribers in new homes passed as well as an increase in penetration in the existing network. The primary driver of the revenue increase was from the increase in subscribers compared to 2020. Average Revenue per User (ARPU) also marginally increased from £26.7 in 2020 to £26.8 in 2021.

Gross Profit for the year was £52.5m (2020: £42.3m). The gross margin reduced slightly in 2021 to 80.6% from 81.8% in 2020 due to an increase in network operating costs linked to the increase in homes passed and network build activity, including preparatory work for future homes passed.

Distribution costs increased by £1.9m to £6.4m (2020: £4.5m) due to the increase in subscribers and sales activity.

Hyperoptic Limited

Strategic report (*continued*) for the year ended 31 December 2021

Financial Review (*continued*)

Administration costs increased by £12.1m to £82.4m (2020: £70.3m). The increase in administration costs was primarily driven by an increase in depreciation related to the increased fibre network investment in 2021. Depreciation increased by £8.8m to £28.5m (2020: £19.7m). The remaining increase was due to increased employee and other related costs associated with scaling the business to deliver the long-term Company targets.

As a result of the increased costs (associated with increasing network build and subscriber growth activity) the operating loss increased by £4.1m in the year to £36m from £31.9m in 2020.

The Company has continued to grow its network and has invested heavily in growing its homes passed footprint in the year investing £103.1m (2020: £57.8m) in the fibre network. The Company is well positioned to continue the expansion of the network into new sites within existing cities as well as expanding into new geographic areas in the UK.

Financial position and risk management

As at 31 December 2021 the Company had cash balances of £10.4m (2020: £65.7m) and borrowings (excluding preference shares) of £405m (2020: £321m) as stated in Note 13.

As at 31 December 2021 the size and amount drawn from loan facilities were as follows:

	Facility	Amount Drawn
Facility B	£624m	£405m
Revolving Facility	£35m	-
TOTAL	£659m	£405m

In 2021 the above financial arrangements included covenants relating to the total net debt to homes passed (homes passed being a home which can readily be connected to Hyperoptic's fibre network) and total net debt to subscriber (subscriber being a residential or business customer with less than 3 months' charges outstanding).

As of the date of this report the total amount drawn under the facilities was £525m.

Financial risk management

Hyperoptic has long term funding requirements in order to achieve its goal of passing two million homes with its fibre network. This requires the Company to manage its liquidity closely, draw on committed debt facilities, manage interest rate movements, and ensure funding is available in a timely manner.

The Company's financial risk is monitored closely by the treasury function, who, in conjunction with the business, compile weekly rolling 3-month cash forecasts to manage short term liquidity and ensure debt facility drawdowns are made at the right time whilst minimising interest charges. A monthly review of current and forecast performance against covenants and cash flow is performed with a long-term sensitised business forecast forming the basis for assessing any liquidity risk in the medium to long term. This review is conducted by the CFO and reviewed by the Board. A long-term business plan is formally updated every year and reviewed quarterly for any movements which impact the liquidity of the business. Due to the Company's floating interest rate exposure, linked to LIBOR, that it pays on its debt facility, the treasury function also reviews monthly the expected drawdowns on the facility and puts in place appropriate hedging instruments to manage short term interest rate volatility.

During the year the Company has met all required covenants under its committed debt facilities.

Trends and factors affecting future performance

The UK Government has set a target of 85% of premises having access to a gigabit capable internet connection by the end of 2025. In Ofcom's Spring Connected Nations Report 2022, it estimated that a gigabit capable broadband connection was available to over 19.3 million premises (66% of all UK homes) as at January 2022. Full fibre rollout also continues to grow at pace, with 9.6 million premises (33% of all UK homes) passed.

Hyperoptic Limited

Strategic report (*continued*) for the year ended 31 December 2021

Trends and factors affecting future performance (*continued*)

The Government continues to support the acceleration of full fibre rollout, most notably through the provision of £5bn in state aid interventions, new legislation aimed at simplifying land access negotiation, and encouraging local authorities to prioritise permitting of rollout activity.

Hyperoptic was established in 2011 and has targeted buildings and geographic areas that were underserved by fast internet connections. Demand for faster, more reliable internet connectivity is growing rapidly, driven by the increased use of higher bandwidth applications like video communication services, high-definition video streaming and gaming. The Covid-19 pandemic during 2020 and 2021, and subsequent changes in home working practices, has brought customers reliance on broadband services into even sharper view. It is likely that more customers in the UK will seek a more reliable faster fibre connection in the coming years.

Hyperoptic is one of several companies, both large and small, deploying FTTP networks and it is likely that the pace of network build and level of investment in the sector will continue to grow in the short to medium term. This provides both opportunities and challenges to the Company. Increased awareness of, and demand for, fibre services will increase the potential for the Company to increase its customer base and market share. At the same time there is likely to be a higher level of competition as more operators roll out services as well as increased demands on specialist labour resources.

Principal risks and uncertainties

Risk	Mitigation
<p>Health and safety</p> <p>The Company is involved in activities and environments that have the potential to cause serious injury to its stakeholders, or to damage property, the environment or its reputation. It is reliant on a large subcontracted workforce operating to the Company's high standards and procedures.</p>	<p>The health and safety of people is the primary focus of the Company. In order to control risk and prevent harm, the Company is focused on achieving the highest standards of health and safety management. This is achieved by establishing effective health and safety procedures and ensuring that effective leadership and organisational arrangements are in place to operate these procedures.</p>
<p>Coronavirus / global pandemic</p> <p>Coronavirus, a variant, or another global pandemic may affect the Company's ability to continue growing the network at the existing rate due to staff illness, possible travel restrictions on engineers. Furthermore, the Company may be unable to connect new customers if access to their premises is restricted, and the Company may experience delays and shortages in its materials supply chain.</p>	<p>Having taken swift and effective action during 2020 to protect our people and customers whilst continuing to manage our operations, the board of directors (the "Board") and the Company continue to monitor the situation closely. Procedures are well established to enable effective home working, and engineers have been provided with guidance for safe working practices. The Company has engaged with its suppliers to ensure that it maintains several months' supply of materials for the continuing rollout of the network, as well as diversifying its supply chain.</p>

Hyperoptic Limited

Strategic report (*continued*) for the year ended 31 December 2021

Principal risks and uncertainties (*continued*)

Risk	Mitigation
<p>Market risk</p> <p>Demand for the services of the Company may be vulnerable to sudden economic downturns, a lack of confidence in the housing market and the broader economy, reductions in government and private sector spending, regulatory developments (including building and fire regulations) and increases in costs.</p>	<p>The Company's strategic focus is on those market sectors in which a competitive advantage is maintained and that have the most potential for profitable growth. Members of the leadership team participate in political, economic and regulatory forums to maintain effective working relationships with the government and regulatory authorities.</p>
<p>Brexit and global economic uncertainty</p> <p>The impact of Brexit as well as wider global economic uncertainty continues to impact directly and indirectly the UK economy, with increasing input costs, costs of living impacts and reduced levels of consumer income. This may result in a slowdown in the economy leading to customers delaying purchasing decisions. It may also increase the level of counter-party credit and currency risk faced by the Company.</p>	<p>The Company continues to monitor the impact of both Brexit the wider global economic uncertainty and has developed plans to respond to a range of potential scenarios. This includes specific plans that cater for changes in market conditions, complications with the movement and availability of the workforce, pressure on the supply chain, delays in delivery of materials and components, changes in exchange rates and pricing impact of increased tariff and commodity costs. The Company has increased and diversified its supply chain, increased training resources and worked to secure relevant employee visas. The Company does not deliver any contract, projects or services to any other country in the EU.</p>
<p>Competition</p> <p>The broadband telecom sector is highly competitive with low margins. If it does not compete effectively in its market sectors, the Company runs the risk of losing market share. While service quality, capability, reputation and experience are considered in customer decisions, price often remains the key determining factor.</p>	<p>The Company mitigates competitive risk by seeking to target projects where it has a competitive advantage and can manage its costs and risks. The risk profile of every project is assessed at the planning stage to determine whether it is in line with the strategic objectives of the Company before approval of the project is given.</p>
<p>Project delivery</p> <p>Execution of projects involves professional judgement in estimating, planning, design and construction, often in complex environments. The Company's projects could encounter difficulties that could lead to cost and time overruns, lower revenues, litigation or disputes.</p>	<p>The Company's activities are guided by operating throughout the project lifecycle. These, combined with comprehensive management oversight, the risk management process, project reviews, quality audits, peer reviews and customer feedback help mitigate the risk to successful project delivery.</p>

Hyperoptic Limited

Strategic report (*continued*)
for the year ended 31 December 2021

Principal risks and uncertainties (*continued*)

Risk	Mitigation
<p>Outsource Partners</p> <p>The Company utilises outsource partners for a proportion of its network construction. This exposes the Company to the wider economic impacts on these firms and their ability to deliver services to Hyperoptic.</p>	<p>The Company has contracted with a number of suppliers to reduce the exposure to any one individual entity. Selection of outsource partners is managed through a detailed procurement process with long term visibility of work allowing partners to plan financial and people resources accordingly. Contracts are designed so that the Company only pays for network elements that have been built and tested.</p>
<p>Liquidity (financial risk)</p> <p>Liquidity risk arises from the Company's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due, and could affect its ability to invest, win work or pay dividends.</p>	<p>The Company manages liquidity such that it always has sufficient liquidity to meet its liabilities when due. The Company continually monitors and stress tests its liquidity position. Funding arrangements are reviewed regularly and approved by the Board.</p>
<p>Credit risk</p> <p>Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The principal credit risk for the Company arises from its trade debtors.</p>	<p>In order to manage the credit risk, the directors set credit limits for customers, and actively monitor customers that do not pay on time.</p>
<p>Interest Rates</p> <p>The Company has a floating interest rate exposure linked to LIBOR that it pays on its debt facility.</p>	<p>The Company puts in place appropriate levels of hedging instruments to mitigate its exposure to short term interest rate volatility.</p>
<p>Appointing and retaining talent</p> <p>The success of the Company is dependent on being able to attract and retain people that have the necessary experience and expertise. Competition for high quality people is intense.</p>	<p>The Company knows that its people are at the heart of its on-going success. It seeks to offer market-competitive remuneration (which is reviewed regularly), training and career development opportunities, and to be an attractive and engaging employer.</p>

Hyperoptic Limited

Strategic report (*continued*)
for the year ended 31 December 2021

Principal risks and uncertainties (*continued*)

Risk	Mitigation
<p>Regulatory Risk</p> <p>There is a risk that regulation imposed by Ofcom, the National Cyber Security Centre (“NCSC”) and other regulatory bodies could put constraints on the Company’s operating model in complying with those regulations causing increased cost and operational disruption.</p>	<p>The Company proactively manages regulatory risk and engages policy and regulatory development at many levels. The Company maintains relationships with a diverse set of suppliers in order to mitigate against specific NCSC High Risk Vendor decisions.</p>
<p>Systems, data, cyber security & GDPR</p> <p>A loss of key systems through a lack of resilience or an information security breach or attack, could impact the successful delivery of projects and lead to a loss of confidential data, damaging the Company’s reputation and brand.</p>	<p>Robust controls and procedures are in place to monitor the performance of the Company’s systems and to identify and mitigate external threats. The Company is continually developing and upgrading its IT infrastructure, software and cyber threat and assessment capabilities. The Company continues to develop and enhance its data protection procedures in line with regulations.</p>

Section 172 statement

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

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

Shareholder needs and expectations

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

Stakeholder and social responsibilities

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

Hyperoptic Limited

Strategic report (*continued*) for the year ended 31 December 2021

Stakeholder and social responsibilities (*continued*)

Our People

The people and culture of the Company have been instrumental to the success of Hyperoptic since its inception and will be the foundation of its future results. We are committed to going beyond the expected for our customers, communities, and people. The Hyperoptic culture is reinforced across the business in the way we do things which is aligned to our three core behaviours.

- Working smarter, together
- Striving for excellence
- Staying focused

Engagement

The Board recognises the importance of engaging employees at all levels in the business, to help them maximise their potential as individuals and make their fullest contribution to the business, which is fundamental to achieving the Company's strategy and long-term objectives. With employees based in both the UK and in Serbia via a branch office effective communication and engagement is paramount. Hyperoptic uses a variety of media to inform employees about the Company's development and prospects and seeks and listens to employees' views and opinions.

The Company holds an annual "Kick off Meeting" followed by quarterly business updates, which are open to all employees, and are the main forums by which the Chief Executive and other senior leaders update all employees on the Company's performance, plans and future outlook as well as providing employees with an opportunity to provide feedback, ask questions, or to seek clarification, on the Company's purpose, goals, direction and results.

The Company also checks employee engagement and satisfaction through detailed feedback surveys performed twice a year. The feedback is reviewed by the Board and senior leadership team to produce action plans to address areas of concern and improve staff engagement and wellbeing.

Hyperoptic became Great Place to Work-Certified™ in December 2021 and was recognised as one of the 290 UK's Best Workplaces™ in April 2022.

Health and Safety

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

During 2021 there were two injuries reportable under Reporting of Injuries, Diseases and Dangerous Occurrences Regulation, 2013 (RIDDOR), an increase from one RIDDOR in 2020. Our RIDDOR rate Measured as incidents per 100,000 employees) was 131 in 2021, significantly lower than the industry average.

In March 2021 the Company launched an in-house health and safety notification app called "Notify" to continue to increase the culture of proactive identification and escalation of both actual and potential health and safety hazards. The app is easy to use and available to all employees via their mobile phone. There has been active engagement with the app helping to reinforce the responsibility everyone has to maintain the highest standards of health and safety in the Company.

Hyperoptic Limited

Strategic report (*continued*) for the year ended 31 December 2021

Stakeholder and social responsibilities (*continued*)

Joining Hyperoptic

Hyperoptic continues to review its recruitment policies and processes to address any under-representation of men or women in particular areas within the business.

The Company continues to use a predictive index psychometric tool, which is industry best-practice for measuring suitability against job profiles with the lowest possible gender bias and has rolled out unconscious bias training for recruiting managers combined with additional decision-making training.

The Company runs an apprenticeship scheme across the business with a focus on attracting females in those roles where they are under-represented.

The Company continues to actively manage career pathways, which promote internal movement and development.

Training

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

During 2021 the Company delivered over 3,000 classroom / practical courses and over 15,000 online courses via Hyperoptic's e-learning platform "HyperLearn" to develop our agents, engineers and broader employee groups in both technical and management skills. Over 80% of the classroom courses were delivered by the Company's internal People Development Team. In January 2021, the Company developed a splicing academy to focus on training and upskilling engineers to become fibre splicing engineers to support the continued expansion of the network build activity.

Equal Opportunities, Diversity and Inclusion

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

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

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

In 2021 Hyperoptic actively took part in the Greater London Authority (GLA) Design Labs programme, helping to tackle the under-representation of young black men in the construction and infrastructure sectors. Working through The Equal Group, (whose goal is to eliminate issues of bias in the workplace) the Company put together a long-term action plan on what Hyperoptic can do to make a real difference.

Our plan set out four key areas of long-term focus:

- *Data*: making sure we capture the right information about the diversity of our employees so we can measure the impact we're having
- *Policy and strategy*: defining what we're going to do to continue supporting young black men and how we bring it to life right across Hyperoptic
- *Education*: making sure our hiring managers are properly trained in topics such as unconscious bias
- *Recruitment*: being sure to advertise in a way that speaks to and reaches a diverse group of candidates and reflecting such diversity in the people making decisions during the recruitment process

Hyperoptic Limited

Strategic report (*continued*) for the year ended 31 December 2021

Stakeholder and social responsibilities (*continued*)

Employee Gender Diversity Information

	Number			Mix	
	Female	Male	Total	Female %	Male %
Directors	1	1	2	50%	50%
Senior Managers	2	4	6	33%	67%
All Other Employees	341	1,173	1,514	23%	77%
TOTAL	344	1,178	1,522	23%	77%

Gender information is presented for average monthly number of employees and is consistent with note 4.

Senior managers include all senior executives of the Company as identified as key management in note 5.

Customers, Community and Social Responsibility

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

The Company is committed to providing affordable services to those most in need. In January 2021 it was the first broadband provider to offer free fixed-line broadband services to families without a reliable broadband connection, to enable their children to access virtual education resources and learn from home. In March 2021 the Company also announced the launch of 'Hyperoptic's Fair Fibre Plan,' a new affordable tariff that would enable people on specific means-tested benefits to get access to discounted rates on its 50Mbps and 150Mbps monthly rolling packages. With 'Hyperoptic's Fair Fibre Plan', the cost of its 50Mbps broadband-only service on a monthly rolling contract was reduced to £15 a month. There is no charge for installation and the package comes with a free router and an unlimited data allowance.

The concept of customers also goes beyond that of just those with paying subscriptions and the Company takes responsibility to extend the positive impact of its services and scale to help benefit the wider community.

- To ensure that fibre broadband rollout is of benefit to the widest possible group of people Hyperoptic has agreed to provide free connectivity to over 400 community centres across the UK, enabling people to access a free gigabit-enabled broadband service in a location local to them. At the end of December 2021 194 of these community centres had been connected. The Company also runs digital inclusion programmes with local authorities across the UK giving people who are digitally excluded the skills they need to benefit from being online. It recently agreed a partnership with Citizens Online, which allows Hyperoptic to fund consulting support and make recommendations for how clients can improve digital inclusion within their organisation and in their area. Hyperoptic has partnered with over 110 Local authorities and Housing associations to roll out its network across their boroughs and connect their social housing properties. Hyperoptic offers an Affordable Product Scheme to social housing clients, where Hyperoptic will fund free 50Mb connections for 12 months to 10% of their portfolio. This goes beyond the fair fibre product to reach those who might not be online at all. It is entirely up to the client to decide who the product is offered to and there are no financial or preliminary checks required. In October 2021 Hyperoptic partnered with Leeds United Foundation to support the new "Primary Choices" programme for Year Six students in Leeds with an aim to enhance self-esteem and protect them from negative influences as they make their transition to secondary education.
- In November 2021 it announced its formal partnership with QPR in the Community Trust. Hyperoptic is sponsoring its Schools League and Tournament, whereby 15 West London schools battle it out for the number one spot. QPR in the Community Trust provides opportunities in seven West London boroughs based on the objectives of Health, Education, Social Inclusion and Participation, tackling national issues at a local level.

Hyperoptic Limited

Strategic report (*continued*) for the year ended 31 December 2021

Stakeholder and social responsibilities (*continued*)

Hyperoptic also remains focused on scaling its network responsibly and working collaboratively with devolved governments to support country-specific investment plans. In March 2022 Hyperoptic became a signatory of Scotland's Full Fibre Charter, which includes support for its Fair Work Convention Framework. (The Fair Work Framework outlines commitments to deliver effective voice; respect; fulfilment; opportunity and security for all workers)

Suppliers

Hyperoptic's suppliers, including its outsourced construction partners, are critical to the growth and success of its business. As a result, the Company aims to treat its suppliers fairly and do business with them in a sustainable way. It also has a responsibility to make sure that its suppliers operate with high ethical standards and that health and safety standards are met.

The Company's procurement department works closely with its supply base to ensure it understands the way in which those businesses operate. Selection of all suppliers is managed through a comprehensive procurement process. The Company has conducted relevant business continuity planning in relation to significant risks to minimise business disruption from its supply base.

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

Regulators and industry forums

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

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

Risk management

The board seeks to embed effective risk management, considering both opportunities and threats, throughout the organization. The Board has established a risk committee to own the Company's risk management framework and ensure it identifies and addresses all relevant risks in order to execute and deliver the Company's agreed strategy. The principal risks and their mitigations are listed in the Strategic Report on pages 5-8.

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

Hyperoptic Limited

Strategic report (*continued*) for the year ended 31 December 2021

Corporate Governance

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

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

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

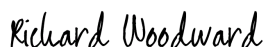
Good governance supports open and fair business, ensures that the Company has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Whilst Board oversight is always maintained, key decisions are made by the individuals and committees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

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

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

This Strategic report was approved by order of the Board on 30 June 2022.

DocuSigned by:



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R Woodward

Director

Hyperoptic Limited

Report of the directors for the year ended 31 December 2021

The Directors present their report together with the audited financial statements for the year ended 31 December 2021.

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

Future developments

The future developments of the business are discussed in the Strategic report on pages 4-5.

Results and dividends

The statement of comprehensive income is set out on page 23 and shows the loss for the year. The directors do not recommend payment of a dividend (2020: £Nil).

Directors

The directors of the Company during the period and subsequent to the reporting period were:

D Tobak	Co-founder of Hyperoptic
P White	(Resigned 16 April 2021)
R Woodward	(Appointed 16 April 2021)

D Tobak and P White were all appointed as directors of Hyperoptic Ltd prior to KKR's investment in the Company's ultimate parent company.

Dana Tobak is the Chief Executive Officer and Co-founder of Hyperoptic Ltd. Prior to founding Hyperoptic Ltd, Dana also successfully co-founded the award-winning broadband ISP "Be Unlimited" before selling it to O2 in 2007.

Richard Woodward is the Chief Financial Officer of Hyperoptic and was appointed as a director on 16 April 2021. Prior to joining Hyperoptic Richard was the CFO, a Director, and subsequently Chief Commercial Officer of Three UK Limited, a mobile telecommunications operator in the UK, which he joined in 2010.

None of the above Directors are employees, officers, or directors of the private equity investors KKR.

Directors' indemnities and insurance

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

Ownership

Hyperoptic is a private company limited by shares incorporated and domiciled in the United Kingdom. Hyperoptic was incorporated on 13 April 2010. The address of the company's registered office is Kings House, 174 Hammersmith Road, London, England, W6 7JP.

On 1 November 2019, private equity investors KKR & Co. Inc. (KKR) indirectly acquired a majority stake in the Company's parent undertaking. KKR is a leading global investment firm that offers alternative asset management as well as capital markets and insurance solutions. KKR aims to generate attractive investment returns by following a patient and disciplined investment approach, employing world-class people, and supporting growth in its portfolio companies and communities.

Hyperoptic Limited

Report of the directors (*continued*) for the year ended 31 December 2021

Ownership (*continued*)

KKR sponsors investment funds that invest in private equity, credit and real assets and has strategic partners that manage hedge funds. KKR's insurance subsidiaries offer retirement, life and reinsurance products under the management of Global Atlantic Financial Group. References to KKR's investments may include the activities of its sponsored funds and insurance subsidiaries. For additional information about KKR & Co. Inc. (NYSE: KKR), please visit KKR's website at www.kkr.com and on Twitter @KKR_Co.

Information included in the strategic report

As permitted by s414C(11) of the Companies Act, certain directors' report requirements of Schedule 7 of the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to the Company's engagement with employees have been included in the Strategic Report on pages 8-11.

Financial instruments

The Company policy is to minimise the financial risks of interest rate volatility. The Company uses interest rate swap arrangements to fix the interest rate on a minimum of 50% and maximum of 110% of the principal outstanding on the £624m loan facility. As of 31 December 2021, the loan facility had a hedge of 70% on the principal outstanding on the loan. These cash flow hedges were effective monthly, matching the interest period of the loan facility. Management does not consider the unhedged proportion of the loan facility to be a significant risk to the business.

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

Research and development

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

Streamlined Energy and Carbon Reporting ("SECR")

The Company is required to report on energy consumption and Greenhouse Gas ("GHG") emissions and energy consumed, under the Streamlined Energy and Carbon Reporting regulations.

UK kWh and CO₂e Scope 1 and Scope 2 emissions

The total energy consumption for the Company in the latest financial year for scope 1 and 2 emissions was 9,706,420 kWh (2020: 9,054,280 kWh). The activities that generated this energy consumption, their individual volumes and related emissions were as follows:

Energy type	Definition	2021	2021	2020	2020
		Total energy use (kWh)	Calculated CO ₂ emissions (tonnes of CO ₂ e)	Total energy use (kWh)	Calculated CO ₂ emissions (tonnes of CO ₂ e)
Transport	Emissions from combustion of fuel for transport purposes	9,569,722	2,126.1	8,953,508	2,152.5
Electricity	Emissions from purchased electricity	97,987	22.8	81,587	19
Gas	Emissions from combustion of gas	38,711	9	19,185	3.5

Hyperoptic Limited

Report of the directors (*continued*) for the year ended 31 December 2021

Streamlined Energy and Carbon Reporting (“SECR”) (*continued*)

Quantification and reporting methodology

Energy usage information (gas and electricity) has been obtained from energy suppliers. The emissions have been calculated by using the UK Government GHG Conversion Factors for Company Reporting for the year 2021

Energy efficiency actions

Due to the limitations on range and re-charging facilities, the company has not been able to make a commitment to switch to electric vehicles at the present time. No other energy efficiency work has been undertaken in the period.

During the next year, the Company intends to continue to review the feasibility of using low-emission vehicles in its fleet for future replacement.

Intensity ratio

The majority of emissions created by the Company are from the fuel use in its vehicle fleet. The main use of this fleet is to install network equipment so the chosen metric is the total emissions divided by the capex spent in £ millions. This is felt to be the correct metric to reflect ongoing vehicle use in future years as it will account for any increase or reduction in business activity as well as any reduced emissions as the vehicle fleet is changed.

As the capex spend for 2021 was £112 million (2020: £67 million), the metric for the period 1st January 2021 to 31st December 2021 was 19.3 Tonnes of CO₂ emitted for each £1 million of capex spent (2020: 32 Tonnes of CO₂ emitted for each £1 million of capex spent).

Branch office

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

Equal opportunities

Equal opportunities are discussed in the “Our People” section of the Strategic report on pages 9 to 11.

Going concern

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

As part of its active operational and review procedures, the Company prepares a Board approved annual budget and long-term business plan, which reflects the aim of completing a fibre network passing over 2 million homes through an incremental investment programme of over £600m, principally over the next 4 years. As at 31 December 2021, the Company had passed 751,585 homes and connected 224,080 customers. Since the end of 2019 the Company’s investments have been debt funded, and it is the Directors’ intention for this to remain the case, with funds flowing into the business over a similar period to the necessary capital outlay, rather than funds being fully committed and available upfront.

As at the date of this report £525m has been borrowed by the Company, with a total facility available of £659m. In August 2021, the Company increased the size of its committed debt facility by £124m to the available facility of £659m, demonstrating continued lender support for the Company. The current facility of £659 million is forecast to be fully utilised during 2023, and the Company will shortly initiate a further debt raising process to secure incremental debt funding. The current expectation is that sufficient funding will be secured to support the ongoing capital expenditure requirements beyond the going concern period.

Hyperoptic Limited

Report of the directors (*continued*) for the year ended 31 December 2021

Going concern (*continued*)

In the unlikely event that this anticipated debt funding is not made available, the Directors believe that by taking action limiting the high level of capital investment planned for future growth aspirations (and not for existing operations), along with other actions, the business would continue to trade beyond the going concern period on a normal basis and for a sufficient time to identify and secure alternative sources of funding.

The Company's long-range business plan demonstrates that, although the business continues to be reliant on external borrowing in the short-term due to the scale and pace of the network rollout, strong returns are anticipated following the network build phase at which point the Directors expect the Company to start generating positive cash flow. Such returns have been demonstrated by the Group's ability to attract customers and generate revenue from the network it has already built. As such, the Company represents an attractive investment opportunity for the investment market, as demonstrated by the loan facility incrementation in August 2021 and its acquisition by KKR in November 2019. This gives the Directors confidence in the ability to secure further external funding such that we have concluded it is appropriate to prepare the financial statement on a going concern basis, and not include the adjustments that would result if the Company were unable to continue as a going concern.

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

Post balance sheet events

Subsequent to the reporting period the Company has made the following withdrawals under the debt facility; £25m in January 2022, £20m in March 2022, £20m in April 2022, £25m in May 2022 and £30m in June 2022.

Auditor

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's 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.

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

Guidelines for Disclosure and Transparency in Private Equity

The directors consider that the Annual Report and Financial Statements comply with the Guidelines for Disclosure and Transparency in Private Equity.

Approved by the Board of Directors on 30 June 2022 and signed on its behalf by:

DocuSigned by:

Richard Woodward

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R Woodward

Director

Hyperoptic Limited

Statement of directors' responsibilities for the year ended 31 December 2021

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

Hyperoptic Limited

Independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HYPEROPTIC LIMITED

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Hyperoptic Limited ("the Company") for the year ended 31 December 2021 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Hyperoptic Limited

Independent auditor's report (*continued*)

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.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using

the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Hyperoptic Limited

Independent auditor's report (*continued*)

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 obtained an understanding of the legal and regulatory frameworks that are applicable to the Company. We determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting framework (United Kingdom Generally Accepted Accounting Practice), the Companies Act 2006 and relevant tax compliance legislation.
- We understood how the Company is complying with those legal and regulatory frameworks by making enquiries of management, those responsible for legal and compliance procedures and through reviewing legal correspondence. We corroborated our enquiries through our review of board minutes and discussion with management.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it is considered there was a susceptibility of fraud.
- Our audit planning identified fraud risks in relation to management override and inappropriate or incorrect revenue recognition. We obtained an understanding of the processes and controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how management monitors that processes and controls;
- With regards to the fraud risk in management override, our procedures included journal transaction testing, with a focus on large or unusual transactions based on our knowledge of the business. We also performed an assessment on the appropriateness of key judgements and estimates which are subject to management's judgement and estimation, and could be subject to potential bias; and
- With regards to the risk of fraud in revenue recognition, our procedures included assessing whether the revenue recognition policies adopted by the Company comply with accounting standards. We tested each revenue stream including sample testing of sales transactions in year to supporting evidence such as agreements, evidence of delivery of the performance obligation and cash receipt from the customer. We checked a sample of revenue transaction amounts recognised in December 2021 and January 2022, against the date the performance obligation was satisfied to check that revenue was recorded in the correct period.

Hyperoptic Limited

Independent auditor's report (*continued*)

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

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:

Julian Frost

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Julian Frost (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London

30 June 2022

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

Hyperoptic Limited

Statement of comprehensive income for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Turnover	3	65,104	51,699
Cost of sales		(12,634)	(9,384)
Gross profit		52,470	42,315
Distribution costs		(6,398)	(4,487)
Administrative expenses		(82,445)	(70,349)
Other operating income	6	417	651
Operating loss	6	(35,956)	(31,870)
Interest receivable and similar income		1	14
Interest payable and similar expenses	7	(15,090)	(13,162)
Fair value movement on interest rate swap	14	2,801	(1,425)
Loss before taxation		(48,244)	(46,443)
Taxation on loss	8	(387)	-
Loss and other comprehensive loss for the year		(48,631)	(46,443)

All amounts recognised relate to continuing activities.

The notes on pages 27 to 36 form part of these financial statements.

Hyperoptic Limited

Statement of financial position at 31 December 2021

<i>Company number 07222543</i>	Note	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Fixed assets					
Tangible assets	9		255,972		172,295
Current assets					
Stock	10	12,936		6,738	
Debtors	11	16,560		8,997	
Cash at bank and in hand		10,438		65,667	
			39,934	81,402	
Creditors: amounts falling due within one year	12	(63,151)		(56,444)	
Net current assets / (liabilities)		(23,217)			24,958
Creditors: amounts falling due after more than one year	13	(405,437)			(321,304)
Net liabilities			(172,682)		(124,051)
Capital and reserves					
Called up share capital	15		60,965		60,965
Share premium account	20		184		184
Profit and loss account	20		(233,831)		(185,200)
Shareholders' deficit			(172,682)		(124,051)

The financial statements were approved by the board of directors and authorised for issue on 30 June 2022.

DocuSigned by:

 BAB714CFABB84F0...
 R Woodward
 Director

The notes on pages 27 to 36 form part of these financial statements.

Hyperoptic Limited

Statement of changes in equity For the year ended 31 December 2021

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2020	60,965	184	(138,757)	(77,608)
Loss for the financial year	-	-	(46,443)	(46,443)
Total comprehensive loss		-	(46,443)	(46,443)
Balance as at 31 December 2020	60,965	184	(185,200)	(124,051)

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2021	60,965	184	(185,200)	(124,051)
Loss for the financial year	-	-	(48,631)	(48,631)
Total comprehensive loss	-	-	(48,631)	(48,631)
Balance as at 31 December 2021	60,965	184	(233,831)	(172,682)

The notes on pages 27 to 36 form part of these financial statements.

Hyperoptic Limited

Statement of cash flows for the year ended 31 December 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
Loss for the financial period	(48,631)	(46,443)
Adjustments for:		
Depreciation	28,476	19,695
Interest income	-	(14)
Interest expense	15,090	13,162
Fair value movement on swaps	(2,801)	1,425
Taxation expense	387	-
Increase in inventory	(6,198)	(2,297)
Decrease / (increase) in receivables	(7,563)	13,407
(Decrease) / increase in payables	11,399	(6,420)
	<u>(9,841)</u>	<u>(7,485)</u>
Interest paid	(17,047)	(13,332)
Tax paid	(190)	(63)
	<u>(27,078)</u>	<u>(20,880)</u>
Cash flows from investing activities		
Acquisition of fixed assets	(72,536)	(42,045)
Capitalised staff costs	(39,617)	(24,558)
Interest received	-	14
	<u>(112,153)</u>	<u>(66,589)</u>
Cash flows from financing activities		
Issue of long-term loans	84,000	120,000
	<u>84,000</u>	<u>120,000</u>
Net cash generated from financing activities	84,000	120,000
Net (decrease) / increase in cash and cash equivalents	(55,231)	32,531
Cash and cash equivalents at the beginning of the period	65,667	33,136
	<u>10,438</u>	<u>65,667</u>
Cash and cash equivalents at the end of the period	10,438	65,667

The notes on pages 27 to 36 form part of these financial statements.

Hyperoptic Limited

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies

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

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

The following principal accounting policies have been applied:

Going concern

At the end of the reporting period the Company has current liabilities in excess of its current assets by £23.2m (2020: current assets exceeded current liabilities by £25m) and total liabilities in excess of total assets by £172.7m (2020: £124.1m).

To assess the Company's ability to be considered a going concern the Directors have prepared a cash flow forecast covering a period of 12 months from the date of these Financial Statements. Various scenarios have been modelled to assess the impact of adverse performance in key risk areas relating to revenue generation and the costs directly attributable to the continued expansion of the network.

No issues were identified that would restrict access to the current facility arrangement although the Company's planned network expansion requires debt funding in excess of current borrowing arrangements, with refinancing planned in the next 12 months.

In the unlikely event that this anticipated debt funding is not made available, the Directors believe that by taking action limiting the high level of capital investment planned for future growth aspirations (and not for existing operations), along with other actions, the business would continue to trade beyond the going concern period on a normal basis and for a sufficient time to identify and secure alternative sources of funding.

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

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

Tangible fixed assets and depreciation

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

Hyperoptic Limited

Notes to the financial statements for the year ended 31 December 2021 (*continued*)

1 Accounting policies (*continued*)

Depreciation rates applied

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

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

Revenue

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

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

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

Government Grants

Grants are accounted for under the accruals model as permitted by FRS102.

Grants of a revenue nature are recognised within profit or loss in the same period as the related expenditure. This includes the Government Coronavirus Job Retention Scheme ("Furlough") and grants from the Serbian government for safeguarding employment. The Company has not directly benefited from any other forms of government assistance.

Derivative instruments

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

Financial instruments

Financial assets, other than investments and derivatives are initially measured at transaction price and subsequently held at cost, less any impairment. Derivatives are initially recognised at fair value and are also recognised at fair value in subsequent periods. Movements in fair value are recognised in profit or loss in the Statement of Comprehensive Income. Financial liabilities are initially measured at transaction price and subsequently held at amortised cost.

Operating leases

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

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

Hyperoptic Limited

Notes to the financial statements for the year ended 31 December 2021 (*continued*)

1 Accounting policies (*continued*)

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

Stock

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

Customer Acquisition Costs

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

Taxation

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

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

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

Deferred tax assets and liabilities are not discounted.

Foreign currencies

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

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

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

2 Significant judgements and estimate

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

Useful economic life of tangible fixed assets

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

Hyperoptic Limited

Notes to the financial statements for the year ended 31 December 2021 (*continued*)

3 Turnover

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

4 Employees

	2021 £'000	2020 £'000
Staff costs including directors' remuneration, consist of:		
Wages and salaries	59,848	46,503
Social security costs	5,066	3,907
Pension costs	1,069	869
Less: costs capitalised	(39,617)	(25,106)
	<u>26,366</u>	<u>26,173</u>

During the year the company claimed no government grants relating to the Coronavirus Job Retention Scheme (2020: £472,000).

The average monthly number of employees, including directors, during the year was 1,522 (2020: 1,251), split as follows:

	2021 Number	2020 Number
Directors	2	2
Head office	193	208
Customer services	140	111
IT and Systems	41	53
Marketing and Sales	102	129
Network and Field	1,044	748
	<u>1,522</u>	<u>1,251</u>

5 Key management and directors remuneration

Key management personnel include all directors and senior executives of the Company, who together have authority and responsibility for planning, directing and controlling the activities of the group. The total compensation paid to key management personnel for services provided to the Company was £2,194,159 (2020: £1,721,970). The Company paid into the pension scheme for 8 (2020: 9) key management personnel.

The directors remuneration for the period was:

	2021 £'000	2020 £'000
Emoluments	<u>857</u>	<u>556</u>

Emoluments of the highest paid director was £395,000 (2020: £334,000). Company pension contributions of £17,800 (2020: £12,000) were made to a defined contribution scheme on their behalf.

Hyperoptic Limited

Notes to the financial statements for the year ended 31 December 2021 (*continued*)

6 Operating loss	2021	2020
	£'000	£'000
This has been arrived at after charging/(crediting):		
Depreciation of tangible fixed assets - owned by the Company	28,476	19,695
Auditor remuneration:		
- Audit services	160	137
- Tax services	34	62
Operating lease expense	1,600	2,288
Difference on foreign exchange	42	28
Other income	(417)	(651)
<p>Other income relates to the receipt of service level credits from a supplier of £261,000 (2020: £265,000) and grants from the Serbian government for safeguarding employment of £157,000 (2020: £386,000).</p>		
7 Interest payable	2021	2020
	£'000	£'000
Interest due on loans	15,090	13,162
	<hr/>	<hr/>
	15,090	13,162
	<hr/>	<hr/>
8 Taxation on loss on ordinary activities	2021	2020
	£'000	£'000
<i>Analysis of tax charge in the year</i>		
Current tax		
UK corporation tax	-	-
Foreign corporation tax – current period	387	-
	<hr/>	<hr/>
Total current tax	387	-
	<hr/>	<hr/>

Hyperoptic Limited

Notes to the financial statements for the year ended 31 December 2021 (*continued*)

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

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2020: higher than) the standard rate of corporation tax in the UK. The differences are explained below:

	2021 £'000	2020 £'000
Loss on ordinary activities before tax	(48,252)	(46,443)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	(9,168)	(8,824)
Effects of:		
Expenses not deductible for tax purposes	2,456	3,821
Deferred tax not recognised and other adjustments	15,750	6,732
Remeasurement of deferred tax for changes in tax rates	(9,038)	(1,590)
Company relief surrendered	-	-
Foreign tax suffered	387	(139)
Total tax charge for year	387	-

Factors that may affect future tax charges

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

	2021 £'000	2020 £'000
Unrecognised deferred tax asset	37,654	20,110

The unrecognised deferred tax asset relates to unrelieved trading losses available to carry forward £68,824,692 (2020: £50,738,315), fixed asset timing differences £80,894,653 (2020: £54,788,717) and other timing differences of £919,102 (2020: £316,674).

Hyperoptic Limited

Notes to the financial statements for the year ended 31 December 2021 (*continued*)

9 Tangible assets

	Leasehold Improvements £'000	Network Asset £'000	Physical Infrastructure Access £'000	Software £'000	Motor Vehicles £'000	Office Equipment £'000	Total £'000
<i>Cost</i>							
At 1 January 2021	3,257	170,664	35,222	16,320	6	4,189	229,658
Additions	9	70,328	32,769	8,274	-	773	112,153
At 31 December 2021	3,266	240,992	67,991	24,594		4,962	341,811
<i>Depreciation</i>							
At 1 January 2021	869	41,042	3,015	10,424	6	2,007	57,363
Charge for the year	595	20,507	2,496	3,910	-	968	28,476
At 31 December 2021	1,464	61,549	5,511	14,334	6	2,975	85,839
<i>Net book value</i>							
At 31 December 2021	1,802	179,443	62,480	10,260	-	1,987	255,972
At 31 December 2020	2,388	129,622	32,207	5,896	-	2,182	172,295

10 Stock

	2021 £'000	2020 £'000
CPE, switch and material stock	12,936	6,738

11 Debtors

	2021 £'000	2020 £'000
Trade debtors	2,413	2,226
Other debtors	1,045	953
Amounts owed by group undertakings ¹	3,642	54
Prepayments and accrued income	6,376	4,176
VAT recoverable	3,084	1,588
	16,560	8,997

¹ Amounts owned by group undertakings are unsecured, interest free and repayable on demand

Hyperoptic Limited

Notes to the financial statements for the year ended 31 December 2021 (*continued*)

12 Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Trade creditors	10,917	9,282
Amounts owed to group undertakings	26,226	26,166
Corporation tax	35	(162)
Other taxation and social security	1,435	1,117
Accruals and deferred income	22,923	15,441
Pension payable	263	427
Other creditors	215	235
Derivative financial instruments (note 14)	1,137	3,938
	<u>63,151</u>	<u>56,444</u>

On 1 January 2020 the interest payable on the intercompany loan from JHW Bidco Ltd was reduced to a rate of 0% per annum. Interest due for the period to 31 December 2021 of £nil (2020: £nil) is included within amounts owed to group undertakings. In December 2021 debt relating to the loan from JHW Bidco Limited of £15,000,000, accumulated interest, and other outstanding balances was assigned to another group company. The amounts from group undertakings are unsecured, interest free and repayable on demand.

13 Creditors: amounts falling due after more than one year

	2021 £'000	2020 £'000
Loan	405,000	321,000
Accruals and deferred income	240	107
Other creditors	197	197
	<u>405,437</u>	<u>321,304</u>

In November 2019 the Company entered into a loan facilities agreement of £500m with an additional £35m revolving credit facility. The facility bears interest at LIBOR plus a 3.5% margin during the draw down period, with repayment falling due on 1 November 2026. At the end of the prior period, the Company had drawn £321m of the debt facility.

In July 2021 the Company drew down £60m from the existing syndicated debt facility.

In August 2021, the Company increased the size of its committed debt facility from £535m to £659m.

In November 2021 the Company drew down a further £24m from the £659m syndicated debt facility taking closing borrowing to £405m.

Hyperoptic Limited

Notes to the financial statements for the year ended 31 December 2021 (*continued*)

14 Financial instruments

	2021 £'000	2020 £'000
Financial assets that are debt instruments measured at amortised cost		
Trade debtors	2,413	2,226
Other debtors	4,129	2,541
Amounts due from group undertakings	3,642	54
Financial liabilities measured at fair value through the statement of other comprehensive income		
Interest rate swaps	(1,137)	(3,938)
Financial liabilities measured at amortised cost		
Bank loan	(405,000)	(321,000)
Trade creditors	(10,917)	(9,282)
Accruals	(19,931)	(12,384)
Amounts owed to group undertakings	(26,226)	(26,166)
Other creditors	(478)	(662)

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

15 Share capital

	Allotted, called up and fully paid			
	2021 Number	2020 Number	2021 £'000	2020 £'000
Ordinary shares of £1 each	60,965,344	60,965,344	60,965	60,965

16 Commitments under operating leases

As at 31 December 2021, the Company had commitments under non-cancellable operating leases as set out below:

	Land and buildings 2021 £'000	Land and buildings 2020 £'000	Other operating leases 2021 £'000	Other operating leases 2020 £'000
In under one year	1,496	1,704	1,421	1,573
In one to five years	3,946	4,642	2,351	1,666
Later than five years	2,308	3,641	-	-
Total	7,750	9,987	3,772	3,239

Hyperoptic Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

17 Net debt reconciliation

	1 January 2021	Cashflows	Non-cash movements	31 December 2021
	£'000	£'000	£'000	£'000
Cash and cash equivalents	65,667	(55,229)	-	10,438
Bank Loans	(321,000)	(84,000)	-	(405,000)
Interest accrued but not yet paid	(593)	-	(9)	(602)
Interest rate swaps	(3,938)	-	2,801	(1,137)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>(259,864)</u>	<u>(139,229)</u>	<u>2,792</u>	<u>(396,301)</u>

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

18 Related party transactions

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

The only related party transaction not covered is the rental of the Company's Serbian office premises from a director of the ultimate parent company. This totalled £70,000 in the year (2020: £70,000). This is rented on an arm's length basis at prevailing market rent. There was no balance outstanding due by the Company to the director as at the year end (2020: £52,500).

19 Controlling party

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

20 Reserves

Share premium account

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

Profit and loss account

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

21 Post Balance Sheet Events

Subsequent to the reporting period the Company has made the following withdrawals under the debt facility; £25m in January 2022, £20m in March 2022, £20m in April 2022, £25m in May 2022 and £30m in June 2022.